A Licence Rich in Prospects

Argos Resources Ltd
Annual Report & Accounts 2013

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.

Sperm Whale >

Sperm whales sighted in Falkland Islands' waters are most likely to be males – as most females and their calves remain in the warmer waters at more northerly latitudes.

Highlights 2013

- $0.7 million invested in further exploration and evaluation activities
- $1.8 million loss from expensed overhead
- $2.9 million cash reserves at 31 December 2013
- New Competent Person's Report published in July 2013 identifies significant increase in number of prospects and prospective resources
- 52 prospects mapped with a Best Estimate of unrisked recoverable resource of 3.1 billion barrels of oil and an upside of 10.4 billion barrels
- Several prospects similar to the adjacent Sea Lion oil discovery
- 40 further leads identified
- Independent basin modelling work confirms the presence of two source rocks mature for oil generation within the licence area and 30 billion barrels generated
- Progressing farmout discussions with interested parties
- Preparing for shared drilling activity in 2015

Large prospect inventory de-risked by Sea Lion oil discovery

The large Sea Lion oil discovery is within a few kilometres of the eastern boundary of Licence PL001. The recoverable resources in Sea Lion are reported to be up to 458 million barrels of oil and it is planned to develop the field using a Tension Leg Platform in a two-stage development. Project sanction is expected in 2015.

The operator of Sea Lion has announced the drilling of an additional appraisal well immediately to the east of PL001, with the intention of deepening it to test their Chatham prospect. This and three further exploration wells to be drilled immediately to the south of PL001 will provide additional information on the prospectivity of the licence.

With a large prospect inventory in the licence based upon 3D seismic data of exceptional quality and in close proximity to a significant oil discovery, there is a high likelihood of additional commercial oil discoveries being made in the area.

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.

The Falkland Islands cover approximately 12,000 sq kms of land and include the two main islands of East and West Falkland and about 200 small islands. The Islands have their 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.

Oil prospects in latest CPR, dated 26 July 2013

52

Additional leads

40

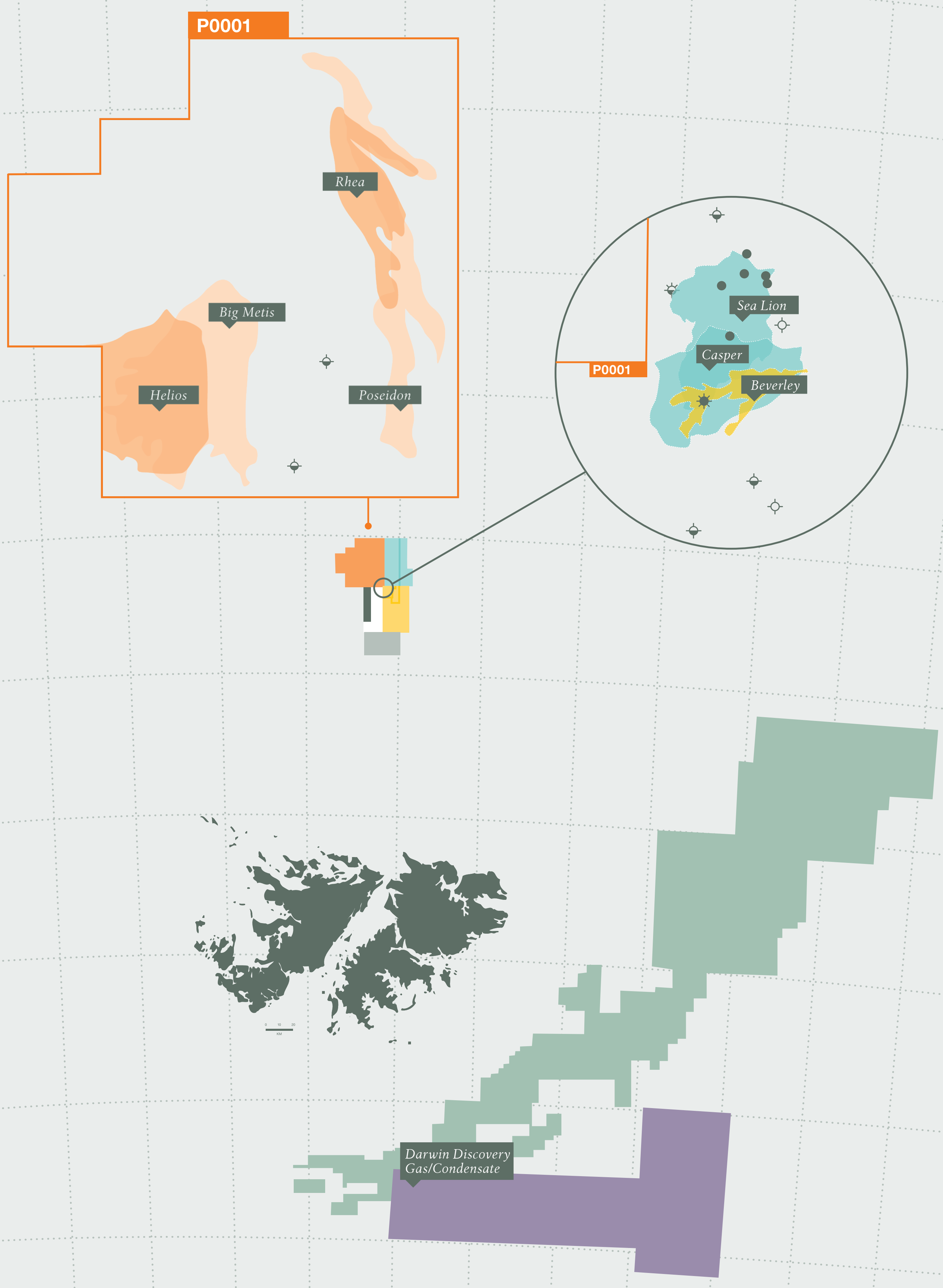
Prospective resources of 3.1 billion barrels of oil – high case of 10.4 billion barrels

