ARGOS RESOURCES LTD

Interim Report 2011

EXPLORING RESOURCES

King Cormorant:
Front page: A King Cormorant in flight – a native of the Falkland Islands.

A King Cormorant checks the availability of a landing spot. They are incredible birds to watch – the way that they cruise in almost to a halt, stall and then drop into a gap amidst a tight knit group of other birds.

EXPLORING RESOURCES

Argos Resources Ltd (AIM: ARG.L), the Falkland Islands based exploration company focused on the North Falkland Basin, is pleased to announce its interim financial results for the six months ended 30 June 2011.

Highlights

- 1,415 sq kms of proprietary 3D seismic data acquired over Licence PL001
- Best seismic data quality seen in basin to date
- Several new stratigraphic prospects already mapped, adding to prospect inventory
- Interpretation continues with further prospects expected to be identified
- Trading of seismic data with adjacent licensees has created an excellent data base
- More 3D data acquired and at lower cost than initially anticipated
- Sufficient cash, post-seismic, to meet ongoing needs, before drilling capital required

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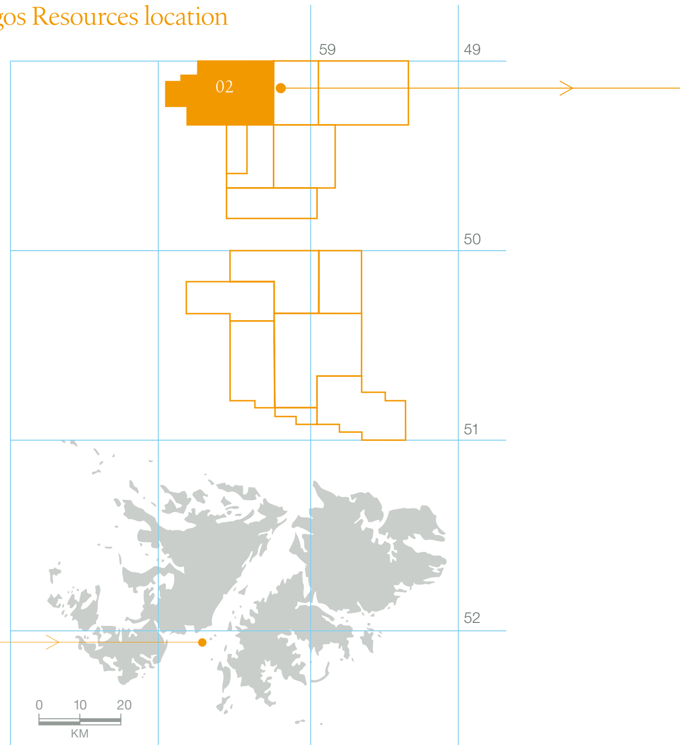
Argos Resources location



Falkland Islands

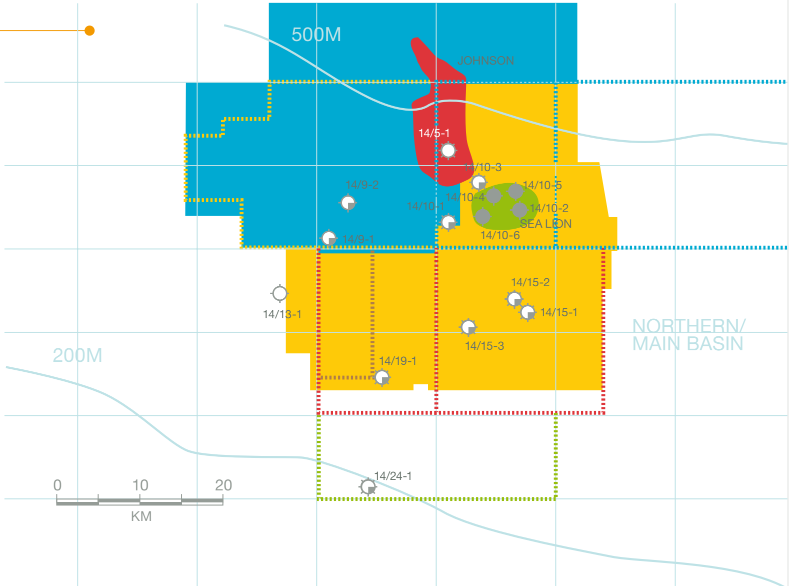
Situated approximately 480km to the east of South America in the South Atlantic Ocean.

