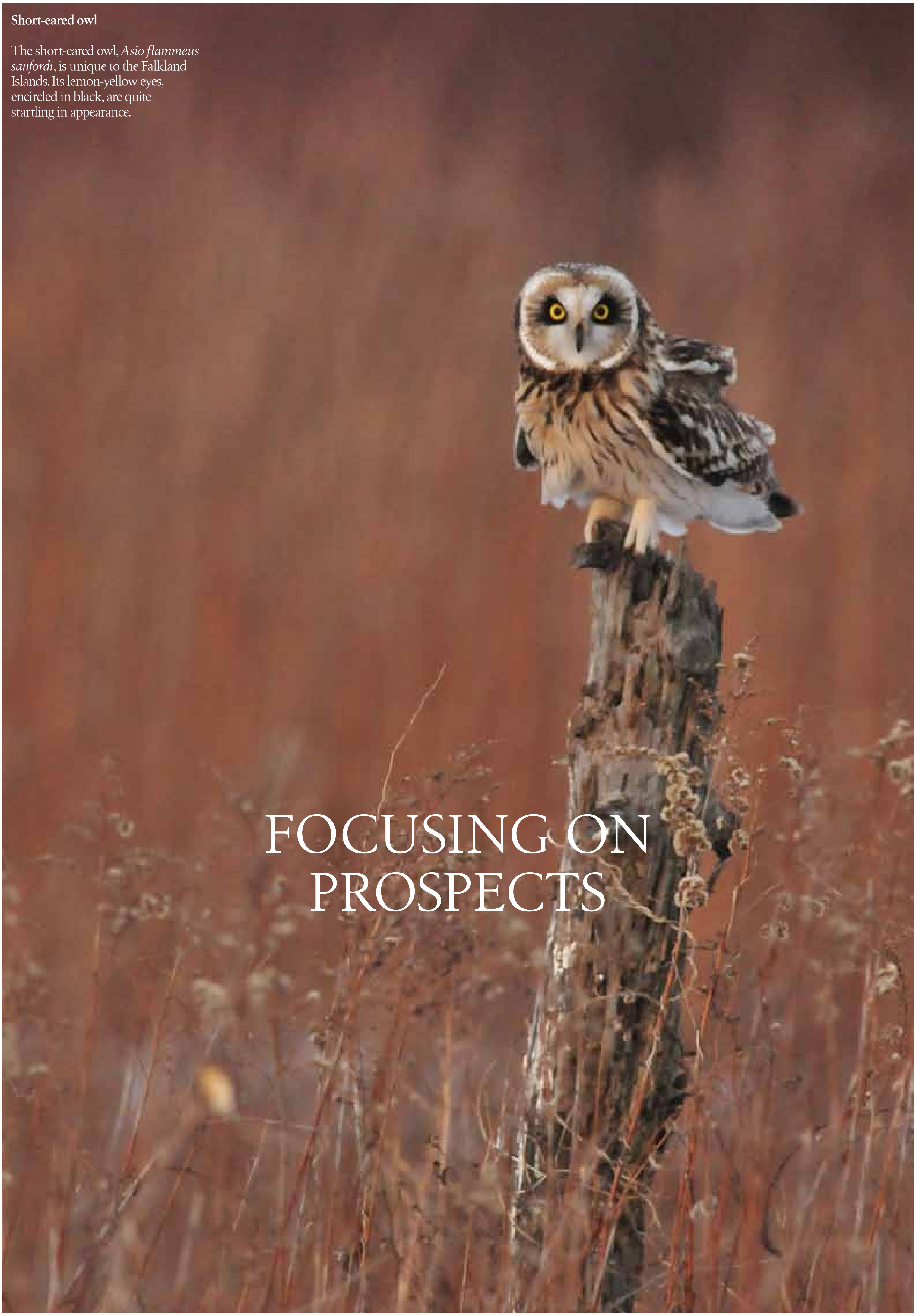
ARGOS RESOURCES LTD

Annual Report & Accounts 2011

FOCUSING ON PROSPECTS



Short-eared owl

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

FOCUSING ON PROSPECTS

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

A 3D seismic survey was acquired in early 2011 covering the entire licence area. The quality of the seismic data acquired is excellent and clearly demonstrates a material increase in the prospectivity of the licence over that which could be identified from the older 2D seismic data. 28 prospects have been identified by Argos in the licence area. These prospects have a total unrisked potential of 2.107 billion barrels of prospective recoverable resource in the most likely case and up to 7.301 billion barrels in the upside case.

The licence area adjoins licences PL032 and PL004b. The Sea Lion oil discovery was made in licence PL032 in 2010 and a total of nine wells have now been drilled to complete the appraisal of this large discovery. An extension of the Sea Lion field into licence PL004b was proven by drilling in late 2011 and additional shallower stacked oil and gas accumulations above the Sea Lion field have also been proven in the Casper, Casper South and Beverley discoveries. The presence of gas in these latest discoveries, together with gas in the Johnson discovery and gas condensate in the Liz discovery to the south, points to a second deeper source rock generating commercial volumes of hydrocarbon into the basin, in addition to the Lower Cretaceous oil source rock.

Contents

Highlights

- Acquisition of 3D seismic data over the entire PL001 licence area was completed in April 2011 with further 3D data acquired in open acreage to the north of the licence through to mid-May
- Argos now has access to some 4,500 sq kms of high quality 3D seismic data covering most of the northern half of the North Falkland Basin
- The 3D data is the best quality seismic data that has been acquired in the basin to date and has transformed the Company's understanding of the prospectivity of its licence
- To date, a total of 28 stratigraphic and structural prospects have been mapped; further prospects may be added as detailed mapping continues
- Of 22 stratigraphic prospects, several bear close analogies to Sea Lion. The 6 structural prospects evident on the original 2D data have been confirmed by 3D data as robust closures
- 3D data quality over Johnson, a potential multi-TCF wet gas discovery by Shell which appears to extend into the Argos licence, is much improved. Extensive mapping and seismic modelling studies are underway
- The best estimate of unrisked prospective recoverable resource has been increased to 2.1 billion barrels, and to 7.3 billion barrels in the high case
- The Company's cash position is sufficient for its ongoing overheads

At a Glance

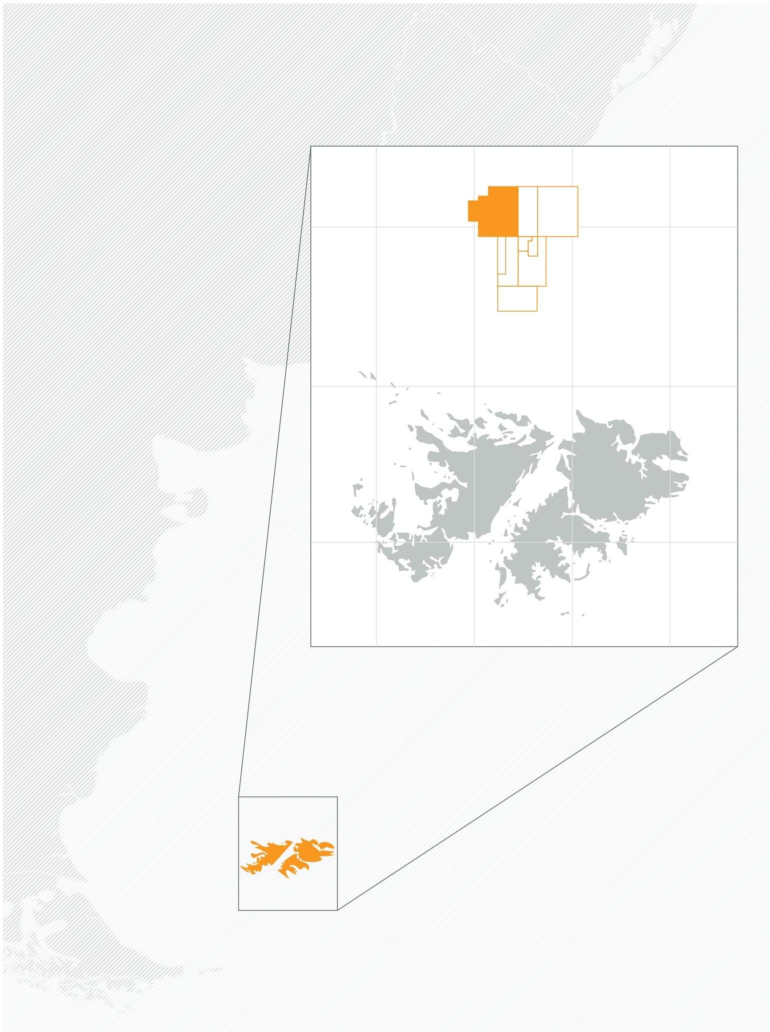
An emerging oil and gas province

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

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

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

Argos Resources Location
The Falkland Islands



OUR PRINCIPAL ASSET IS A

100% interest

IN PRODUCTION LICENCE

PL001

COVERING AN AREA OF APPROXIMATELY

1,126 sq kms

IN THE NORTH FALKLAND BASIN.