3.1
billion barrels

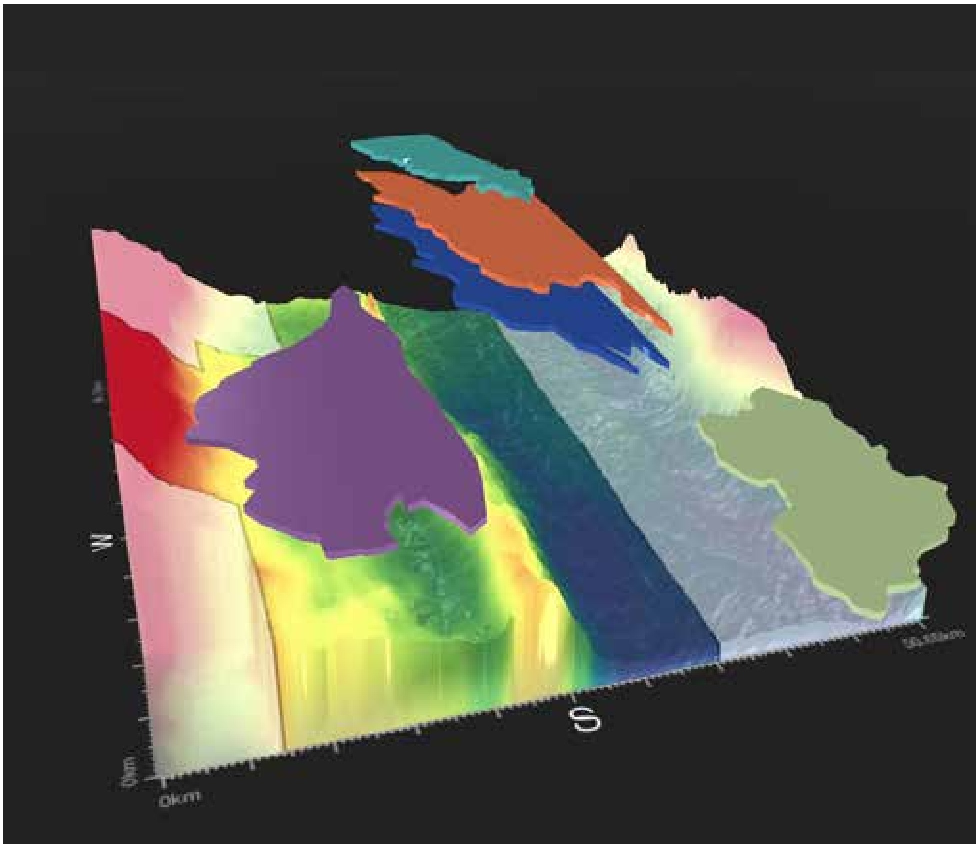
Falkland Islands

Licence areas

- Argos Resources
- Premier (Rockhopper/ Falkland Oil and Gas)
- Falkland Oil and Gas (Premier/Rockhopper)
- Premier (Rockhopper)
- Borders and Southern
- Noble (Falkland Oil and Gas/Edison)
- Falkland Oil and Gas
- Falkland Oil and Gas (Premier/Rockhopper/ Denholm)

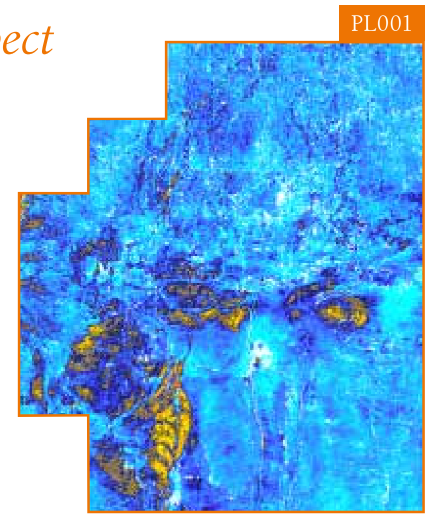

P0001
Rhea
Big Metis
Helios
Poseidon
Sea Lion
Casper
P0001
Beverley
Darwin Discovery
Gas/Condensate

Current Prospects



Early Cretaceous basin floor architecture showing the depositional setting for the sandstones and organic-rich lacustrine mudstones that provide the source and seal for prospect stacks in PL001. The positions of a selection of prospect stacks are shown relative to the Sea Lion field.

Helios Prospect



Prospect	P90	P50	P10
Helios Stack	174	666	2,344

Sandstones have prograded northwards in large stacked foresets from a delta system in the south, creating a combination structural/stratigraphic trap which exhibits a pronounced and visibly striking fan morphology at 1800m subsea.

The sands have scoured into the underlying highly organic-rich lacustrine mudstones resulting in direct contact with the primary source rock.

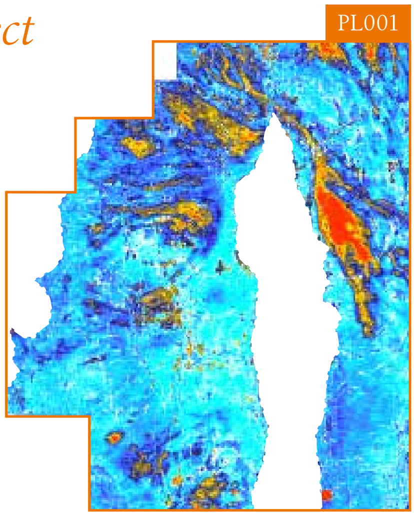
Additional source rock potential exists in deeper pre-rift organic shales via faulting. Mudstones provide excellent topseal and sideseal.

The largest prospect identified anywhere in the North Falkland Basin to date, Helios is a very large lacustrine fan and composite channel sand sequence of Aptian age.

