ARGOS RESOURCES LTD

Annual Report & Accounts 2012

GROWING PROSPECT INVENTORY

Peregrine Falcon

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

GROWING PROSPECT INVENTORY

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

A 3D seismic 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. A Competent Person's Report issued in October 2011 described 28 prospects based on mapping of an early fast-track processed version of the 3D seismic data. 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.

Mapping of the final processed seismic data has identified more than 30 new prospects and leads not included in the earlier Competent Person's Report. The prospective resource potential in the licence area is expected to increase significantly as a consequence of this, and a new Competent Person's Report has been commissioned to determine this change.

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.

Contents

Highlights

- Final processed 3D seismic data was received in January 2012 and proved to be of exceptionally good quality, helping to de-risk the numerous stratigraphic prospects in the licence
- Many of the stratigraphic prospects described in the October 2011 Competent Person's Report (CPR) are larger than originally described
- Over 30 new prospects and leads, not reported in the CPR, have been identified
- Estimated prospective recoverable resource figures are expected to increase substantially from those reported in the 2011 CPR
- New CPR commissioned to independently document the full potential of the licence as now identified. Publication expected in 2Q 2013
- Both Premier Oil and Noble Energy, two substantial independent oil companies, have committed to the Falkland Islands through farm-ins
- The Falkland Islands Government is investing in new infrastructure projects and updating its legislation and approval procedures in readiness for field development and production

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.

OUR PRINCIPAL ASSET IS

100%

OWNERSHIP OF LICENCE PL001

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.

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.


500m
200m
PL001
ARGOS
02
04
01
03
PL032
PL033
JOHNSON
SEA LION
CASPER
CASPER SOUTH
BEVERLEY
PL003
(1)
PL004b
PL004c
LIZ
PL003
PL004a
WELLS
Oil discovery
Oil and gas discovery
P&A, oil shows
P&A, dry well
Argos Resources
ARGOS PROSPECTS
OIL DISCOVERIES
GAS DISCOVERIES

3D Seismic Survey

Innovations in exploration

Early Cretaceous Basin Architecture

The diagram opposite is a projection of the basin floor architecture in Licence PL001 at the time of deposition of the sandstones that form the reservoir in the Sea Lion field and which are the target reservoirs for the majority of the prospects in the Company's licence area. The diagram is based upon an extract from the 3D seismic data cube.

The Sea Lion field and a selection of the Company's prospects are projected onto the diagram to demonstrate the relative lateral and vertical positions of the prospects in relation to Sea Lion.

The principal reservoir objectives are turbidite sandstones of Lower Cretaceous age. These sandstones are derived from a major delta system which originated to the north of Licence PL001 and migrated southwards along the axis of the basin during the Lower Cretaceous, depositing turbidite sandstones onto the basin floor in front of the delta. These sandstones were deposited within thick organic-rich mudstones which provide both source and seal to the prospects.

Stacked targets

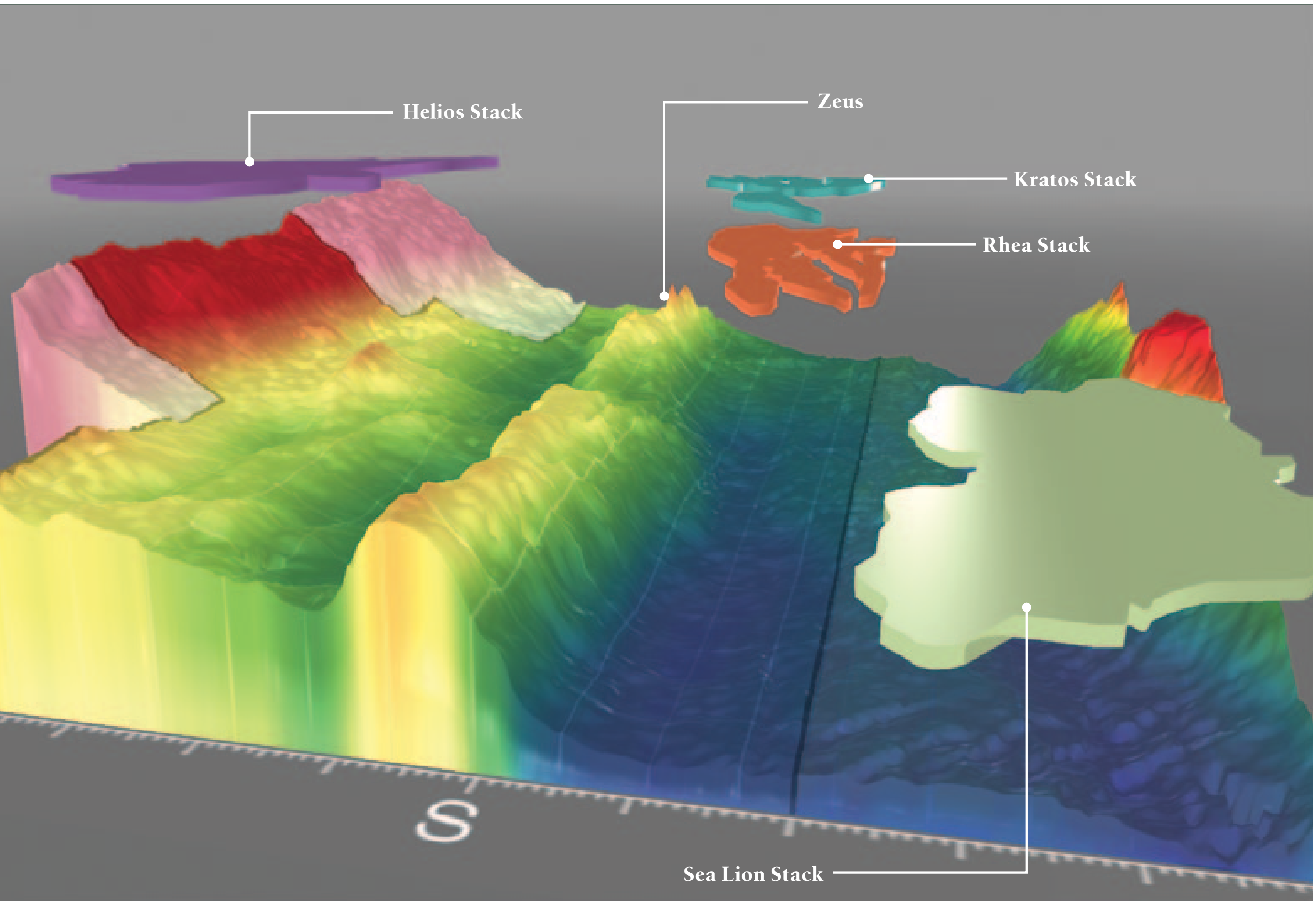
The 3D seismic allows numerous sandstones to be mapped within the licence area which form discrete prospects encased within thick organic-rich mudstones. In several areas these prospects are vertically stacked, just as in the Sea Lion, Casper, Casper South and Beverley stacked discoveries. This allows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

