

Argos Resources Limited

Report and Financial Statements

Year Ended

31 December 2009

Company Number 10605

Argos Resources Limited

Report and financial statements
for the year ended 31 December 2009

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Directors

I Thomson
A G M Irvine
D R Carlton
J A Hogan
C Fleming
J C Ragg

Secretary and registered office

K Kilmartin, John Street Chambers, Barrack Street, Stanley, Falkland Islands

Company number

10605 (registered in the Falkland Islands)

Auditors

BDO LLP, Kings Wharf, 20-30 Kings Road, Reading, Berkshire RG1 3EX

Argos Resources Limited

Report of the directors for the year ended 31 December 2009

The directors present their report together with the audited financial statements for the year ended 31 December 2009.

Results and dividends

The profit and loss account is set out on page 5 and shows the loss for the year.

The directors do not recommend payment of a final dividend (2008 - £Nil).

Principal activities, trading review and future developments

The principal activity of the Group continued to be that of oil and gas exploration.

2009 was a year of significant progress. As anticipated, Desire Petroleum, the Operator of acreage adjacent to the Company's licence, announced in September 2009 that it had signed a Letter of Intent with a rig contractor to bring a semi-submersible rig to the North Falkland Basin to commence exploration drilling in 2010. The rig, Ocean Guardian, set sail from the UK on 26th November 2009 arriving to spud the first well of a multi-well drilling campaign in the North Falkland Basin on 22nd February 2010. Another Operator, Rockhopper Exploration, has subcontracted drilling slots from Desire to drill on its acreage in the North Falkland Basin. Between these two Operators a total of 8 exploration wells have been committed for drilling in the Basin, of which 5 exploration wells are to be located in the licences immediately adjacent to the Group's licence.

In the second half of the year the Company commenced a programme of reprocessing and reinterpreting the seismic data over its licence and surrounding areas. The reprocessing has improved the quality of the seismic data and the early results of interpretation are encouraging in demonstrating the prospectivity of the licence. It is expected that this work will be completed in ample time to allow the results of exploration drilling in the adjacent licences to be integrated into the Company's evaluation.

Charitable and political donations

During the year the Company made reportable charitable contributions of £Nil (2008 - £2,000). There were no political contributions.

Directors

The directors of the company during the year were as follows:

I Thomson
A G M Irvine
D R Carlton
J A Hogan
C Fleming
J C Ragg

Argos Resources Limited

Report of the directors for the year ended 31 December 2009 (*Continued*)

Directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable Falkland Islands law and regulations.

Falkland Islands law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group for that year. The directors have elected to prepare the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice.

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;
- 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 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.

Auditors

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 auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting

This report has been prepared in accordance with the provisions applicable to groups entitled to the small groups' exemption.

By Order of the Board

K Kilmartin

Secretary

Date 16 July 2010

Argos Resources Limited

Independent auditors report

TO THE MEMBERS OF ARGOS RESOURCES LIMITED

We have audited the group and parent company financial statements (the “financial statements”) of Argos Resources Limited for the year ended 31 December 2009 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors’ responsibilities for preparing the financial statements in accordance with Falkland Islands Law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors’ Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1948 as amended by the Companies (Amendment) Ordinance 2006 (Falkland Islands Companies Act) as it applies in the Falkland Islands and whether the information given in the directors’ report is consistent with those financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors’ remuneration and other transactions is not disclosed.

We read the Directors’ Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report is made solely to the company’s members, as a body in accordance with the Companies Act 1948 as amended by the Companies (Amendment) Ordinance 2006 (Falkland Islands Companies Act) as it applies in the Falkland Islands and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1948 as amended by the Companies (Amendment) Ordinance 2006 (Falkland Islands Companies Act) as it applies in the Falkland Islands or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group and company’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Argos Resources Limited

Independent auditors' report (*Continued*)

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the group's affairs as at 31 December 2009 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the parent company's affairs as at 31 December 2009;
- the financial statements have been properly prepared in accordance with the Companies Act 1948 as amended by the Companies (Amendment) Ordinance 2006 (Falkland Islands Companies Act) as it applies in the Falkland Islands; and
- the information given in the directors' report is consistent with the financial statements.

BDO LLP

*Chartered Accountants
and Registered Auditors*
Reading

Date 16 July 2010

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

Argos Resources Limited

Consolidated profit and loss account for the year ended 31 December 2009

	Note	2009 £	2008 £
Administrative expenses		(116,752)	(194,153)
Operating loss		(116,752)	(194,153)
Interest receivable		-	54
Loss on ordinary activities before taxation	5	(116,752)	(194,099)
Taxation on loss from ordinary activities	6	-	-
Loss on ordinary activities after taxation and amount transferred to reserves	13	(116,752)	(194,099)

All amounts relate to continuing activities.