Stacked prospective recoverable resource of 666 mmbo

666 mmbo

Rhea Prospect



Rhea is a lacustrine fan and composite channel sand sequence in a combination structural/stratigraphic trap at 2500m subsea.

Prospect	P90	P50	P10
Rhea Stack	126	443	1,467

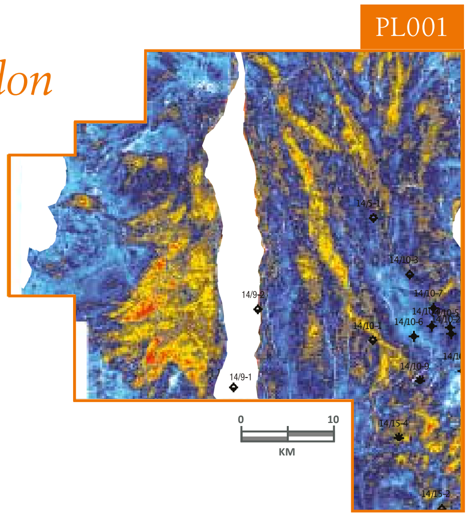
The objective is Early Cretaceous sandstones derived from a major delta system to the north. Seal and source are provided by highly organic-rich lacustrine mudstones which encase the sands.

The prospect exhibits a pronounced fan morphology highlighted by an amplitude anomaly with coincident isopach thickening.

Stacked prospective recoverable resource of 443 mmbo

443 mmbo

Big Metis and Poseidon Prospects



Big Metis is a very large lacustrine basin floor fan in the Western Graben in which sands have ponded against the Orca Ridge.

Poseidon is a "string of pearls" of basin floor fans in the Eastern Graben encased in lacustrine source rock.

Prospect	P90	P50	P10
Big Metis	55	216	804
Poseidon	55	204	696

Big Metis underlies Helios and is encased in high quality, mature Lower Cretaceous source rocks, providing both source and seal.

Deeper source rocks in the upper synrift section in fault communication provide additional source potential.

Poseidon comprises a northerly sourced "string of pearls" of confined to semi-confined stacked basin floor fans and channels showing differential compaction and drape.

Encased in high quality, mature Lower Cretaceous source rocks, providing both source and seal.

Big Metis prospective recoverable resource of 216 mmbo

216 mmbo

Poseidon prospective recoverable resource of 204 mmbo

204 mmbo

Chairman's Statement

Ian Thomson OBE

We are in farmout discussions with a number of companies and are working to ensure access to a suitable rig.

Technical work on PL001 has progressed well. We have acquired a large 3D seismic database of exceptionally good quality at a competitive price. From this we have identified a large inventory of prospects, many of which are similar to the adjacent Sea Lion oil discovery. Independent studies also indicate the presence of mature oil source rocks across the licence area capable of generating significant volumes of oil.

The next key step is to secure financing for exploration drilling to test the prospect inventory. We have focussed on finding an industry partner to finance drilling operations with the capability and track record of progressing discoveries through to development. Given that we still hold 100 percent of the licence we believe that we have sufficient scope to attract an industry partner whilst still retaining a material stake in the licence for our shareholders.

The search for a partner has been underway through 2013 with a data room open and a farmout process managed by investment banking advisors to the Company. We now have a number of companies who have been through the data room and are expressing interest. Negotiations are underway at the time of writing.

The farmout effort has been an extended process with the main contributing factor being the timing of rig availability and drilling. Every potential farminee has wanted to participate in a shared drilling programme with the other operators in the Falklands to realise the considerable cost savings that are achievable through sharing mobilisation costs and logistics. This has required alignment with the other operators in the region on the timing and preparation for the forthcoming drilling campaign.

This alignment is now being achieved with a shared rig identified and under negotiation for a drilling programme commencing in early 2015. While Argos Resources cannot make a commitment to this rig contract until we have completed a farmout, we have remained in close contact with the other operators to ensure that there is an option to join this drilling programme once financing is secured.

As part of the shared drilling programme, Premier Oil has announced the drilling of an additional appraisal well on Sea Lion, immediately to the east of PL001 and deepening it to test their Chatham prospect. This and three further exploration wells on new prospects immediately to the south of our licence will provide additional information on the prospectivity of our licence. We believe there is a high likelihood of additional commercial oil discoveries being made during this drilling programme which will benefit Argos through the further de-risking of the basin's prospectivity.

We are naturally keen to conclude our own farmout and join this programme in the North Falkland Basin. I would like to thank shareholders for their continued support as we progress towards that objective.

Ian Thomson
Chairman

23 May 2014

Environmental impact

The waters of the Falkland Islands are a highly sensitive environment and of international importance.

The Company is committed to ensuring that all operational risks are controlled and that all operations are carried out to a high environmental standard.

Argos operates under an integrated Health, Safety and Environmental Management System (HSEMS). HSE management procedures are incorporated into relevant project activities which reinforce the Company's philosophy that the management of HSE is an integral part of Argos's business activities.

In 2011 our Environmental Impact Statement (EIS) and Oil Spill Contingency Plans (OSCP) were approved by the Falkland Island Government subject to the approval of pre-drilling addendum once well locations and rig selection have been finalised.

The operations-specific addendum to the EIS and OSCP that will be produced will further define the environmental management, operational controls and employee training required to keep impacts to levels as low as reasonably practicable.

Managing Director's Review

John Hogan

Our new CPR confirms that our licence is rich in prospects, several of which are similar to the large Sea Lion oil discovery.

1,579 sq kms of proprietary 3D seismic data was acquired by the Company in 2011 which included coverage of the entire licence area and certain areas within the adjacent open acreage. An independent CPR, based on the preliminary results of processing of the 3D data was published in October 2011, and described 28 prospects with a Best Estimate of unrisked prospective recoverable resource of 2.1 billion barrels of oil and an upside of 7.3 billion barrels.