Cover approximately 12,000 sq kms of land and includes the two main islands of East and West Falkland and about 200 small islands. Own legislation relating to oil and gas, which is administered by the Director of Mineral Resources, an official of the Falkland Islands Government based in Stanley.

Water depth in the North Falkland Basin is between 140m and 500m and the operating environment is similar to that of the UK Central North Sea with the potential for year-round drilling.

3D seismic coverage

03



Area within which proprietary 3D seismic acquired
Traded 3D seismic data

Oil Discovery
Gas Discovery
Oil well
Gas well
Oil shows
Oil and Gas shows
Dry hole
Water depth

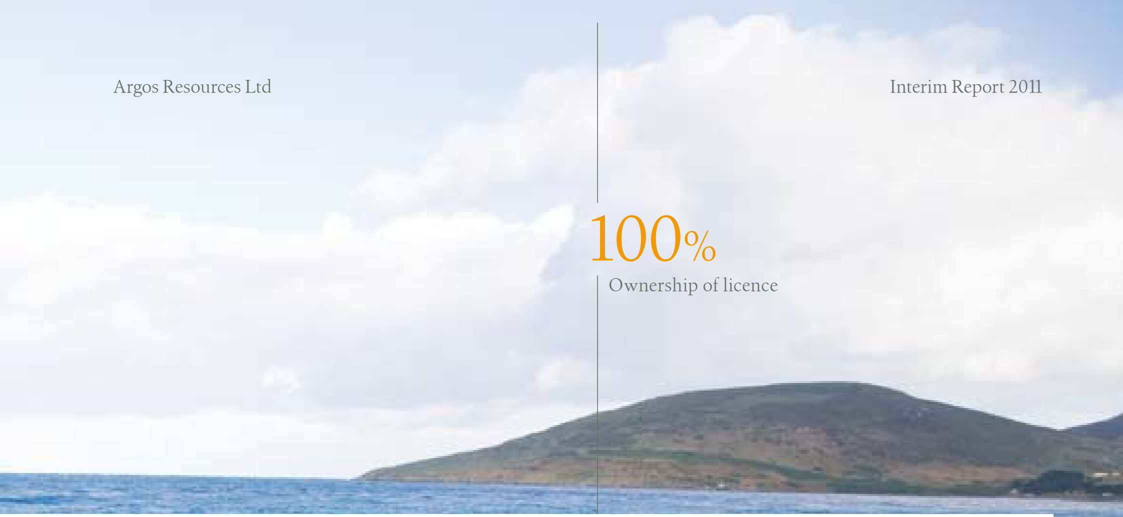
Argos Resources
Rockhopper 100%
Desire 92.5%
Rockhopper 7.5%
Desire 57.5%
Arcadia 35%
Rockhopper 7.5%
Desire 100%

Chairman's statement

The Company was successfully listed on AIM in July 2010 and raised £22 million at that time to fund the acquisition and interpretation of a 3D seismic survey in Licence PL001 in the North Falkland Basin. The MV Polarcus Asima was contracted in late 2010 to undertake that survey and acquisition commenced in January 2011.

3D data acquisition over the entire licence area was completed in mid-April. Additional 3D data was acquired in the open acreage to the north of the licence to cover the possible extension of the Johnson gas discovery and to identify further prospectivity in the continuation of the basin into open acreage. This work was concluded in mid-May.

Processing of the seismic data commenced as soon as the first data arrived back in the UK, with the first fast-track processed data being received in May. As at the date of this report, all the data over the entire PL001 licence area had been processed on a fast-track basis and received in-house. Further processing continues and will be completed in its final form before year end 2011, including the 3D



100%

Ownership of licence

data in the open acreage. It is already clear that this is the best quality seismic data acquired to date in the North Falkland Basin and we are delighted with this result.

