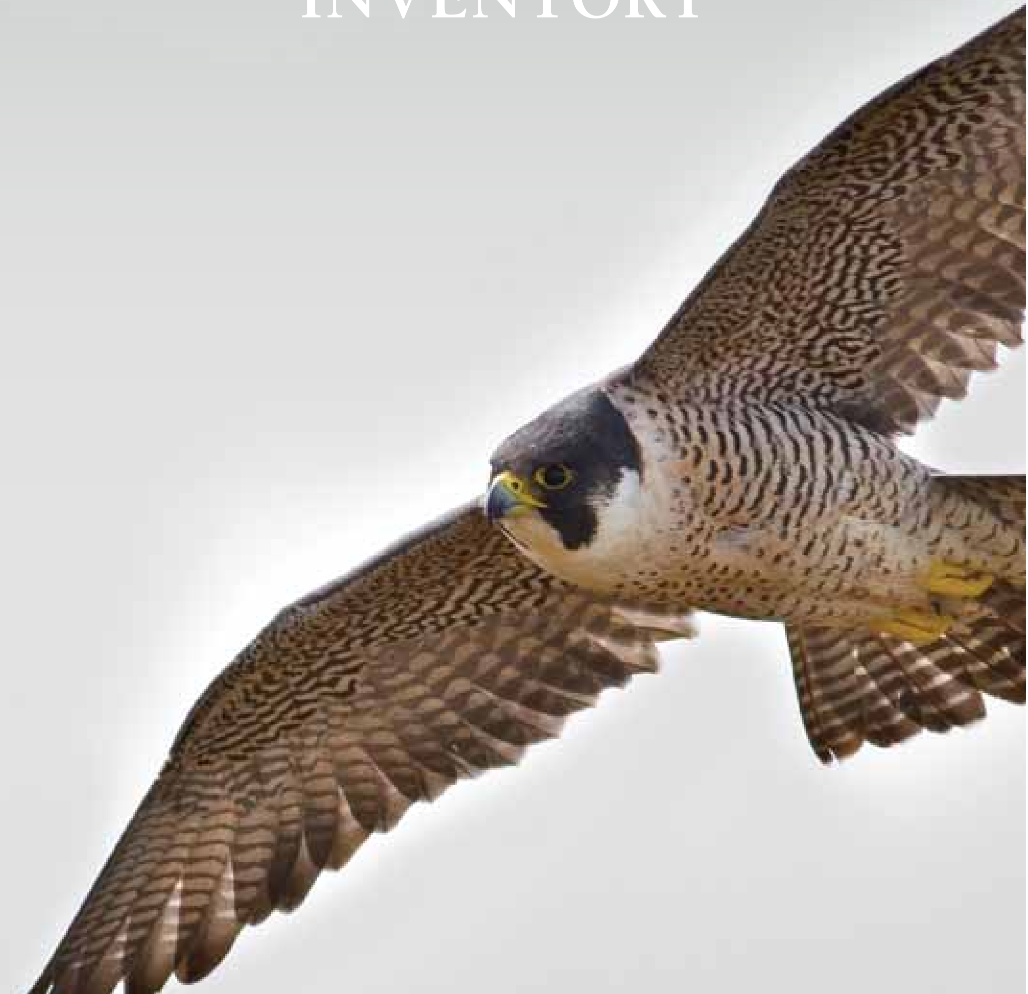
ARGOS RESOURCES LTD

Interim Report 2013

GROWING PROSPECT INVENTORY



Peregrine Falcon

The peregrine falcon, *Falco peregrinus*, ranges across the Falkland Islands. It is one of the world's fastest animals reaching speeds in excess of 100 kms per hour whilst diving to hunt.

GROWING PROSPECT INVENTORY

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.

Contents

Highlights

- $0.6M invested in further exploration and evaluation activities
- $1.2M loss from expensed overhead, including FOREX losses of $0.3M
- $4.3M cash reserves at 30 June 2013
- A new Competent Person's Report describes 52 prospects and 40 leads, a significant increase over the 28 prospects previously reported
- Best Estimate of prospective recoverable oil resources has increased from 2.1 billion barrels to 3.1 billion barrels, an increase of 46%
- High Case prospective recoverable oil resources estimate exceeds 10 billion barrels
- New basin modelling studies confirm two mature source rocks within PL001 with at least 30 billion barrels of oil generated within the licence area
- A farmout programme seeking industry partners is progressing

Falkland Islands

Situated approximately 480 kms 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.

