Farmout agreed for 2015 drilling

ARGOS RESOURCES LTD

Interim Report 2015

Argos Resources is an oil and gas exploration company listed on AIM and based in the Falkland Islands. On 13 April 2015, the Company announced that its wholly-owned subsidiary, Argos Exploration Limited, had entered into a farmout agreement with Noble Energy Falklands Limited and Edison International S.p.A in respect of the Company's principal asset, a 100 percent interest in Production Licence PL001 covering an area of approximately 1,126 square kilometres in the North Falkland Basin.

Contents

Commerson's Dolphins

Cephalorhynchus commersonii inhabit the waters around the Falkland Islands where they are frequently seen in or at the edge of kelp beds. Adults range in size from 1.2–1.7m and can reach up to 86kg in weight.

www.argosresources.com

HIGHLIGHTS
2015 1H

- *$0.8 million loss from expensed overhead (H1 2014: $0.7 million);*
- *$0.8 million cash reserves at 30 June 2015 (YE 2014: $1.4 million);*
- *The farmout of Licence PL001 (the 'Licence') to Noble and Edison, in which the Rhea Stack will be drilled in 2015 at no cost to the Company, completed on 15 September 2015;*
- *Noble has assumed operatorship of the Licence and Noble and Edison have been assigned a 75 percent and 25 percent working interest in the Licence respectively;*
- *Argos retains an overriding royalty interest of 5 percent of gross production from all hydrocarbon discoveries developed within the Licence (the "ORRI");*
- *Argos has no requirement to contribute to any future capital or operating expenditures incurred over the life of the Licence;*
- *Argos received US$2.75 million in cash upon completion and will receive US$800,000 per annum from 1 January 2016 through to receipt of the first royalties pursuant to the ORRI;*
- *The initial exploration well will fulfil the remaining work obligation on the Second Exploration Term of the Licence.*

AT A GLANCE

An emerging oil and gas province

Falkland Islands

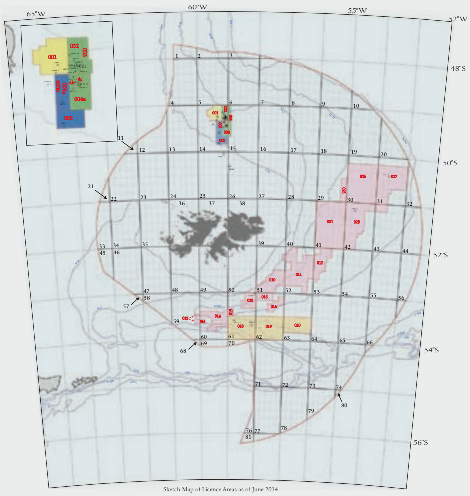
Situated approximately 480km to the east of South America in the South Atlantic Ocean.

Covers approximately 12,000 square kilometres of land and includes 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 140m and 500m and the operating environment is similar to that of the UK Central North Sea with the potential for year-round drilling.

