

ARGOS RESOURCES LTD  
*Interim Report 2012*

# FOCUSING ON PROSPECTS



## Short-eared owl

The short-eared owl, *Asio flammeus sanfordi*, is unique to the Falkland Islands. Its lemon-yellow eyes, encircled in black, are quite startling in appearance.



FOCUSING ON  
PROSPECTS

Argos Resources is an oil and gas exploration company listed on AIM and based in the Falkland Islands. The Company's principal asset is a 100% interest in production licence PL001 covering an area of approximately 1,126 sq kms in the North Falkland Basin. A 3D seismic programme was acquired over the entire licence area in 2011.

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## Highlights

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- With the final processed 3D seismic now available, ongoing work is identifying additional prospects and leads
- Best estimate of prospective recoverable oil resources, currently 2.1 billion barrels, is expected to increase
- A farmout programme seeking industry partners is under way
- Premier Oil's commitment to develop Sea Lion and undertake further exploration drilling is an endorsement of North Falkland Basin prospectivity and a major boost to its commerciality

## At a glance

An emerging oil and gas province

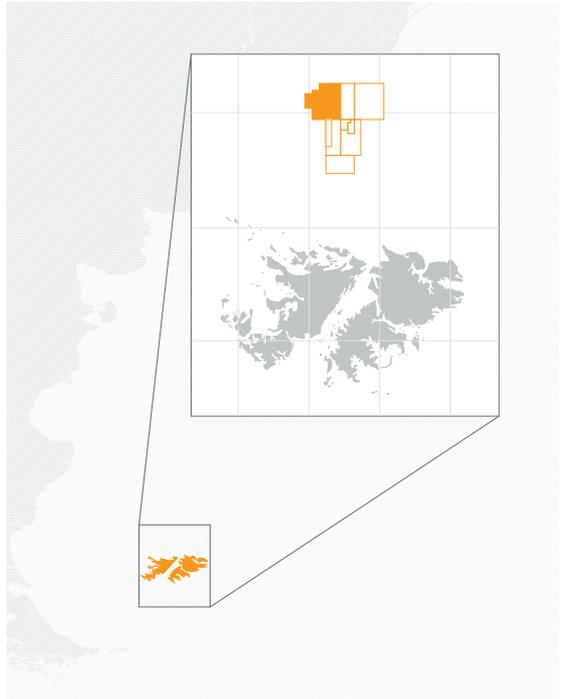
### Falkland Islands

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

Cover approximately 12,000 sq kms of land and include 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 140 metres and 500 metres and the operating environment is similar to that of the UK Central North Sea with the potential for year-round drilling.

### Argos Resources location *The Falkland Islands*



## Some of our prospects

01

### Rhea stack

Rhea is a series of stacked lacustrine sandstones encased in organic-rich mudstones which provide both source and seal.

346 mmbo

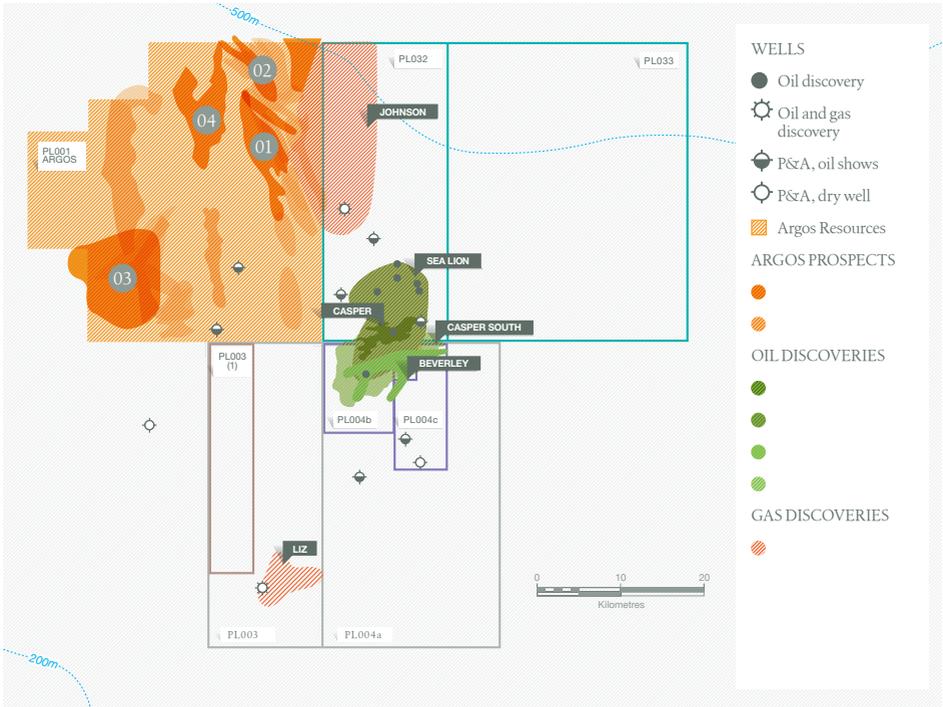
02

### Kratos stack

Like Rhea, the Kratos stack is a series of lacustrine sandstones encased in organic-rich mudstones which provide both source and seal.