OUR PRINCIPAL ASSET IS

100%

OWNERSHIP OF LICENCE PL001

Some of our Prospects

01 Rhea Stack, 449 MMBO

The Rhea stack includes a sequence of overlapping lacustrine basin floor fans and delta, toe-of-slope, sandstones encased in organic-rich mudstones which provide both source and seal.

02 Kratos Stack, 183 MMBO

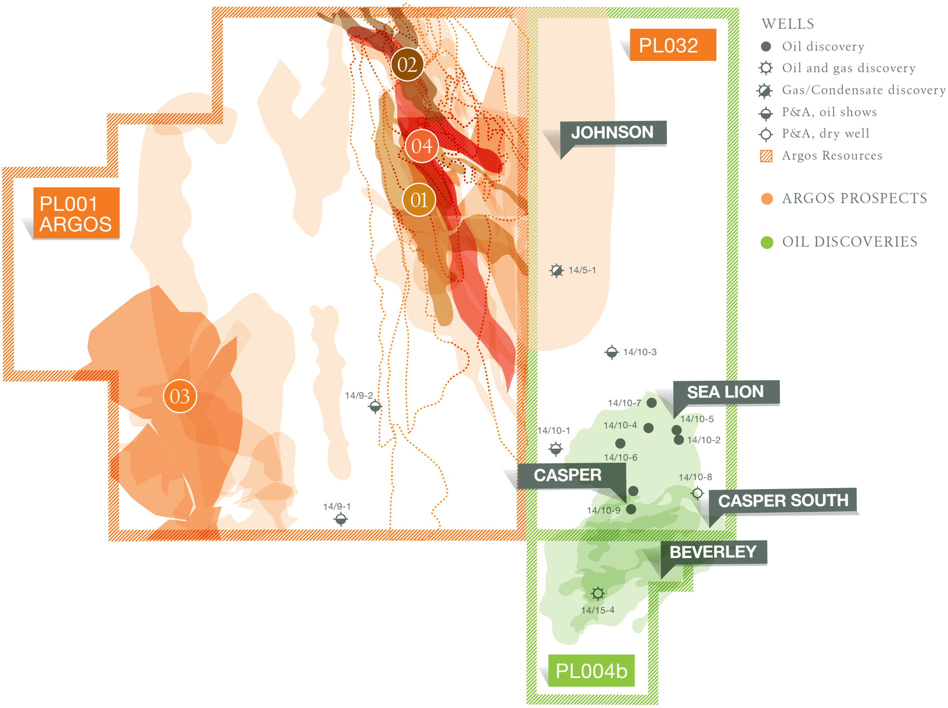
Like Rhea, the Kratos stack includes a sequence of overlapping lacustrine basin floor fans and delta, toe-of-slope, sandstones encased in organic-rich mudstones which provide both source and seal.

03 Helios Stack, 666 MMBO

The Helios stack is a sequence of thick lacustrine fan sandstones which have built up above a deep seated structural closure, and have scoured into the underlying organic-rich mudstones.

04 Poseidon Channel Sequence, 204 MMBO

The Poseidon A-E prospects are an en echelon series of channel sandstones deposited as a “string of pearls” along the axis of the Eastern Graben. The sands are encased in organic-rich mudstones which provide both source and seal.


PL001
ARGOS
PL032
PL004b
JOHNSON
SEA LION
CASPER
CASPER SOUTH
BEVERLEY
01
02
03
04
14/5-1
14/10-3
14/10-7
14/10-4
14/10-5
14/10-2
14/10-1
14/10-6
14/10-8
14/10-9
14/9-2
14/9-1
14/15-4
WELLS
Oil discovery
Oil and gas discovery
Gas/Condensate discovery
P&A, oil shows
P&A, dry well
Argos Resources
ARGOS PROSPECTS
OIL DISCOVERIES

Chairman's statement
Ian Thomson OBE

The confirmed presence of two proven oil source rocks within the licence area, which are mature for significant volumes of oil generation, has increased the estimated chances of success for most of the prospects.

In April 2011, the Company announced the completion of the acquisition of 1,415 net square kilometres of 3D seismic data, including coverage over the entire licence area, a halo outside the licence boundaries and tie-ins to key wells. The entire 3D data set was processed on a fast-track basis from which the Company identified a portfolio of prospects. A Competent Person's Report (CPR), prepared by Senergy, was published in October 2011 based on the interpretation of this fast-track processed data and described 28 prospects with a Best Estimate of recoverable prospective resources of 2,107 mmbo.