Map Coverage



Sketch Map of Licence Areas as of June 2014

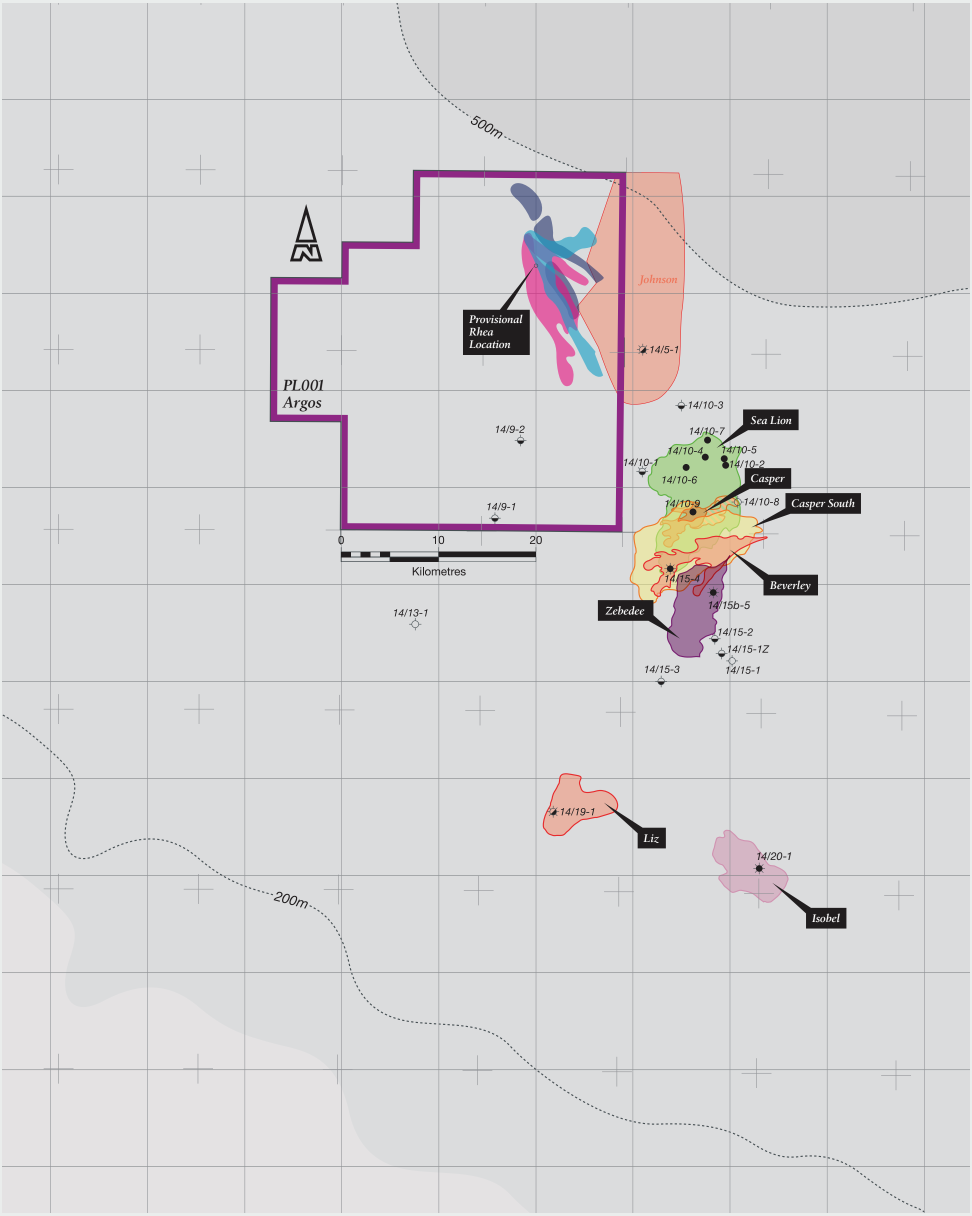
Argos (Op.) 100%

Oil discoveries

Gas discoveries

Wells

- *Oil*
- *Oil & gas*
- *Gas/Condensate*
- *P&A, oil and gas shows*
- *P&A, oil shows*
- *P&A, dry*
- *Location*


500m
Johnson
Provisional
Rhea
Location
PL001
Argos
14/5-1
14/10-3
Sea Lion
14/10-7
14/9-2
14/10-4
14/10-5
14/10-1
14/10-2
14/10-6
Casper
14/9-1
14/10-9
14/10-8
Casper South
0
10
20
Kilometres
14/15-4
Beverley
14/15b-5
Zebedee
14/13-1
14/15-2
14/15-1Z
14/15-3
14/15-1
14/19-1
Liz
14/20-1
200m
Isobel

CHAIRMAN'S STATEMENT
Ian Thomson OBE

On 13 April the Company announced that its wholly-owned subsidiary, Argos Exploration Limited, had entered into a Farmout Agreement with Noble Energy Falklands Limited and Edison International S.p.A (together, the "Farmees") in respect of the Company's principal asset, a 100 percent interest in production licence PL001 covering an area of approximately 1,126 square kilometres in the North Falkland Basin. I am pleased to report that completion of the transaction occurred on 15 September 2015 following the receipt of necessary government and regulatory approvals.

