



Argos Resources Ltd
Annual Report
Year ended 31 December 2016

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Highlights

Argos Resources Ltd (AIM: ARG.L), the Falkland Islands based exploration company focused on the North Falkland Basin, announced its financial results for the year ended 31 December 2016 on 27 March 2017.

- US\$16 thousand loss.
- US\$701 thousand cash reserves at 31 December 2016
- Participation Agreement replaced the Farmout Agreement of Licence PL001 in the year
- The Company retains an Overriding Royalty Interest (the “ORRI”) of 5% of all oil and gas produced over the life of the licence from all hydrocarbon discoveries developed within the Licence area
- All future expenditures incurred on Licence PL001 will be at no cost to the Company
- The Company will receive future cash payments of \$370,000 per annum from Noble Energy Falklands Limited (“Noble”) and Edison International S.p.A (“Edison”) which will be sufficient to meet its ongoing running costs until first oil production
- A three year extension of Licence PL001 was approved which extends the current Second Phase of the Licence to November 2019

Combined Chairman's statement and Managing Director's review

2016 was another challenging year for the oil industry. The average Brent oil price for the year was \$44 per barrel, the lowest for twelve years, although oil prices have since risen by some \$10 per barrel. This low oil price continued to suppress oil industry activity worldwide.

In response to this sustained low oil price environment in 2016 a number of OPEC and non-OPEC producers have promised production cuts. This expectation has contributed to the rise in oil prices since year-end, but it will require collective discipline to maintain these cuts in order to reduce historically high oil inventory levels and support higher oil prices. A failure to do so will continue to pose some downside risk to oil prices.

Under a Farmout Agreement entered into in 2015 with Noble Energy Falklands Limited and Edison International S.p.A, Noble and Edison undertook to drill an exploration well on Licence PL001 to test the Rhea prospect at no cost to the Company. It had been intended that the Rhea exploration well would be drilled as part of a drilling campaign that was underway during 2015/2016 using the Eirik Raude deep-water rig. However, on 12 February 2016 Noble advised the Company that due to operational issues with the rig, Noble had cancelled the Rig Contract, and, as a result, it was exercising its rights under the terms of the Farmout Agreement to declare Force Majeure.

A Participation Agreement between the Parties to reflect the various changes created as a consequence of Force Majeure has replaced the Farmout Agreement.

The Participation Agreement confirms the Company's entitlement to a 5 percent Overriding Royalty Interest in the Licence. This royalty interest entitles the Company to 5 percent of all oil and gas produced over the life of the licence, free and clear of all costs. Noble also agreed that quarterly cash payments to the Company totalling £300,000 per annum will be made. This is lower than the \$800,000 annual payment originally agreed, to reflect the longer period over which future payment may now be made. These payments have been received on a timely basis throughout 2016 and the Company has implemented cost reductions to ensure that these amounts should be sufficient to meet its ongoing running costs.

Drilling the Rhea well would have fulfilled the work obligation on the Second Exploration Phase of the Licence, which required a well to be drilled by 25 November 2016. Following the cancellation of the rig contract, there was insufficient time to secure a replacement rig to commence drilling operations by that date and, in recognition of this, Noble undertook to apply for an extension to the Licence from the Falkland Islands government. The Company was pleased to announce in August that a three-year extension to Licence PL001 had been approved by the Executive Council of the Falkland Islands Government and by the UK Secretary of State for Foreign and Commonwealth Affairs. This approval extends the current Second Phase of the Licence to November 2019, after which a Third Licence Phase of 10 years is available to the Licensees.

The Company cannot yet forecast when drilling operations might commence on the Licence. While this unexpected delay to drilling is very disappointing, the Overriding Royalty Interest in the Licence continues into the Licence extension period and any further phases beyond, and the Company's future running costs are covered, so we remain well positioned. The Company continues to be positive about the exploration potential of the Licence Area.

Handwritten signature of Ian Thomson in black ink, with a horizontal line underneath the name.

Ian Thomson
Chairman
24 March 2017

Handwritten signature of John Hogan in black ink.

John Hogan
Managing Director

Directors

Ian Thomson OBE

Executive Chairman (aged 77)

Skills and experience

Ian, a Chartered Engineer, founded Argos in 1995. After an early career in the mining and energy equipment industry, he became the Managing Director of Evergreen Resources Inc.'s exploration and production interests in the UK and Europe.

External appointments

He is a director of a number of Falkland Islands and overseas companies engaged in fishing and other operations.

Committee membership

None

John Hogan

Managing Director (aged 63)

Skills and experience

John joined the board in 2005. John is a qualified geologist who has spent over 40 years in the oil industry. He was Chief Operating Officer of LASMO PLC and Managing Director of LASMO North Sea between 1989 and 2000. Since 2000, he has been active at board level in a number of privately held and quoted energy businesses internationally.

External appointments

He is Chairman of Celtique Energie Holdings Ltd and a non-executive director of Chrysaor Holdings Ltd.

Committee membership

None

Andrew Irvine FCCA

Finance Director (aged 55)

Skills and experience

Drew joined the board in 2005. After qualifying as a Chartered Certified Accountant in Scotland, Drew managed the Pannell Kerr Foster related accounting practice in the Falkland Islands. Drew is now a Falkland Islands resident and is a director of a number of Falkland Island companies.

External appointments

He is Chairman of the Falkland Islands Pensions Scheme and a member of the board of the Falkland Islands Fishing Companies Association.

Committee membership

None

Directors (continued)

Dennis Carlton

Senior Non-executive Director (aged 66)

Skills and experience

Dennis joined the board in 2005, having served on the board of Argos Exploration since 1995. Dennis is a qualified petroleum geologist and has been involved with the North Falkland Basin since 1995. He was Chief Operating Officer of Evergreen Resources Inc. between 1981 and 2004, and following its merger, Vice President of Exploration, Western Division for Pioneer Natural Resources USA Inc. until 2008.

External appointments

He is currently consulting for a number of other private companies operating in the energy and other sectors.

Committee membership

Dennis is a member of the Audit Committee and Chairman of the Remuneration Committee.

Christopher Fleming

Non-executive Director (aged 57)

Skills and experience

Christopher joined the board in 2008. Christopher graduated from Aberdeen University with an M.A. in Economics and Law and joined Morgan Grenfell in 1985. Between 1987 and 2005 he was involved in the development of the Gilt Sales operations of Bankers Trust, Deutsche Bank and SBC Warburg as Head of Government Bond Sales of each of the banks. From 2005 to 2009 he was Head of EMEA Flow Rates, Credit and Currency Sales for RBS Global Markets and retired as Head of Global Markets EMEA Sales for Nomura International PLC in August 2016.

External appointments

Christopher is Chairman and co-founder of "mentorxchange", a company set up in 2016.

Committee membership

Christopher is a member of the Audit Committee and a member of Remuneration Committee.

James Ragg LLB, FCA

Non-executive Director (aged 51)

Skills and experience

James joined the board in 2008. James qualified as a Chartered Accountant in 1995, and after eight years with Saffery Champness, joined a Haines Watts accountancy practice as an audit and assurance partner in 2004. He subsequently managed the de-merger of his firm from Haines Watts and its renaming as Blue Spire South LLP where he was a Management Partner until September 2012, and a non-executive partner until September 2013.

External appointments

He is currently heading up the finance and development operations for a group of private companies.

Committee membership

James is Chairman of the Audit Committee and a member of the Remuneration Committee.

Statutory information

The directors submit their report and the consolidated financial statements of Argos Resources Ltd and its subsidiary (the “Group”), for the year ended 31 December 2016.

Principal activity

The Company’s wholly-owned subsidiary, Argos Exploration Ltd, holds an Overriding Royalty Interest (ORRI) in production licence PL001 which entitles it to 5% of all oil and gas produced from all hydrocarbon discoveries developed within the Licence. The Licence is held by Noble Energy Falklands Ltd and Edison International S.p.A and it covers an area of approximately 1,126 square kilometres in the North Falkland Basin.