28

CONFIRMED PROSPECTS

30+

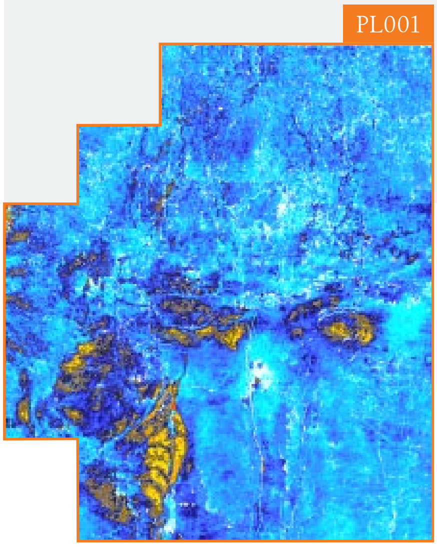
NEW PROSPECTS AND LEADS

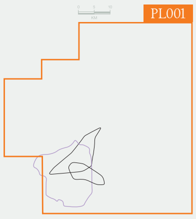


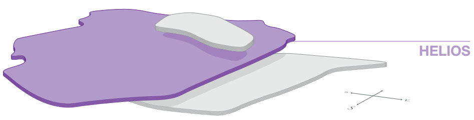
3D PROJECTION

The Early Cretaceous basin architecture in PL001 at the beginning of post-rift sedimentation

Current Prospects







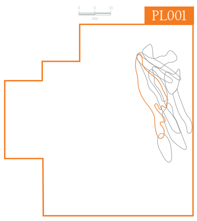
Prospect	P90	P50	P10
Helios Stack	61	790	2,990

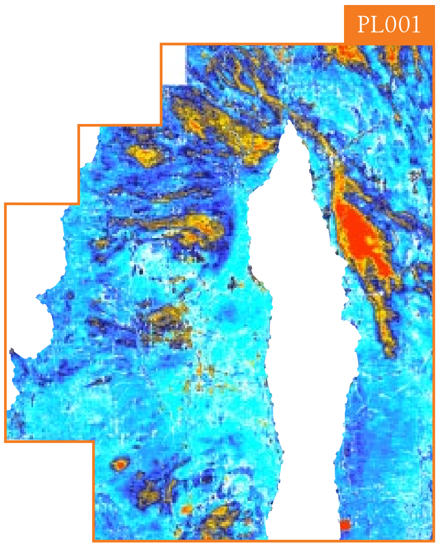
Helios Prospect

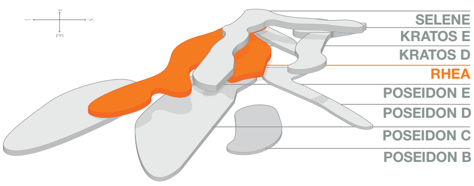
- The largest prospect identified anywhere in the North Falkland Basin to date, Helios is a very large lacustrine fan and composite channel sand sequence of Aptian age.
- Sandstones have prograded northwards in large stacked foresets from a delta system in the south, creating a combination structural/stratigraphic trap which exhibits a pronounced and visibly striking fan morphology at 1800m subsea.
- The sands have scoured into the underlying highly organic rich lacustrine mudstones resulting in direct contact with the primary source rock.
- Additional source rock potential exists in deeper pre-rift organic shales via faulting. Mudstones provide excellent topseal and sideseal.

Rhea Prospect

- Rhea is a lacustrine fan and composite channel sand sequence in a combination structural/stratigraphic trap at 2500m subsea.
- The objective is Early Cretaceous sandstones derived from a major delta system to the north. Seal and source are provided by highly organic rich lacustrine mudstones which encase the sands.
- The prospect exhibits a pronounced fan morphology highlighted by an amplitude anomaly with coincident isopach thickening.
- Additional prospects in the Western Graben to the west of Rhea can also be seen on this map and are the subject of ongoing work.



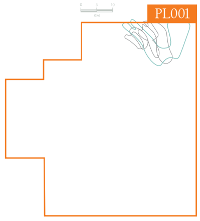


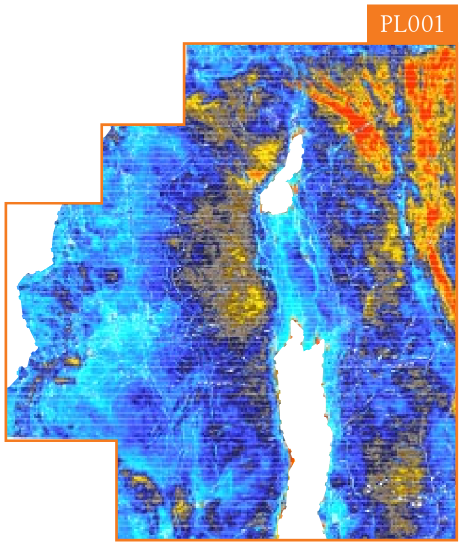


Prospect	P90	P50	P10
Rhea Stack	66	346	1,193

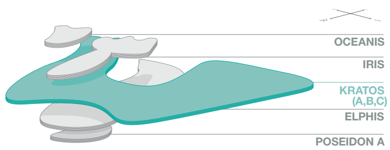
Kratos Prospect

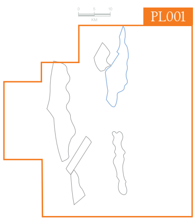
- Similar to Rhea, but slightly younger, Kratos is a lacustrine fan and composite channel sand sequence in a combination structural/stratigraphic trap at 2200m subsea.
- The objective is Early Cretaceous sandstones derived from a major delta system to the north. Seal and source are provided by highly organic rich lacustrine mudstones which encase the sands.
- The prospect exhibits a pronounced fan morphology highlighted by an amplitude anomaly with coincident isopach thickening.