214 mmbo

Our principal prospects  
*The Falkland Islands*



03

Helios stack

The largest prospect identified in the basin to date, Helios is a sequence of thick stacked fan sandstones which have scoured into the underlying organic-rich mudstones.

790 mmbbl

04

Zeus structure

The Zeus prospect is a robust structural closure on a culmination of the Central Ridge with multiple reservoir objectives.

194 mmbbl

Our licence

Licence PL001 is in its second phase, which continues until November 2015. One well has to be drilled during this period to fulfil the licence work programme.

## Chairman's statement

Ian Thomson OBE



# 2.1

billion barrels best estimate of unrisks recoverable resource

# 7.3

billion barrels of unrisks recoverable resource in upside case

Premier Oil's farmin to the adjacent Sea Lion oil field and its commitment to develop the field is a significant milestone in the exploitation of the area.

Further exploration drilling is planned and we are extremely well placed to participate in this activity.

A handwritten signature in black ink, appearing to read 'Ian Thomson'.

IAN THOMSON OBE  
*Chairman*

A Competent Person's Report based upon the interpretation of the 3D seismic data acquired in 2011 across the entire licence area was published in October 2011. The Best Estimate of unrisksed prospective recoverable resource was reported to be 2.1 billion barrels of oil in 28 prospects, with an upside of 7.3 billion barrels. Further mapping of the 3D data continued throughout the first half of 2012 and this work, which is still in progress, is identifying additional prospects and leads which we expect will add further to the resource potential listed above for the licence.

The prospectivity of our licence was exhibited for the first time at industry events in Houston and London in February and March respectively of this year and attracted much attention. Following these events, in the second quarter of the year, the Company commenced a farmout programme to seek industry partners to participate in an exploration drilling campaign to test a number of highgraded prospects. That farmout programme is being actively pursued at the time of writing and is expected to take several months to conclude.

Of particular significance for the future exploitation of our licence was the announcement on 7 July that Premier Oil had acquired a 60% interest and operatorship in the adjacent Sea Lion oil field. Premier has committed to the development of the field, with financing of the full development costs in place. Gross contingent oil resources to be developed are reported to be 386 million barrels of oil, and production from the field is expected to reach 70,000 barrels of oil per day. The Sea Lion development will create an infrastructure from which the development of other future discoveries may benefit. Premier has also already announced its intention to undertake further exploration activity in the area. With several prospects similar to Sea Lion in our licence, and confirmed by excellent quality 3D seismic, we are extremely well placed to participate in this activity.

We were pleased to announce in June the appointment of Cenkos Securities as the Company's nominated financial advisor and sole broker. Cenkos has a wealth of experience in the oil and gas sector and has been broker to a number of very successful exploration companies.

## Financial overview

Losses for the Group for the 6 months to 30 June 2012 were \$800K (2011 \$557K) giving a loss per share of 0.37 cents (2011 0.26 cents).

Administrative expenses increased from \$708K to \$845K, largely due to an increase in salaries and travel costs associated with trade show attendance.

The \$505K increase in exploration and development expenditure was mainly spent on continued interpretation of the seismic data.

Net assets at the period end have decreased from \$35.1M to \$34.3M as a result of the losses incurred.

### Financial outlook

The Group is fully funded to carry out its current activities and has funds to cover administration costs beyond 2013.

IAN THOMSON OBE  
*Chairman*

## Consolidated statement of comprehensive income

Period ended 30 June 2012

	Note	6 months ended 30 June 2012 unaudited \$'000	6 months ended 30 June 2011 unaudited \$'000	Year ended 31 December 2011 audited \$'000
Administrative expenses		(845)	(708)	(1,449)
Finance income		18	31	40
Foreign exchange gains		27	173	123
Loss before tax		(800)	(504)	(1,286)
Tax (expense)/credit		—	(53)	146
<b>Loss from operations attributable to owners of the parent</b>		<b>(800)</b>	<b>(557)</b>	<b>(1,140)</b>
Total comprehensive income for the period attributable to owners of the parent		(800)	(557)	(1,140)
Basic and diluted loss per share (cents)	3	(0.37)	(0.26)	(0.53)

## Consolidated statement of financial position

As at 30 June 2012

	Note	As at 30 June 2012 unaudited \$'000	As at 30 June 2011 unaudited \$'000	As at 31 December 2011 audited \$'000
<b>Assets</b>				
<b>Non-current assets</b>				
Capitalised exploration expenditure		27,895	25,090	27,390
Plant and equipment		54	7	59
		27,949	25,097	27,449
<b>Current assets</b>				
Other receivables		123	143	204
Cash and cash equivalents		6,885	12,677	8,175
<b>Total current assets</b>		<b>7,008</b>	<b>12,820</b>	<b>8,379</b>
<b>Total assets</b>		<b>34,957</b>	<b>37,917</b>	<b>35,828</b>
<b>Liabilities</b>				
<b>Total and current liabilities</b>				
Other payables	4	621	2,038	731
Corporation tax		–	198	–
<b>Total net assets</b>		<b>34,336</b>	<b>35,681</b>	<b>35,097</b>
<b>Capital and reserves attributable to equity holders of the company</b>				
Share capital		6,595	6,556	6,556
Share premium		30,071	30,071	30,071
Retained losses		(2,330)	(946)	(1,530)
<b>Total shareholders' equity</b>		<b>34,336</b>	<b>35,681</b>	<b>35,097</b>