On 5 August 2016 the Company announced that a three-year extension to Licence PL001 had been approved by the Executive Council of the Falkland Islands Government and by the UK Secretary of State for Foreign and Commonwealth Affairs. This approval will extend the current Second Phase of the Licence to November 2019, after which a Third Licence Phase of 10 years is available to the Licensees.

Results and dividend

The results for the year and the Group’s financial position as at the year-end are shown in the attached financial statements. The directors have not recommended a dividend for the year (2015: \$nil).

Business review

The Group has incurred a loss for the year ended 31 December 2016 of \$16 thousand (2015: \$1.2 million) which equates to a loss per share of 0.007 cents (2015: 0.53 cents). The difference in relation to the previous year was due to management efforts to cut costs and the receipt of income under the participation agreement.

Administration expenses were \$0.4 million in 2016 compared to \$1.1 million in 2015.

Shareholders’ equity has decreased marginally from \$29.33 million to \$29.32 million in the year since 31 December 2015, as receipts under the participation agreement offset the administration cost leaving a small loss for the year. Cash in the year increased from \$0.5 million to \$0.7 million which reflects the disposal of assets and the fact that the Noble receipts are received in advance of costs incurred.

Outlook for the next financial year

The Participation Agreement with Noble Energy Falklands Ltd and Edison International S.p.A means that the Group will continue to receive quarterly cash payments totalling \$370,000 per annum which covers the Company’s ongoing costs. There is a risk that Noble and Edison withdraw from the agreement. In such circumstances the Licence would revert back to Argos, subject to government approval. Given that Noble and Edison have recently applied for and been granted an extension to the Licence, which now runs until November 2019, withdrawal is considered unlikely. The Group is therefore fully funded for the foreseeable future.

Key performance indicators

At this stage in its development, the directors do not consider that standard industry key performance indicators are relevant.

Statutory information (continued)

Principal risks and uncertainties

Risks in relation to financial instruments are explained within note 2 to the Group financial statements. A discussion of other potential risks can be found in the risk management report on page 17.

Substantial shareholders

As at 13 March 2017, the Company has been notified of interests in 3% or more of the Company's voting rights, based on an issued share capital of 219,713,205, as shown below:

Shareholder/Fund manager	Percentage of voting rights
Ian Thomson*	12.67
Iain Aylwin**	9.16
Orian Partners LP	6.83
Salida Capital International	6.36
JP Morgan Asset Management (UK) Ltd	4.95
Portogon Investments SA	4.55
Robert Smith	4.29

*Ian Thomson also has a 51.68% interest in the issued share capital of Argos Georgia Ltd.

**Iain Aylwin also has a 25.84% interest in the issued share capital of Argos Georgia Ltd.

Argos Georgia Ltd held 700,000 ordinary shares of 2 pence at 31 December 2016 and there has been no change in the shareholding in the period to 13 March 2017.

Directors and their interests

The interests of the directors and their immediate families and of persons connected with the directors, within the meaning of the Acts, in the share capital of the Company are as follows:

Name		At 31 December 2016	At 31 December 2015
		Ordinary shares of	Ordinary shares of
		2 pence each	2 pence each
I M Thomson*	Chairman	27,844,701	27,844,701
J Hogan	Managing Director	2,000,000	2,000,000
A Irvine	Finance Director	2,125,000	2,125,000
D Carlton	Non-executive	3,750,000	3,750,000
C Fleming	Non-executive	2,625,000	2,625,000
J Ragg	Non-executive	200,000	200,000
Total		<u>38,544,701</u>	<u>38,544,701</u>

The directors also hold options in the Company's shares which are detailed in the directors' remuneration report on page 16.

*See preceding note on substantial shareholders for information on shares held by Ian Thomson in Argos Georgia Ltd. The number of shares held by Ian Thomson in the table above does not include those held by virtue of his position as a shareholder in Argos Georgia Ltd.

Statutory information (continued)

Directors' service agreements

The terms of the directors' service agreements or letters of engagement are summarised as follows. The Company entered into a service agreement with the executive directors Ian Thomson, John Hogan and Andrew Irvine on 8 July 2010 setting out the terms of their employment following the admission to AIM, which took place on 29 July 2010. The terms of the service contracts permit termination by either party giving notice to the other of not less than 12 months in the case of John Hogan and 6 months for Andrew Irvine. There are no specific entitlements on termination of any of the employments concerned.

Dennis Carlton, Christopher Fleming and James Ragg are engaged as non-executive directors upon the terms of various letters of appointment, the principal terms of which are that each of them is appointed for an initial term of up to three years commencing at the time of admission, subject to early termination rights of not less than three months' notice by either party.

Related party transactions

See note 18.

Events after the reporting date

See note 21.

Financial instruments

For the year under review the Group held no financial instruments outside of cash and receivables. The policies for financial risk management are disclosed in note 2.

Political and charitable contributions

The Group made no political or charitable donations in the year under review (2015: \$nil).

Creditor payment policy

It is the Group's policy to ensure that all of its suppliers are paid promptly and in accordance with contractual obligations. Average creditor days for the year were 1 day (2015: 3 days), on the basis of accounts payable (excluding retention held) as a percentage of purchase ledger turnover which includes amounts capitalised.

Directors' and officers' insurance

The Group purchased directors' and officers' liability insurance. The directors may also, in their capacity as directors, obtain independent legal advice at the Group's expense if they consider it necessary to do so.

Employees

The Group employees consisted of three executive and three non-executive directors during the course of the year who are included in the total staff numbers shown in note 6 to these accounts.

Health, safety and the environment

It is the Company's objective to maintain the highest standards for health and safety and the protection of the environment which adhere to all applicable laws and represent best practice.

Statutory information (continued)

Social and community

As a holder of an ORRI in the North Falkland Basin the Company's activities have a limited impact on the community but the directors remain aware that the Falkland Islands is a small community and continue to believe that working closely with the Falkland Islands Government and seeking views through consultation with stakeholder groups should help to ensure a positive impact from any of the Company's operations on the Falkland Islands and its population.

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the annual report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law, the Companies Act 1948 as amended by the Companies (Amendment) Ordinance 2006 (Falkland Islands Companies Act) requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law the directors have elected to prepare the Group and Parent Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

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 parent Company and of the Group's profit or loss 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 the Alternative Investment Market. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the Group and parent Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union, 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 Group and parent Company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's 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 Companies Act 1948 as amended by the Companies (Amendment) Ordinance 2006 (Falkland Islands Companies Act) as it applies in the Falkland Islands. 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.

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 Falkland Islands 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.

Statement as to disclosure of information to the auditor

Each director in office at the date of this report has confirmed, as far as he is aware, that there is no relevant information of which the auditor is unaware. Each such director has confirmed that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Statement of directors' responsibilities in respect of the annual report and the financial statements (continued)

Auditor

In accordance with the provisions of the Companies Act 1948 as amended by the Companies (Amendment) Ordinance 2006 (Falkland Islands Companies Act) as it applies in the Falkland Islands, a resolution is to be proposed at the Annual General Meeting of the Company for the reappointment of BDO LLP as auditor of the Company.

On behalf of the board

A handwritten signature in black ink, appearing to read "Ian Thomson", with a horizontal line underneath it.

Ian Thomson
Chairman

Date: 24 March 2017

Corporate governance statement

As an AIM company, Argos Resources Ltd is not required to comply with the UK Corporate Governance Code. Although the Company does not comply with the Code, the board has sought to comply with a number of the provisions of the Code in so far as it considers them to be appropriate to a company of this size and nature.

An outline of how it does this is as follows:

The board

The Argos Resources Ltd board is currently comprised of three executive and three non-executive directors. It is therefore compliant with the Code's recommendation for smaller companies that at least two of the board members are independent non-executive directors.