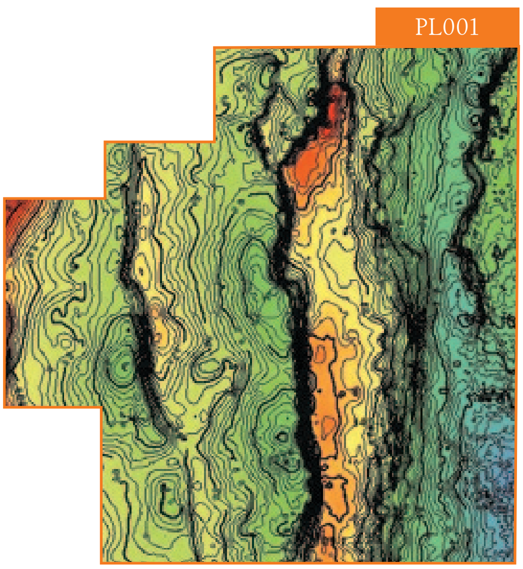




Prospect	P90	P50	P10
Kratos Stack	51	214	625







Zeus Prospect

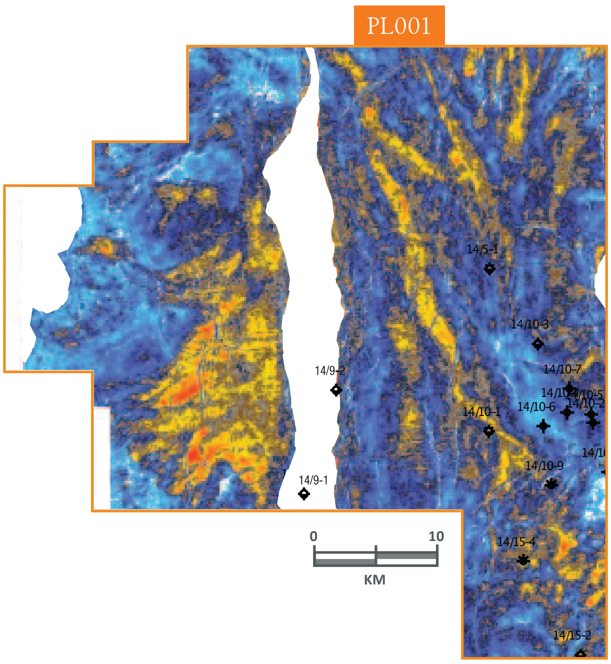
- Zeus is a prominent fault bounded structural culmination on the Orca Ridge, and is one of a number of robust structural closures within the licence.
- Closure is mapped at most horizons from the early syn-rift (Jurassic) to the post-rift (Upper Cretaceous) with at least three principal reservoir objectives in the Jurassic, Lower Cretaceous (Aptian) and Upper Cretaceous (Campanian), offering potential for stacked accumulations.
- Source is either from adjacent highly organic rich lacustrine mudstones of Early Cretaceous age onlapping the flanks of the structure or deeper pre-rift organic shales via faulting.

Prospect	P90	P50	P10
Zeus	34	194	642

New Prospects for 2013

The final processed 3D seismic data is of exceptional quality, leading to significant additional prospectivity being identified, including shared prospects with Premier.

A new CPR is underway to verify and upgrade the full resource potential of the licence. A small selection of the new prospects is presented on these pages.



Big Metis

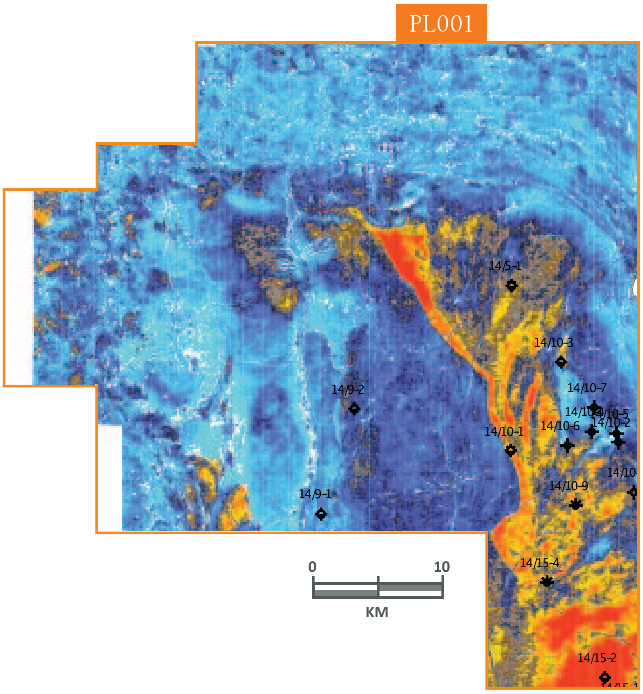
- A very large lacustrine basin floor fan in the Western Graben in which sands have ponded against the Orca Ridge.
- Underlies Helios and is encased in high quality, mature Lower Cretaceous source rocks, providing both source and seal.
- Deeper source rocks in the upper synrift section in fault communication provide additional source potential.

Poseidon

- A northerly sourced “string of pearls” of confined to semi-confined stacked basin floor fans and channels showing differential compaction and drape.
- Encased in high quality, mature Lower Cretaceous source rocks, providing both source and seal.

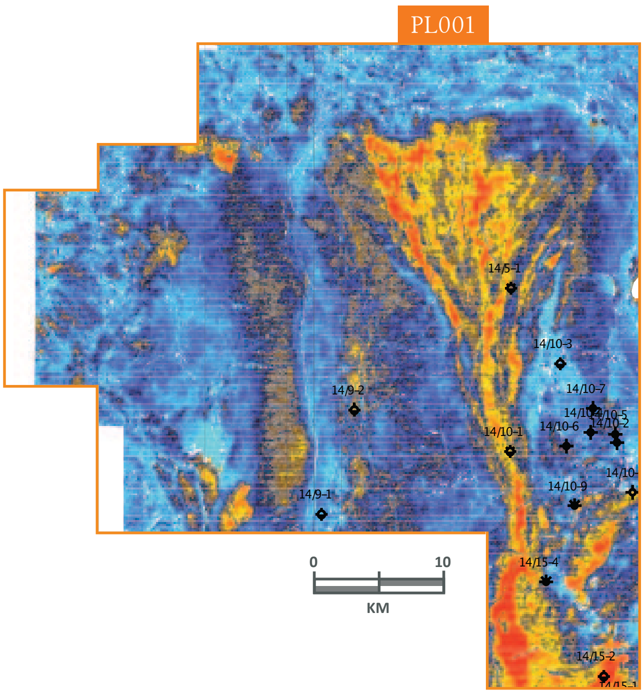
Key strengths

- Proven working petroleum system
- Adjacent to the large Sea Lion oil discovery
- Potentially large Johnson gas discovery appears to extend onto the licence
- 28 prospects confirmed from excellent quality 3D seismic data
- Over 30 additional prospects and leads under evaluation
- Several prospects analogous to Sea Lion



Tyche

- A very large lacustrine system of turbidite sands derived from a major delta to the north.
- Updip and connected to the Chatham channel prospect (PL032).
- Encased in high quality, mature Lower Cretaceous source rocks, providing both source and seal.



Big Selene

- A very large lacustrine system of turbidite sands derived from a major delta to the north.
- Encased in high quality, mature Lower Cretaceous source rocks, providing both source and seal.
- A combination structural/stratigraphic trap with overlying highstand shales providing top seal.

Environmental Impact

Working to minimise the impact of operations on the environment

The Company continues to work with the community and the government of the Falkland Islands to minimise any impact on the unique environment of the Falkland Islands. We are committed to implementing and maintaining the highest standards of environmental management in all aspects of our operations.

Our Environmental Impact Statement (EIS), approved by the Falkland Islands Government on 29 September 2011, gathered and documented data on year round environmental sensitivities and identified the potential hazards arising from an exploration drilling programme. The identification and possible effects on these environmental sensitivities have been quantified wherever possible.

New high-quality 3D seismic data was acquired over the entire licence area in 2011 and finalised in 2012. This data has not only increased our understanding of the basin but also provides detailed data to assist in designing and engineering our wells. This means we can efficiently plan safe drilling practices to ensure minimum impact to the environment.

Additional important steps to become drill ready included the publication of the Company's Oil Spill Contingency Plan (OSCP) which was approved by the Falkland Islands Government on 14 December 2011.

The OSCP, 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 impact 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 offshore environmental management 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 and maximise the re-use of materials; and
- establishing and implementing a project-specific OSCP and conducting training of key personnel in oil spill response.

Both the EIS and the OSCP will require an addendum and further government approval once drilling locations and the selection of a suitable rig are finalised.

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

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

Chairman's Statement
Ian Thomson OBE

The outlook for sustained oil industry activity and investment in the Falklands was reinforced in 2012 by the commitment of two substantial independent oil companies to the offshore areas.