Some of our prospects

01

Rhea

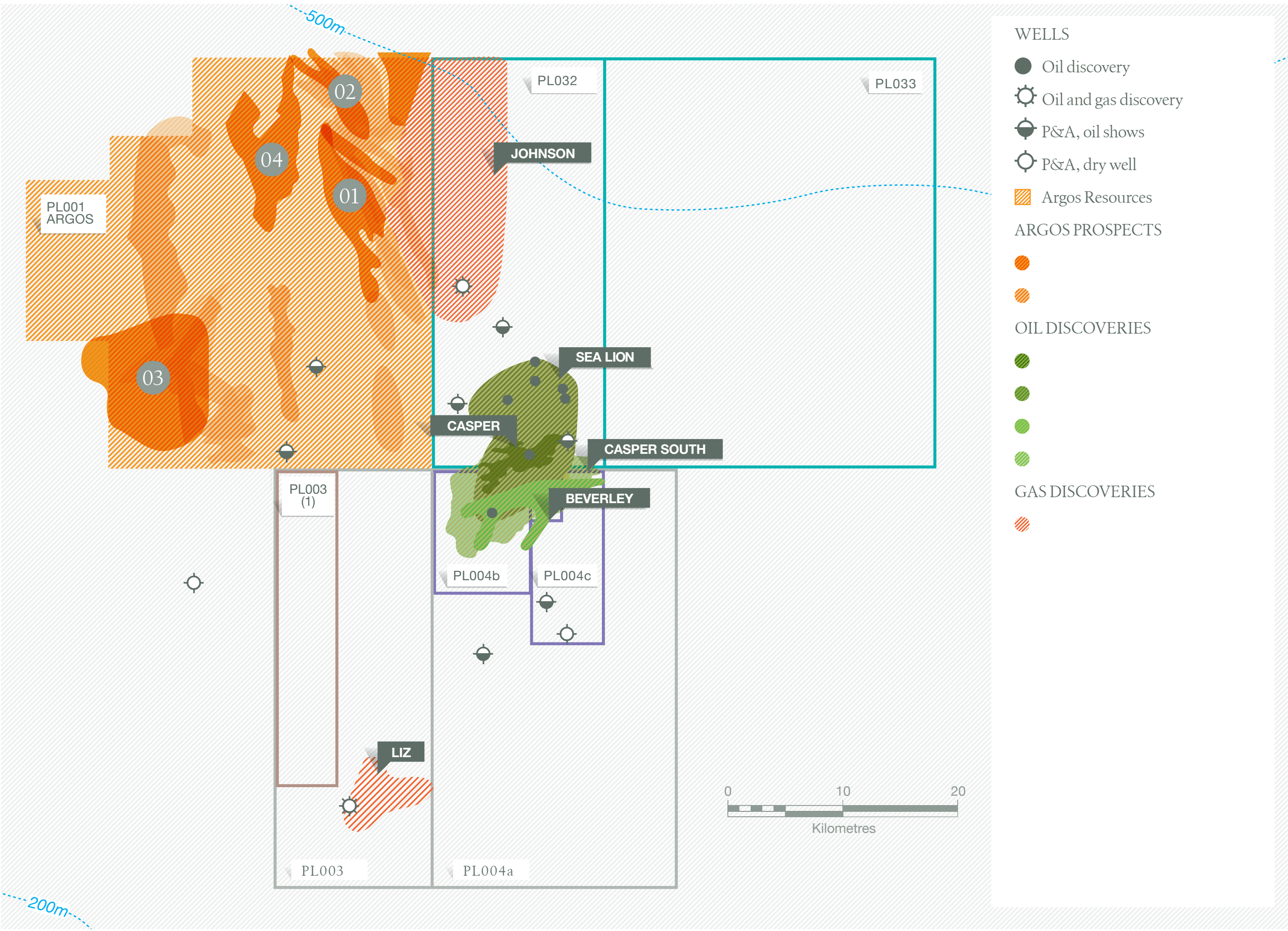
The Rhea prospect is a lacustrine sandstone with a pronounced fan morphology encased in organic-rich mudstones which provide both source and seal.

02

Kratos

Like Rhea, the Kratos prospect is a lacustrine sandstone with a pronounced fan morphology encased in organic-rich mudstones which provide both source and seal.

Our Prospects
The Falkland Islands



03

Helios

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

04

Zeus

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

Our licence

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

3D Seismic Survey
Innovations in exploration

The results of the 3D seismic survey have transformed the Company's understanding of the prospectivity of licence PL001.

The interval of primary interest is the Lower Cretaceous section, which is the age of the Sea Lion reservoir. During this period thick organic-rich mudstones were being deposited across the floor of the basin and sandstones were being deposited within these mudstones as proximal turbidite bodies derived both from the margins of the basin and off the front of a major delta system that originated to the north of licence PL001 and prograded across the licence with time.

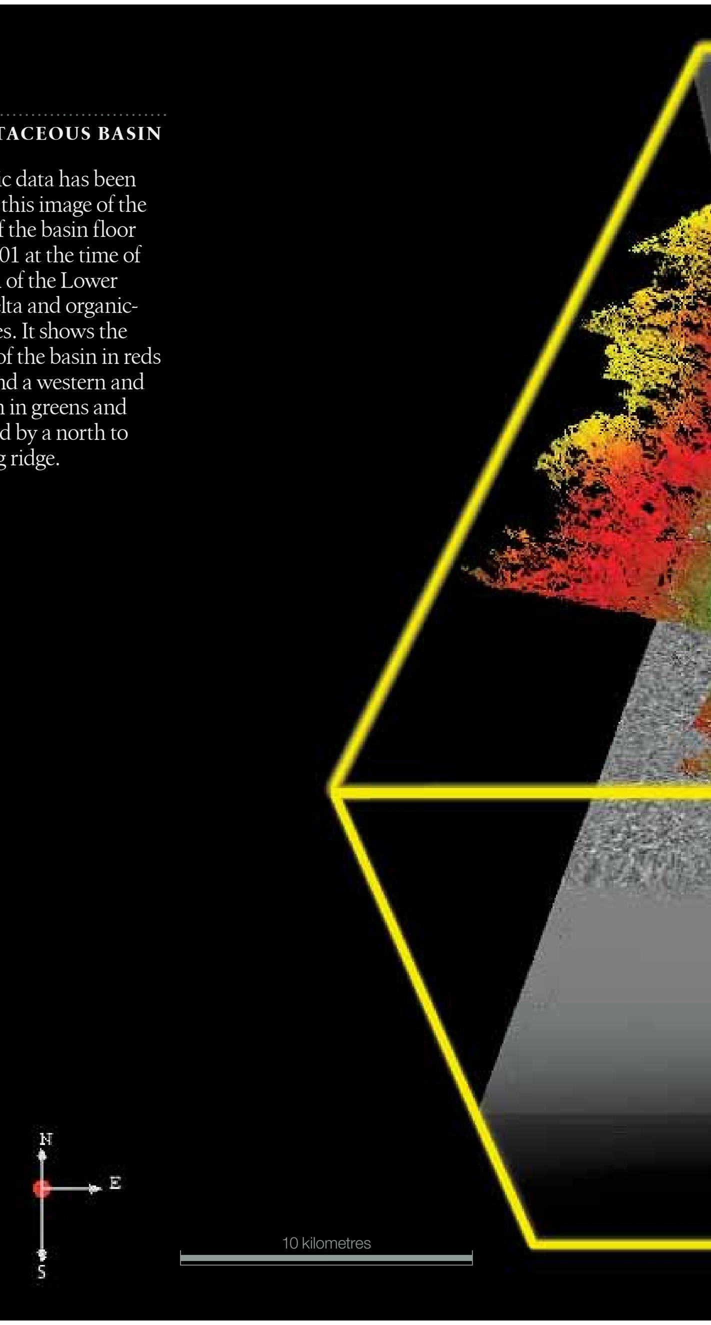
The high quality of the 3D seismic data has allowed these sand bodies to be imaged and mapped for the first time, resulting in a large number of new prospects being identified. Several of these new prospects are analogous to the Sea Lion field.