Whilst the non-executive directors are shareholders in the Company and hold options to acquire shares in the Company, this is not considered a significant threat to their independence. One of the non-executive directors, James Ragg, is a senior employee within the Argos Georgia group. Argos Georgia Ltd owns 0.32% of the Company's shares. The board has considered, in conjunction with its advisors, whether this has any impact on Mr Ragg's independence and has concluded that it does not. Apart from these matters and their directors' fees the non-executive directors have no other financial interests in the Company or business relationships that would interfere with their independent judgement.

Dennis Carlton is the senior non-executive director. Dennis is considered a valuable member of the Board and his experience in the oil industry more than outweighs any perceived loss of independence due to the time he has served as non-executive. Should shareholders have concerns which have not been adequately addressed by the chairman or managing director, he can be contacted by sending an email to info@argosresources.com. The same address can also be used to contact James Ragg, chairman of the audit committee.

The board has agreed to meet four times per year or more frequently if it needs to do so. There is a schedule of matters reserved for board approval and this ensures that the board exercises control over all key areas.

The board's executive chairman, Ian Thomson, is not considered independent as he holds a substantial number of the Company's shares and he has been on the board for more than 10 years. The Company considers, however, that the benefit of his experience and long involvement with business in the Falkland Islands more than outweighs the benefits of an independent chairman. He meets with the non-executive directors, without the other executive directors present, at least once per year.

The Company complies with Rule 21 of the AIM Rules for Companies regarding dealings in the Company's shares and has adopted a code on dealing in securities to ensure compliance by directors.

Audit committee

The audit committee comprises James Ragg (committee chairman), Dennis Carlton and Chris Fleming. The board considers all three members of the committee to be independent and is satisfied that at least one, James Ragg, has recent and relevant financial experience.

The committee invites the remainder of the board and the external auditor to attend its meetings as observers. It meets the external auditor, in the absence of the remainder of the board, at least once per year.

Corporate governance statement (continued)

The role and responsibilities of the audit committee have been set out in written terms of reference which include:

- risk assessment, particularly, but not exclusively, in respect of financial reporting risks;
- assessment of processes relating to the Company's control environment;
- oversight of financial reporting;
- evaluation of internal and external audit processes; and
- development and implementation of policy on the provision of non-audit services by the external auditor.

The full terms of reference for the audit committee are available on the Company's website.

The audit committee has established procedures by which concerns regarding accounting or audit matters may be brought to the committee chairman's attention and the chairman can be contacted by sending an email to info@argosresources.com.

The audit committee has considered the need for an internal audit function and regards this as unnecessary given the Company's current size and lack of complexity.

The audit committee makes recommendations to the board regarding the appointment, reappointment and removal of external auditors. At the Annual General Meeting the shareholders are requested to authorise the audit committee to fix the remuneration of the external auditors.

The audit committee recognises that, for smaller companies, it is cost-effective to procure certain non-audit services from the external auditor but there is a need to ensure that provision of such services does not impair, or appear to impair, the auditor's independence or objectivity. The committee has therefore put in place a written policy on the use of external auditors which includes clear limits on the level of non-audit work beyond which the chairman of the audit committee must be consulted before the assignment can be awarded to the external auditor.

The audit committee was satisfied throughout the year that the external auditor's objectivity and independence were in no way impaired by the nature of the non-audit work undertaken or any other factors including the level of non-audit fees charged.

The audit committee held one meeting during the year. During the period since the year end one further meeting has been held.

The chairman of the audit committee reports to the board on the committee's discussions and minutes of the committee's meetings are circulated to all directors.

Nominations committee

The board considers that, at its current stage of development, the Company does not require a separate nominations committee. The functions of that committee, namely consideration of any new appointments of directors to the board, are therefore carried out by the board as a whole.

No appointments to the board were made in the year under review.

Corporate governance statement (continued)

Internal controls and risk management

The board of directors is responsible for implementing and reviewing the effectiveness of the Group's system of internal control.

The system of internal control is designed to mitigate rather than eliminate risk and therefore provides reasonable rather than total assurance against material misstatement or loss.

As noted above, the board does not consider it necessary, at the Company's current stage of development, to implement an internal audit capability.

Going concern

As at the date of approval of the financial statements the board is of the opinion that the Group and Company have adequate resources to continue in existence for at least 12 months from that date. The board has therefore continued to adopt the going concern basis in preparation of the financial statements. See also Accounting Policy note 1 on page 27.

Capital

Capital is managed to ensure that the Group is able to continue as a going concern. The Group is not subject to any externally imposed capital requirements.

Directors' attendance

Directors' attendance at board and committee meetings for the year is as set out below:

	Board meetings	Audit committee meetings	Remuneration committee meetings
I M Thomson (Chairman)	6	-	-
J Hogan	6	-	-
A Irvine	6	-	-
D Carlton (chairman, remuneration committee)	5	1	1
C Fleming	-	1	-
J Ragg (chairman, audit committee)	5	1	1
Total meetings during the year	6	1	1

Remuneration report

The remuneration committee comprises Dennis Carlton (committee chairman), Chris Fleming and James Ragg. The board considers that all members of the remuneration committee are independent.

The committee's role is to establish the Company's policy for the remuneration of the executive directors in order to ensure that all members of the executive management of the Company are provided with appropriate incentives to encourage enhanced performance.

The committee met formally once during the year under review and held a number of informal discussions. The committee recommended a reduction in remuneration for executive members of the Board.

Directors' remuneration for the year is as set out below:

	2016	2016	2016	2015
	Fees	Pension	Total	Fees and
	£'000	contributions	£'000	total
		£'000		£'000
I M Thomson	-	-	-	-
J Hogan	58	-	58	100
A Irvine	23	1	24	41
D Carlton	12	-	12	20
C Fleming	12	-	12	20
J Ragg	12	-	12	20
Total directors' remuneration	117	1	118	201
Remuneration above converted to \$'000	156	2	158	308

Share options

The share options in place as at 31 December 2016 and held by directors are as follows:

	Date of grant	Number of options brought forward	Exercised during the year	Number of options carried forward	Exercise price (pence)
J Hogan	12/11/2009	5,805,818	-	5,805,818	2
A Irvine	12/11/2009	-	-	-	2
D Carlton	12/11/2009	875,000	-	875,000	2
C Fleming	12/11/2009	-	-	-	2
J Ragg	12/11/2009	1,025,000	-	1,025,000	2
Total		7,705,818	-	7,705,818	

The share options were exercisable from 30 October 2010 and expire on 11 November 2019.

Risk management report

The Group's business, financial condition and results could be materially adversely affected by a number of factors.

General exploration risk

Whilst results in the surrounding area are encouraging with respect to the oil and gas potential of the area and interpretation of the seismic data has indicated extensive prospectivity within the licence area in which the Group retains an overriding royalty interest, no commercial volumes of oil or gas have yet been discovered and there is no certainty that such discoveries will ever be made.

Mitigation: On 13 April 2015, the Company announced that its wholly-owned subsidiary, Argos Exploration Ltd, had entered into a Farmout Agreement, which was replaced by a Participation Agreement in February 2016, with Noble Energy Falklands Ltd and Edison International S.p.A, providing evidence that other industry participants see potential in the licence area.

Licence risk

The licence on which the ORRI is based requires a well to be drilled by 25 November 2019. There is a risk that the licence will expire and not be extended.

Mitigation: In August 2016 an extension of 3 years was approved by the Executive Council of the Falkland Islands Government and by the UK Secretary of State for Foreign and Commonwealth Affairs. This approval extended the current Second Phase of the Licence to November 2019, after which a Third Licence Phase of 10 years is available to the Licensees.

Commercial risk

Even if quantities of oil or gas are discovered, there is a risk that these will not be developed.