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. 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.

2010
The Company listed on AIM, raising £22 million before expenses.

2011
Acquired 1,579 sq kms of 3D seismic from which 28 prospects were identified in the licence area, based on the interpretation of preliminary processed seismic data.

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

2012
In excess of 30 additional prospects and leads were identified from mapping of the final processed data. A new Competent Person's Report was commissioned early in 2013.

Key strengths

- ▷ Attractive and stable fiscal terms (9% Royalty & 26% CT); top quartile
- ▷ British Overseas Territory with legislative framework similar to UK
- ▷ Straightforward operating conditions, <500m water depth, <3000m TD; weather better than North Sea
- ▷ $30 million average well cost over 15 well campaigns in 2010/2011
- ▷ Good harbour and air facilities in place with further infrastructure planned

In July 2012, Premier Oil announced that it had acquired from Rockhopper Exploration a 60 percent interest in, and operatorship of, the Sea Lion oil field in the North Falkland Basin, as well as a 60 percent interest in all of Rockhopper's remaining licence interests in the Basin. Premier is now proceeding with the initial stages of the development of Sea Lion and envisages project sanction in mid 2014 and first oil in 2017. Premier has also committed to undertake additional exploration drilling in the licences acquired.

In August 2012, it was announced that Noble Energy had farmed in to substantially all of the Falkland Oil and Gas Limited licences in the area to the south and east of the Falkland Islands. Noble acquired a 35 percent interest in the licences and will become the operator. The farm in deal envisages extensive new 3D seismic acquisition and multiple exploration wells involving an initial investment by Noble of up to $230 million.

Both of these transactions, and the substantial capital commitments involved, are testament to the emerging awareness of the prospectivity around the Falkland Islands. We would now expect others in the industry to focus more on what has attracted these large independents to the area and for industry interest to increase as a consequence. An obvious benefit for Argos Resources is that the commitment to further exploration drilling will ensure future rig availability in the area, which the company will seek the opportunity to use to progress our own drilling plans.

In parallel with this increased corporate activity, the Falkland Islands Government is progressing investment in new infrastructure projects to ensure that land based services and facilities will be available to fully support oilfield production operations. The Government is also comprehensively reviewing and updating its legislation and approval procedures to ensure that all of the administrative processes required to support field development and production are in place. Argos Resources will benefit from the product of these activities and we actively participate in the consultation processes whenever Government consults with the industry on its requirements and plans.

In my Statement in the 2011 Report and Accounts I referred to our Competent Person's Report which was published in October 2011 and which was based upon the results of early processing of 3D seismic data acquired at the beginning of 2011 across the entire licence area. That report described 28 prospects with a Best Estimate of unrisked prospective recoverable resource of 2.1 billion barrels of oil. I said that additional prospects were likely to be identified as further detailed mapping progressed. This has indeed proven to be the case. Final processing of the 3D seismic data was completed in early 2012 and the final data is of exceptionally good quality. Interpretation of this data has led to the identification of a significant number of additional prospects. Some of these new prospects are in the same stratigraphic interval as the Sea Lion oil discovery and some are in the deeper, syn-rift section. It was previously not possible to map the syn-rift interval with confidence, so again the value of the new 3D seismic data is being clearly demonstrated.

Work undertaken during the year has also confirmed the presence of two mature source rocks across the licence area, thereby enhancing the probability of prospects in our licence being charged with commercial volumes of hydrocarbons.

We have commenced the search for an industry partner. Several potential counterparties with both the technical and financial capacity to develop and bring into production any commercial discoveries made have expressed an interest. We will continue the farmout process until a suitable transaction can be agreed that reflects the board's view of the value of our acreage. This process is time consuming with many companies requiring an extended period of review where a commitment to a new country is involved. With this in mind, we are being prudent in assuming that exploration drilling on our licence is now more likely to be in 2014. We will pursue an earlier drilling opportunity if one arises but not at the expense of a sub-optimal transaction.

▷ TO DATE:

2.1

BILLION BARRELS OF MOST LIKELY UNRISKED RECOVERABLE RESOURCE

7.3

BILLION BARRELS OF UNRISKED RECOVERABLE RESOURCE IN UPSIDE CASE

▷ PROSPECTIVE RESOURCE NUMBERS EXPECTED TO INCREASE

Managing Director's Review

John Hogan

We have been busy throughout 2012 undertaking extensive mapping of our proprietary and traded 3D seismic data with the aim of understanding fully the hydrocarbon potential of the North Falkland Basin within the vicinity of our licence.

Resource upgrade

Interpretation of the final processed 3D seismic data has demonstrated that licence PL001 is rich in sandstones and rich in prospects.

An early priority is to publish a new Competent Person's Report to independently determine the full resource potential of the licence. We believe this will assist in our efforts to raise sufficient funds for exploration drilling.

Operational highlights

- 1,579 sq kms of 3D data acquired, including data over open acreage
- Better than expected results both in terms of data quality and the amount of prospectivity identified
- New Competent Person's Report commissioned
- Efforts to raise funding for a multi-well drilling campaign are ongoing

This work has included detailed mapping of the extensive prospect inventory within Licence PL001, mapping of the Sea Lion oil field and mapping of the several features drilled by others in 2010 and 2011 which proved unsuccessful. We believe that understanding why some prospects were successful and why others failed will help in ranking our own prospect inventory and thereby increase the chances of success once exploration drilling commences on our licence.

1,579 sq kms of proprietary 3D seismic data was acquired by the Company between January and May 2011 which included coverage of the entire licence area and certain areas within the adjacent open acreage. In October 2011 we issued a Competent Person's Report which documented 28 prospects with a Best Estimate of unrisked prospective recoverable resource of 2.1 billion barrels of oil and an upside of 7.3 billion barrels. 22 of those prospects are stratigraphic traps with several being similar in appearance to Sea Lion. The remaining 6 prospects are structural traps within robust closures confirmed by the 3D data. This report was based on the preliminary results of processing of the 3D seismic data, described as fast-track processing. Given the preliminary nature of the work, a set of conservative assumptions were adopted in determining the dimensions of the prospects identified from that data. It was expected at that time that additional prospects might be identified once the final processed data was received and as further detailed mapping continued.

The final processed versions of the 3D data were received in January 2012. The quality of the final processed data is exceptionally good and this is helping us to resolve the detail of the numerous stratigraphic prospects in the licence. With the benefit of this final data it is clear that many of the stratigraphic prospects described in the October 2011 Competent Person's Report are larger than originally described and these have now all been remapped in detail. In addition, over 30 new prospects and leads, which were not reported in the earlier Competent Person's Report, have also been mapped since January 2012. There are considerably more new prospects than were expected and, as a consequence, the work required to map these in detail extended well into the second half of the year.

We now benefit from a licence which we believe from the 3D seismic data is sand-rich at the same stratigraphic levels as the Sea Lion oil field and which is also rich in prospects defined by excellent 3D seismic data.

We expect the estimated prospective recoverable resource figures to increase substantially from the numbers reported above as a consequence both of the increase in size of many of the previously reported prospects and of the numerous new prospects and leads now identified. Consequently, in February 2013, the Company commissioned Senergy to prepare a new Competent Person's Report to independently document the full potential of the licence as now identified. This new report is expected to be published in the second quarter of 2013.