The final processed versions of the 3D data were received in January 2012 and showed much greater prospectivity than had been identified from the preliminary data. Work on mapping the additional prospects continued throughout 2012 and in February 2013 a new CPR was commissioned to independently document the full potential of the licence as indicated from the final processed data.

This new CPR was published in July 2013. It describes 52 prospects with a Best Estimate of unrisked prospective recoverable resource of 3.1 billion barrels of oil and an upside of 10.4 billion barrels, a significant increase on the previously reported figures. Of these prospects, 36 are Lower Cretaceous post-rift prospects in similar stratigraphic settings and of similar age to the Sea Lion oil field. 10 prospects are in the deeper Lower Cretaceous syn-rift stratigraphic section, and 6 are robust structural closures. Many of the stratigraphic prospects are vertically stacked or overlap, allowing several targets to be tested in a single vertical exploration well. A further 40 leads have been identified but are not included in the above figures and these will be the subject of further work if merited by early success. The Johnson gas discovery in the acreage to the east of PL001 may extend into the licence area, however no resources have been included in the above figures for this possibility.

In 2013 the Company also commissioned Platte River Associates, a leading industry provider of basin modelling solutions, to undertake a basin modelling and source rock study of the North Falkland Basin in the vicinity of PL001. The study independently assessed the quality and maturity of potential source rocks. The work concluded that the principal source rock in PL001 is in the Lower Cretaceous post-rift section, which is believed to be the source of the oil in the Sea Lion field, with additional source rocks in the deeper syn-rift section. Many of the syn-rift and post-rift prospects are encased within these source rocks, providing an ideal relationship between reservoir, source and seal. Both the syn-rift and post-rift source rocks were concluded to be mature for oil generation and expulsion within the licence area with a calculated total of about 30 billion barrels of expelled oil available to source prospects in PL001.

Geological and geophysical work on the licence is now largely complete and that work has confirmed a licence area that is rich in prospectivity, with mature oil source rocks also present. Engineering work will be required for future well planning and design, and additional environmental data may need to be collected once final drilling locations have been selected.

The cash position at year-end 2013 of $2.9 million is considered sufficient to meet the Company's ongoing needs.

John Hogan
Managing Director

23 May 2014

Board of Directors

Ian Thomson OBE
Executive Chairman (aged 74)

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 61)

Skills and experience

John joined the board in 2005. John is a qualified geologist who has spent over 35 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 Hurricane Energy plc, Celtique Energie Holdings Ltd and a non-executive director of Chrysaor Holdings Ltd.

Committee membership

None

Andrew Irvine FCCA
Finance Director (aged 52)

Skills and experience

Andrew 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, a member of the board of the Falkland Islands Fishing Companies Association and a director of the Falkland Islands Chamber of Commerce.

Committee membership

None

Dennis Carlton
Senior Non-executive Director (aged 63)

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 a director of 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 54)

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.

External appointments

He is currently Head of Global Markets EMEA Sales for Nomura International PLC.

Committee membership

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

James Ragg LLB, FCA
Non-executive Director (aged 48)

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 independence 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 2013.

Principal activity

The principal activity of the Group is exploration for oil and gas in the area licensed to it in the North Falkland Basin. The directors have no plans to change this in the foreseeable future.

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 (2012: $nil).

Business review

The Group has incurred a loss for the year ended 31 December 2013 of $1.84 million (2012: $1.58 million) which equates to a loss per share of 0.85 cents (2012: 0.73 cents). The increased loss over the comparative period was due principally to reduced foreign exchange gains.

Administration expenses increased marginally from $1.75 million to $1.85 million.

Shareholders' equity has decreased from $33.6 million to $31.7 million in the year since 31 December 2012, representing primarily the administration expenses. Cash in the year reduced from $5.7 million to $2.9 million which reflects the overhead spend, the Company's continued investment in 3D seismic interpretation and a reduction in payables due to the payment of retention from the 3D seismic contract.

Outlook for the next financial year

The Group's administrative expenditure continues to be fully funded for the foreseeable future, but further fundraising will be required before the Group can embark upon a drilling programme.

Key performance indicators

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

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 16.

Substantial shareholders

As at 7 May 2014, the Company has been notified of interests in 3% or more of the Company's voting rights, based on an issued share capital of 217,363,205, as shown below:

Shareholder/Fund manager	Percentage of voting rights
Ian Thomson*	10.22
JP Morgan Asset Management (UK) Ltd	7.84
Argos Georgia Ltd	7.95
Orian Partners LP	6.90
Iain Aylwin**	6.19
Salida Capital International	6.43
Portogon Investments SA	4.60
Robert Smith	4.34

* Ian Thomson also has a 46.46 per cent interest in the issued share capital of Argos Georgia Ltd.

** Iain Aylwin also has a 23.23 per cent interest in the issued share capital of Argos Georgia Ltd.

Argos Georgia Ltd held 17,278,850 ordinary shares of 2 pence each at 31 December 2013 (2012: 17,278,850 ordinary shares of 2 pence each).

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 2013 Ordinary shares of 2 pence each	At 31 December 2012 Ordinary shares of 2 pence each
I M Thomson*	Chairman	22,211,613	22,211,613
J Hogan	Managing director	2,000,000	2,000,000
A Irvine	Finance director	1,250,000	1,250,000
D Carlton	Non-executive	3,250,000	3,250,000
C Fleming	Non-executive	1,850,000	1,850,000
J Ragg	Non-executive	150,000	150,000
Total		30,711,613	30,711,613

The directors also hold options in the Company's shares which are detailed in the directors' remuneration report on page 15.

* See preceding note on substantial shareholders for information on shares held by Ian Thomson in Argos Georgia Ltd, which itself is a substantial shareholder of Argos Resources Ltd shares. 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.

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 17.

Events after the reporting date

See note 20.

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 donations in the year under review (2012: $nil). The Group made charitable donations during 2013 totalling $8K (2012: $8K).