The Farmees have committed to drill an exploration well in 2015 and will test the Rhea prospect at no cost to Argos. The Company believes that success at Rhea will de-risk other prospects in the Licence.

Under the terms of the farmout, the Company has transferred its entire 100 percent working interest to the Farmees and Noble has become the operator of the Licence. The Company has retained a 5 percent overriding royalty interest (ORRI) throughout the life of the Licence which entitles the Company to 5 percent of gross production from all hydrocarbon discoveries developed within the Licence. The Company has no requirement to contribute to any future capital or operating expenditures incurred over the life of the Licence.

Other terms of the farmout are that the Company received US$2.75 million in cash upon completion and will receive a further US$800,000 in cash per annum from 1 January 2016 through to receipt of the first royalties pursuant to the ORRI. The proceeds are expected to be sufficient to meet all anticipated transaction costs and running costs through to receipt of the first such royalties.

Should Noble and Edison elect to surrender the Licence following the drilling of the initial exploration well, the Company has retained the right to have 100 percent of the working interest reassigned to it, subject to appropriate Falkland Islands government approvals.

By way of background, a 3D seismic survey was acquired by the Company in early 2011 covering the entire Licence Area. The quality of the seismic data acquired is excellent and has led to the identification of 52 prospects and 40 leads within the Licence. The Company's Competent Person's Report ("CPR") issued in July 2013 describes 52 prospects with a total unrisked potential of 3.1 billion barrels of prospective recoverable resource in the most likely case, and up to 10.4 billion barrels in the upside case.

From the large inventory of prospects described in the Company's CPR, the Rhea prospect (and Rhea Stack) is amongst the Company's top ranked prospects. The CPR describes the Rhea Stack as containing a best estimate unrisked resource potential of 443 million barrels of recoverable oil, increasing to 1,467 million barrels in the upside case.

In addition to the targeted Rhea prospect, the ORRI provides the Company with continued material exposure at no cost to further drilling and success across the Licence Area, which contains significant additional potential as described above.

A drilling campaign began in February 2015 with the Eirik Raude rig currently operating offshore the Falkland Islands. The Company expects the Rhea prospect to be drilled as part of this campaign in the fourth quarter of 2015.

Drilling the Rhea well will satisfy an outstanding commitment to drill an exploration well on the Licence no later than 25 November 2016, which is the date of the end of the Second of Three Exploration Terms of the Licence. Completing this commitment will allow the Farmees to apply for a Third Exploration Term on the Licence of a further 10 years, which will require a further work programme to be agreed between the Farmees and the Falkland Islands government.

The value of the farmout relative to the Company's market capitalisation meant that completion was deemed to be a disposal resulting in a fundamental change of business of the Company under Rule 15 of the AIM Rules. Accordingly, the approval of Shareholders for the farmout was sought and received unanimous approval at a General Meeting on 4 May 2015.

The Company is pleased to have completed a deal with such highly-regarded and financially robust partners as Noble and Edison and, as a consequence, to be participating in the 2015 drilling campaign in the North Falkland Basin. Noble Energy, an S&P 500 company (NYSE: NBL), is a world-class operator with an outstanding track record and reserves of 1.4 billion barrels of oil equivalent. Edison is a leading European energy company and a part of the EDF (Electricité de France) group.

The innovative nature of the farmout terms means that there is no material Shareholder dilution or further material Shareholder funding required by the Company for any future investments in the Licence. In addition, the Company's ongoing working capital requirements are expected to be covered by the cash proceeds from the farmout and, with the prospect of a further 10 year Third Exploration Term ahead, the Directors believe that the financial position and outlook for the Company is robust.