Work on basin modelling studies using the final processed 3D seismic data was ongoing throughout 2012 and is continuing into 2013. This work is important in understanding the distribution, burial history and levels of maturity of oil and gas source rocks within the basin. The work completed to date indicates that there are two mature source rocks generating hydrocarbons in the North Falkland Basin. The shallower is the thick Barremian source rock which is oil-prone and which has charged the oil in the Sea Lion field. This is a world class source rock, rich in terrestrial organic material and is present extensively across the northern part of the North Falkland Basin including in both the eastern and western grabens in our licence. This source rock has been described in publications by Shell as the second richest source rock known in the world. The second, deeper source rock in the North Falkland Basin is in the Early Cretaceous syn-rift stratigraphic interval. In the deepest parts of the basin this source rock is gas condensate prone and is believed to have charged the gas and liquids in the Liz discovery to the south of our licence and contributed, at least in part, to the gas and condensate in the Beverley and Casper South discoveries. Gas was also encountered in the Johnson discovery which may extend into our licence. No attempts were made to recover fluid samples from the Johnson discovery so the presence of any associated liquids is unknown. Where buried less deeply, it is thought that this second source rock might be light oil-prone. The presence of both source rocks within our licence has been confirmed from mapping and both intervals are believed to be mature for hydrocarbon generation within the licence area.

By the end of 2012 we had largely completed our basin evaluation work and detailed prospect mapping, including the mapping of the enlarged prospect inventory described above. Our major expenditures other than the capital required for drilling have therefore been incurred and our remaining cash position at year-end 2012 of $5.7 million is deemed sufficient to meet the Company's ongoing needs and overheads.

Board of Directors

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1. IAN THOMSON OBE
Executive Chairman (aged 73)
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.

2. JOHN HOGAN
Managing Director (aged 59)
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.

3. ANDREW IRVINE FCCA
Finance Director (aged 51)
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.

4. DENNIS CARLTON
Senior Non-executive Director (aged 62)
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.

5. CHRISTOPHER FLEMING
Non-executive Director (aged 53)
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.

6. JAMES RAGG LLB, FCA
Non-executive Director (aged 47)
James joined the board in 2008. James qualified as a Chartered Accountant in 1995 and, after eight years with Saffery Champness, joined a Haines Watts accountancy practice as an audit and assurance partner in 2004. He subsequently managed the independence of his firm from Haines Watts and its renaming as Blue Spire South LLP where he was a Management Partner until September 2012. Now a non-executive partner in that firm, he is currently heading up the finance and development operations for a group of private companies.

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 2012.

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 (2011: $nil).

Business review

The Group has incurred a loss for the year ended 31 December 2012 of $1.58 million (2011: $1.14 million) which equates to a loss per share of 0.73 cents (2011: 0.53 cents). The loss has increased over that incurred in the comparative period due to an increase in administration expenses.

Administration expenses were $1.75 million as compared to $1.45 million for the comparative period mostly due to increased travel and exhibition attendance costs.

Shareholders' equity has decreased from $35.1 million to $33.6 million in the year since 31 December 2011, representing the administration expenses, interest receivable and foreign exchange differences. Cash in the year reduced from $8.2 million to $5.7 million which reflects the overhead spend and the company's continued investment in 3D seismic processing and interpretation.

Outlook for the next financial year

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

Key performance indicators

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

Principal risks and uncertainties

Risks in relation to financial instruments are explained within note 2 to the Group financial statements. A discussion of other potential risks can be found in the risk management report on page 21.

Substantial shareholders

As at 5 March 2013, the Company has been notified of interests in 3% or more of the Company's voting rights, based on an issued share capital of 217,363,205, as shown below:

Shareholder/Fund manager	Percentage of voting rights
Ian Thomson*	10.22
JP Morgan Asset Management (UK) Ltd	9.90
Argos Georgia Ltd	7.95
Orian Partners LP	6.90
Iain Aylwin**	6.19
Portogon Investments SA	4.60
Robert Smith	4.34
Salida Capital International	3.31

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

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

Argos Georgia Ltd held 17,278,850 ordinary shares of 2 pence each at 31 December 2012 (2011: 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 2012 Ordinary shares of 2 pence each	At 31 December 2011 Ordinary shares of 2 pence each
I M Thomson*	Chairman	22,211,613	22,211,613
J Hogan	Managing director	2,000,000	2,000,000
A Irvine	Finance director	1,250,000	750,000
D Carlton	Non executive	3,250,000	3,250,000
C Fleming	Non executive	1,850,000	1,250,000
J Ragg	Non executive	150,000	–
Total		30,711,613	29,461,613

* 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.

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

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 17.

Events after the reporting date

See note 20.

Financial instruments

For the year under review the Group held no financial instruments outside of cash and receivables. The policies for financial risk management are disclosed in note 2.

Political and charitable contributions

The Group made no political donations in the year under review (2011: $Nil). The Group made charitable donations during 2012 totalling $8K (2011: $10K).

Statutory information continued

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 (2011: 10 days), on the basis of accounts payable (excluding retention held) as a percentage of purchase ledger turnover and includes amounts capitalised.

Directors' and officers' insurance

The Group purchased directors' and officers' liability insurance. The directors may also, in their capacity as directors, obtain independent legal advice at the Group's expense if they consider it necessary to do so.

Employees

The Group employees consisted of three executive and three non-executive directors during the course of the year who are included in the total staff numbers shown in note 5 to these accounts.

Health, safety and the environment

It is the Company's objective to maintain the highest standards for health and safety and the protection of the environment which adhere to all applicable laws and represent industry best practice at all onshore and offshore sites with which it is involved.

Social and community

The Falkland Islands is a small community and the Company is conscious that the impact of its activities on the country could be significant. The Company believes that working closely with the Falkland Islands Government and seeking views through consultation with stakeholder groups should help to ensure a positive impact from its operations on the Falkland Islands and its population.

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the annual report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law, the Companies Act 1948 as amended by the Companies (Amendment) Ordinance 2006 (Falkland Islands Companies Act) requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). The Group have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the Group's profit or loss for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. In preparing each of the Group and parent Company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether the financial statements have been prepared in accordance with IFRSs; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent Company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1948 as amended by the Companies (Amendment) Ordinance 2006 (Falkland Islands Companies Act) as it applies in the Falkland Islands. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the Falkland Islands governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

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 H. Thomson

Ian Thomson
Chairman

Date: 22 March 2013

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 hold options to acquire shares in the Company, this is not considered a significant threat to their independence. One of the non-executive directors, James Ragg, became a senior employee of Argos Georgia Limited, a substantial shareholder in the Company, with effect from 1 January 2013. The board has considered, in conjunction with its advisers, whether this has any impact on Mr Ragg's independence and has concluded that it does not. Apart from these matters and their directors' fees the non-executive directors have no other financial interests in the Company or business relationships that would interfere with their independent judgement.

Dennis Carlton is the senior non-executive director. Should shareholders have concerns which have not been adequately addressed by the chairman or managing director, he can be contacted by sending an email to info@argosresources.com. The same address can also be used to contact James Ragg, chairman of the audit committee.