All recognised gains and losses in the current and prior year are included in the profit and loss account.

The notes on pages 9 to 17 form part of these financial statements

Argos Resources Limited

Consolidated balance sheet at 31 December 2009

<i>Company number 10605</i>	Note	2009 £	2009 £	2008 £	2008 £
Fixed assets					
Intangible assets	8		2,509,221		2,428,369
Current assets					
Debtors	10	37,547		258,899	
Cash at bank and in hand		298,663		18,191	
		336,210		277,090	
Creditors: amounts falling due within one year	11	38,065		78,023	
Net current assets			298,145		199,067
			2,807,366		2,627,436
Capital and reserves					
Called up share capital	12		2,902,909		2,627,909
Profit and loss account	13		(95,543)		(473)
Equity shareholders' funds	14		2,807,366		2,627,436

The financial statements were approved by the Board and authorised for issue on 16 July 2010.

I Thomson
Director

The notes on pages 9 to 17 form part of these financial statements

Argos Resources Limited

Company balance sheet at 31 December 2009

	Note	2009 £	2009 £	2008 £	2008 £
Fixed assets					
Investments	9		1,417,001		1,417,001
Current assets					
Debtors	10	282,506		416,095	
Cash at bank		298,661		18,189	
			<u>581,167</u>	<u>434,284</u>	
Creditors: amounts falling due within one year	11	31,840		72,775	
				<u>72,775</u>	
Net current assets			<u>549,327</u>		<u>361,509</u>
			<u>1,966,328</u>		<u>1,778,510</u>
Capital and reserves					
Called up share capital	12		2,902,909		2,627,909
Profit and loss account	13		(936,581)		(849,399)
			<u>1,966,328</u>		<u>1,778,510</u>
Equity shareholders' funds	14		<u>1,966,328</u>		<u>1,778,510</u>

The financial statements were approved by the Board and authorised for issue on 16 July 2010.

I Thomson

Director

The notes on pages 9 to 17 form part of these financial statements

Argos Resources Limited

Consolidated cash flow statement for the year ended 31 December 2009

	Note	2009 £	2008 Restated £
Net cash outflow from operating activities	15	(131,591)	(200,967)
Returns on investments and servicing of finance			
Interest receivable		-	54
Capital expenditure			
Payments to acquire intangible fixed assets		(80,852)	(60,309)
Financing			
Issue of ordinary shares	12	492,915	278,400
Increase in cash	16,17	280,472	17,178

The notes on pages 9 to 17 form part of these financial statements

Argos Resources Limited

Notes forming part of the financial statements for the year ended 31 December 2009

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with United Kingdom accounting standards and the Statement of Recommended Practice (SORP) "Accounting for Oil and Gas Exploration, Development and Decommissioning Activities".

The following principal accounting policies have been applied:

Basis of consolidation

The consolidated financial statements incorporate the results of Argos Resources Limited and its subsidiary undertaking as at 31 December 2009 using the acquisition method of accounting. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition.

Exploration and development expenditure

The group follows the "full cost" method of accounting for costs incurred in the exploration and development of oil and gas properties.

Costs are capitalised in geographical pools. The acquisition costs of property (including rights and concessions) and plant and equipment are included in tangible fixed assets if they relate to proved properties. Exploration expenditure on unproved properties is initially capitalised as an intangible fixed asset and is excluded from the full cost pools pending determination of the recoverable reserves attributable to the group's interest.

Investments made for the specific purpose of undertaking oil and gas exploration and development activities jointly with others are included in the full cost pool.

All costs associated with property acquisition, exploration and development are capitalised whether or not they result directly in commercial discoveries, subject to the limitation that capitalised costs less accumulated depletion do not exceed the estimated value of the proven and probable reserves of the group. Proceeds from the disposal of oil and gas assets are deducted from the full cost pools.

Unproved oil and gas properties are not amortised, but are assessed for impairment either individually or on an aggregated basis.

Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transaction. Balances held in foreign currencies are converted at the rate ruling at the year end. Any translation differences are dealt with in the profit and loss account.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Argos Resources Limited

Notes forming part of the financial statements for the year ended 31 December 2009 (*continued*)

Share-based payments

FRS 20, 'Share Based Payments', requires the recognition of share based payments at fair value at the date of grant.

Where share options are awarded to employees or key personnel, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet 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 fair value of the options, measured immediately before and after the modification is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the profit and loss account, or if appropriate, the fixed asset class is debited with the fair value of goods and services received.