1,579 sq kms
3D DATA ACQUIRED

28
PROSPECTS MAPPED

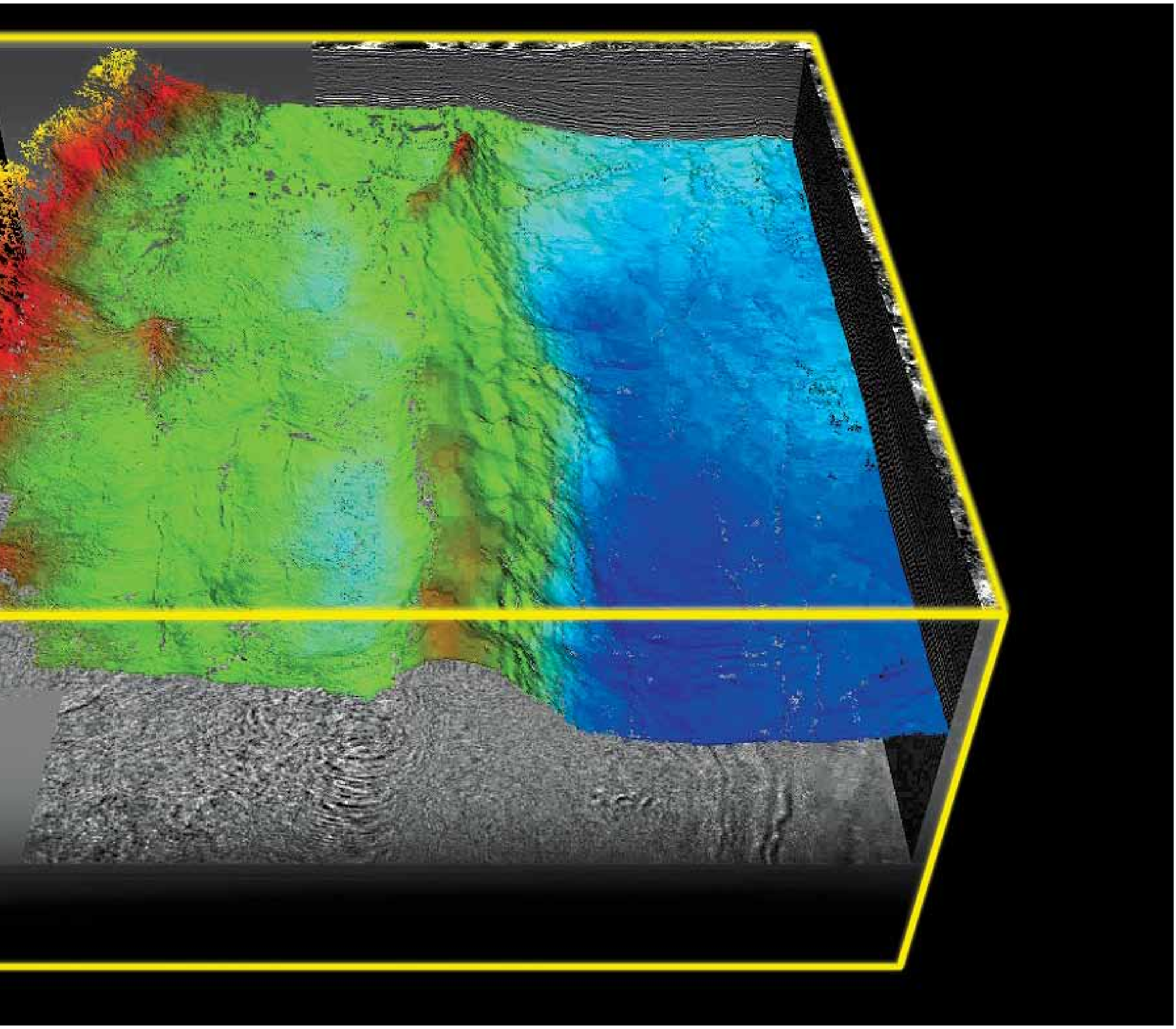
EARLY CRETACEOUS BASIN

The 3D seismic data has been used to create this image of the architecture of the basin floor in licence PL001 at the time of the deposition of the Lower Cretaceous delta and organic-rich mudstones. It shows the western edge of the basin in reds and yellows and a western and eastern graben in greens and blues separated by a north to south trending ridge.



Acquiring 3D seismic data

The vessel MV Polarcus Asima commenced 3D data acquisition in January 2011. 1,579 sq kms of data were acquired. Acquisition of data over the licence area was completed in April 2011, with additional data over open acreage being acquired into mid-May.



New prospects

Based upon 2D seismic data, seven prospects had been mapped in the licence area with a most likely unrisked recoverable resource potential of 747 million barrels. With the benefit of high quality 3D seismic and the ability to use it to map discrete sand bodies, the prospect inventory has grown to 28 prospects with a most likely unrisked recoverable resource potential of 2.107 billion barrels. The upside potential has increased from 1.75 billion barrels to 7.3 billion barrels.

Stacked targets

The 3D seismic allows numerous sandstones to be mapped within the licence area which form discrete prospects encased within thick organic-rich mudstones. In several areas these prospects are vertically stacked, just as in the Sea Lion, Casper, Casaper South and Beverley stacked discoveries. This allows several prospects to be tested within a single exploration well. Examples of the Rhea, Kratos and Helios stacked targets are presented in this report.

3D SEISMIC DATA

The Rhea Prospect

The Rhea prospect is located in the eastern graben to the northwest of the Sea Lion field. The reservoir objective in the Rhea prospect is Early Cretaceous turbidite sandstones derived from a major delta system to the north. Seal and source are provided by thick, highly organic-rich mudstones which encase the sands, creating an ideal relationship between reservoir, source and seal. The prospect exhibits a pronounced fan morphology highlighted by a strong amplitude anomaly, shown below right, and coincident isopach thickening. A number of shallower prospects exhibiting similar characteristics and which are also encased within the organic-rich mudstones sit above the Rhea prospect and can be tested by one exploration well. The total most likely unrisked prospective recoverable resources within the Rhea area are 346 million barrels of oil. The water depth at Rhea is 467 metres and a well to 2,900 metres will test multiple targets.

Stacked prospects above Rhea offer multiple targets

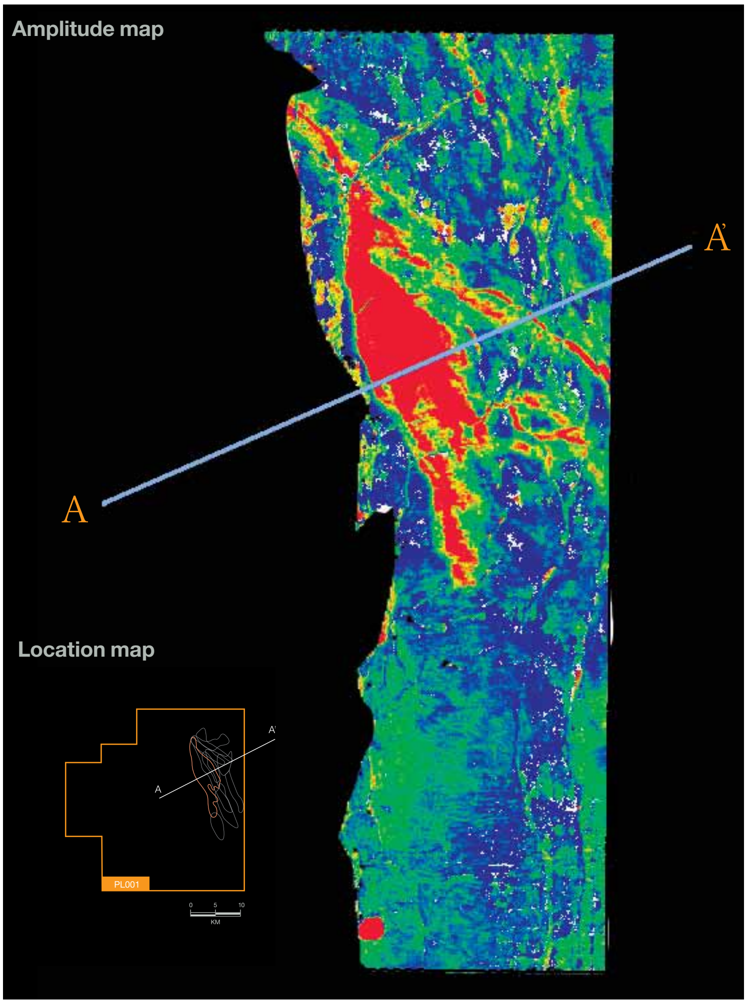
346 million barrels of unrisked recoverable resource potential in Rhea area

Drilling to 2,900 metres tests several prospects

Estimated Unrisked Recoverable Resource

Prospect	P90	P50	P10
Rhea (MMbo)	20	103	426

Seismic line



3D SEISMIC DATA

The Kratos Prospect

The Kratos prospect is located in the northern part of the licence in the eastern graben. It is slightly younger and shallower than Rhea but comprises the same reservoir objective of Early Cretaceous turbidite sandstones and, as at Rhea, the sands are encased in organic-rich mudstones which provide both a seal and source for the reservoir. The prospect exhibits a pronounced fan morphology highlighted by a strong amplitude anomaly and coincident isopach thickening. A number of additional prospects exhibiting similar characteristics to Kratos and which are also encased in the organic shale are present above and below the Kratos prospect and can be tested by one exploration well. The total most likely unrisked prospective recoverable resources within the Kratos area are 214 million barrels of oil. The water depth at Kratos is 490 metres and a well to 2,650 metres will test multiple targets.

Stacked prospects above and below Kratos offer multiple targets

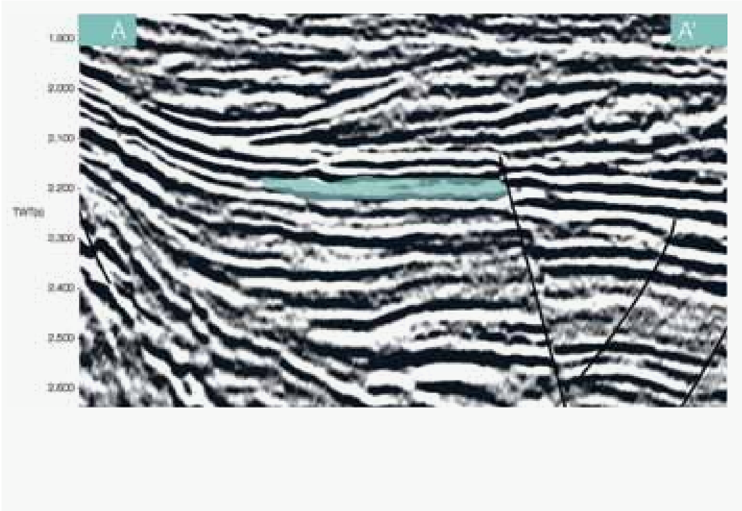
214 million barrels of unrisked resource potential in the Kratos area

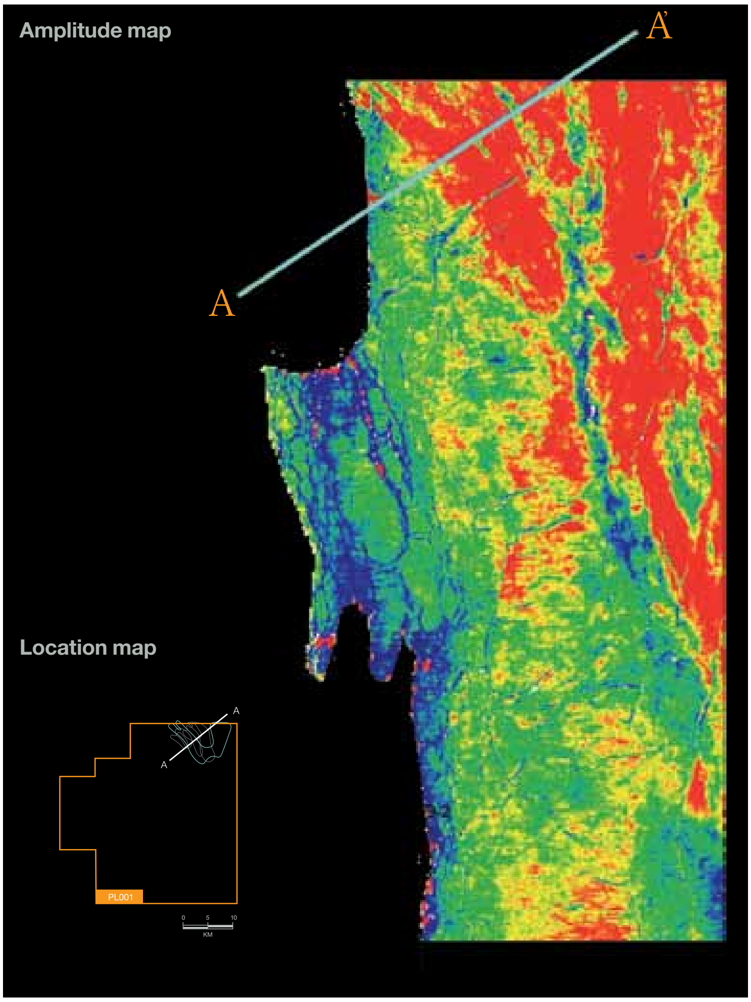
Drilling to 2,650 metres will test several prospects