The board has agreed to meet four times per year or more frequently if it needs to do so. There is a schedule of matters reserved for board approval and this ensures that the board exercises control over all key areas.

The board's executive chairman, Ian Thomson, is not considered independent as he holds a substantial number of the Company's shares and he has been on the board for more than 10 years. The Company considers, however, that the benefit of his experience and long involvement with business in the Falkland Islands more than outweighs the benefits of an independent chairman. He meets with the non-executive directors, without the other executive directors present, at least once per year.

The Company complies with Rule 21 of the AIM Rules for Companies regarding dealings in the Company's shares and has adopted a code on dealing in securities to ensure compliance by directors.

Audit committee

The audit committee comprises James Ragg (committee chairman), Dennis Carlton and Chris Fleming. The board considers all three members of the committee to be independent and is satisfied that at least one, James Ragg, has recent and relevant financial experience.

The committee invites the remainder of the board and the external auditor to attend its meetings as observers. It meets the external auditor, in the absence of the remainder of the board, at least once per year.

The role and responsibilities of the audit committee have been set out in written terms of reference which include:

- risk assessment, particularly, but not exclusively, in respect of financial reporting risks;
- assessment of processes relating to the Company's control environment;
- oversight of financial reporting;
- evaluation of internal and external audit processes; and
- development and implementation of policy on the provision of non-audit services by the external auditor.

The full terms of reference for the audit committee are available on the Company's website.

The audit committee has established procedures by which concerns regarding accounting or audit matters may be brought to the committee chairman's attention and the chairman can be contacted by sending an email to info@argosresources.com.

The audit committee has considered the need for an internal audit function and regards this as unnecessary given the Company's current size and lack of complexity.

The audit committee makes recommendations to the board regarding the appointment, reappointment and removal of external auditors. At the Annual General Meeting the shareholders are requested to authorise the audit committee to fix the remuneration of the external auditors.

The audit committee recognises that, for smaller companies, it is cost-effective to procure certain non-audit services from the external auditor but there is a need to ensure that provision of such services does not impair, or appear to impair, the auditor's independence or objectivity. The committee has therefore put in place a written policy on the use of external auditors which includes clear limits on the level of non-audit work beyond which the chairman of the audit committee must be consulted before the assignment can be awarded to the external auditor.

The audit committee was satisfied throughout the year that the external auditor's objectivity and independence were in no way impaired by the nature of the non-audit work undertaken or any other factors including the level of non-audit fees charged.

The audit committee held three 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 once 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 the effect of inflation, should be implemented with effect from 1 August 2012.

Corporate governance statement continued

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

	2012 Fees £'000	2012 Pension Contributions £'000	2012 Total £'000	2011 Fees and total £'000
I M Thomson	–	–	–	–
J Hogan	198	*(10)	188	174
A Irvine	38	2	40	35
D Carlton	20	–	20	20
C Fleming	20	–	20	20
J Ragg	20	–	20	20
Total directors' remuneration	296	(8)	288	269
Remuneration above Converted to $'000	472	(14)	458	434

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

Internal controls and risk management

The board of directors is responsible for implementing and reviewing the effectiveness of the Group's system of internal control.

The system of internal control is designed to mitigate rather than eliminate risk and therefore provides reasonable rather than total assurance against material misstatement or loss.

As noted above, the board does not consider it necessary, at the Company's current stage of development, to implement an internal audit capability.

Shareholder relationships

During the year the executive directors held a number of meetings with shareholders and potential shareholders. These meetings included formal 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.

Capital

Capital is managed to ensure that the group is able to continue as a going concern and consists of cash and equity. The group is not subject to any externally imposed capital requirements.

Directors' attendance

Directors' attendance at board and committee meetings for the year is as set out below:

	board Meetings	Audit Committee Meetings	Remuneration Committee Meetings
I M Thomson (Chairman)	6	–	–
J Hogan	6	–	–
A Irvine	6	–	–
D Carlton (chairman, remuneration committee)	6	3	1
C Fleming	2	2	1
J Ragg (chairman, audit committee)	5	3	1
Total meetings during the year	6	3	1

Share options

The share options in place as at 31 December 2012 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	500,000	875,000	2
D Carlton	12/11/2009	1,375,000	–	1,375,000	2
C Fleming	12/11/2009	1,375,000	600,000	775,000	2
J Ragg	12/11/2009	1,375,000	150,000	1,225,000	2
Total		11,305,818	1,250,000	10,055,818	

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

Options exercised in 2012 resulted in 1,250,000 shares (2011: Nil shares) being issued. The related average share price at the time of exercise was 16.9 pence per share.

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

Whilst results in the surrounding area are encouraging with respect to the oil and gas potential of the area and interpretation of the seismic data has indicated extensive prospectivity within the Group's licence area, no commercial volumes of oil or gas have yet been discovered in the licence area and there is no certainty that such discoveries will ever be made.

Mitigation: Senergy was commissioned following the year end to prepare a new Competent Person's Report which is expected to be available in the second quarter of 2013. This report will 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 in accordance with industry practice, there are certain risks inherent to its activities that could subject the Group to extensive liability. Insurance cover will not be available for every risk faced by the Group.

Mitigation: The Group applies industry best practice standards.

Political risk

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

Mitigation: In a recent referendum the Falkland Islanders voted unequivocally to remain as a British Overseas Territory and the UK Government has stated that it has no doubt about its sovereignty and remains fully committed to the offshore prospecting policy pursued by the Falkland Islands Government.

Retention of business relationships

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

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

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

We have audited the financial statements of Argos Resources Ltd for the year ended 31 December 2012 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 2012 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 1948 as amended by the Companies (Amendment) Ordinance 2006 (Falkland Islands Companies Act) as it applies in the Falkland Islands.

Opinion on other matters

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

BDO LLP

Chartered Accountants
London
United Kingdom

Date: 22 March 2013

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 2012

	Note	Year ended 31 December 2012 $'000	Year ended 31 December 2011 $'000
Administrative expenses	4	(1,749)	(1,449)
Finance income	8	37	40
Foreign exchange gains		130	123
Loss before tax		(1,582)	(1,286)
Taxation credit	9	–	146
Loss for the year attributable to owners of the parent	16	(1,582)	(1,140)
Total comprehensive income for the period attributable to owners of the parent		(1,582)	(1,140)
Basic and diluted loss per share (cents)	10	(0.73)	(0.53)

The notes on pages 27 to 35 form part of the financial statements.

Consolidated statement of financial position

As at 31 December 2012

	Note	2012 $'000	2011 $'000
Assets			
Non-current assets			
Capitalised exploration expenditure	11	28,280	27,390
Plant and equipment	12	54	59
		28,334	27,449
Current assets			
Other receivables	13	169	204
Cash and cash equivalents		5,688	8,175
Total current assets		5,857	8,379
Total assets		34,191	35,828
Liabilities			
Current liabilities			
Trade and other payables	14	637	731
Total liabilities		637	731
Total net assets		33,554	35,097
Capital and reserves attributable to equity holders of the Company			
Share capital	15	6,595	6,556
Share premium	16	30,071	30,071
Retained losses	16	(3,112)	(1,530)
Total shareholders' equity		33,554	35,097

The notes on pages 27 to 35 form part of the financial statements.