Financial overview

Losses for the Group for the six months to 30 June 2015 were $0.8 million (2014: $0.7 million) giving a loss per share of 0.35 cents (2014: 0.30 cents).

Administrative expenses were $0.7 million compared to $0.7 million for the same period in 2014.

Net assets have decreased from $30.5 million to $29.7 million since December 2014 as a result of the losses incurred.

Financial outlook

The cash proceeds to be received under the farmout agreement are expected to fully fund the Group until first oil production, once additional cost saving measures are implemented from 2016.

Ian Thomson OBE
Chairman
21 September 2015

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Period ended 30 June 2015

	Note	***6 months ended 30 June 2015 unaudited $'000***	*6 months ended 30 June 2014 unaudited $'000*	*Year ended 31 December 2014 audited $'000*
Administrative expenses		**(750)**	(722)	(1,218)
Finance income		**1**	4	6
Foreign exchange (losses)/gains		**(6)**	65	(85)
Loss before tax		**(755)**	(653)	(1,297)
Loss from operations attributable to owners of the parent		**(755)**	(653)	(1,297)
Total comprehensive income for the period attributable to owners of the parent		**(755)**	(653)	(1,297)
Basic and diluted loss per share (cents)	2	**(0.35)**	(0.30)	(0.60)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Note	As at 30 June 2015 unaudited $'000	As at 30 June 2014 unaudited $'000	As at 31 December 2014 audited $'000
Assets				
Non-current assets				
Capitalised exploration expenditure		**29,100**	29,010	29,044
Plant and equipment		**6**	26	16
		29,106	29,036	29,060
Current assets				
Other receivables		**90**	93	130
Cash and cash equivalents		**789**	2,102	1,363
Total current assets		**879**	2,195	1,493
Total assets		**29,985**	31,231	30,553
Liabilities				
Total and current liabilities				
Other payables		**(279)**	(174)	(92)
Total net assets		**29,706**	31,057	30,461
Capital and reserves attributable to equity holders of the company				
Share capital		**6,643**	6,595	6,643
Share premium		**30,071**	30,071	30,071
Retained losses		**(7,008)**	(5,609)	(6,253)
Total shareholders' equity		**29,706**	31,057	30,461

CONSOLIDATED STATEMENT OF CASH FLOWS

Period ended 30 June 2015

	6 months ended 30 June 2015 unaudited $'000	*6 months ended 30 June 2014 unaudited $'000*	*Year ended 31 December 2014 audited $'000*
Cash flows from operating activities			
Loss for period	**(755)**	(653)	(1,297)
Adjustments for:			
Finance income	**(1)**	(4)	(6)
Depreciation	**9**	10	20
Net cash outflow from operating activities before changes in working capital	**(747)**	(647)	(1,283)
Decrease in other receivables	**6**	13	10
Increase/(decrease) in other payables	**192**	(198)	(127)
Net cash (outflow) from operating activities	**(549)**	(832)	(1,400)
Investing activities			
Interest received	**1**	4	6
Exploration and development expenditure	**(22)**	(28)	(96)
Net cash used in investment activities	**(21)**	(24)	(90)
Financing activities			
Issue of ordinary shares (share options exercised)	**–**	–	48
Net cash from financing activities	**–**	–	48
Net (decrease) in cash and cash equivalents	**(570)**	(856)	(1,442)
Cash and cash equivalents at beginning of period	**1,363**	2,892	2,892
Exchange (losses)/gains on cash and cash equivalents	**(4)**	66	(87)
Cash and cash equivalents at end of period	**789**	2,102	1,363

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

Period ended 30 June 2015

	Share capital $'000	*Share premium $'000*	*Retained earnings/ (deficit) $'000*	*Total equity $'000*
At 1 January 2014	6,595	30,071	(4,956)	31,710
Total comprehensive income for period to 30 June 2014	–	–	(653)	(653)
At 30 June 2014	6,595	30,071	(5,609)	31,057
Total comprehensive income for period to 31 December 2014	–	–	(644)	(644)
Shares issued (share options exercised)	48	–	–	48
At 31 December 2014	**6,643**	**30,071**	**(6,253)**	**30,461**
Total comprehensive income for period to 30 June 2015	–	–	(755)	(755)
At 30 June 2015	**6,643**	**30,071**	**(7,008)**	**29,706**

NOTES TO THE INTERIM REPORT – UNAUDITED

Period ended 30 June 2015

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 21 September 2015.