The final processed version of the 3D seismic data was received by the Company in January 2012 and detailed work on this data indicated that considerable additional prospectivity existed within the licence area over that described in the 2011 CPR. The directors concluded that the potential increase in prospectivity was so significant that a new Competent Person's Report was required to verify the increase and to reflect fully the potential of the licence area. The Company announced in February 2013 that Senergy had been commissioned to prepare a new CPR and the results were published in July.

The prospects identified in the CPR fall broadly into two categories:

- Combination structural and stratigraphic traps defined by seismic amplitude anomalies and, in several cases, supported by isopach and structural conformance with the anomaly.
- Fault bounded and four-way dip closed structural traps often with closures at several horizons providing multiple reservoir targets.

In respect of the first category of prospects, the combination structural and stratigraphic traps, a total of 46 prospects have been mapped. These prospects are expected to contain good quality sandstone reservoirs with several exhibiting similar seismic anomalies to those seen at the Sea Lion oilfield.

The Best Estimate of net unrisked potentially recoverable prospective resources for these prospects amounts to 2,484 mmbo. In several areas within the licence a number of these prospects are vertically stacked, offering the potential for drilling targets to combine several objectives to be tested by one well. An example is the Rhea stack, where a combined potential of 449 mmbo of prospective resources can be tested by one well.

OUR PRINCIPAL ASSET IS

100%

OWNERSHIP OF LICENCE PL001

40 additional leads, not included in the above resource numbers, have also been identified and are the subject of ongoing mapping.

In respect of the second category of 6 prospects, the structural traps, mapping of the final processed 3D is unchanged from that reported in the 2011 CPR. The Best Estimate of net unrisked potentially recoverable prospective resources for these structural prospects amounts to 599 mmbo.

Therefore, the total Best Estimate of unrisked potentially recoverable prospective resources on the Argos licence area currently amounts to 3,083 mmbo, with 40 additional leads still to be evaluated. The High Estimate is 10,412 mmbo.

Future work still to be undertaken on the 3D data includes, where appropriate, mapping potential reservoir sands within the Johnson gas discovery, which appears to extend into the licence area. Potential contingent resources for the Johnson gas discovery attributable to the Company have not been included in the above figures.

A new basin modelling study was commissioned during the period with Platte River Associates and the results received in July. The work confirmed the presence of two mature source rocks within PL001 and concluded that at least 30 billion barrels of oil had been generated within the licence area alone.

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 the next round of exploration drilling and we continue to consider various ways to finance drilling.

Financial overview

Losses for the Group for the 6 months to 30 June 2013 were \$1.2M (2012: \$0.8M) giving a loss per share of 0.54 cents (2012: 0.37 cents).

Administrative expenses were \$0.9M compared to \$0.8M for the same period in 2012.

The \$0.6M (2012: \$0.5M) expended on exploration and development expenditure was spent on continued interpretation of the seismic data.

Net assets have decreased from \$33.6M to \$32.4M 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 2014.

Ian M. Thomson

Ian Thomson OBE
Chairman

Consolidated statement of comprehensive income
Period ended 30 June 2013

	Note	6 months ended 30 June 2013 unaudited $'000	6 months ended 30 June 2012 unaudited $'000	Year ended 31 December 2012 audited $'000
Administrative expenses		(916)	(845)	(1,749)
Finance income		11	18	37
Foreign exchange (losses)/gains		(262)	27	130
Loss before tax		(1,167)	(800)	(1,582)
Loss from operations attributable to owners of the parent		(1,167)	(800)	(1,582)
Total comprehensive income for the period attributable to owners of the parent		(1,167)	(800)	(1,582)
Basic and diluted loss per share (cents)	3	(0.54)	(0.37)	(0.73)

Consolidated statement of financial position
As at 30 June 2013

	Note	As at 30 June 2013 unaudited $'000	As at 30 June 2012 unaudited $'000	As at 31 December 2012 audited $'000
Assets				
Non-current assets				
Capitalised exploration expenditure		28,873	27,895	28,280
Plant and equipment		45	54	54
		28,918	27,949	28,334
Current assets				
Other receivables		121	123	169
Cash and cash equivalents		4,263	6,885	5,688
Total current assets		4,384	7,008	5,857
Total assets		33,302	34,957	34,191
Liabilities				
Total and current liabilities				
Other payables	4	915	621	637
Total net assets		32,387	34,336	33,554
Capital and reserves attributable to equity holders of the company				
Share capital		6,595	6,595	6,595
Share premium		30,071	30,071	30,071
Retained losses		(4,279)	(2,330)	(3,112)
Total shareholders' equity		32,387	34,336	33,554