The seismic survey was conducted in co-operation with adjacent licensees who also acquired 3D data in licences contiguous with Licence PL001. Argos has traded its seismic data with these adjacent licensees and we are now benefiting from having access to over 3630 sq kms of high quality 3D seismic data covering most of the northern half of the North Falkland Basin. This data, together with the results of new wells that continue to be drilled in adjacent licences, is adding considerably to the Company's understanding of the hydrocarbon system and is helping de-risk our prospect inventory.

Interpretation of the 3D data is now well advanced. The structural prospects Zeus and Demeter have been confirmed and are considered to be robust closures. In the Competent Person's Report of June 2010 these prospects were attributed Best Estimates of unrisked prospective resources of 258 mmb and 63 mmb of oil respectively, based on 2D seismic data. Mapping of the other structural prospects reported in the 2010 CPR continues and early indications are encouraging that these, too, will be confirmed.

One of the principal features of the northern part of the North Falkland Basin in the vicinity of Licence PL001 is the presence of a major delta system that has prograded southwards across the licence area, but does not appear to extend beyond the southern boundary of the licence. This delta is at least age-equivalent to the organic rich oil source rock, the presence of which can now be mapped with improved confidence on the 3D seismic acquired across the licence area. The 3D data quality over the delta is excellent and the Company is now using that data to identify new stratigraphic prospects in what is expected to be a sand-prone deltaic sequence.

Several new stratigraphic prospects and leads which were not evident on the old 2D data have already been mapped from the 3D data related to this delta system. This was one of the objectives in acquiring 3D seismic, so we are very encouraged that additional prospectivity is being identified in the licence area. We can reasonably expect that further new prospects should be identified as the remainder of the 3D data is processed and interpreted.

In addition to benefiting from trading our 3D seismic data, we have also benefited from the co-operative approach to acquisition and we have been able to acquire more 3D data and at a lower cost than anticipated a year ago. The remaining cash position after completing the seismic programme is deemed sufficient for the Company's current needs and overheads, excluding additional capital requirements for drilling expenditure.

The Company is on schedule with its objective to be ready to drill in late 2011/early 2012 in order to have the option to contract the Ocean Guardian drilling rig which is currently operating in the area. As indicated above, additional capital will be required to finance the drilling and the Board is considering options to achieve this.

Ian H. Thomson

Ian Thomson OBE
Executive Chairman

Financial overview

Losses for the Group for the 6 months to 30 June 2011 were $557K (2010 $248K) giving a loss per share of 0.26 cents (2010 0.43 cents).

Administrative expenses increased from $248K to $708K due to the increased level of activity since the fund raising in July 2010.

Net assets at the period end have decreased from $36,233K to $35,681K as a result of the losses incurred.

Financial outlook

The cash raised in 2010 is being used to finance the acquisition, processing and interpretation of 3D seismic over the licence area. The Group is fully funded to carry out this activity and has funds to cover administration costs beyond 2012.

Risk and principal uncertainty

The funding and forward plan has changed the risk profile of the Group operations. The risks and the related mitigation measures are discussed in more detail in note 5.

Ian Thomson OBE
Executive Chairman

Consolidated statement of comprehensive income

Period ended 30 June 2011

	Note	6 months ended 30 June 2011 unaudited $'000	6 months ended 30 June 2010 unaudited $'000	Year ended 31 December 2010 audited $'000
Administrative expenses		(708)	(248)	(888)
Finance income		31	–	44
Foreign exchange gains		173	–	535
Loss before tax		(504)	(248)	(309)
Tax expense		(53)	–	(146)
Loss from operations attributable to owners of the parent		(557)	(248)	(455)
Total comprehensive income for the period attributable to owners of the parent		(557)	(248)	(455)
Basic and diluted loss per share (cents)	3	(0.26)	(0.43)	(0.26)