Mitigation: The Group have entered into a Farmout Agreement, since replaced by a Participation Agreement, with partners with strong financial backgrounds and track records of expediting the process from commercial discovery to production.

Future funding requirements

There is a risk that Noble and Edison withdraw from the agreement. In such circumstances the licence would revert back to Argos, subject to government approval, but funding would need to be found to cover overheads.

Mitigation: Under the Participation Agreement the Group will not need to raise additional funding in relation to future exploration and development in the Licence area and given that Noble and Edison have recently applied for and been granted an extension to the Licence, which now runs until November 2019, withdrawal is considered unlikely.

In the event that funding ceased the cash balance held by the Company is sufficient to meet the ongoing overhead for a period of more than one year, during which time the Company would seek to raise further finance.

Risk management report (continued)

Political risk

The Argentine Government has not relinquished its claims to sovereignty over the Falkland Islands and the surrounding maritime areas.

Mitigation: In a referendum, conducted in 2013, the Falkland Islanders voted unequivocally to remain as a British Overseas Territory and the UK Government has stated that it has no doubt about its sovereignty and remains fully committed to the offshore prospecting policy pursued by the Falkland Islands Government.

Independent auditor's report to the members of Argos Resources Ltd

We have audited the financial statements of Argos Resources Limited for the year ended 31 December 2016 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity, the company statement of financial position, the company statement of cash flows, the company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as it applies in the Falkland Islands.

This report is made solely to the company's members, as a body, in accordance with section 162 (1) of the Companies Act 1948 (amended by the Companies (Amendment) Ordinance 2006) as it applies in the Falkland Islands. Our audit work has been undertaken so that we might state to the 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2016 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as it applies in the Falkland Islands;

- the parent company's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as it applies in the Falkland Islands; and
- the financial statements have been prepared in accordance with the requirement of the Companies Act 1948 (amended by the Companies (Amendment) Ordinance 2006) as it applies in the Falkland Islands.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 1948 (amended by the Companies (Amendment) Ordinance 2006) as it applies in the Falkland Islands requires us to report to you if, in our opinion:

- the information given in the directors' report for the financial year for which the financial statements are prepared is inconsistent with the financial statements; and
- proper 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.



*BDO LLP
Statutory Auditor
London
United Kingdom*

Date 24 March 2017

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

Consolidated statement of comprehensive income
Year ended 31 December 2016

		Year ended 31 December 2016 \$'000	Year ended 31 December 2015 \$'000
	Note		
Other income	4	505	-
Administrative expenses	5	(427)	(1,115)
Finance income	9	1	2
Foreign exchange losses		(95)	(41)
<hr/>			
Loss for the year attributable to owners of the parent	17	(16)	(1,154)
<hr/>			
Total comprehensive income for the period attributable to owners of the parent		(16)	(1,154)
Basic and diluted loss per share (cents)	11	(0.007)	(0.53)
<hr/>			

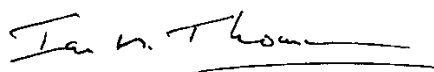
The notes on pages 25 to 40 form part of the financial statements.

Consolidated statement of financial position
As at 31 December 2016

	Note	2016 \$'000	2015 \$'000
Assets			
Non-current assets			
Royalty interests and exploration intangible assets	12	28,749	28,921
Plant and equipment	13	-	3
		28,749	28,924
Current assets			
Other receivables	14	15	52
Cash and cash equivalents		701	451
Total current assets		716	503
Total assets		29,465	29,427
Liabilities			
Current liabilities			
Trade and other payables	15	148	94
Total liabilities		148	94
Total net assets		29,317	29,333
Capital and reserves attributable to equity holders of the Company			
Share capital	16	6,669	6,669
Share premium	17	30,071	30,071
Retained losses	17	(7,423)	(7,407)
Total shareholders' equity		29,317	29,333

The notes on pages 25 to 40 form part of the financial statements.

These financial statements were approved by the directors and authorised for issue on 24 March 2017 and are signed on their behalf by:



I M Thomson
Chairman

Consolidated statement of cash flows
Year ended 31 December 2016

	Year ended 31 December 2016 \$'000	Year ended 31 December 2015 \$'000
Cash flows from operating activities		
Loss for period before taxation	(16)	(1,154)
Adjustments for:		
Finance income	9	(1)
Foreign exchange	92	-
Depreciation	3	13
Net cash outflow from operating activities before changes in working capital	78	(1,143)
Decrease in other receivables	37	16
Increase/(decrease) in other payables	54	46
Net cash outflow from operating activities	169	(1,081)
Investing activities		
Interest received	1	3
Exploration and development expenditure	-	(22)
Proceeds from the farmout transaction	12	2,750
Proceeds on the sale of assets	172	-
Costs directly attributable to farmout transaction	12	(2,543)
Net cash used in investment activities	173	188
Financing activities		
Issue of ordinary shares (share options exercised)	-	26
Net cash from financing activities	-	26
Net decrease in cash and cash equivalents	342	(867)
Cash and cash equivalents at beginning of period	451	1,363
Exchange losses on cash and cash equivalents	(92)	(45)
Cash and cash equivalents at end of the year	701	451

The notes on pages 25 to 40 form part of the financial statements.

Consolidated statement of changes in equity
Year ended 31 December 2016

	Share capital \$'000	Share premium \$'000	Retained losses \$'000	Total equity \$'000
At 1 January 2015	6,643	30,071	(6,253)	30,461
Total comprehensive income for the year	-	-	(1,154)	(1,154)
Shares issued (share options exercised)	26	-	-	26
<hr/>				
At 31 December 2015 And 1 January 2016	6,669	30,071	(7,407)	29,333
<hr/>				
Total comprehensive income for the year	-	-	(16)	(16)
<hr/>				
At 31 December 2016	6,669	30,071	(7,423)	29,317

The share premium reserve comprises the amount subscribed for share capital in excess of its nominal value.

Retained losses represent the accumulated gains and losses recognised in the financial statements.

The notes on pages 25 to 40 form part of the financial statements.

Notes to the consolidated financial statements

Year ended 31 December 2016

1 Accounting policies

The Group and its operations

Argos Resources Ltd is an AIM quoted, limited liability company. The Group comprises the ultimate parent Company, Argos Resources Ltd, and its wholly owned subsidiary Argos Exploration Ltd. Argos Resources Ltd is incorporated and domiciled in the Falkland Islands under registration number 10605. The address of its registered office is Argos House, H Jones Road, Stanley, Falkland Islands, FIQQ 1ZZ.

On 13 April 2015, the Company announced that its wholly-owned subsidiary, Argos Exploration Ltd, had entered into a Farmout Agreement with Noble Energy Falklands Ltd and Edison International S.p.A in respect of the Company's principal asset, a 100% interest in production licence PL001 covering an area of approximately 1,126 square kilometres in the North Falkland Basin.

Noble had been planning to drill an exploration well on Licence PL001 during the 2015/16 Eirik Raude drilling campaign in the North Falkland Basin. Due to operational issues with the rig, however, Noble cancelled the Rig Contract, leading, in turn, to the notification to Argos of Force Majeure on 12 February 2016.

A new Participation Agreement was agreed between the parties to reflect the various changes created as a consequence of Force Majeure and this replaced the Farmout Agreement.