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 10 days (2012: 10 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 5 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 industry best practice at all onshore and offshore sites with which it is involved.

Social and community

The Falkland Islands is a small community and the Company is conscious that the impact of its activities on the country could be significant. The Company believes that working closely with the Falkland Islands Government and seeking views through consultation with stakeholder groups should help to ensure a positive impact from its 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 financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). The Group have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards and applicable law.

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 financial statements have been prepared in accordance with IFRSs; 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.

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 re-appointment of BDO LLP as auditor of the Company.

On behalf of the board

Ian Thomson
Chairman

23 May 2014

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, became a senior employee of Argos Georgia Limited, a substantial shareholder in the Company, with effect from 1 January 2013. 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. 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.

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 two meetings 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*

Remuneration committee

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. No recommendations for increases in remuneration have been made.

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

	2013 Fees £'000	2013 Pension contributions £'000	2013 Total £'000	2012 Fees and total £'000
I M Thomson	–	–	–	–
J Hogan	200	–	200	188*
A Irvine	39	2	41	40
D Carlton	20	–	20	20
C Fleming	20	–	20	20
J Ragg	20	–	20	20
Total directors' remuneration	299	2	301	288
Remuneration above converted to $'000	468	3	471	458

* In 2012 J Hogan relinquished the right to any future pension entitlement, which was accruing at a rate of 5% of salary. The total amount of $32K, which had accrued, was transferred to a newly set up scholarship fund and amounts will continue to accrue to the scholarship fund at the same rate.

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.

Shareholder relationships

During the year the executive directors held a number of meetings with shareholders and potential shareholders. These meetings included formal roadshows and presentations, analyst briefings and media interviews. All directors are kept informed regarding these meetings.

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.

Capital

Capital is managed to ensure that the Group is able to continue as a going concern and consists of cash and equity. 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)	4	–	–
J Hogan	4	–	–
A Irvine	4	–	–
D Carlton (chairman, remuneration committee)	4	2	2
C Fleming	–	2	2
J Ragg (chairman, audit committee)	4	2	2
Total meetings during the year	4	2	2

Share options

The share options in place as at 31 December 2013 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	875,000	–	875,000	2
D Carlton	12/11/2009	1,375,000	–	1,375,000	2
C Fleming	12/11/2009	775,000	–	775,000	2
J Ragg	12/11/2009	1,225,000	–	1,225,000	2
Total		10,055,818	–	10,055,818	

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

Risk management report

The Group's business, financial condition, results and future operations 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 Group's licence area, no commercial volumes of oil or gas have yet been discovered in the licence area and there is no certainty that such discoveries will ever be made.

Mitigation: Senergy was commissioned to prepare a new Competent Person's Report in February 2013 which was issued in late July of the same year. This report risks the prospects using industry standard methods.

Commercial risk

Even if the Group recovers quantities of oil or gas, there is a risk the Group will not achieve a commercial return. Historically, oil prices have fluctuated significantly and are affected by numerous factors over which the Group has no control.

Mitigation: As production is a number of years away current price volatility is not expected to have a significant impact on the eventual outcome.

Future funding requirements

The Group will need to raise additional funding to undertake drilling and there is no certainty that this will be possible.

Mitigation: The Group is engaged with current investors and prospective partners with a view to concluding a farmout deal which will enable participation in the next drilling round, which is expected to commence in early 2015.

Environmental factors and insurance risk

Although the Group intends to be in compliance with all applicable environmental laws and regulations, and to insure its operations in accordance with industry practice, there are certain risks inherent to its activities that could subject the Group to extensive liability. Insurance cover will not be available for every risk faced by the Group.

Mitigation: The Group applies industry best practice standards.

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.

Retention of business relationships

It is likely that the Group will rely significantly on strategic relationships with other entities in the oil and gas industry such as service providers. The loss of these services could have an adverse effect on the business, financial position and results of operations of the Group.

Mitigation: The Group establishes good working relationships and oversight arrangements with its operating partners.

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

We have audited the financial statements of Argos Resources Ltd for the year ended 31 December 2013 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 balance sheet and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with applicable law. 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 Auditing Practices Board's (APB'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 within 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 2013 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;
- the parent Company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 1948 as amended by the Companies (Amendment) Ordinance 2006 (Falkland Islands Companies Act) as it applies in the Falkland Islands.

Opinion on other matters

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

BDO LLP

Chartered Accountants
London
United Kingdom

23 May 2014

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 2013

	Note	Year ended 31 December 2013 $'000	Year ended 31 December 2012 $'000
Administrative expenses	4	(1,846)	(1,749)
Finance income	8	17	37
Foreign exchange (losses)/gains		(15)	130
Loss for the year attributable to owners of the parent	16	(1,844)	(1,582)
Total comprehensive income for the period attributable to owners of the parent		(1,844)	(1,582)
Basic and diluted loss per share (cents)	10	(0.85)	(0.73)

The notes on pages 22 to 29 form part of the financial statements.

Consolidated statement of financial position
As at 31 December 2013

	Note	2013 $'000	2012 $'000
Assets			
Non-current assets			
Capitalised exploration expenditure	11	28,956	28,280
Plant and equipment	12	36	54
		28,992	28,334
Current assets			
Other receivables	13	140	169
Cash and cash equivalents		2,892	5,688
Total current assets		3,032	5,857
Total assets		32,024	34,191
Liabilities			
Current liabilities			
Trade and other payables	14	314	637
Total liabilities		314	637
Total net assets		31,710	33,554
Capital and reserves attributable to equity holders of the Company			
Share capital	15	6,595	6,595
Share premium	16	30,071	30,071
Retained losses	16	(4,956)	(3,112)
Total shareholders' equity		31,710	33,554

The notes on pages 22 to 29 form part of the financial statements.