Consolidated statement of cash flows
Period ended 30 June 2013

	6 months ended 30 June 2013 unaudited $'000	6 months ended 30 June 2012 unaudited $'000	Year ended 31 December 2012 audited $'000
Cash flows from operating activities			
Loss for period	(1,167)	(800)	(1,582)
Adjustments for:			
Finance income	(11)	(18)	(37)
Depreciation	10	8	18
Net cash outflow from operating activities before changes in working capital	(1,168)	(810)	(1,601)
Decrease in other receivables	13	48	30
Increase/(decrease) in other payables	362	(42)	(154)
Net cash (outflow) from operating activities	(793)	(804)	(1,725)
Investing activities			
Interest received	12	18	42
Exploration and development expenditure	(368)	(566)	(966)
Purchase of plant and equipment	–	(2)	(13)
Net cash used in investment activities	(356)	(550)	(937)
Financing activities			
Issue of ordinary shares (share options exercised)	–	39	39
Net cash from financing activities	–	39	39
Net (decrease) in cash and cash equivalents	(1,149)	(1,315)	(2,623)
Cash and cash equivalents at beginning of period	5,688	8,175	8,175
Exchange (losses)/gains on cash and cash equivalents	(276)	25	136
Cash and cash equivalents at end of period	4,263	6,885	5,688

Consolidated statement of changes in equity – unaudited
Period ended 30 June 2013

	Share capital $'000	Share premium $'000	Retained earnings/ deficit $'000	Total equity $'000
At 1 January 2012	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
At 30 June 2012	6,595	30,071	(2,330)	34,336
Total comprehensive income for period to 31 December 2012	–	–	(782)	(782)
At 31 December 2012	6,595	30,071	(3,112)	33,554
Total comprehensive income for period to 30 June 2013	–	–	(1,167)	(1,167)
At 30 June 2013	6,595	30,071	(4,279)	32,387

Notes to the interim report – unaudited
Period ended 30 June 2013

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 23 August 2013.

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"). The consolidated financial statements are prepared in compliance with the recognition and measurement requirements of International Financial Reporting Standards as adopted by the European Union (IFRSs) and interpretations of those standards as issued by the International Accounting Standards Board. 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 2012 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 2013. The new standards adopted during the half year, which had no material impact on the financial statements to 30 June 2013, are:

- IFRS 7 (amended) – Offsetting Financial Assets and Financial Liabilities;
- IFRS 13 Fair Value Measurement;
- IAS 1 (amended) – Presentation of Items of Other Comprehensive Income;
- IAS 12 (amended) – Deferred tax: Recovery of Underlying Assets; and
- IAS 19 (revised) – Employee Benefits.

The comparative financial information for the year ended 31 December 2012 has been derived from the full statutory financial statements for that period which were prepared in compliance with International Financial Reporting Standards as adopted by the European Union. The Independent Auditors' Report on the Annual Report and Financial Statements for 2012 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 2013 and have not been adopted early. 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:

Notes to the interim report – unaudited continued
Period ended 30 June 2013

1 Accounting Policies continued

Exploration and evaluation expenditure

As permitted under IFRS 6 the Group has accounted for evaluation and exploration expenditure using the “full cost” method. All expenses 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.

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 2013 unaudited $’000	6 months ended 30 June 2012 unaudited $’000	Year ended 31 December 2012 audited $’000
Loss for the period	(1,167)	(800)	(1,582)
Weighted average number of ordinary shares in issue during the period	217,363,205	216,223,095	216,822,109
Basic and diluted loss per ordinary share (cents)	(0.54)	(0.37)	(0.73)

In accordance with IAS 33 as the Group is reporting a loss for this, the preceding interim period and the year to 31 December 2012 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 2013 unaudited $'000	6 months ended 30 June 2012 unaudited $'000	Year ended 31 December 2012 audited $'000
Trade payables	571	446	434
Accruals	344	175	203
	915	621	637

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 2013 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 2013 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

Date: 23 August 2013

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

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