The completed Farmout Agreement and subsequent Participation Agreement mean that:

- Noble has assumed operatorship of Licence PL001 from Argos;
- Noble and Edison earned a 75% and 25% working interest in the Licence respectively;
- Argos retained an overriding royalty interest (ORRI) of 5% of all oil and gas produced from all hydrocarbon discoveries developed within the Licence;
- Argos will have no requirement to contribute to any future capital or operating expenditures incurred over the life of the Licence or any Licence extension;
- Argos received \$2.75 million in cash upon completion of the Farmout Agreement as reimbursement for certain historic costs incurred by Argos in relation to the maintenance of the Licence and the acquisition of certain seismic and other data in respect of the Licence Area;
- Argos incurred advisory and legal fees totalling \$2.54m in relation to the farmout;
- Future Sterling cash payments to Argos will be sufficient to meet the ongoing running costs of the Company through to receipt of the first such royalty payment pursuant to the terms of the ORRI;
- Should Noble and Edison elect to withdraw from the Licence, Argos has retained the right to have 100% of the working interest reassigned to it, subject to appropriate Falkland Islands Government approvals. On any withdrawal payments would continue to be received by Argos for a further 450 days.

In August 2016 a three year extension of Licence PL001 was approved by the Executive Council of the Falkland Islands Government and by the UK Secretary of State for Foreign and Commonwealth Affairs. This approval extended the current Second Phase of the Licence to November 2019, after which a Third Licence Phase of 10 years is available to Noble and Edison as the Licensees.

Notes to the consolidated financial statements

Year ended 31 December 2016

Accounting policies (continued)

Statement of compliance

The consolidated financial statements are prepared in compliance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and interpretations of those standards as issued by the International Accounting Standards Board, and applicable legislation. The consolidated financial statements were approved for issue by the board of directors on 24 March 2017 and are subject to adoption at the Annual General Meeting of shareholders which is expected to be held in Stanley, Falkland Islands, in October 2017.

Basis of preparation

These financial statements have been prepared using the accounting policies set out below which have been consistently applied unless stated otherwise.

The financial statements have been prepared under the historical cost convention. The functional and presentational currency of the parent and subsidiary companies is considered to be US Dollars (US\$).

All values are rounded to the nearest thousand Dollars (\$'000) except where otherwise indicated.

Changes in accounting standards

The standards which were issued on or prior to 1 January 2016 have been adopted in the year and have not had a material impact.

The International Accounting Standards Board (IASB) has issued the following new and revised standards, amendments and interpretations to existing standards that are not effective for the financial year ending 31 December 2016 and have not been adopted early. The Group is currently assessing the impact of these standards and based on the Group's current operations do not expect them to have a material impact on the financial statements.

	Effective date
New Standards	
IFRS 15 Revenue from Contracts with Customers	01-Jan-18
IFRS 9 Financial Instruments	01-Jan-18
IFRS 16 Leases*	01-Jan-19
Amendments to Existing Standards	
Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12)*	01-Jan-17
Disclosure Initiative: Amendments to IAS 7*	01-Jan-17
Clarifications to IFRS 15 revenue from Contracts with Customers*	01 Jan-18
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*	01-Jan-18
IFRIC 22 Foreign Currency Transactions and Advance Consideration*	01-Jan-18
Annual Improvements to IFRSs (2014–2016 Cycle)*	01-Jan-17

* Not yet adopted by European Union

Notes to the consolidated financial statements

Year ended 31 December 2016

Accounting policies (continued)

Going concern

There is a risk that Noble and Edison withdraw from the Participation Agreement, which was signed in 2016. In such circumstances the licence would revert back to Argos, subject to government approval. Given that Noble and Edison have recently applied for and been granted an extension to the Licence, which now runs until November 2019 withdrawal is considered unlikely. In the event that funding ceased the cash balance held by the Company is sufficient to meet the ongoing overhead for a period of more than one year, during which time the Company would seek to raise further finance.

The directors consider that the Group is therefore fully funded for the foreseeable future and that the Group's available financial resources are adequate to provide working capital for the foreseeable future, being at least 12 months from the date on which the financial statements were signed. The financial statements have therefore been prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements incorporate the results of Argos Resources Ltd and its wholly owned subsidiary undertaking as at 31 December 2016 using the acquisition method of accounting. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition.

All inter-company accounts and transactions have been eliminated on consolidation.

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 has been identified as the board of directors.

The Group's operations consisted entirely of oil and gas exploration around the Falkland Islands until the Farmout Agreement and subsequent Participation Agreement with Noble Energy Falklands Ltd and Edison International S.p.A. Under these Agreements the Group has disposed of Licence PL001 but retains an overriding royalty interest (ORRI) in the Licence area. In the opinion of the directors there is only one business segment and the information contained in the financial statements reflects the operations within that segment.

Intangible assets – capitalised exploration expenditure, royalty interests and impairment

Evaluation and exploration (E&E) expenditure

As permitted under IFRS 6, and prior to the farmout, the Group had accounted for E&E expenditure using the "full cost" method, whereby all costs associated with oil exploration were capitalised as intangible assets, pending determination of feasibility of the project.

Costs incurred include appropriate technical and administrative expenses but not general overheads. If an exploration project is successful, the related expenditures are transferred to tangible assets and amortised over the estimated life of the commercial reserves. Where a licence is relinquished, a project is abandoned, or is considered to be of no further value to the Group, the related costs

Notes to the consolidated financial statements

Year ended 31 December 2016

Accounting policies (continued)

would be written off. All capitalised costs are reviewed annually against the underlying value of oil and gas reserves, unless the expenditure relates to an area where it is too early to make a decision about the value of the assets.

Impairment

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed the 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 must perform an impairment test in accordance with the provisions of IAS 36, assessing the recoverable amount of the E&E assets together with all development and production assets, as a single cash generating unit (CGU). The aggregate carrying value 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.

Any E&E impairment loss would be recognised in the income statement and separately disclosed.

Overriding royalty interest (ORRI)

As part of the farmout transaction the Group retained an ORRI of 5% of all oil and gas produced from all hydrocarbon discoveries developed within the Licence and following completion in September 2015 the accumulated historical E&E cost was re-classified as "royalty interests".

The Group considers that the ORRI is similar in economic terms to holding a direct interest in the underlying licence as there is only a right to receive benefit from the ORRI on production and many of the risks faced by the Group are the same as those faced by the owner of the licence. These risks are seen as:

Existence risk - whether oil is found in commercially extractable quantities;
Production risk – whether the operator is able to get any discovery to commercial production;
Timing risk – commencement and quantity as determined by the operator;
Price risk – determined by future commodity supply and demand.

The Group believes therefore that the most appropriate method of accounting for the retained ORRI is to classify it as an intangible asset in accordance with IAS 38.

Notes to the consolidated financial statements

Year ended 31 December 2016

Accounting policies (continued)

As an initial fair value cannot be reliably determined the ORRI intangible has been measured at cost, which was the carrying amount of the E&E asset given up, with no gain or loss. The ORRI is therefore presented as an intangible asset and will be carried at cost less accumulated amortisation and any impairment provision.

Impairment

The ORRI will be assessed for indicators of impairment at each period end under IAS 36. If such an indication is identified, the recoverable amount of the asset is estimated in order to determine the extent of any impairment. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate. If the recoverable amount of the asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is also recognised in the income statement.

Should an impairment loss subsequently reverse, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment loss is also recognised in the income statement.

On production the income generated by the ORRI will be recognised as revenue in the income statement and the intangible asset will be amortised on a systematic basis.

Plant and equipment

Plant and equipment consists mainly of computer equipment and software. Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost less residual values of plant and equipment over its estimated useful life of 4 years.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

Capital commitments

Capital commitments include expenditure in relation to all projects which have received specific board approval up to the reporting date. Projects without approval at the reporting date are excluded.

Notes to the consolidated financial statements

Year ended 31 December 2016

Accounting policies (continued)

Financial instruments

Financial assets

The Group classifies its financial assets depending on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as held to maturity, available for sale or fair value through profit and loss.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus costs that are directly attributable to the acquisition or issue and subsequently carried at amortised cost less any provision for impairment. The Group's loans and receivables comprise cash and cash equivalents and other receivables in the statement of financial position. Cash and cash equivalents comprise current account balances or short term deposits, maturing within six months, at variable interest rates that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Any interest earned is accrued and classified as interest receivable.