Estimated Unrisked Recoverable Resource

Prospect	P90	P50	P50
Kratos (A-E) MMbo	35	159	477

Seismic line





3D SEISMIC DATA

The Helios Prospect

The Helios prospect is younger again than both the Rhea and Kratos prospects and is located in the western graben in the southwest quadrant of the licence. The reservoir objective is Mid Cretaceous Aptian age turbidite sandstones which have mounded in a sequence of northward prograding fans sourced from a separate delta system to the south of the licence. An amplitude map on the depositional base of the Helios sands shows very clearly a series of lobate fans overstepping one another and prograding northwards into the western graben. This sandstone sequence sits immediately above the organic-rich mudstones and in places has clearly scoured into it, providing direct contact between the reservoir and the oil source rock.

The Helios sandstones have mounded above the deeper Glaucos structural prospect and faulting associated with the Glaucos prospect provides a potential migration route for hydrocarbons from the deeper source rock in addition to the Cretaceous oil source rock. With a mapped closure of 25,000 acres, the Helios prospect is the largest prospect identified anywhere in the North Falkland Basin to date. Additional turbidite sandstone prospects have been mapped both above and below Helios. All of these, together with the deeper Glaucos structural prospect can be tested by one exploration well. Combined, the total most likely unrisked prospective resource potential to be tested by one well is 820 million barrels of oil. The water depth at Helios is 420 metres and a well to approximately 2,600 metres will test all the objectives.

Largest prospect mapped in the basin to date

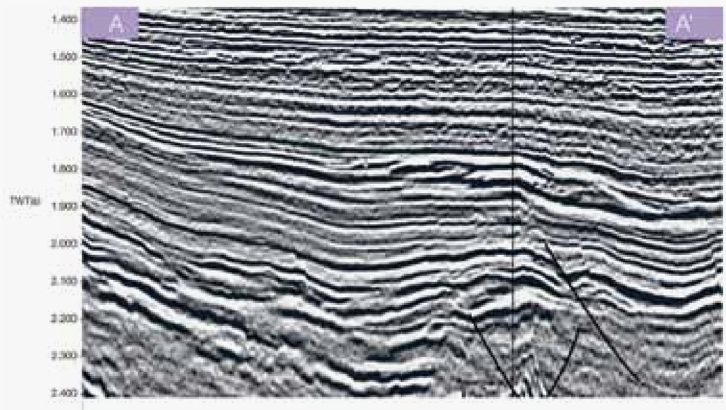
820 million barrels of unrisked resource potential in stacked structural and stratigraphic prospects

Drilling to 2,600 metres will test all objectives

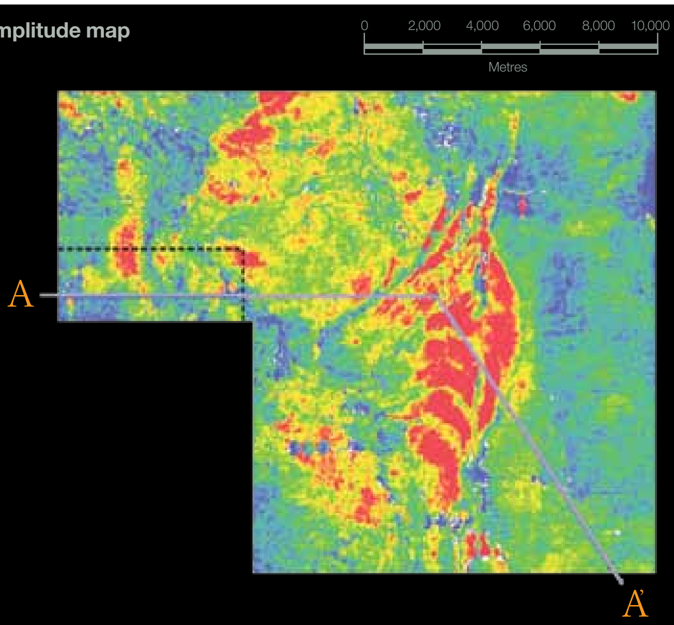
Estimated Unrisked Recoverable Resource

Prospect	P90	P50	P10
Helios (MMbo)	32	658	2,590

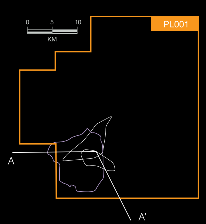
Seismic line



Amplitude map



Location map



3D SEISMIC DATA

The Zeus Prospect

The Zeus prospect is a prominent fault bounded structural closure forming a culmination on the Central Ridge in the northern part of the licence. Zeus is one of six robust structural closures mapped on the 3D seismic data within the licence. Closure is mapped at most horizons from the early syn-rift (Jurassic) to the post-rift (Upper Cretaceous) with at least three principal reservoir objectives in the Jurassic, Lower Cretaceous (Aptian) and Upper Cretaceous (Campanian), offering the potential for stacked accumulations.

Hydrocarbon source is expected either from adjacent highly organic-rich mudstones of Early Cretaceous age which onlap the flanks of the structure or from deeper pre-rift organic shales via faulting. Seal is provided by regionally extensive Upper Cretaceous marine mudstones which blanket the area. The most likely unrisked prospective recoverable resources in the Zeus prospect are 194 million barrels. The water depth at Zeus is 460 metres and a well to 2,150 metres will test all prospective horizons.

A robust structural prospect with multiple reservoir objectives within closure

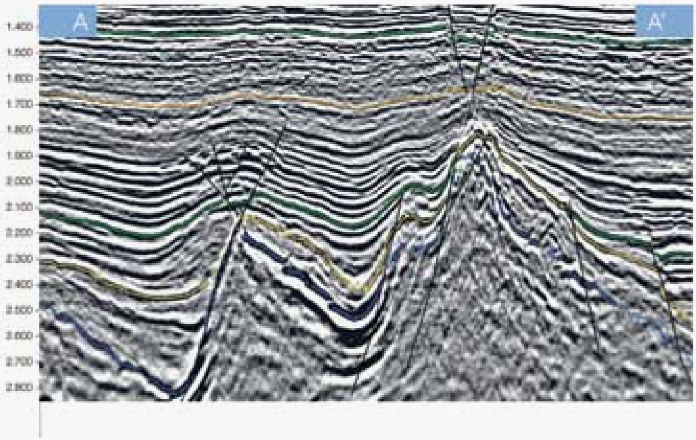
194 million barrels of unrisked resource potential

Drilling to 2,150 metres will test all objectives

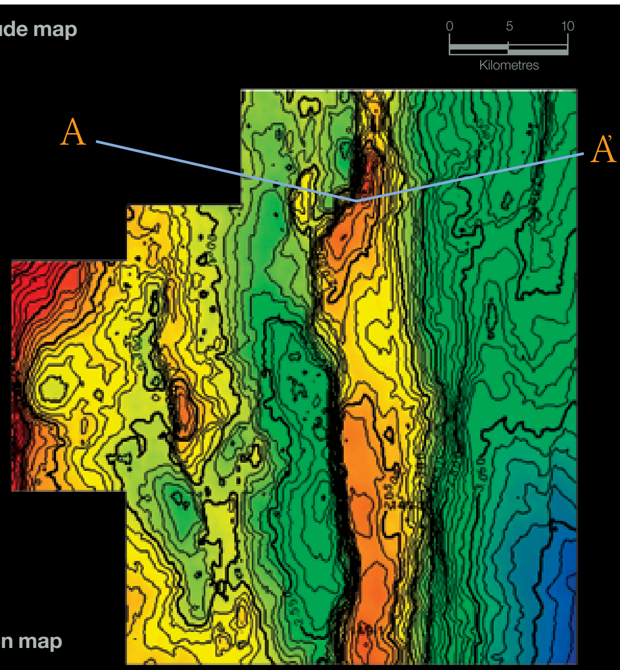
Estimated Unrisked Recoverable Resource

Prospect	P90	P50	P10
Zeus (MMbo)	34	194	642

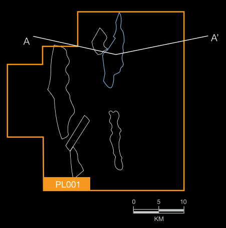
Seismic line



Amplitude map



Location map



Environmental Impact

Working to minimise the impact of Operations on the Environment

As a Falkland Islands Company, Argos Resources is committed to working with the Community and the Falkland Islands Government to develop and implement the highest standards of environmental management in all aspects of our operations to minimise any impact that we might have on the unique environment of the Falkland Islands.

2011 saw the preparation and publication of our Environmental Impact Statement (EIS) which, following a thorough public consultation process, was approved by the Falkland Islands Government on 29 September 2011.

Data on year round environmental sensitivities were collected and documented within the EIS. The potential hazards arising from the exploration drilling programme were identified and the likely effects on the identified environmental sensitivities arising from these hazards were identified and quantified wherever possible.

The approval of the EIS was subject to the submission and further approval of a project specific addendum prior to the start of drilling operations once drilling locations and well designs have been finalised.

The publication and approval of our baseline EIS was an important milestone in the permitting process leading up to drilling operations.