These financial statements were approved by the directors and authorised for issue on 23 May 2014 and are signed on their behalf by:

Ian Thomson
Chairman

Consolidated statement of cash flows

Year ended 31 December 2013

	Note	Year ended 31 December 2013 $'000	Year ended 31 December 2012 $'000
Cash flows from operating activities			
Loss for period before taxation		(1,844)	(1,582)
Adjustments for:			
Finance income	8	(17)	(37)
Depreciation		20	18
Net cash outflow from operating activities before changes in working capital		(1,841)	(1,601)
Decrease in other receivables		28	30
Increase/(decrease) in other payables		174	(154)
Net cash outflow from operating activities		(1,639)	(1,725)
Investing activities			
Interest received		18	42
Exploration and development expenditure		(1,154)	(966)
Purchase of plant and equipment		(2)	(13)
Net cash used in investment activities		(1,138)	(937)
Financing activities			
Issue of ordinary shares (share options exercised)		–	39
Net cash from financing activities		–	39
Net decrease in cash and cash equivalents		(2,777)	(2,623)
Cash and cash equivalents at beginning of period		5,688	8,175
Exchange (losses)/gains on cash and cash equivalents		(19)	136
Cash and cash equivalents at end of the year		2,892	5,688

The notes on pages 22 to 29 form part of the financial statements.

Consolidated statement of changes in equity

Year ended 31 December 2013

	Share capital $'000	Share premium $'000	Retained losses $'000	Total equity $'000
At 1 January 2012	6,556	30,071	(1,530)	35,097
Total comprehensive income for the year	–	–	(1,582)	(1,582)
Shares issued (share options exercised)	39	–	–	39
At 31 December 2012	6,595	30,071	(3,112)	33,554
At 1 January 2013	6,595	30,071	(3,112)	33,554
Total comprehensive income for the year	–	–	(1,844)	(1,844)
At 31 December 2013	6,595	30,071	(4,956)	31,710

The notes on pages 22 to 29 form part of the financial statements.

Notes to the consolidated financial statements

Year ended 31 December 2013

1 Accounting policies

The Group and its operations
Argos Resources Ltd is an AIM quoted, limited liability company. The Group comprises of 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 Group holds exploration licence PL001 for the exploration and exploitation of oil and gas in the North Falkland Basin. The address of its registered office is Argos House, H Jones Road, Stanley, Falkland Islands, FIQQ 1ZZ.

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 23 May 2014 and are subject to adoption at the Annual General Meeting of shareholders which is expected to be held in Stanley, Falkland Islands, in October 2014.

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 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 2013 and have not been adopted early. The directors do not expect these standards and interpretations to have material impact on the financial statements except for the requirement of additional disclosures.

Standard/interpretation	Effective date
IFRS 10, 'Consolidated financial statements'	
Presentation and preparation of consolidated financial statements	1 Jan 2014
IFRS 11, 'Joint arrangements'	
Recognition of rights and obligations – substance over form	1 Jan 2014
IFRS 12, 'Disclosure of interests in other entities'	
Assists users to assess nature and financial effects of the reporting entity's relationship with other entities	1 Jan 2014
IAS 27, 'Separate financial statements'	
Accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements	1 Jan 2014
IAS 28, 'Investments in associates and joint ventures'	
Accounting requirements for joint ventures and associates	1 Jan 2014
IAS 32, 'Financial instruments: Presentation'	
Clarification on offsetting financial assets and financial liabilities	1 Jan 2014
IFRS 10, 'Consolidated Financial Statements'	
IFRS 12, 'Disclosure of Interests in Other Entities'	
IAS 27, 'Consolidated and separate financial statements'	
Exception from the requirements to consolidate controlled investees	1 Jan 2014
IAS 36, 'Impairment of assets'	
Recoverable amounts disclosures for non-financial assets	1 Jan 2014
IAS 39, 'Financial instruments'	
Novation of derivatives and continuation of hedge accounting	1 Jan 2014
IFRIC 21, 'Levies'	
Interpretation of IAS 37 provisions, contingent liabilities and contingent assets on the accounting for levies imposed by governments	1 Jan 2014
IAS 19, 'Defined benefit plans: employee contributions'	
Clarify the accounting requirements for contributions to defined benefit plans	1 Jul 2014
Annual improvements to IFRSs 2010-2012 Cycle	1 Jul 2014
Annual improvements to IFRSs 2011-2013 Cycle	1 Jul 2014
IFRS 9, 'Financial instruments'	
Phased replacement of IAS 39	To be confirmed

1 Accounting policies continued

Going concern

The directors consider that the Group's available financial resources are more than 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 2013 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 consist entirely of oil and gas exploration around the Falkland Islands. 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. No further information is therefore deemed necessary.

Intangible assets – capitalised exploration expenditure and impairment

As permitted under IFRS 6, the Group has accounted for evaluation and exploration (E&E) 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.

Costs incurred include appropriate technical and administrative expenses but not general overheads. If an exploration project is successful, the related expenditures will be 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 are 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 impairment loss would be recognised in the income statement and separately disclosed.

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 on other assets is calculated using the straight-line method to allocate their cost or re-valued amounts less their residual values over their estimated useful lives, as follows:

- Plant and equipment – 4 years

Notes to the consolidated financial statements continued

Year ended 31 December 2013

1 Accounting policies continued

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.

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 three months, at variable interest rates. 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 3 months.

Foreign currencies

The functional and presentational currency is US Dollars. Transactions denominated in currencies other than US$ are translated at the rate of exchange ruling at the date of the transaction. Balances 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:

	2013	2012
£:US$	1.66	1.63

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, the fixed asset class is debited with the fair value of goods and services received, over the expected vesting period of the options and credited to retained losses.

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 deemed to be 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.

2 Financial instruments continued

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 assets and liabilities are in Sterling there is a risk of loss in relation to the net 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 lessened by matching the currencies of cash balances with the currencies of projected liabilities.