Argos Resources Limited

**Notes forming part of the financial statements
for the year ended 31 December 2009 (continued)**

2 Turnover

The group's activities did not generate any turnover during the year.

3 Employees

Average number employed in the year (all directors):

	2009 Number	2008 Number
Administration	6	6
	6	6

4 Directors

Directors' emoluments consist of:

	2009 £	2008 £
Fees for management services	50,001	50,001
Share based payment charge (see note 18)	19,937	-
	69,938	50,001

5 Loss on ordinary activities before taxation

This is stated after charging/(crediting):

	2009 £	2008 £
Auditors' remuneration :		
Group – audit services	8,500	8,500
– non-audit services	2,280	35,570
Foreign exchange (gains)/losses	(139)	1,161
Share based payment charge	21,682	-
	21,682	-

Included in the group audit fee is an amount of £4,750 (2008 - £4,750) in respect of the company.

Argos Resources Limited

Notes forming part of the financial statements
for the year ended 31 December 2009 (*continued*)

6 Taxation on ordinary activities

	2009 £	2008 £
<i>Current tax</i>		
Falkland Islands tax on loss for the year	-	-
	<u> </u>	<u> </u>

The tax assessed for the year differs from the standard rate of corporation tax in the Falkland Islands. The differences are explained below:

	2009 £	2008 £
Loss on ordinary activities before tax	(116,752)	(194,099)
Loss on ordinary activities at the standard rate of corporation tax in the Falkland Islands of 26% (2008 –25%)	(30,356)	(48,525)
Effects of:		
Tax losses carried forward	24,718	48,525
Share based payment charge	5,638	
	<u> </u>	<u> </u>
Current tax charge for year	-	-
	<u> </u>	<u> </u>

The group has not recognised a deferred tax asset of approximately £206,000 (2008 -£169,000) in relation to unrelieved tax losses due to the uncertainty of future profits against which to utilise these losses.

7 Loss for the financial year

The company has taken advantage of the exemption allowed under section 149(5) of the Companies Act 1948 and has not presented its own profit and loss account in these financial statements. The group loss for the year includes a loss after taxation of £108,864 (2008 - £188,966) in respect of the company.

8 Fixed assets - intangible

Group	Exploration expenditure £
<i>Cost and net book value</i>	
At 1 January 2009	2,428,369
Additions in the year	80,852
	<u> </u>
At 31 December 2009	2,509,221
	<u> </u>

Intangible exploration expenditure represents the costs of oil and gas projects. The Group has decided to undertake a further seismic programme and the carrying value of the exploration costs has been considered by the directors to be appropriate and not in need of impairment.

All the Group's exploration expenditure relates to the Falklands Islands cost pool.

Argos Resources Limited

Notes forming part of the financial statements
for the year ended 31 December 2009 (*continued*)

9 Investment in subsidiary undertaking

Company	Subsidiary undertaking £
<i>Cost</i>	
At 1 January 2009 and 31 December 2009	1,417,001

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

<i>Subsidiary undertaking</i>	Country of Incorporation or Registration	Proportion of voting rights and ordinary share capital held	Nature of business
Argos Exploration Limited	Falkland Islands	100%	Oil and gas exploration

10 Debtors

	Group 2009 £	Group 2008 £	Company 2009 £	Company 2008 £
Amounts due from related undertakings	-	-	282,506	198,180
Prepayments	37,547	40,984	-	-
Unpaid share capital	-	217,915	-	217,915
	37,547	258,899	282,506	416,095

All of the above amounts fall due for payment within one year.

11 Creditors: amounts falling due within one year

	Group 2009 £	Group 2008 £	Company 2009 £	Company 2008 £
Trade creditors	14,886	-	14,886	-
Accruals and deferred income	23,179	78,023	16,954	72,775
	38,065	78,023	31,840	72,775

Argos Resources Limited

**Notes forming part of the financial statements
for the year ended 31 December 2009 (continued)**

12 Share capital

Group and Company	2009	2008
	£	£
<i>Authorised</i>		
100,000,000 ordinary shares of £0.05 each	5,000,000	5,000,000
(2008 – 100,000,000 ordinary shares of £0.05 each)	<u> </u>	<u> </u>
<i>Allotted, issued and part paid</i>		
58,058,185 ordinary shares of £0.05 each	2,902,909	2,627,909
(2008 -52,558,180 ordinary shares of £0.05 each)	<u> </u>	<u> </u>

5,500,005 ordinary shares of £0.05 were issued during the year at par value.