The effect of discounting on these financial instruments is not considered to be material.

Financial liabilities

The Group classifies its financial liabilities depending on the purpose for which the liability was incurred. All are non-derivative liabilities and are measured at amortised cost. There are no financial liabilities which are measured at fair value through profit and loss.

Financial liabilities held at amortised cost are initially recognised at fair value and subsequently at amortised cost.

The effect of discounting on these financial instruments is not considered to be material.

Cash and cash equivalents

This includes cash in hand and deposits held with banks. Deposits range from instant access to fixed term deposits. No fixed term deposit exceeds 6 months.

Foreign currencies

The functional and presentational currency is US Dollars (US\$). Transactions denominated in currencies other than US\$ are translated at the rate of exchange ruling at the date of the transaction. Monetary amounts held in currencies other than US\$ are converted at the rate ruling at the year end. Any translation differences are dealt with in the consolidated statement of comprehensive income.

The year end rates of exchanges used were:

	2016	2015
£:US\$	1.23	1.48

Notes to the consolidated financial statements

Year ended 31 December 2016

Accounting policies (continued)

Income taxes and deferred taxation

Deferred tax assets and liabilities are not discounted and shall be measured using the liability method at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Share based remuneration

The Company has issued share options to directors and key personnel. The Group accounts for the costs of the issue of these options in line with IFRS 2 "Share based payments". Under this standard, the cost of providing for such options is based on the fair value of the options at the date of grant and is charged to the consolidated statement of comprehensive income or, if appropriate, capitalised, over the expected vesting period of the options and credited to retained losses.

Revenue and income

Income from the Participation Agreement is recognised in the period to which it relates. It is received quarterly in advance.

Investment income consists of interest receivable for the period. Interest income is recognised as it accrues.

2 Financial instruments

The Group's financial assets comprise of cash and cash equivalents and other receivables, which are categorised as "Loans and other receivables". Financial liabilities comprise other payables which are categorised as financial liabilities held at amortised cost and these are all current financial liabilities.

It is, and has been throughout the period of the financial statements, the Group's policy that no trading in financial instruments shall be undertaken.

The policy for managing financial risks is set by the board following recommendations from the Finance Director. Certain risks are managed centrally, while others are managed locally following guidelines communicated from the centre. The policy for each of the above risks is described in more detail below.

Foreign exchange

As the functional currency is US\$ and some of the current monetary assets and liabilities are in Sterling there is a risk of loss in relation to the net Sterling financial assets position, should there be a devaluation of Sterling against US\$. The risk of any loss, in terms of meeting future liabilities, is however eliminated by matching the currencies of cash balances with the currencies of projected liabilities.

Notes to the consolidated financial statements
Year ended 31 December 2016

Financial instruments (continued)

As of 31 December 2016 the Group's financial assets and financial liabilities were denominated in a mixture of US\$ and Sterling which consisted of:

	Sterling denominated \$'000	US\$ denominated \$'000	Total \$'000
Current assets			
Other receivables	15	-	15
Less: prepayments	(11)	-	(11)
Cash and cash equivalents	699	2	701
	703	2	705
Liabilities			
Other payables	(148)	-	(148)
Add: amounts received in advance	92	-	92
Net financial assets	647	2	649

At 31 December 2015 the comparative balances were:

	Sterling denominated \$'000	US\$ denominated \$'000	Total \$'000
Current assets			
Other receivables	48	4	52
Less: prepayments	(44)	(4)	(48)
Cash and cash equivalents	443	8	451
	447	8	455
Liabilities			
Other payables	(94)	-	(94)
Net financial assets	353	8	361

If the US\$ had strengthened against Sterling by 10%, the loss for the year would increase and equity would reduce by \$65K (2015: \$35K). Conversely if the US\$ weakens against Sterling the loss for the year would reduce and equity would increase by \$65K (2015: \$35K).

Notes to the consolidated financial statements

Year ended 31 December 2016

Financial instruments (continued)

Counter-parties

This is the risk that a third party failure results in loss to the Group such as a bank collapse resulting in the loss of deposits. To mitigate against this risk cash deposits are spread between three high quality institutions, Lloyds Bank PLC, Standard Chartered Bank and HSBC. The following was the split of funds between the various institutions at 31 December 2016:

Institution	2016	2015
	\$'000	\$'000
Lloyds Bank PLC	566	268
Standard Chartered Bank	129	175
HSBC	6	8
	701	451

Interest rates

The Group is not exposed to interest rate risk as there are no interest bearing loans or balances outstanding to providers of finance.

Liquidity

This is the risk that the Group cannot meet its liabilities as these fall due. As the timing of significant payments carries a degree of uncertainty cash balances are being kept in interest bearing term deposits with periods of no longer than 6 months.

Credit

The Group is not exposed to credit risk as it does not trade, and the cash balances held by the Group are spread between three reputable institutions. The comments made above in relation to counter-party risk are relevant.

Fair values

The fair values of the Group's financial assets and liabilities are not materially different from the carrying values in the consolidated statement of financial position and notes to the financial information.

3 Significant accounting judgements, estimates and assumptions

Impairment of intangible assets

When conducting an impairment review of its assets, the Group exercises judgement in making assumptions about future oil and gas prices, oil and gas reserves/resources and future development and production costs. By their nature, impairment reviews include significant estimates regarding future financial resources and commercial and technical feasibility to enable the successful realisation of the exploration and evaluation expenditure or capitalised value of the royalty interest. Changes in the estimates used can result in significant charges to the statement of comprehensive income as any impairment loss arising from the review is charged to the statement of comprehensive income whenever the carrying amount of the asset exceeds its recoverable amount.

Notes to the consolidated financial statements
Year ended 31 December 2016

4 Other income	2016	2015
	\$'000	\$'000
Income from the Participation Agreement	505	-
Total	505	-

Other income represents amounts received as part of the farmout transaction.

5 Administrative expenses	2016	2015
	\$'000	\$'000
Directors' remuneration (see note 6)	158	308
Professional fees	174	265
Depreciation	3	13
Other expenses	92	529
Total	427	1,115

6 Directors' remuneration	2016	2015
	\$'000	\$'000
Remuneration and fees	156	305
Pensions*	2	3
Total	158	308

*A Irvine is accruing retirement benefits under a defined contribution pension arrangement.

Directors' remuneration, by director, is disclosed in the directors' remuneration report on page 16. The average monthly number of employees, including directors, during this and the preceding year was 6.

7 Auditor's remuneration	2016	2015
	\$'000	\$'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	24	32
Fees payable to the Company's auditor for the audit of the subsidiary's annual financial statements	5	6
Review of interim accounts	-	8
Total payable for audit related services	29	46
Fees payable to the Company's auditor for other services:		
Taxation	6	34
Fees payable to the Company's auditor for the Taxation services for the subsidiary company	9	-
	44	80

Notes to the consolidated financial statements
Year ended 31 December 2016

8 Share based remuneration

In 2009 Argos Resources Ltd introduced an equity-settled share based remuneration scheme for employees and key personnel, the only vesting condition being that the individual remains a director or employee of the Group or, where not an employee, serves out the full contract term over the vesting period.

	Average share price on date exercised (pence)	Exercise price (pence)	Number
At 1 January 2015		2	9,930,818
Exercised – 8 July 2015	8.1	2	(650,000)
Exercised – 21 July 2015	7.6	2	(200,000)
At 31 December 2015 and 31 December 2016		2	9,080,818

All options outstanding at the end of the year and at the end of the comparative period had vested and remained exercisable. The weighted average contractual life of the options is 8.87 years.