Consolidated statement of financial position

As at 30 June 2011

	Note	As at 30 June 2011 unaudited $'000	As at 30 June 2010 unaudited $'000	As at 31 December 2010 audited $'000
Assets				
Non-current assets				
Plant and equipment		7	–	–
Capitalised exploration expenditure		25,090	4,011	4,238
		25,097	4,011	4,238
Current assets				
Other receivables		143	281	213
Cash and cash equivalents		12,677	243	32,151
Total current assets		12,820	524	32,364
Total assets		37,917	4,535	36,602
Liabilities				
Total and current liabilities				
Other payables	4	2,038	462	223
Corporation tax		198	–	146
Total net assets		35,681	4,073	36,233
Capital and reserves attributable to equity holders of the Company				
Share capital		6,556	4,343	6,556
Share premium		30,071	–	30,071
Retained losses		(946)	(270)	(394)
Total shareholders' equity		35,681	4,073	36,233

Consolidated statement of cash flows

Period ended 30 June 2011

	6 months ended 30 June 2011 unaudited $'000	6 months ended 30 June 2010 unaudited $'000	Year ended 31 December 2010 audited $'000
Cash flows from operating activities			
Loss for period	(504)	(248)	(309)
Adjustments for:			
Finance income	(31)	–	(44)
Foreign exchange gain on share issue proceeds	–	–	(685)
Share based payment expense	–	111	184
Net cash outflow from operating activities before changes in working capital	(535)	(137)	(854)
Decrease/(increase) in other receivables	31	(255)	(149)
(Decrease)/increase in other payables	(72)	336	264
Net cash inflow/(outflow) from operating activities	(576)	(56)	(739)
Investing activities			
Interest received	36	–	38
Exploration and development expenditure	(19,113)	(153)	(389)
Net cash used in investment activities	(19,077)	(153)	(351)
Financing activities			
Issue of ordinary shares (net of issue costs)	–	–	32,969
Net cash from financing activities	–	–	32,969
Net (decrease)/increase in cash and cash equivalents	(19,653)	(209)	31,879
Cash and cash equivalents at beginning of period	32,151	447	447
Exchange gains/(losses) on cash and cash equivalents	179	5	(175)
Cash and cash equivalents at end of period	12,677	243	32,151

Consolidated statement of changes in equity – unaudited

Period ended 30 June 2011

	Share capital $'000	Share premium $'000	Retained earnings/ deficit $'000	Total equity $'000
At 1 January 2010	4,343	–	(143)	4,200
Total comprehensive income for period to 30 June 2010	–	–	(248)	(248)
Share based payment expense	–	–	121	121
At 30 June 2010	4,343	–	(270)	4,073
Total comprehensive income for period to 31 December 2010	–	–	(209)	(209)
Shares issued (net of issue costs)	2,213	30,071	–	32,284
Share based payment expense	–	–	85	85
At 31 December 2010	**6,556**	**30,071**	**(394)**	**36,233**
Total comprehensive income for period to 30 June 2011	–	–	(557)	(557)
Share based payment expense	–	–	5	5
At 30 June 2011	**6,556**	**30,071**	**(946)**	**35,681**

Notes to the interim report – unaudited

Period ended 30 June 2011

1 Accounting policies

General information

Argos Resources Limited is a limited liability company 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.

This consolidated interim report was approved for issue by the directors on 16 September 2011.

Basis of preparation

The financial information included within this interim report is reviewed but unaudited and is based on the consolidated financial statements of Argos Resources Limited and its subsidiary Argos Exploration Limited ("the Group"). They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 2010 Annual Report. These accounts have been prepared in accordance with the accounting policies that are expected to be applied in the Report and Accounts of Argos Resources Limited for the year ending 31 December 2011.

The comparative financial information for the year ended 31 December 2010 has been derived from the full statutory financial statements for that period which were prepared under IFRS. The Independent Auditors' Report on the Annual Report and Financial Statements for 2010 was unqualified and did not draw attention to any matters by way of emphasis.