Unapproved share Option Scheme

At 31 December 2009 the following share options were outstanding in respect of the ordinary shares:

Date of grant	Number of Shares	Period of option	Exercise price
12 Nov 2009	5,072,327	Nov 2009 – Oct 2019	£0.05

13 Reserves

Group	Profit and loss account £
At 1 January 2009	(473)
Loss for the year	(116,752)
Share based payment charge	21,682
	<u> </u>
At 31 December 2009	(95,543)
	<u> </u>
Company	
At 1 January 2009	(849,399)
Loss for the year	(108,864)
Share based payment charge	21,682
	<u> </u>
At 31 December 2009	(936,581)
	<u> </u>

Argos Resources Limited

Notes forming part of the financial statements
for the year ended 31 December 2009 (*continued*)

14 Reconciliation of movements in shareholders' funds

	Group 2009 £	Group 2008 £	Company 2009 £	Company 2008 £
Loss for the year	(116,752)	(194,099)	(108,864)	(188,966)
New shares issued	275,000	527,000	275,000	527,000
Share based payment charge	21,682	-	21,682	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net addition to shareholders' funds	179,930	332,901	187,818	338,034
Opening shareholders' funds	2,627,436	2,294,535	1,778,510	1,440,476
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	2,807,366	2,627,436	1,966,328	1,778,510
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

15 Reconciliation of operating loss to net cash outflow from operating activities

	2009 £	2008 £
Operating loss	(116,752)	(194,153)
Adjustment for:		
Share based payment charge	21,682	-
Decrease/ (increase) in debtors	3,437	(19,962)
(Decrease)/increase in creditors	(39,958)	13,148
	<hr/>	<hr/>
Net cash outflow from operating activities	(131,591)	(200,967)
	<hr/> <hr/>	<hr/> <hr/>

16 Reconciliation of net cash flow to movement in net funds

	2009 £
Change in funds arising from cash flow	280,472
Opening funds at 1 January 2009	18,191
	<hr/>
Closing funds at 31 December 2009	298,663
	<hr/> <hr/>

17 Analysis of changes in net funds

	At 1 January 2009 £	Cash Movement £	At 31 December 2009 £
Cash at bank and in hand	18,191	280,472	298,663
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Argos Resources Limited

Notes forming part of the financial statements for the year ended 31 December 2009 (*continued*)

18 Share-based payments

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

	2009	2009
	Exercise price	Number
	(pence)	
Granted during the year	5.00	5,072,327
Outstanding at the end of year	5.00	5,072,327
	<u>5.00</u>	<u>5,072,327</u>

The exercise price of options outstanding at the end of the year was 5.00p and their weighted average contractual life was 9.87 years.

Of the total number of options outstanding at the end of the year, none had vested at the end of the year.

The following information is relevant in the determination of the fair value of options granted during the year under the equity-settled share based remuneration scheme operated by Argos Resources Limited.

	2009	2008
Equity-settled		
Option pricing model used	Black-Scholes	-
Weighted average exercise price at grant date (pence)	5.00	-
Exercise price (pence)	5.00	-
Weighted average contractual life (years)	9.87	-
Expected volatility	76.3%	-
Risk-free interest rate	2.76%	-
Expected dividend growth rate	N/A%	-
	<u>5.00</u>	<u>-</u>

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices over the last three years of comparable publically quoted companies.

The share-based remuneration expense (note 5) comprises.

	2009	2008
	£'000	£'000
Equity-settled schemes	21,682	-
	<u>21,682</u>	<u>-</u>

Argos Resources Limited

Notes forming part of the financial statements
for the year ended 31 December 2009 (*continued*)

19 Related party transactions

Related party transactions are as follows:

	2009	2008
	£	£
Related party relationship Argos Georgia Ltd, a shareholder and company in which a director, Mr I M Thomson has a majority interest		
Due from/(to) at 1 January	69,315	(62,876)
Expenses paid on behalf of the group	(2,957)	(5,282)
Amounts loaned to group	-	(86,910)
Loans repaid	-	124,383
Capitalised in year	2,797	30,685
Shares issued in the year		69,315
Proceeds of shares issued	(69,315)	-
	<hr/>	<hr/>
Due (to)/from at 31 December	(160)	69,315
	<hr/> <hr/>	<hr/> <hr/>

20 Ultimate controlling party

There is no ultimate controlling party.

21 Post balance sheet event

On 9 July 2010 the Company's share capital of 5p ordinary shares was sub-divided into 1p ordinary shares and then immediately consolidated into 2p ordinary shares. The Company's authorised share capital was then increased to £10 million by the creation of an additional 250 million ordinary shares of 2p each.