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 (IASB). 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 2014 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 2015.

The comparative financial information for the year ended 31 December 2014 has been derived from the full statutory financial statements for that period which were prepared in compliance with IFRSs. The Independent Auditors' Report on the annual report and financial statements for 2014 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 2015 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:

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. As there were some regulatory approvals outstanding the farmout didn't complete in the period and therefore hasn't been accounted for at 30 June 2015.

1 Accounting policies *continued*

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 Loss per share

	6 months ended 30 June 2015 unaudited Number	6 months ended 30 June 2014 unaudited Number	Year ended 31 December 2014 audited Number
Shares in issue brought forward (2 pence shares)	218,863,205	217,363,205	217,363,205
Options exercised	–	–	1,500,000
Shares in issue carried forward (2 pence shares)	218,863,205	217,363,205	218,863,205

	6 months ended 30 June 2015 unaudited	6 months ended 30 June 2014 unaudited	Year ended 31 December 2014 audited
Loss for the period ($'000)	(755)	(653)	(1,297)
Weighted average number of ordinary shares in issue during the period	218,863,205	217,363,205	217,835,808
Basic and diluted loss per ordinary share (cents)	(0.35)	(0.30)	(0.60)

In accordance with IAS 33 as the Group is reporting a loss for this period, the preceding interim period and the year to 31 December 2014 the share options are not considered dilutive because the exercise of share options would have the effect of reducing the loss per share.

3 Events after the reporting date

The Company announced the farmout on 13 April 2015, noting that completion was subject to shareholder, government, regulatory and partner approvals. All required approvals have since been received allowing the transaction to complete on 15 September 2015.

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 2015 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 2015 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
21 September 2015

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

INVESTOR INFORMATION AND ADVISORS

Registered office
Argos House
H Jones Road
Stanley
Falkland Islands

Business address
Argos House
H Jones Road
Stanley
Falkland Islands

Company Secretary
Kevin Kilmartin
Argos House
H Jones Road
Stanley
Falkland Islands

Nominated advisor and broker
Cenkos Securities PLC
6.7.8 Tokenhouse Yard
London, EC2R 7AS

Solicitors (Falkland Islands law)
Kevin Kilmartin
Argos House
H Jones Road
Stanley
Falkland Islands

Solicitors (English law)
Peachey & Co LLP
95 Aldwych
London, WC2B 4JF

Auditors
BDO LLP
55 Baker Street
London, W1U 7EU

Registrars
Computershare Investor Services (Jersey) Ltd
Queensway House
Hilgrove Street
St Helier
Jersey, JE1 1ES

Bankers
Lloyds Bank PLC
3–5 Bridge Street
Newbury, RG14 5HB

Bankers
Lloyds Bank International Ltd
Corporate Banking
9 Broad Street
St Helier
Jersey, JE4 8RS