As of 31 December 2013 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	79	61	140
Less: prepayments	(75)	(61)	(136)
Cash and cash equivalents	2,734	158	2,892
	2,738	158	2,896
Liabilities			
Other payables	(164)	(150)	(314)
Net financial assets	2,574	8	2,582

At 31 December 2012 the comparative balances were:

	Sterling denominated $'000	US$ denominated $'000	Total $'000
Current assets			
Other receivables	90	79	169
Less: prepayments	(83)	(79)	(162)
Cash and cash equivalents	2,739	2,949	5,688
	2,746	2,949	5,695
Liabilities			
Other payables	(239)	(398)	(637)
Net financial assets	2,507	2,551	5,058

If the US$ had strengthened against Sterling by 10%, equity would reduce by $257K (2012: $251K). Conversely if the US$ weakens against Sterling the equity would increase by $257K (2012: $251K).

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 TSB, Standard Chartered Bank and HSBC. The following was the split of funds between the various institutions at 31 December 2013:

Institution	2013 $'000	2012 $'000
Lloyds TSB	1,034	1,482
Standard Chartered Bank	1,359	2,240
HSBC	499	1,966
	2,892	5,688

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 3 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.

Notes to the consolidated financial statements *continued*

Year ended 31 December 2013

2 Financial instruments continued

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

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. 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.

4 Administrative expenses

	2013 $'000	2012 $'000
Directors' remuneration (see note 5)	471	458
Professional fees	445	284
Depreciation	20	18
Other expenses	910	989
Total	1,846	1,749

5 Directors' remuneration

	2013 $'000	2012 $'000
Remuneration and fees	468	472
Pensions*	3	(14)
Total	471	458

* A Irvine is accruing retirement benefits under a defined contribution pension arrangement. During 2012 J Hogan relinquished his entitlement to enter into a defined contribution arrangement in favour of the setting up of an educational scholarship fund, which will be used to make awards in fields of study related to the business of the Company. Amounts accrued since 1 August 2010, totalling $32K, were transferred to this fund in 2012.

Directors' remuneration, by director, is disclosed in the directors' remuneration report on page 14.

The average monthly number of employees, including directors, during this and the preceding year was 6.

6 Auditor's remuneration

	2013 $'000	2012 $'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	27	30
Fees payable to the Company's auditor for the audit of the subsidiary's annual financial statements	5	5
Review of interim accounts	8	11
Total payable for audit related services	40	46
Fees payable to the Company's auditor for other services:		
Taxation	10	13
	50	59

7 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.

	Exercise price (pence)	Number
Brought forward at 1 January 2012	2	12,680,818
Exercised – 7 June 2012	2	(1,250,000)
Outstanding at 31 December 2012 and 31 December 2013	2	11,430,818

All options outstanding at the end of the year and at the end of the comparative period had vested and remained exercisable. The average share price on the date that the options were exercised in 2012 was 16.9 pence per share. The weighted average contractual life of the options is 8.87 years.

8 Finance income

	2013 $'000	2012 $'000
Interest on bank deposits	17	37

9 Taxation credit

	2013 $'000	2012 $'000
Total tax:		
Corporation tax on losses for the year	–	–
Reconciliation of total tax credit:		
Loss before tax	1,844	1,582
Loss on ordinary activities multiplied by the standard rate of corporation tax of 26%	(479)	(411)
Effects of:		
Unrelieved tax losses and other deductions arising in the period	479	408
Interest receivable not taxable	(4)	(6)
Expenses not deductible for tax purposes	4	9
Total tax credit for the year	–	–

	2013 $'000	2012 $'000
Unrelieved tax losses, on which no deferred tax asset has been recognised, which are available for offset against future profits	5,926	4,096

10 Loss per share

	2013 Number	2012 Number
Shares in issue brought forward (2 pence shares)	217,363,205	216,113,205
Options exercised	–	1,250,000
Shares in issue carried forward	217,363,205	217,363,205
Weighted average shares in issue	217,363,205	216,822,109

	2013 $'000	2012 $'000
Loss for the year	(1,844)	(1,582)
Weighted average number of ordinary shares in issue during the year	217,363,205	216,822,109
Basic and diluted loss per ordinary share (cents)	(0.85)	(0.73)

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

11 Capitalised exploration expenditure

	2013 $'000	2012 $'000
Cost and net book value:		
At 1 January	28,280	27,390
Additions	676	890
At 31 December	28,956	28,280

Notes to the consolidated financial statements continued

Year ended 31 December 2013

12 Plant and equipment

	2013 $'000	2012 $'000
Cost:		
At 1 January	79	66
Additions	2	13
At 31 December	81	79
Depreciation:		
At 1 January	25	7
Charge for year	20	18
At 31 December	45	25
Net book value:		
At 31 December	36	54

13 Other receivables

	2013 $'000	2012 $'000
Prepayments	136	162
Accrued interest	1	2
Other	3	5
	140	169

14 Trade and other payables

	2013 $'000	2012 $'000
Trade payables	54	434
Accruals	260	203
	314	637

15 Share capital

	2013 $'000	2012 $'000
Authorised:		
500,000,000 ordinary shares of 2 pence each	14,960	14,960

	Number	$'000
Allotted, issued and fully paid:		
Ordinary shares of 2 pence each		
At 1 January 2012	216,113,205	6,556
Shares issued (share options exercised)	1,250,000	39
Ordinary shares of 2 pence each		
At 31 December 2012 and 31 December 2013	217,363,205	6,595

16 Reserves

Movements on the various reserves are detailed in the consolidated statement of changes in equity on page 21. The nature and purpose of each is set out below.

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.

17 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:

	2013 $'000	2012 $'000
Due to Argos Georgia Ltd at 1 January	(3)	(7)
Expenses paid on behalf of the Group	(23)	(42)
Loans repaid/creditor balances paid	366	370
Office running costs*	(340)	(324)
Due to Argos Georgia Ltd at 31 December	–	(3)

* There is a 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 for an annual basic fee of £220K ($365K). This agreement is terminable on 6 months, notice. Key management personnel are the directors only.