9 Finance income	2016 \$'000	2015 \$'000
Interest on bank deposits	1	2

Notes to the consolidated financial statements
Year ended 31 December 2016

10 Taxation credit	2016	2015
	\$'000	\$'000
Total tax:		
Corporation tax on losses for the year	-	-
<hr/>		
Reconciliation of total tax credit:		
Loss before tax	16	1,154
<hr/>		
Loss on ordinary activities multiplied by the standard rate of corporation tax of 26%	(4)	(300)
Effects of:		
Unrelieved tax losses and other deductions arising in the period	125	284
Receipts not taxable	(131)	-
Interest receivable not taxable	-	(2)
Expenses not deductible for tax purposes	10	18
<hr/>		
Total tax credit for the year	-	-
<hr/>		

The Group has capital tax losses of \$24m which are available to offset against the difference between the tax base of the royalty asset (nil) and the carrying value \$28m. The resulting deferred tax assets and liabilities have been offset on the basis they relate to the same tax authority and the same taxable Group.

	2016	2015
	\$'000	\$'000
Unrelieved tax losses, on which no deferred tax asset has been recognised, which are available for offset against future profits	7,067	7,846
<hr/>		

Notes to the consolidated financial statements
Year ended 31 December 2016

11 Loss per share

	2016	2015
	Number	Number
Shares in issue brought forward (2 pence shares)	219,713,205	218,863,205
Options exercised	-	850,000
<hr/>		
Shares in issue carried forward	219,713,205	219,713,205
Weighted average shares in issue	219,713,205	219,265,945
<hr/>		
	2016	2015
	\$'000	\$'000
Loss for the year	(16)	(1,154)
Weighted average number of ordinary shares in issue during the year	219,713,205	219,265,945
<hr/>		
Basic and diluted loss per ordinary share (cents)	(0.007)	(0.53)
<hr/>		

In accordance with IAS 33, as the Group is reporting a loss for both this and the preceding year the share options are considered anti-dilutive because the exercise of share options would have the effect of reducing the loss per share.

**12 Royalty interest (ORRI)
and exploration and
evaluation (E&E)
intangible assets**

	Royalty interests \$'000	Exploration & evaluation (E&E) assets \$'000	Total \$'000
At 1 January 2015	-	29,044	29,044
<hr/>			
Additions	-	84	84
Proceeds from farmout	-	(2,750)	(2,750)
Costs directly attributable to the farmout	-	2,543	2,543
E&E assets reclassified as royalty interests	28,921	(28,921)	-
<hr/>			
At 31 December 2015	28,921	-	28,921
<hr/>			
At 1 January 2016	28,921	-	28,921
<hr/>			
Disposal of assets	(172)	-	(172)
<hr/>			
At 31 December 2016	28,749	-	28,749
<hr/>			

The Group's capitalised E&E expenditure was re-classified as "royalty interests" on completion of the farmout in September 2015. Details of the accounting policies adopted by the Group for these types of asset and the consideration of impairment is detailed in note 1 on page 28.

Notes to the consolidated financial statements
Year ended 31 December 2016

13 Plant and equipment	2016	2015
	\$'000	\$'000
Cost:		
At 1 January	81	81
Additions	-	-
<hr/>		
At 31 December	81	81
<hr/>		
Depreciation:		
At 1 January	78	65
Charge for year	3	13
<hr/>		
At 31 December	81	78
<hr/>		
Net book value:		
At 31 December	-	3

14 Other receivables	2016	2015
	\$'000	\$'000
Prepayments	11	48
Other	4	4
<hr/>		
	15	52

15 Trade and other payables	2016	2015
	\$'000	\$'000
Trade payables	1	17
Other creditors	92	-
Accruals	55	77
<hr/>		
	148	94

16 Share capital	2016	2015
	\$'000	\$'000
Authorised:		
500,000,000 ordinary shares of 2 pence each	14,960	14,960
<hr/>		
Allotted, issued and fully paid:	Number	\$'000
Ordinary shares of 2 pence each		
At 1 January 2015	218,863,205	6,643
Shares issued (share options exercised)	850,000	26
<hr/>		
At 31 December 2015	219,713,205	6,669
<hr/>		
At 1 January 2016 and 31 December 2016	219,713,205	6,669

Notes to the consolidated financial statements

Year ended 31 December 2016

17 Reserves

Movements on the various reserves are detailed in the consolidated statement of changes in equity on page 24. The nature and purpose of each reserve is set out below the statement of changes in equity.

18 Related party transactions

Argos Georgia Ltd is a related party of the Group due to one of the Group's directors, Ian Thomson, having a significant shareholding in Argos Georgia Ltd. Transactions with Argos Georgia Ltd during the year are as follows:

	2016	2015
	\$'000	\$'000
Due to Argos Georgia Ltd at 1 January	(12)	(1)
Expenses paid on behalf of the Group	(1)	(5)
Loans repaid/creditor balances paid	24	286
Office running costs*	(11)	(292)
<hr/>		
Due to Argos Georgia Ltd at 31 December	-	(12)

* The services and agency agreement between the Company and Argos Georgia Ltd in which Argos Georgia Ltd provided certain agency, accounting, secretarial and operational services to the Company was terminated with effect from 31 March 2016. The cost of continued provision of these services, which has not been charged for, is \$15,000. Key management personnel are the directors only.

There have been no transactions with directors during the year other than remuneration paid to each director which is disclosed in the directors' remuneration report on page 16 and in note 6.

19 Commitments

(a) Capital commitments

There were no capital commitments at 31 December 2016 nor for the comparative period.

(b) Operating commitments

The services and agency agreement between the Company and Argos Georgia Ltd in which Argos Georgia Ltd provides certain agency, accounting, secretarial and operational services to the Company was terminated with effect from 31 March 2016. The ongoing commitment at 31 December 2015 and 2016 was as follows:

	2016	2015
	\$'000	\$'000
Total committed within 1 year	-	35

Notes to the consolidated financial statements
Year ended 31 December 2016

20 Contingent liabilities

The Group has no anticipated material contingent liabilities.

21 Events after the reporting date

There were no reportable events occurring after the balance sheet date.

Parent Company financial statements

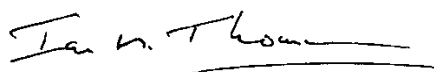
Statement of financial position

As at 31 December 2016

	Note	2016 \$'000	2015 \$'000
Assets			
Non-current assets			
Plant and equipment	5	-	3
Investments	6	2,120	2,120
		2,120	2,123
Current assets			
Other receivables	7	25,661	25,948
Cash and cash equivalents		701	451
		26,362	26,399
Total assets		28,482	28,522
Liabilities			
Current liabilities			
Trade and other payables	8	38	74
		38	74
Total liabilities		38	74
Total net assets		28,444	28,448
Capital and reserves attributable to equity holders of the company			
Share capital	9	6,669	6,669
Share premium		30,071	30,071
Retained losses		(8,296)	(8,292)
Total shareholders' equity		28,444	28,448

The notes on pages 44 to 48 form part of the financial statements.

These financial statements were approved by the directors and authorised for issue on 24 March 2017 and are signed on their behalf by:



Ian Thomson
Chairman

Parent Company financial statements

Statement of cash flows Year ended 31 December 2016

	Year ended 31 December 2016 \$'000	Year ended 31 December 2015 \$'000
Cash flows from operating activities		
Loss for period before taxation	(4)	(1,059)
Adjustments for:		
Finance income	(1)	(2)
Foreign exchange	92	-
Depreciation	3	6
Net cash outflow from operating activities before changes in working capital	90	(1,055)
Decrease in other receivables	287	111
Increase/(decrease) in other payables	(36)	48
Net cash outflow from operating activities	341	(896)
Investing activities		
Interest received	1	3
Net cash used in investment activities	1	3
Financing activities		
Issue of ordinary shares (share options exercised)	-	26
Net cash from financing activities	-	26
Net decrease in cash and cash equivalents	342	(867)
Cash and cash equivalents at beginning of period	451	1,363
Exchange losses on cash and cash equivalents	(92)	(45)
Cash and cash equivalents at end of the year	701	451

The notes on pages 44 to 48 form part of the financial statements.