The Company continues to take the necessary steps to become ‘drill ready’ and 2011 also saw the publication and approval of our Oil Spill Contingency Plan by the Falkland Islands Government on 14 December 2011. The Oil Spill Contingency Plan is also subject to the approval by Government of a project specific addendum once drilling locations and the selection of a suitable rig have been finalised.

The Oil Spill Contingency Plan, prepared in conjunction with RPS Energy, provides guidance on the actions and reporting requirements in the event of an oil spill originating from drilling activity within the North Falkland Basin. The plan has been created to guide onshore and offshore personnel through the various actions and decisions which will be required in the unlikely event of an oil spill.

The Company is committed to ensuring that all operational risks are controlled using safe drilling practices and effective planning. The potential impacts of the proposed drilling activity will be mitigated in a number of ways, including:

- Maintaining a spirit of openness and ongoing consultation with the Falkland Islands Government, the public and key stakeholders;
- Applying established UK standards to operations, particularly in offshore chemical use and emissions reporting;
- Using water based drilling muds and low toxicity chemicals approved under the UK Offshore Chemical Notification Scheme;
- Implementing a high level of environmental management offshore and applying environmental procedures for potentially impacting operations (chemical storage, bunkering, waste handling, maintenance programmes, benthic surveys etc.);
- Implementing a Waste Management Plan to minimise the quantity of waste going to landfill, prevent unsuitable disposal of waste, maximise the re-use of materials; and
- Establishing and implementing a project specific Oil Spill Contingency Plan and conducting training of key personnel in oil spill response.

23

SPECIES OF MARINE MAMMALS RECORDED IN FALKLAND WATERS

80

SPECIES OF FISH RECORDED IN FALKLAND WATERS

218

SPECIES OF SEABIRDS RECORDED IN FALKLAND WATERS

The Company is committed to ensuring that all operational risks are controlled using safe drilling practices and effective planning.

THE NECK – SAUNDERS ISLAND
The Falkland Islands are fringed with a pristine coastline.

KING PENGUIN
The iconic King Penguin, *Aptenodytes patagonicus*, is one of five breeding species of penguin on the Islands.

STRIATED CARACARA
The Striated Caracara, *Phalcoboenus australis*, known locally as Johnny Rook, is known for its inquisitive nature and lack of fear of humans.

RED-BACKED BUZZARD
The Red-backed Buzzard, *Buteo polyosoma*, is one of seven breeding species of birds of prey on the Islands.

Chairman's Statement

Ian Thomson OBE

The 3D seismic data acquired in 2011 is the best quality seismic ever acquired in the North Falkland Basin and has transformed our understanding of the prospectivity of our licence. We now have a large inventory of prospects, several of which are analogous to Sea Lion, and all of which are defined by excellent 3D seismic data.

We are actively pursuing options to ensure that an appropriately sized drilling programme can be financed to adequately test the potential of our licence.

IAN THOMSON OBE
Executive Chairman

Key strengths

- Proven working petroleum system
- Adjacent to the giant Sea Lion oil discovery
- The potentially large Johnson gas discovery appears to extend onto the licence
- 28 prospects identified from excellent quality 3D seismic data
- Several prospects analogous to Sea Lion
- 100% ownership of licence

Company history

– 1995
Incorporated for the purpose of participating in a consortium, led by Amerada Hess, to apply for a petroleum production licence in the first licensing round by the Falkland Islands Government.

– 1996
The consortium was awarded production licence PL001, effective October 1996, and immediately acquired a new 2D seismic survey. The consortium drilled two wells on the licence. Amerada Hess and the other group members, except Argos, subsequently withdrew from the licence leaving Argos with 100% equity.

– 2008
Argos entered the second phase of its exploration licence. This second of three exploration phases continues to November 2015.

– 2010
The Company listed on AIM, raising £22 million before expenses. Currently upon entering the second phase of the licence the Company was required to relinquish 30% of the original licence area. The retained licence area in PL001 covers around 1,126 sq kms, equivalent to approximately four North Sea blocks.

– 2011
Acquired 1,579 sq kms of 3D seismic from which 28 prospects have been identified in the licence area.

A Competent Persons Report describing these prospects was published in October 2011.

2.1
billion barrels of most likely unrisked recoverable resource

7.3
billion barrels of unrisked recoverable resource in upside case

I believe that during 2011 the comprehensive technical work undertaken by the Company indicates that the potential value of Licence PL001 is considerably greater than was previously estimated.

We completed the acquisition of 3D seismic data over the entire licence area in April 2011. Processing is also complete and we are now well advanced with the interpretation of that data. This new data is by far the best quality seismic ever acquired in the North Falkland Basin and has transformed our understanding of the prospectivity of our licence. Prior to acquiring the 3D data, seven prospects had been mapped from 2D seismic data that was acquired in 1996 and reprocessed in 2010. Following interpretation of the 3D data, 28 prospects have now been identified and are described in detail in a Competent Persons Report which was published on 14 October 2011. All of the new prospects are in the same stratigraphic interval as the adjacent Sea Lion oil discovery, with several bearing close resemblances to the Sea Lion trap. The Best Estimate of unrisked prospective recoverable resource has increased substantially from 747 million barrels to 2.1 billion barrels. We believe that additional prospects may be added to this inventory as further detailed mapping progresses.

This significant increase in identified prospectivity within the licence is an exceptional result which we believe fully justifies our investment in acquiring 3D seismic data. We now have a large inventory of good quality prospects defined by excellent data.

This much improved 3D data is also increasing our understanding of the Johnson gas discovery. This is a potential multi-TCF wet gas field discovered in 1998 by well 14/5-1, which appears to extend into the Company's licence. Studies to better understand sand distribution and trap geometry over the Johnson area are currently ongoing and are expected to be completed by mid-2012.

In the adjacent acreage to the east a successful nine well appraisal drilling campaign on the Sea Lion discovery was completed by the end of 2011, with the operator reporting a mid-case oil in place of 1,297 million barrels. The operator has stated that the field is commercial and will be developed. In addition the last two appraisal wells made further discoveries of oil and gas in the Casper and South Casper prospects and a wet gas discovery in the Beverley prospect.

We announced in November that we had decided not to participate in the drilling campaign in the area with the Ocean Guardian rig. The board believes that the large inventory of attractive prospects justifies several exploration wells being drilled to test adequately the potential of our acreage. However, the weak state of the capital markets and the restricted availability of the Ocean Guardian rig would not have allowed a properly structured drilling programme to be undertaken. The board concluded that in the capital market conditions prevailing in the latter part of 2011 funding for two or more wells would not be available even on highly dilutive terms for existing shareholders. Preliminary discussions were held with a number of possible farm-in partners, but farm-in arrangements which could have been finalised within the timeframe for availability of the Ocean Guardian rig involved a single well only, and were not therefore acceptable. While we regret this delay to our exploration drilling programme, we firmly believe that it was, and remains, the right decision for shareholders.

We still have additional work to do to complete the interpretation of the 3D data and prepare the licence for farm-out. This work will be completed in the first half of 2012 and the option of an industry partner will continue to be pursued. Other options to fund drilling costs will also be progressed.

We are in an extremely good position with our licence, Phase 2 of which runs to November 2015. We have also received Government approval for our Environmental Impact Statement and our Oil Spill Response Plan, both requirements for our planned drilling campaign. We are within a few kilometres of a commercial oil field described by its operator as a world class asset, the Johnson wet gas discovery appears to extend into our licence and we have a large inventory of prospects, several of which are analogous to Sea Lion, and all of which are defined by excellent 3D seismic data. We also have a healthy current cash position which is sufficient to meet our future overheads.

The board believes that we can create more value in the future by ensuring that an appropriately structured drilling programme can be financed and implemented before exploration drilling commences on our licence, and we are actively pursuing options to achieve that goal. We remain convinced of the value of our acreage and the merits of an extensive drilling programme.

Managing Director's Review

John Hogan

A total of 28 prospects have been mapped and are detailed in a Competent Persons report published on 14 October 2011. In a number of areas these prospects are vertically stacked allowing several to be tested within a single exploration well. Work is underway to prepare the larger of these for drilling.

JOHN HOGAN
Managing Director

Near Term Aims

Raise sufficient funds to undertake a multi-well exploration drilling programme to test adequately the large inventory of prospects now identified. The option of bringing in an industry partner to achieve this is being actively pursued.

Our strategy and work programme

Complete detailed mapping of 3D seismic data, which may lead to additional prospects being identified. This work will include detailed seismic modelling of highgraded prospects to de-risk them further.

Well prognoses are being prepared in readiness for well designs and planning to proceed on selected prospects.

Operational highlights

- 1,579 sq kms of 3D data acquired and processed, including data over open acreage
- Better than expected results both in terms of data quality and the amount of prospectivity identified
- 22 stratigraphic and 6 structural prospects mapped
- Mapping continues and more prospects may be identified
- Efforts to raise funding for a multi-well drilling campaign are ongoing

22
stratigraphic prospects

6
structural prospects

The acquisition of 3D seismic over Licence PL001 commenced in January 2011 using the seismic vessel MV Polarcus Asima. Acquisition of data over the entire licence area was completed in mid-April, and the Company acquired further 3D seismic data in open acreage to the north of the licence through to mid-May. A total of 1,579 sq kms of data was acquired, with processing and interpretation commencing as batches of data were received.

We knew from the results of 3D surveys undertaken in adjacent licences in 2004 and 2007 that 3D seismic had been successful in improving data quality and in identifying stratigraphic prospects that could not be mapped on 2D seismic data. The Sea Lion field is one such example, being a subtle stratigraphic trap with no structural expression, which could not be mapped on 2D seismic. We were therefore confident when committing to the 3D seismic programme that we could reasonably expect both to improve the definition of those prospects already identified as well as being able to map new prospects.