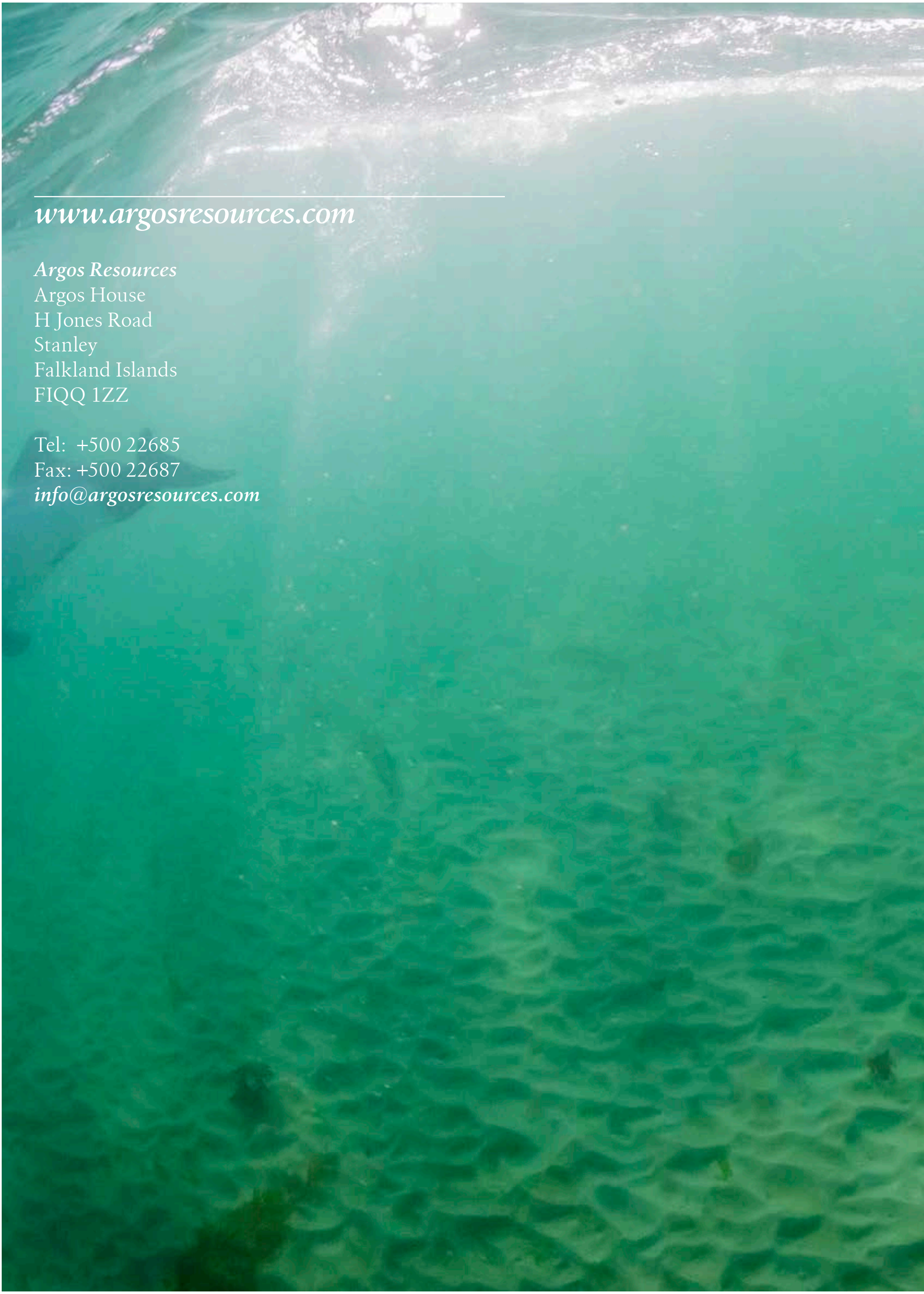
Bankers
Standard Chartered Bank
Ross Road
Stanley
Falkland Islands

Bankers
HSBC Bank Bermuda Ltd
Harbourview Centre
87 Front Street
Hamilton, HM 11
Bermuda

Public relations
Citigate Dewe Rogerson
3 London Wall Buildings
London, EC2M 5SY

Website
www.argosresources.com

Designed and produced by Emperor
www.emperordesign.co.uk +44 (0)20 7729 9090



www.argosresources.com

Argos Resources
Argos House
H Jones Road
Stanley
Falkland Islands
FIQQ 1ZZ

Tel: +500 22685
Fax: +500 22687
info@argosresources.com