These financial statements were approved by the directors and authorised for issue on 22 March 2013 and are signed on their behalf by:

I M Thomson
Chairman

Consolidated statement of cash flows

Year ended 31 December 2012

	Note	Year ended 31 December 2012 $'000	Year ended 31 December 2011 $'000
Cash flows from operating activities			
Loss for period before taxation		(1,582)	(1,286)
Adjustments for:			
Finance income	8	(37)	(40)
Depreciation		18	7
Net cash outflow from operating activities before changes in working capital		(1,601)	(1,319)
Decrease in other receivables		30	6
Decrease in other payables		(154)	(90)
Net cash outflow from operating activities		(1,725)	(1,403)
Investing activities			
Interest received		42	43
Exploration and development expenditure		(966)	(22,671)
Purchase of plant and equipment		(13)	(66)
Net cash used in investment activities		(937)	(22,694)
Financing activities			
Issue of ordinary shares (share options exercised)		39	–
Net cash from financing activities		39	–
Net decrease in cash and cash equivalents		(2,623)	(24,097)
Cash and cash equivalents at beginning of period		8,175	32,151
Exchange gains on cash and cash equivalents		136	121
Cash and cash equivalents at end of the year		5,688	8,175

The notes on pages 27 to 35 form part of the financial statements.

Consolidated statement of changes in equity

Year ended 31 December 2012

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

The notes on pages 27 to 35 form part of the financial statements.

Notes to the consolidated financial statements

Year ended 31 December 2012

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 22 March 2013 and are subject to adoption at the Annual General Meeting of shareholders which is expected to be held in Stanley, Falkland Islands, in October 2013.

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 2012 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
IAS 12, 'Income taxes'	
Deferred tax and the recovery of underlying assets	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 2014
IFRS 11, 'Joint arrangements'	
Recognition of rights and obligations – substance over form	1 Jan 2014
IFRS 12, 'Disclosure of interests in other entities'	
Assists users to assess nature and financial effects of the reporting entity's relationship with other entities	1 Jan 2014
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 2014
IAS 28, 'Investments in associates and joint ventures'	
Accounting requirements for joint ventures and associates	1 Jan 2014
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
IFRS 1, 'First-time adoption of International Financial Reporting Standards'	
Treatment of government loans	1 Jan 2013
Annual improvements to IFRSs – (2009 – 2011 Cycle)	
Clarification and elimination of inconsistencies	1 Jan 2013
IFRS 10, 'Consolidated Financial Statements'	
IFRS 11, 'Joint Arrangements'	
IFRS 12, 'Disclosure of Interests in Other Entities'	
Transition relief and guidance	1 Jan 2013
IAS 32, 'Financial instruments: Presentation'	
Clarification on offsetting financial assets and financial liabilities	1 Jan 2014
IFRS 10, 'Consolidated Financial Statements'	

Notes to the consolidated financial statements continued

Year ended 31 December 2012

1 Accounting Policies continued

Standard/interpretation	Effective date
IFRS 12, 'Disclosure of Interests in Other Entities'	
IAS 27, 'Consolidated and separate financial statements'	
Exception from the requirements to consolidate controlled investees	1 Jan 2014
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 provide working capital for the foreseeable future, being at least 12 months from the date on which the financial statements were signed. The financial statements have therefore been prepared on a going concern basis.

Basis of consolidation
The consolidated financial statements incorporate the results of Argos Resources Ltd and its wholly-owned subsidiary undertaking as at 31 December 2012 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.

1 Accounting Policies continued

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

- Plant and equipment – 4 years

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

Capital commitments

Capital commitments include expenditure in relation to all projects which have received specific board approval up to the reporting date. Projects without approval at the reporting date are excluded.

Financial instruments

Financial assets

The Group classifies its financial assets depending on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as held to maturity, available for sale or fair value through profit and loss.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus costs that are directly attributable to the acquisition or issue and subsequently carried at amortised cost less any provision for impairment. The Group's loans and receivables comprise cash and cash equivalents and other receivables in the statement of financial position. Cash and cash equivalents comprise current account balances or short term deposits, maturing within three months, at variable interest rates. Any interest earned is accrued and classified as interest receivable.

The effect of discounting on these financial instruments is not considered to be material.

Financial liabilities

The Group classifies its financial liabilities depending on the purpose for which the liability was incurred. All are non-derivative liabilities and are measured at amortised cost. There are no financial liabilities which are measured at fair value through profit and loss.

Financial liabilities held at amortised cost are initially recognised at fair value and subsequently at amortised cost.

The effect of discounting on these financial instruments is not considered to be material.

Cash and cash equivalents

This includes cash in hand and deposits held with banks. Deposits range from instant access to fixed term deposits. No fixed term deposit exceeds 3 months.

Foreign currencies

The functional and presentational currency is US dollars (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:

	2012	2011
£:US$	1.63	1.55

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 IFRS2 "Share based payments". Under this standard, the cost of providing for such options is based on the fair value of the options at the date of grant and is charged to the consolidated statement of comprehensive income or, if appropriate, the fixed asset class is debited with the fair value of goods and services received, over the expected vesting period of the options and credited to retained losses.

Notes to the consolidated financial statements continued

Year ended 31 December 2012

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 Sterling against US$.

As of 31 December 2012 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	90	79	169
Less: prepayments	(83)	(79)	(162)
Cash and cash equivalents	2,739	2,949	5,688
	2,746	2,949	5,695
Liabilities			
Other payables	(239)	(398)	(637)
Net financial assets	2,507	2,551	5,058

At 31 December 2011 the comparative balances were:

	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

If the US$ had strengthened against Sterling by 10% equity would reduce by $251K (2011: $170K). Conversely if the US$ weakens against Sterling the equity would increase by $251K (2011: $170K).

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 2012:

Institution	2012 $'000	2011 $'000
Lloyds TSB	1,482	3,491
Standard Chartered Bank	2,240	2,564
HSBC	1,966	2,120
	5,688	8,175

2 Financial instruments continued

Interest rates
The Group is not exposed to interest rate risk as there are no interest bearing loans or balances outstanding to providers of finance.

Liquidity
This is the risk that the Group cannot meet its liabilities as these fall due. As the timing of significant payments carries a degree of uncertainty cash balances are being kept in interest bearing term deposits with periods of no longer than 3 months.

Credit
The Group is not exposed to credit risk as it does not trade, and the cash balances held by the Group are spread between three reputable institutions. The comments made above in relation to counter-party risk are relevant.

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

	2012 $'000	2011 $'000
Directors' remuneration (see note 5)	458	434
Professional fees	284	314
Depreciation	18	7
Other expenses	989	694
Total	1,749	1,449

5 Directors' remuneration

	2012 $'000	2011 $'000
Remuneration and fees	472	417
Pensions*	(14)	17
Total	458	434

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

Directors' remuneration, by director, is disclosed in the directors' remuneration report on page 20.