Based upon the pre-existing 2D data, which was originally acquired in 1996 and reprocessed in 2010, seven prospects – six structural and one stratigraphic – had been identified with a combined estimate of unrisked prospective recoverable resource of 747 mmbo in the most likely case and 1.75 billion barrels in the upside case. At the time of planning the 3D programme it was estimated that some 500 mmbo of additional prospectivity might reasonably be expected to be identified with the benefit of 3D seismic. In fact the 3D data has considerably exceeded this expectation and has transformed our understanding of the prospectivity of our licence. To date a total of 28 prospects have been mapped and are detailed in a Competent Persons Report published on 14 October 2011. The best estimate of unrisked prospective recoverable resource has been increased to 2.1 billion barrels, and to 7.3 billion barrels in the high case. Further prospects may be added to this list as detailed mapping continues.

The 3D seismic is also the best quality seismic data acquired in the basin to date. The seismic survey was conducted in cooperation with adjacent licencees who also acquired 3D data in licences contiguous with Licence PL001. Argos has traded its seismic data with these licencees and we are now benefiting from having access to some 4,500 sq kms of high quality 3D seismic data covering most of the northern half of the North Falkland Basin. This data, together with the results of the new wells drilled in adjacent licences, is adding considerably to the Company's understanding of the hydrocarbon system and is helping de-risk our prospect inventory.

One of the principal features of the northern part of the North Falkland Basin in the vicinity of Licence PL001 is the presence of a major delta system of Early Cretaceous age that has prograded southwards across the licence area, but does not appear to extend beyond the southern boundary of the licence. This delta is at least age-equivalent to the organic-rich oil source rock which has charged the Sea Lion discovery. The presence and extent of this source rock can now be mapped with improved confidence on the 3D seismic acquired across the licence area. The 3D data quality over the delta is excellent and indicates a sand-rich environment depositing fan-sand and channel-sand sediments into the basin where these sands are deposited within the source rock which encases them, providing an ideal juxtaposition between reservoir, source and seal.

From this data the Company has been able to map 22 stratigraphic prospects, several of which bear close analogies to Sea Lion. The remaining six prospects are structural traps which were evident on the original 2D data and have now been confirmed on the 3D data as robust closures, giving the licence an attractive mix of both structural and stratigraphic prospects to target.

The quality of the 3D data over the Johnson structure is also much improved. This is a potential multi-TCF wet gas discovery made by Shell in 1998 following the drilling of the 14/5-1 well immediately to the east of our licence, and which appears to extend into Licence PL001. Extensive mapping and seismic modelling studies are underway to better understand the reservoir sand distribution and trapping mechanism, with a view to possible appraisal drilling. This work will be completed in the first half of 2012. Any contingent resources attributed to Johnson would be in addition to the exploration prospective resources cited above.

On the Sea Lion field immediately to the east, appraisal drilling has been completed and has been very successful. A total of nine wells have been drilled and the latest reported mid-case resource estimate has been increased to 1,297 mmb of oil in place. Two of the appraisal wells, 14/10-9 and 14/15-4, made additional discoveries of oil and gas in the Casper and Casper South prospects and wet gas in the Beverley prospect. Not only are we now beginning to see additional discoveries being made, but the presence of gas in these two wells, as in Johnson, and gas condensate in 14/19-1, a separate discovery to the south of our licence, adds to the evidence for a second, deeper mature source rock expelling hydrocarbons into the basin, which adds to the potential for further discoveries.

The operator of the Sea Lion discovery has announced that the field is commercial and will be developed, and an industry partner is being sought to help achieve that development. Should development commence, we believe that industry interest in other opportunities in the basin will increase and we should be a natural beneficiary of this.

One further and important benefit from the cooperative approach with adjacent licencees when acquiring our 3D data is that we were able to acquire more 3D data and at a lower cost than anticipated a year ago through realising economies of scale. As a result, the remaining cash position after completing the seismic programme ($8.2 million as at 31 December 2011) is deemed sufficient for the Company's ongoing needs and overheads, excluding additional capital requirements for drilling expenditure.

Our focus, therefore, is to complete all 3D interpretation work in the first half of 2012 while seeking an industry partner with whom we can drill a sufficient number of exploration wells to adequately test the enlarged prospect inventory.

Directors

IAN THOMSON OBE
Executive Chairman
(aged 72)

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. He is director of a number of Falkland Islands and overseas companies engaged in fishing and other operations.

ANDREW IRVINE FCCA
Finance Director
(aged 50)

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. 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.

DENNIS CARLTON
Senior Non-executive Director
(aged 61)

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. He is currently a director of a number of other private companies operating in the energy and other sectors.

JOHN HOGAN
Managing Director
(aged 58)

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.

CHRISTOPHER FLEMING
Non-executive Director
(aged 52)

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 and is currently Global Head of Macro Sales for Nomura International PLC.

JAMES RAGG LLB, FCA
Non- Executive Director
(aged 46)

James joined the board in 2008. James qualified as a Chartered Accountant in 1995 and, after eight years with Saffery Champness, joined Haines Watts as an audit and assurance partner in 2004. He is currently a Management Partner in Blue Spire South LLP, a Chartered Accountancy practice which became independent of Haines Watts in 2011. Alongside his audit and assurance role, James is an expert on organisational governance and lectures regularly on governance responsibilities.

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 2011.

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 (2010: $nil).

Business review

The Group has incurred a loss for the year ended 31 December 2011 of $1,140K (2010: $455K) which equates to a loss per share of 0.53 cents (2010: 0.26 cents) The loss has increased over that incurred in the comparative period due to an increase in administration expenses.

Administration expenses were $1,449K as compared to $888K for the comparative period due to the continued increase in activity following fundraising in July 2010.

Shareholders' equity has decreased from $36.2 million to $35.1 million in the year since 31 December 2010, representing mainly the administration expenses net of a tax credit, interest receivable and foreign exchange gains. Cash in the year reduced from $32.1 million to $8.2 million which mainly reflects the Company's investment in 3D seismic over the licence area and beyond.

Outlook for the next financial year

The net proceeds from the placing in July 2010 mean that the Group is fully funded for its 3D seismic programme, related processing and interpretation. Administrative expenditure is also covered for the foreseeable future. Further fundraising will however 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 21.

Substantial shareholders

As at 29 February 2012, the Company has been notified of interests in 3% or more of the Company's voting rights, based on an issued share capital of 216,113,205, as shown below:

Shareholder/Fund manager	Percentage of voting right
Argos Georgia Ltd	12.1
Ian Thomson*	10.3
Orian Partners LP	6.9
Iain Aylwin**	6.2
Portogon Investments SA	4.6
Robert Smith	4.4

* Ian Thomson has a 46.46% interest in the issued share capital of Argos Georgia Ltd.
** Iain Aylwin has a 23.23% interest in the issued share capital of Argos Georgia Ltd.

Argos Georgia Ltd held 26,078,850 ordinary shares of 2 pence each at 31 December 2011 (2010: 26,078,850 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 2011 Ordinary shares of 2 pence each	At 31 December 2010 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	750,000	750,000
D Carlton	Non-executive	3,250,000	3,250,000
C Fleming	Non-executive	1,250,000	1,250,000
J Ragg	Non-executive	–	–
Total		29,461,613	29,461,613

The directors also hold options in the Company's shares which are detailed on page 20.

* 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 contracts

The terms of the directors' service agreements or letters of engagement are summarised below.

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 18.

Events after the reporting date

See note 21.

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 (2010: $nil). The Group made charitable donations during 2011 totalling $10K (2010: $nil).

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 (2010: 5 days), on the basis of accounts payable as a percentage of purchase ledger turnover and includes amounts capitalised.

Statutory information continued

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;
- 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.

The directors confirm to the best of their knowledge:

- the Group financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and the parent Company financial statements, prepared in accordance with United Kingdom Accounting Standards, give a true and fair view of the financial position of the Group and Company and loss of the Group; and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

Date: 16 March 2012

Corporate governance statement

As an AIM company, Argos Resources Ltd is not required to comply with the UK Corporate Governance Code. The board does, however, seek to comply with the Code where it is practical to do so.

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/or hold options to acquire shares in the Company, this is not considered a significant threat to their independence and apart from their directors' fees they 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 and the Company's website contains an email contact for him should shareholders have concerns which have not been adequately addressed by the chairman or managing director. The address is non.exec@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. 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;
- 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 Company's website includes contact details which may be used for this purpose.

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 two further meetings have 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.

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 twice during the year under review and held a number of informal discussions. The committee considered the salaries paid to executives and recommended that increases, taking into account changes in executive time commitments and the effect of inflation, should be implemented with effect from 1 August 2011.

Corporate governance statement continued

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

	2011 Fees £'000	2011 Pension contributions £'000	2011 Total £'000	2010 Fees and total £'000
I M Thomson	–	–	–	–
J Hogan	166	8	174	92
A Irvine	33	2	35	13
D Carlton	20	–	20	8
C Fleming	20	–	20	8
J Ragg	20	–	20	8
Total directors' remuneration	259	10	269	129
Remuneration above converted to $'000	417	17	434	204

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 road shows 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 twelve months from that date. The board has therefore continued to adopt the going concern basis in preparation of the financial statements.

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)	6	–	–
J Hogan	6	–	–
A Irvine	6	–	–
D Carlton (chairman, remuneration committee)	6	2	2
C Fleming	4	1	1
J Ragg (chairman, audit committee)	6	2	2
Total meetings during the year	6	2	2

Share options

The share options in place as at 31 December 2011 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	1,375,000	–	1,375,000	2
D Carlton	12/11/2009	1,375,000	–	1,375,000	2
C Fleming	12/11/2009	1,375,000	–	1,375,000	2
J Ragg	12/11/2009	1,375,000	–	1,375,000	2
Total		11,305,818	–	11,305,818	

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

The directors believe that performance related pay is an important element in retaining key staff and other personnel and also benefits the shareholders by linking reward to performance.