Parent Company financial statements

Statement of changes in equity

Year ended 31 December 2016

	Share capital \$'000	Share premium \$'000	Retained earnings/ (deficit) \$'000	Total equity \$'000
At 1 January 2015	6,643	30,071	(7,233)	29,481
Loss for year	-	-	(1,059)	(1,059)
Shares issued (share options exercised)	26	-	-	26
At 31 December 2015 and 1 January 2016	6,669	30,071	(8,292)	28,448
Loss for year	-	-	(4)	(4)
At 31 December 2016	6,669	30,071	(8,296)	28,444

The notes on pages 44 to 48 form part of the financial statements.

Notes to the parent Company financial statements

Year ended 31 December 2016

1 Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention. All accounting policies are consistent with those adopted in the Group financial statements except as otherwise noted below.

The amount due from the subsidiary company is repayable on demand.

Investments

Investments are stated at fair value at acquisition date.

The Group's financial assets comprise of cash and cash equivalents and other receivables, which are categorised as "Loans and other receivables". Financial liabilities comprise other payables which are categorised as financial liabilities held at amortised cost and these are all current financial liabilities.

2 Financial instruments

It is, and has been throughout the period of the financial statements, the Company's policy that no trading in financial instruments shall be undertaken.

The policy for managing financial risks is set by the board following recommendations from the Finance Director. Certain risks are managed centrally, while others are managed locally following guidelines communicated from the centre. The policy for each of the above risks is described in more detail below.

Notes to the parent Company financial statements

Year ended 31 December 2016

Financial instruments (continued)

Foreign exchange

As the functional currency is US\$ and some of the current monetary assets and liabilities are in Sterling there is a risk of loss in relation to the net Sterling financial assets position, should there be a devaluation of Sterling against US\$. The risk of any loss, in terms of meeting future liabilities, is however eliminated by matching the currencies of cash balances with the currencies of projected liabilities.

As of 31 December 2016 the Company's financial assets and financial liabilities were denominated in a mixture of US\$ and Sterling which consisted of:

	Sterling denominated \$'000	US\$ denominated \$'000	Total \$'000
Current assets			
Other receivables	15	25,646	25,661
Less: prepayments	(11)	-	(11)
Cash and cash equivalents	699	2	701
	703	25,648	26,351
Other payables	(38)	-	(38)
	665	25,648	26,313

At 31 December 2015 the comparative balances were:

	Sterling denominated \$'000	US\$ denominated \$'000	Total \$'000
Current assets			
Other receivables	47	25,901	25,948
Less: prepayments	(43)	-	(43)
Cash and cash equivalents	443	8	451
	447	25,909	26,356
Liabilities			
Other payables	(74)	-	(74)
Net financial assets	373	25,909	26,282

If the US\$ had strengthened against Sterling by 10%, the loss for the year would increase and equity would reduce by \$67K (2015: \$37K). Conversely if the US\$ weakens against Sterling the loss for the year would reduce and equity would increase by \$67K (2015: \$37K).

Notes to the parent Company financial statements

Year ended 31 December 2016

Financial instruments (continued)

Counter-parties

This is the risk that a third party failure results in loss to the Company such as a bank collapse resulting in the loss of deposits. To mitigate against this risk cash deposits are spread between three high quality institutions, Lloyds Bank PLC, Standard Chartered Bank and HSBC. The following was the split of funds between the various institutions at 31 December 2016:

Institution	2016 \$'000	2015 \$'000
Lloyds Bank PLC	566	268
Standard Chartered Bank	129	175
HSBC	6	8
	701	451

Interest rates

The Company is not exposed to interest rate risk as there are no interest bearing loans or balances outstanding to providers of finance.

Liquidity

This is the risk that the Company cannot meet its liabilities as these fall due. As the timing of significant payments carries a degree of uncertainty cash balances are being kept in interest bearing term deposits with periods of no longer than 6 months.

Credit

The Company is not exposed to credit risk, other than amounts due from the subsidiary company, as it does not trade and the cash balances held by the Company are spread between three reputable institutions. Although there is uncertainty the recovery of the intercompany debt is supported by the potential value of the ORRI. The comments made above in relation to counter-party risk are also relevant.

Fair values

The fair values of the Company's financial assets and liabilities are not materially different from the carrying values in the statement of financial position and notes to the financial information.

3 Loss attributable to the members of the parent Company

The loss for the year was \$4 thousand (2015: loss of \$1.06 million). A separate income statement for the Company has not been presented as permitted by the Companies Act 1948 as amended by the Companies (Amendment) Ordinance 2006 (Falkland Islands Companies Act) as it applies in the Falkland Islands.

4 Staff costs

The information given in note 6 of the consolidated financial statements relates wholly to the Company. There is no difference between the directors' remuneration of the parent Company and the Group.

Notes to the parent Company financial statements
Year ended 31 December 2016

5 Plant and equipment	2016 \$'000	2015 \$'000
Cost:		
At 1 January	39	39
Additions	-	-
At 31 December	39	39
Depreciation:		
At 1 January	36	30
Charge for year	3	6
At 31 December	39	36
Net book value:		
At 31 December	-	3

6 Investments	2016 \$'000	2015 \$'000
Investment in subsidiary		
Cost at 1 January and 31 December 2016	2,120	2,120

The principal undertaking in which the Company's interest at the year-end was 20% or more is as follows:

Investment in subsidiary	Country of incorporation	Percentage of voting rights and ordinary share capital held	Nature of business
Argos Exploration Ltd	Falkland Islands	100	Oil and gas exploration

7 Other receivables	2016 \$'000	2015 \$'000
Amounts due from subsidiary company	25,646	25,901
Prepayments	11	43
Other	4	4
	25,661	25,948

Notes to the parent Company financial statements

Year ended 31 December 2016

8 Trade and other payables	2016 \$'000	2015 \$'000
Trade payables	1	17
Accruals	37	57
	<hr/>	<hr/>
	38	74

9 Share capital

Share capital movements are set out note 16 on page 38 of the consolidated financial statements.

10 Other statutory disclosures

Audit services

Costs incurred on audit and other services provided by the auditor are provided on a consolidated basis in note 7 of the consolidated financial statements.

Share based remuneration

The information given in note 8 of the consolidated financial statements relates wholly to the Company.

Related party transactions

The information given in note 18 of the consolidated financial statements relates wholly to the Company.

Commitments

The information given in note 19 of the consolidated financial statements relates wholly to the Company.

Events after the balance sheet date

There were no reportable events occurring after the balance sheet date.

Investor Information and advisors

Registered office

Argos House
H Jones Road
Stanley
Falkland Islands

Business address

Argos House
H Jones Road
Stanley
Falkland Islands

Company Secretary

Kevin Kilmartin
Argos House
H Jones Road
Stanley
Falkland Islands

Nominated advisor and broker

Cenkos Securities PLC
6.7.8 Tokenhouse Yard
London, EC2R 7AS

Solicitors (Falkland Islands law)

Kevin Kilmartin
Argos House
H Jones Road
Stanley
Falkland Islands

Auditors

BDO LLP
55 Baker Street
London, W1U 7EU

Registrars

Computershare Investor Services (Jersey) Ltd
Queensway House
Hilgrove Street
St Helier
Jersey, JE1 1ES

Bankers

Lloyds Bank PLC
3-5 Bridge Street
Newbury
UK, RG14 5HB

Bankers

Lloyds Bank International Ltd
Corporate Banking
9 Broad Street
St Helier
Jersey, JE4 8RS

Bankers

Standard Chartered Bank
Ross Road
Stanley
Falkland Islands

Bankers

HSBC Bank Bermuda Ltd
Harbourview Centre
87 Front Street
Hamilton, HM 11
Bermuda

Website

www.argosresources.com