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

6 Auditor's remuneration

	2012 $'000	2011 $'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	30	30
Fees payable to the Company's auditor for the audit of the subsidiary's annual financial statements	5	5
Review of interim accounts	11	11
Total payable for audit related services	**46**	**46**
Fees payable to the Company's auditor for other services:		
Taxation	13	15
	59	61

Notes to the consolidated financial statements continued

Year ended 31 December 2012

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 2011 and 1 January 2012	2	12,680,818
Exercised – 7 June 2012	2	(1,250,000)
Outstanding at 31 December 2012	2	11,430,818

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

Charge for share based payment	2012 $'000	2011 $'000
Capitalised as part of exploration expenditure	–	4
Equity-settled	–	4

8 Finance income

	2012 $'000	2011 $'000
Interest on bank deposits	37	40

9 Taxation credit

	2012 $'000	2011 $'000
Total tax:		
Corporation tax on losses for the year	–	–
Adjustment in respect of prior year	–	(146)
Total corporation tax on losses for the year	–	(146)
Reconciliation of total tax credit:		
Loss before tax	1,582	1,286
Loss on ordinary activities multiplied by the standard rate of corporation tax of 26%	(411)	(334)
Effects of:		
Unrelieved tax losses and other deductions arising in the period	408	334
Interest receivable not taxable	(6)	(5)
Expenses not deductible for tax purposes	9	5
Reversal of 2010 tax over provision	–	(146)
Total tax credit for the year	–	(146)

	2012 $'000	2011 $'000
Unrelieved tax losses, on which no deferred tax asset has been recognised, which are available for offset against future profits	4,096	2,564

10 Loss per share

	2012 Number	2011 Number
Shares in issue brought forward (2 pence shares)	216,113,205	216,113,205
Options exercised	1,250,000	–
Shares in issue carried forward	217,363,205	216,113,205
Weighted average shares in issue	216,822,109	216,113,205

	2012 $'000	2011 $'000
Loss for the year	(1,582)	(1,140)
Weighted average number of ordinary shares in issue during the year	216,822,109	216,113,205
Basic and diluted loss per ordinary share (cents)	(0.73)	(0.53)

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

11 Capitalised exploration expenditure

	2012 $'000	2011 $'000
Cost and net book value:		
At 1 January	27,390	4,238
Additions	890	23,152
At 31 December	28,280	27,390

12 Plant and equipment

	2012 $'000	2011 $'000
Cost:		
At 1 January	66	–
Additions	13	66
At 31 December	79	66
Depreciation:		
At 1 January	7	–
Charge for year	18	7
At 31 December	25	7
Net book value:		
At 31 December	54	59

13 Other receivables

	2012 $'000	2011 $'000
Prepayments	162	167
Accrued interest	2	3
Other	5	34
	169	204

Notes to the consolidated financial statements continued

Year ended 31 December 2012

14 Trade and other payables

	2012 $'000	2011 $'000
Trade payables	434	603
Accruals	203	128
	637	731

15 Share capital

	2012 $'000	2011 $'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 2 pence each		
At 1 January 2011 and 1 January 2012	216,113,205	6,556
Shares issued (share options exercised)	1,250,000	39
Ordinary shares of 2 pence each		
At 31 December 2012	217,363,205	6,595

16 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.

17 Related party transactions

Argos Georgia Ltd is a related party of the Group due to one of the Group's directors, Ian Thomson, having a significant shareholding in Argos Georgia Ltd. Transactions with Argos Georgia Ltd during the year are as follows:

	2012 $'000	2011 $'000
Due to Argos Georgia Ltd at 1 January	(7)	(1)
Expenses paid on behalf of the Group	(42)	(55)
Loans repaid/creditor balances paid	370	365
Office running costs*	(324)	(316)
Due to Argos Georgia Ltd at 31 December	(3)	(7)

* There is a services and agency agreement between the Company and Argos Georgia Ltd in which Argos Georgia Ltd provides certain agency, accounting, secretarial and operational services to the Company for an annual basic fee of $358K. This agreement is terminable on six months notice. Key management personnel are the directors only.

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

The directors are considered to be the key management of the Group. There have been no transactions with directors during the year other than remuneration paid to each director which is disclosed in the directors' remuneration report on page 20 and in note 5.

18 Commitments

(a) Capital commitments

There were no capital commitments at 31 December 2012 nor for the comparative period.

(b) Operating commitments

There is a services and agency agreement dated 26 July 2010 between the Company and Argos Georgia Ltd in which Argos Georgia Ltd provides certain agency, accounting, secretarial and operational services to the Company for an annual basic fee of $358K. This agreement is terminable on six months notice. The ongoing commitment at 31 December 2012 was as follows:

	2012 $'000	2011 $'000
Total committed within 1 year	179	155

19 Contingent liabilities

The Group has no anticipated material contingent liabilities.

20 Events after the reporting date

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

Parent Company balance sheet
As at 31 December 2012

	Note	2012 $'000	2011 $'000
Fixed assets			
Plant and equipment	2	27	21
Investments	3	2,120	2,120
		2,147	2,141
Current assets			
Debtors	4	25,059	24,236
Cash at bank		5,688	8,175
		30,747	32,411
Creditors: amounts falling due within one year	5	548	687
Net current assets		30,199	31,724
Total assets less current liabilities		32,346	33,865
Capital and reserves			
Called up share capital	6	6,595	6,556
Share premium	7	30,071	30,071
Profit and loss account	7	(4,320)	(2,762)
Shareholders' funds	7	32,346	33,865

The notes on pages 37 to 39 form part of the financial statements.

These financial statements were approved by the directors and authorised for issue on 22 March 2013 and are signed on their behalf by:

Ian Thomson
Chairman

Notes to the parent Company financial statements

Year ended 31 December 2012

1 Accounting policies

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

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

Profit and loss account
As a Group income statement has been published as part of the financial statements, a separate profit and loss account for the Company has not been presented as permitted by 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 $1.56 million (2011: loss of $1.12 million).

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

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

Plant and equipment
Plant and equipment 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 Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

- Plant and equipment – 4 years

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

Deferred taxation
Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the Company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

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

The year end rates of exchanges used were:

	2012	2011
£:US$	1.63	1.55

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

Notes to the parent Company financial statements continued

Year ended 31 December 2012

2 Plant and equipment

	2012 $'000	2011 $'000
Cost:		
At 1 January	24	–
Additions	13	24
At 31 December	37	24
Depreciation:		
At 1 January	3	–
Charge for year	7	3
At 31 December	10	3
Net book value:		
At 31 December	27	21

3 Investments

	2012 $'000	2011 $'000
Investment in subsidiary		
Cost at 1 January and 31 December 2012	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

	2012 $'000	2011 $'000
Amounts due from subsidiary	24,955	24,097
Accrued interest	2	3
Prepayments	97	102
Other	5	34
	25,059	24,236

All amounts fall due for payment in one year.

5 Creditors: – amounts falling due within 1 year

	2012 $'000	2011 $'000
Trade creditors	434	602
Accruals and deferred income	114	85
	548	687

6 Share capital

The information on share capital is given in note 15 on page 34 of the Group financial statements.

7 Reconciliation of movements in shareholders' funds

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

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 and 1 January 2012	2	12,680,818
Exercised during the year	2	(1,250,000)
Outstanding at 31 December 2012	2	11,430,818

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

Related party transactions

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

Commitments

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

Events after the balance sheet date

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

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