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

A gas discovery, Johnson, has been announced in the adjacent acreage to the east of licence PL001 on a structure that extends into the licence area, but drilling on the licence will be required to confirm the presence of gas on the Company's acreage. In the same acreage a successful nine well appraisal drilling campaign on the Sea Lion discovery was completed by the end of 2011 and led the operator to conclude that the field is commercial and will be developed. The last two appraisal wells made further discoveries of oil and gas in the Casper and South Casper prospects and a wet gas discovery in the Beverley prospect. Whilst these results are encouraging with respect to the oil and gas potential of the area, no commercial volumes of oil or gas have yet been discovered in the licence area. There is no certainty that such discoveries will ever be made.

Mitigation: An independent Competent Persons Report has been completed to risk 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: Regular discussions are held with current and prospective investors.

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 are 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.

Title and payment obligations

The licence will be subject to applications for renewal and any renewal is usually at the discretion of the relevant government authority.

Mitigation: Regular discussions are held with Falkland Islands Government officials.

Political risk

The Argentine Government has not relinquished its claims to sovereignty over the Falkland Islands and the surrounding maritime areas.

Mitigation: 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 2011 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

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

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 2011 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
Reading
United Kingdom

Date: 16 March 2012

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 2011

	Note	Year ended 31 December 2011 $'000	Year ended 31 December 2010 $'000
Administrative expenses	4	(1,449)	(888)
Finance income	8	40	44
Foreign exchange gains		123	535
Loss before tax		(1,286)	(309)
Taxation credit/(expense)	9	146	(146)
Loss for the year attributable to owners of the parent	17	(1,140)	(455)
Total comprehensive income for the period attributable to owners of the parent		(1,140)	(455)
Basic and diluted loss per share (cents)	11	(0.53)	(0.26)

The notes on pages 27 to 34 form part of the financial statements.

Consolidated statement of financial position

As at 31 December 2011

	Note	2011 $'000	2010 $'000
Assets			
Non-current assets			
Capitalised exploration expenditure	12	27,390	4,238
Plant and equipment	13	59	–
		27,449	4,238
Current assets			
Other receivables	14	204	213
Cash and cash equivalents		8,175	32,151
Total current assets		8,379	32,364
Total assets		35,828	36,602
Liabilities			
Current liabilities			
Trade and other payables	15	731	223
Corporation tax		–	146
Total liabilities		731	369
Total net assets		35,097	36,233
Capital and reserves attributable to equity holders of the Company			
Share capital	16	6,556	6,556
Share premium	17	30,071	30,071
Retained losses	17	(1,530)	(394)
Total shareholders' equity		35,097	36,233

The notes on pages 27 to 34 form part of the financial statements.

These financial statements were approved by the directors and authorised for issue on 16 March 2012 and are signed on their behalf by:

Ian Thomson
Chairman

Consolidated statement of cash flows

Year ended 31 December 2011

	Note	Year ended 31 December 2011 $'000	Year ended 31 December 2010 $'000
Cash flows from operating activities			
Loss for period before taxation		(1,286)	(309)
Adjustments for:			
Finance income	8	(40)	(44)
Foreign exchange gain on share issue proceeds		–	(685)
Depreciation		7	–
Share based remuneration expense	7	–	184
Net cash outflow from operating activities before changes in working capital		(1,319)	(854)
Decrease/(increase) in other receivables		6	(149)
(Decrease)/increase in other payables		(90)	264
Net cash outflow from operating activities		(1,403)	(739)
Investing activities			
Interest received		43	38
Exploration and development expenditure		(22,671)	(389)
Purchase of plant and equipment		(66)	–
Net cash used in investment activities		(22,694)	(351)
Financing activities			
Issue of ordinary shares (net of issue costs)		–	32,969
Net cash from financing activities		–	32,969
Net (decrease)/increase in cash and cash equivalents		(24,097)	31,879
Cash and cash equivalents at beginning of period		32,151	447
Exchange gains/(losses) on cash and cash equivalents		121	(175)
Cash and cash equivalents at end of the year		8,175	32,151

The notes on pages 27 to 34 form part of the financial statements.

Consolidated statement of changes in equity

Year ended 31 December 2011

	Share capital $'000	Share premium $'000	Retained earnings/deficit $'000	Total equity $'000
At 1 January 2010	4,343	–	(143)	4,200
Total comprehensive income for the year	–	–	(455)	(455)
Share issue (net of issue costs)	2,213	30,071	–	32,284
Share based payment expense	–	–	204	204
At 31 December 2010	6,556	30,071	(394)	36,233
At 1 January 2011	6,556	30,071	(394)	36,233
Total comprehensive income for the year	–	–	(1,140)	(1,140)
Share based payment expense	–	–	4	4
At 31 December 2011	6,556	30,071	(1,530)	35,097

The notes on pages 27 to 34 form part of the financial statements.

Notes to the consolidated financial statements
Year ended 31 December 2011

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 16 March 2012 and are subject to adoption at the Annual General Meeting of shareholders which is expected to be held in Stanley, Falkland Islands, in October 2012.

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 2011 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 1, 'First time adoption' Exemption for severe hyperinflation and removal of fixed dates	1 Jul 2011
IFRS 7, 'Financial instruments: Disclosures' Disclosures on transfers of financial assets	1 Jul 2011
IAS 12, 'Income taxes' Accounting for investment properties at fair value	1 Jan 2012
IAS 1, 'Presentation of financial statements' Amendment	1 Jul 2012
IFRS 10, 'Consolidated Financial Statements' Presentation and preparation of consolidated financial statements	1 Jan 2013
IFRS 11, 'Joint arrangements' Recognition of rights and obligations – substance over form	1 Jan 2013
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 2013
IFRS 13, 'Fair value measurement' Sets out in a single IFRS a framework for measuring fair value	1 Jan 2013
IAS 27, 'Separate financial statements' Accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statement	1 Jan 2013
IAS 28, 'Investments in associates and joint ventures' Accounting requirements for joint ventures and associates	1 Jan 2013
IAS 19, 'Employee benefits' Main changes relate to accounting for defined benefit pension schemes	1 Jan 2013
IFRIC 20, 'Stripping costs in the production phase of a surface mine' Treatment of waste removal costs	1 Jan 2013
IFRS 7, 'Financial instruments: Disclosures' Offsetting financial assets and financial liabilities	1 Jan 2013
IAS 32, 'Financial instruments: Presentation' Clarification on offsetting financial assets and financial liabilities	1 Jan 2014
IFRS 9, 'Financial instruments' Phased replacement of IAS 39	1 Jan 2015

Going concern
The directors consider that the Group's available financial resources are more than adequate to allow completion of the current work programme, which involves continued interpretation of the 3D seismic data, obtained earlier in the year and also 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.

Notes to the consolidated financial statements continued
Year ended 31 December 2011

1 Accounting policies continued

Basis of consolidation

The consolidated financial statements incorporate the results of Argos Resources Ltd and its wholly-owned subsidiary undertaking as at 31 December 2011 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 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

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such indicators include the point at which a determination is made as to whether or not commercial reserves exist. Where the exploration and evaluation ("E&E") assets concerned fall within the scope of an established full cost pool, the E&E assets are tested for impairment together with all development and production assets associated with that cost pool, as a single cash generating unit. The aggregate carrying value is compared against the expected recoverable amount of the pool, generally by reference to the present value of future net cash flows expected to be derived from production of commercial reserves. Where the E&E assets to be tested fall outside the scope of any established cost pool, there will generally be no commercial reserves and the E&E assets concerned will generally be written off in full.

Any impairment loss would be recognised in the income statement and separately disclosed.

Plant and equipment

Plant and equipment consist 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 to their residual values over their estimated useful lives, as follows:

- Plant and equipment – 4 years

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.

1 Accounting policies continued

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 (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 consolidated statement of comprehensive income.

The year end rates of exchanges used were:

	2011	2010
£:US$	1.55	1.56

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 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.

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 US$ against Sterling.

As of 31 December 2011 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	141	63	204
Less: prepayments	(106)	(61)	(167)
Cash and cash equivalents	1,906	6,269	8,175
	1,941	6,271	8,212
Liabilities			
Other payables	242	489	731
Net financial assets	1,699	5,782	7,481

Notes to the consolidated financial statements continued
Year ended 31 December 2011

2 Financial instruments continued
At 31 December 2010 the comparative balances were:

	Sterling denominated $'000	US$ denominated $'000	Total $'000
Current assets			
Other receivables	213	–	213
Less: prepayments	(162)	–	(162)
Cash and cash equivalents	5,944	26,207	32,151
	5,995	26,207	32,202
Liabilities			
Other payables	218	–	218
Net financial assets	5,777	26,207	31,984

If the US$ had strengthened against Sterling by 10% equity would reduce by $170K (2010: $578K). Conversely if the US$ weakens against Sterling the equity would increase by $170K (2010: $578K).

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 2011:

Institution	2011 $'000	2010 $'000
Lloyds TSB	3,491	12,389
Standard Chartered Bank	2,564	12,447
HSBC	2,120	7,315
	8,175	32,151

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, the proceeds of the share issue 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.

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

	2011 $'000	2010 $'000
Directors' remuneration (see note 5)	434	388
Professional fees	314	247
Depreciation	7	–
Other expenses	694	253
Total	1,449	888

5 Directors' remuneration

	2011 $'000	2010 $'000
Remuneration and fees	417	198
Pensions*	17	6
	434	204
Equity settled share based payment charge (see note 7)	–	184
	434	388

* A Irvine is accruing retirement benefits under a defined contribution pension scheme and an amount has been accrued for J Hogan to cover his entitlement to enter into a defined contribution arrangement in relation to amounts earned since 1 August 2010.

Directors' remuneration, by director, is disclosed on page 20.

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

6 Auditor's remuneration

	2011 $'000	2010 $'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	30	21
Fees payable to the Company's auditor for the audit of the subsidiary's annual financial statements	5	6
Fees payable to the Company's auditor for other services:		
Taxation	15	6
Review of interim accounts	11	10
Corporate finance	–	91
	61	134

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 and outstanding at 31 December 2011	2	12,680,818

All options outstanding at the end of the year had vested. At the end of the comparative period 11,305,818 had vested and remained exercisable and 1,375,000 had not vested.