## Consolidated statement of cash flows

Period ended 30 June 2012

	6 months ended 30 June 2012 unaudited \$'000	6 months ended 30 June 2011 unaudited \$'000	Year ended 31 December 2011 audited \$'000
<b>Cash flows from operating activities</b>			
Loss for period	(800)	(504)	(1,286)
Adjustments for:			
Finance income	(18)	(31)	(40)
Depreciation	8	–	7
<b>Net cash outflow from operating activities before changes in working capital</b>	<b>(810)</b>	<b>(535)</b>	<b>(1,319)</b>
Decrease in other receivables	48	31	6
(Decrease) in other payables	(42)	(72)	(90)
<b>Net cash (outflow) from operating activities</b>	<b>(804)</b>	<b>(576)</b>	<b>(1,403)</b>
<b>Investing activities</b>			
Interest received	18	36	43
Exploration and development expenditure	(566)	(19,113)	(22,671)
Purchase of plant and equipment	(2)	–	(66)
<b>Net cash used in investment activities</b>	<b>(550)</b>	<b>(19,077)</b>	<b>(22,694)</b>
<b>Financing activities</b>			
Issue of ordinary shares (share options exercised)	39	–	–
<b>Net cash from financing activities</b>	<b>39</b>	<b>–</b>	<b>–</b>
Net (decrease) in cash and cash equivalents	(1,315)	(19,653)	(24,097)
Cash and cash equivalents at beginning of period	8,175	32,151	32,151
Exchange gains on cash and cash equivalents	25	179	121
<b>Cash and cash equivalents at end of period</b>	<b>6,885</b>	<b>12,677</b>	<b>8,175</b>

## Consolidated statement of changes in equity – unaudited

Period ended 30 June 2012

	Share capital \$'000	Share premium \$'000	Retained earnings/ deficit \$'000	Total equity \$'000
<b>At 1 January 2011</b>	6,556	30,071	(394)	36,233
Total comprehensive income for period to 30 June 2011	–	–	(557)	(557)
Share based payment expense	–	–	5	5
<b>At 30 June 2011</b>	6,556	30,071	(946)	35,681
Total comprehensive income for period to 31 December 2011	–	–	(584)	(584)
<b>At 31 December 2011</b>	6,556	30,071	(1,530)	35,097
Total comprehensive income for period to 30 June 2012	–	–	(800)	(800)
Shares issued (share options exercised)	39	–	–	39
<b>At 30 June 2012</b>	6,595	30,071	(2,330)	34,336

## Notes to the interim report – unaudited

Period ended 30 June 2012

### 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 24 August 2012.

#### 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 2011 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 2012.

The comparative financial information for the year ended 31 December 2011 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 2011 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 2012 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.

## Notes to the interim report – unaudited

Period ended 30 June 2012

### 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 2012 unaudited \$'000	6 months ended 30 June 2011 unaudited \$'000	Year ended 31 December 2011 audited \$'000
Loss for the period	(800)	(557)	(1,140)
Weighted average number of ordinary shares in issue during the period	216,223,095	216,113,205	216,113,205
Basic and diluted loss per ordinary share (cents)	(0.37)	(0.26)	(0.53)

In accordance with IAS 33 as the Group is reporting a loss for this, the preceding period and the year to 31 December 2011 the share options are not considered dilutive because the exercise of share options would have the effect of reducing the loss per share.

### 4 Other payables

	6 months ended 30 June 2012 unaudited \$'000	6 months ended 30 June 2011 unaudited \$'000	Year ended 31 December 2011 audited \$'000
Trade payables	446	809	603
Accruals	175	1,229	128
	621	2,038	731

### 5 Events after the reporting date

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

## Independent review report to Argos Resources Limited

### 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 2012 which comprises of the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, 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.

### 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 2012 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  
London  
United Kingdom  
24 August 2012

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

## Investor Information and advisors

### Registered Office

Argos House  
H Jones Road  
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Falkland Islands

### Business address

Argos House  
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### Company Secretary

Kevin Kilmartin  
Argos House  
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Falkland Islands

### Nominated adviser and broker

Cenkos Securities PLC  
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London EC2R 7AS

### Solicitors (Falkland Islands law)

Kilmartin Marlor  
Argos House  
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Stanley  
Falkland Islands

### Solicitors (English law)

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### Auditors

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### Registrars

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Jersey, JE1 1ES

### Bankers

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### Bankers

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### Bankers

Standard Chartered Bank  
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Stanley  
Falkland Islands

### Bankers

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### Web site

[www.argosresources.com](http://www.argosresources.com)



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