In 2012 J Hogan relinquished the right to any future pension entitlement, which was accruing at a rate of 5% of salary. The total amount which had accrued was transferred to a newly set up scholarship fund and amounts will continue to accrue to the scholarship fund at the same rate. Payments of $18,000 were awarded during each of 2012 and 2013 to J Hogan's son, who is studying towards a Master of Science degree in petroleum geology.

The directors are considered to be the key management of the Group. 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 14 and in note 5.

18 Commitments

(a) Capital commitments

There were no capital commitments at 31 December 2013 nor for the comparative period.

(b) Operating commitments

There is a services and agency agreement dated 26 July 2010 between the Company and Argos Georgia Ltd in which Argos Georgia Ltd provides certain agency, accounting, secretarial and operational services to the Company for an annual basic fee of £220K ($365K). This agreement is terminable on 6 months, notice. The ongoing commitment at 31 December 2013 was as follows:

	2013 $'000	2012 $'000
Total committed within 1 year	182	179

19 Contingent liabilities

The Group has no anticipated material contingent liabilities.

20 Events after the reporting date

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

Parent Company balance sheet

As at 31 December 2013

	Note	2013 $'000	2012 $'000
Fixed assets			
Plant and equipment	2	19	27
Investments	3	2,120	2,120
		2,139	2,147
Current assets			
Debtors	4	25,953	25,059
Cash at bank		2,892	5,688
		28,845	30,747
Creditors: amounts falling due within one year	5	292	548
Net current assets		28,553	30,199
Total assets less current liabilities		30,692	32,346
Capital and reserves			
Called up share capital	6	6,595	6,595
Share premium	7	30,071	30,071
Profit and loss account	7	(5,974)	(4,320)
Shareholders' funds	7	30,692	32,346

The notes on pages 31 to 33 form part of the financial statements.

These financial statements were approved by the directors and authorised for issue on 23 May 2014 and are signed on their behalf by:

Ian Thomson
Chairman

Notes to the parent Company financial statements

Year ended 31 December 2013

1 Accounting policies

Basis of preparation
The financial statements have been prepared under the historical cost convention and are in accordance with United Kingdom accounting standards.

Going concern
The directors consider that the Group's available financial resources are more than adequate to allow completion of the work programme and provide working capital for the foreseeable future. The financial statements have therefore been prepared on a going concern basis.

Profit and loss account
As a Group income statement has been published as part of the financial statements, a separate profit and loss account 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. The loss for the year was $1.65 million (2012: loss of $1.56 million).

Cash flow statement
The Company has not presented a cash flow statement as part of the financial statements as the Company is part of a group which prepares consolidated financial information, including a Group cash flow statement. This is an exemption which is permitted under FRS1.

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

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 Company 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 on other assets is calculated using the straight-line method to allocate their cost or re-valued amounts to their residual values over their estimated useful lives, as follows:

- Plant and equipment – 4 years

Financial instruments
The Company has taken advantage of FRS13 which permits non-presentation of Company only information where the disclosures provided in the Group accounts comply with the requirements.

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 making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Foreign currencies
The functional and presentational currency is US$. Transactions denominated in currencies other than US$ are translated at the rate of exchange ruling at the date of the transaction. Balances held in currencies other than US$ are converted at the rate ruling at the year end. Any translation differences are dealt with in the profit and loss account.

The year end rates of exchanges used were:

	2013	2012
£:US$	1.66	1.63

Share based payments
The Company has issued share options to directors and key personnel and accounts for the costs of the issue of these options in line with FRS20 "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 profit and loss account or, if appropriate, the fixed asset class is debited with the fair value of goods and services received, over the expected vesting period of the options and credited to retained losses.

Notes to the parent Company financial statements *continued*

Year ended 31 December 2013

2 Plant and equipment

	2013 $'000	2012 $'000
Cost:		
At 1 January	37	24
Additions	2	13
At 31 December	39	37
Depreciation:		
At 1 January	10	3
Charge for year	10	7
At 31 December	20	10
Net book value:		
At 31 December	19	27

3 Investments

	2013 $'000	2012 $'000
Investment in subsidiary		
Cost at 1 January and 31 December 2013	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

4 Debtors

	2013 $'000	2012 $'000
Amounts due from subsidiary	25,878	24,955
Accrued interest	1	2
Prepayments	71	97
Other	3	5
	25,953	25,059

All amounts fall due for payment in one year.

5 Creditors: – amounts falling due within 1 year

	2013 $'000	2012 $'000
Trade creditors	54	434
Accruals and deferred income	238	114
	292	548

6 Share capital

The information on share capital is given in note 15 on page 28 of the Group financial statements.

7 Reconciliation of movements in shareholders' funds

	Share capital $'000	Share premium $'000	Retained earnings/ (deficit) $'000	Total equity $'000
At 1 January 2012	6,556	30,071	(2,762)	33,865
Loss for year	–	–	(1,558)	(1,558)
Shares issued (share options exercised)	39	–	–	39
At 1 January 2013	6,595	30,071	(4,320)	32,346
Loss for year	–	–	(1,654)	(1,654)
At 31 December 2013	6,595	30,071	(5,974)	30,692

8 Other statutory disclosures

Directors' remuneration

The information given in note 5 of the consolidated financial statements relates wholly to the Company. There is no difference between the directors' remuneration of the parent and the Group.

Audit services

Costs incurred on audit and other services provided by the auditor are provided on a consolidated basis in note 6 of the consolidated financial statements.

Share based remuneration

The information given in note 7 of the consolidated financial statements relates wholly to the Company.

Related party transactions

The information given in note 17 of the consolidated financial statements relates wholly to the Company.

Commitments

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

Events after the balance sheet date

The information given in note 20 of the consolidated financial statements relates wholly to the Company.

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