The following information is relevant in the determination of the fair value of options granted in 2009 under the equity-settled share based remuneration scheme operated by Argos Resources Ltd:

Option pricing model used	Black-Scholes
Weighted average exercise price at grant date	2 pence
Exercise price	2 pence
Weighted average contractual life	8.87 years
Expected volatility	76.3%
Risk-free interest rate	2.76%
Expected dividend growth rate	N/A%
Fair value of options granted	1.9 cents

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices over the last three years of comparable publicly quoted companies.

Charge for share based payment	2011 $'000	2010 $'000
Expensed through the income statement	–	184
Capitalised as part of exploration expenditure	4	20
Equity-settled	4	204

Notes to the consolidated financial statements continued
Year ended 31 December 2011

8 Finance income

	2011 $'000	2010 $'000
Interest on bank deposits	40	44

9 Taxation (credit)/expense

	2011 $'000	2010 $'000
Total tax:		
Corporation tax on losses for the year	–	146
Adjustment in respect of prior year	(146)	–
Total corporation tax on losses for the year	(146)	146
Reconciliation of total tax charge:		
Loss before tax	1,286	309
Loss on ordinary activities multiplied by the standard rate of corporation tax of 26%	(334)	(80)
Effects of:		
Unrelieved tax losses and other deductions arising in the period	334	176
Share based payment charge	–	48
Interest receivable not taxable	(5)	(5)
Expenses not deductible for tax purposes	5	7
Reversal of 2010 tax over provision	(146)	–
Total tax (credit)/charge for the year	(146)	146

	2011 $'000	2010 $'000
Unrelieved tax losses, on which no deferred tax asset has been recognised, which are available for offset against future profits	2,564	1,817

10 Loss for the financial year
The Company has taken advantage of the exemption allowed under section 230 of the United Kingdom Companies Act 1985, as it applies in the Falkland Islands, by virtue of section 2(1)(c) of the Companies (Amendment) Ordinance 2006 and has not presented its own profit and loss account in these financial statements. The Group loss for the year includes a loss after taxation of $1,124K (2010: loss of $445K) for the parent Company.

11 Loss per share

	2011 Number	2010 Number
Shares in issue brought forward (5 pence shares)	–	58,058,185
Shares in issue brought forward (2 pence shares)	216,113,205	–
Sub-division of share capital into 2 pence shares	–	145,145,463
Shares issued:		
Issued on 29 July 2010	–	70,967,742
Shares in issue carried forward	216,113,205	216,113,205
Weighted average shares in issue	216,113,205	175,476,881

	2011 $'000	2010 $'000
Loss for the year	(1,140)	(455)
Weighted average number of ordinary shares in issue during the year	216,113,205	175,476,881
Basic and diluted loss per ordinary share (cents)	(0.53)	(0.26)

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.

12 Capitalised exploration expenditure

	2011 $'000	2010 $'000
Cost and net book value:		
At 1 January 2011	4,238	3,754
Additions	23,152	484
At 31 December 2011	27,390	4,238

13 Plant and equipment

	2011 $'000	2010 $'000
Cost:		
Additions	66	–
At 31 December 2011	66	–
Depreciation:		
Charge for year	7	–
At 31 December 2011	7	–
Net book value:		
At 31 December 2011	59	–

14 Other receivables

	2011 $'000	2010 $'000
Prepayments	167	162
Accrued interest	3	6
Other	34	45
	204	213

15 Trade and other payables

	2011 $'000	2010 $'000
Trade payables	603	49
Other payables	–	1
Accruals	128	173
	731	223

16 Share capital

	2011 $'000	2010 $'000
Authorised:		
250,000,000 ordinary shares of 2 pence each	7,480	7,480

	Number	$'000
Allotted, issued and fully paid:		
Ordinary shares of 5 pence each at 1 January 2010	58,058,185	4,343
Converted to ordinary shares of 2 pence	145,145,463	–
Shares of 2 pence issued during year	70,967,742	2,213
Ordinary shares of 2 pence each at 31 December 2010	216,113,205	6,556
Ordinary shares of 2 pence each at 1 January and 31 December 2011	216,113,205	6,556

Notes to the consolidated financial statements continued
Year ended 31 December 2011

17 Reserves
Movements on the various reserves are detailed in the consolidated statement of changes in equity on page 26. 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.

18 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:

	2011 $'000	2010 $'000
Due to Argos Georgia Ltd at 1 January	(1)	–
Expenses paid on behalf of the Group	(55)	(18)
Loans repaid/creditor balances paid	365	174
Office running costs*	(316)	(157)
Due to Argos Georgia Ltd at 31 December	(7)	(1)

* 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 $310K with effect from 1 August 2010. This agreement is terminable on six months' notice after 1 August 2011. Key management personnel are the directors only.

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 on page 20 and in note 5.

19 Commitments
(a) Capital commitments
There were no capital commitments at 31 December 2011.

At 31 December 2010 the Group had entered into a contract with Polarcus Ltd to carry out a substantial 3D seismic survey covering all of the Company's acreage in licence PL001, as well as adjacent areas. There was a termination clause within the seismic contract. If the Group had elected to cancel the contract without cause prior to commencement in January 2011 a termination fee of $6 million would be payable by the Group to the contractor, Polarcus Ltd. No termination occurred and the seismic project went ahead and was completed with respect to the licence area in mid-April 2011.

In accordance with the conditions of the Group's PL001 licence, the Group is required to drill one well by November 2015 and the directors are actively pursuing options to achieve that goal.

(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 $310K with effect from 1 August 2010. This agreement is terminable on six months notice after 1 August 2011. The ongoing commitment at 31 December 2011 was as follows:

	2011 $'000	2010 $'000
Total committed within 1 year	155	312
Total committed between 1 and 5 years	–	27
	155	339

20 Contingent liabilities
The Group has no anticipated material contingent liabilities.

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

Parent Company balance sheet

As at 31 December 2011

	Note	2011 $'000	2010 $'000
Fixed assets			
Plant and equipment	2	21	–
Investments	3	2,120	2,120
		2,141	2,120
Current assets			
Debtors	4	24,236	1,006
Cash at bank		8,175	32,151
		32,411	33,157
Creditors: amounts falling due within one year	5	687	292
Net current assets		31,724	32,865
Total assets less current liabilities		33,865	34,985
Capital and reserves			
Called up share capital	6	6,556	6,556
Share premium	7	30,071	30,071
Profit and loss account	7	(2,762)	(1,642)
Shareholders' funds	7	33,865	34,985

The notes on pages 36 to 38 form part of the financial statements.

These financial statements were approved by the directors and authorised for issue on 16 March 2012 and are signed on their behalf by:

Ian Thomson
Chairman

Notes to the parent Company financial statements
Year ended 31 December 2011

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 this 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 section 230 of the United Kingdom Companies Act 1985, as it applies in the Falkland Islands, by virtue of section 2(1)(c) of the Companies (Amendment) Ordinance 2006. The loss for the year was $1,124K (2010: loss of $445K).

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 FRS 1.

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

Plant and equipment
Plant and equipment consist 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 to their residual values over their estimated useful lives, as follows:
- Plant and equipment – 4 years

Financial instruments
The Company has taken advantage of FRS 13 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:

	2011	2010
£:US$	1.55	1.56

Share based payments
FRS 20, 'Share Based Payments', requires the recognition of share based payments at fair value at the date of grant.

Where share options are awarded to employees or key personnel, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest the increase in fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees the profit and loss account, or if appropriate the fixed asset class, is debited with the fair value of goods and services received.

2 Plant and equipment

	2011 $'000	2010 $'000
Cost:		
Additions	24	–
At 31 December 2011	24	–
Depreciation:		
Charge for year	3	–
At 31 December 2011	3	–
Net book value:		
At 31 December 2011	21	–

3 Investments

Investment in subsidiary	2011 $'000	2010 $'000
Cost at 1 January and 31 December 2011	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

	2011 $'000	2010 $'000
Amounts due from related undertakings	24,097	855
Accrued interest	3	6
Prepayments	102	101
Other	34	44
	24,236	1,006

All amounts fall due for payment in 1 year.

5 Creditors: amounts falling due within 1 year

	2011 $'000	2010 $'000
Trade creditors	602	50
Accruals and deferred income	85	91
Taxation	–	151
	687	292

6 Share capital

The information on share capital is given in note 16 on page 33 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 2011	6,556	30,071	(1,642)	34,985
Total comprehensive income for year to 31 December 2011	–	–	(1,124)	(1,124)
Share based payment expense	–	–	4	4
At 31 December 2011	6,556	30,071	(2,762)	33,865

Notes to the parent Company financial statements continued
Year ended 31 December 2011

8 Other statutory disclosures
Directors' remuneration
This information given in note 5 of the Group 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 Group financial statements.

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 2011	2	12,680,818
Granted during the year	–	–
Exercised during the year	–	–
Outstanding at 31 December 2011	2	12,680,818

All options outstanding at the end of the year had vested. At the end of the comparative period 11,305,818 had vested and remained exercisable and 1,375,000 had not vested.

The following information is relevant in the determination of the fair value of options granted in 2009 under the equity-settled share based remuneration scheme operated by Argos Resources Ltd:

Option pricing model used	Black-Scholes
Weighted average exercise price at grant date	2 pence
Exercise price	2 pence
Weighted average contractual life	8.87 years
Expected volatility	76.3%
Risk-free interest rate	2.76%
Expected dividend growth rate	N/A%
Fair value of options granted	1.9 cents

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices over the last three years of comparable publicly quoted companies.

Charge for share based payment	2011 \$'000	2010 \$'000
Expensed through the income statement	–	184

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

Commitments
The information given in note 19 of the consolidated financial statements relates wholly to the Company.

Events after the balance sheet date
The information given in note 21 of the consolidated financial statements relates wholly to the Company.

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Notes

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