The IASB has issued various new and revised standards, amendments and interpretations to existing standards that are not effective for the financial year ending 31 December 2011 and have not been adopted early as the directors do not expect these standards and interpretations to have material impact on the financial statements.

Significant accounting judgements, estimates and assumptions

The Group makes certain estimates and assumptions regarding the future in relation to intangible assets and impairment of these assets. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as follows:

Exploration and evaluation expenditure

As permitted under IFRS 6 the Group has accounted for evaluation and exploration expenditure using the "full cost" method whereby all costs associated with oil exploration are capitalised as intangible assets, pending determination of feasibility of the project.

Impairment of intangible assets
If there are circumstances which suggest that the carrying value of intangible assets may be impaired, the Group is required to test whether the intangible assets have suffered any impairment. The valuation of intangible assets requires judgements to be made in respect of discount rates, growth rates and future cash flows and the cost of capital. Actual outcomes may vary.

Share based payments
The Group is required to make estimates and judgements to determine the fair value of share options granted.

2 Segmental reporting

Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM has been identified as the board of directors. The CODM in accordance with IFRS 8 has considered the Group's activities and is of the opinion that the Group has only one operating segment which is that of oil and gas exploration in the waters around the Falkland Islands.

3 Loss per share

	6 months ended 30 June 2011 unaudited \$'000	6 months ended 30 June 2010 unaudited \$'000	Year ended 31 December 2010 audited \$'000
Loss for the period	**(557)**	(248)	(455)
Weighted average number of ordinary shares in issue during the period	**216,113,205**	58,058,180	175,476,881
Basic and diluted loss per ordinary share (cents)	**(0.26)**	(0.43)	(0.26)

As the Group is reporting a loss for all periods within the interim report in accordance with IAS 33 the share options are not considered dilutive as an exercise of the share options would result in a reduced loss per share.

Notes to the interim report – unaudited continued

Period ended 30 June 2011

4 Other payables

	6 months ended 30 June 2011 unaudited $'000	6 months ended 30 June 2010 unaudited $'000	Year ended 31 December 2010 audited $'000
Trade payables	809	215	49
Other payables	–	–	1
Accruals	1,229	247	173
	2,038	462	223

5 Principal risks and uncertainties

The principal risks and uncertainties that could impact the Group's performance and the steps taken to mitigate these include but are not limited to:

Exploration risk

The search for oil is a high risk enterprise, particularly within a frontier province. There is a risk therefore that no oil is found or that oil is not found in sufficient quantity to warrant commercial exploitation. It is not possible to eliminate this risk but by carrying out further investigative work such as 3D seismic it is possible to reduce the risk prior to drilling.

Commodity price risk

There is a risk of a significant fall in oil prices. Such a risk may impact on the feasibility of the development of the assets.

Exchange risks

The Group incurs expenditure in both US$ and GBP. The risk associated with adverse movements in currencies is being mitigated by holding cash in the currencies in which expenditure is expected to be incurred.

Liquidity risk

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, the proceeds of the issue are being kept in interest bearing term deposits with periods of no longer than three months. This will reduce the income from interest deposits but with historically low interest rates, the impact is likely to be relatively low.

Counter-party risk

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 being spread between three high quality institutions, Lloyds TSB, Standard Chartered Bank and HSBC.

6 Events after the reporting date

There are no events after the balance sheet date which require to be reported.

Independent review report to Argos Resources Ltd

Introduction

We have been engaged by the Company to review the set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 which comprises of the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flow, consolidated statement of changes in equity and notes to the interim report.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the set of financial statements.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the Company's annual accounts having regard to the accounting standards applicable to such annual accounts.

Our responsibility

Our responsibility is to express to the Company a conclusion on the set of financial statements in the half-yearly financial report based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market 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 our terms of engagement 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.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ''Review of Interim Financial Information Performed by the Independent Auditor of the Entity'', issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independent review report to Argos Resources Ltd continued

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

BDO LLP
Chartered Accountants and
Registered Auditors
Reading
United Kingdom
Date: 16 September 2011

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

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