



**Argos Resources Ltd**  
**Annual Report**  
**Year ended 31 December 2018**

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## Highlights

Argos Resources Ltd (AIM: ARG.L), the Falkland Islands based exploration company focused on the North Falkland Basin, announced its financial results for the year ended 31 December 2018 on 18 March 2019.

- US\$406,000 profit (2017: US\$118,000)
- US\$788,000 cash reserves at 31 December 2018 (2017: US\$758,000)
- The Working Interest in the Licence was transferred back to Argos in February 2019
- The Group will continue to receive quarterly cash payments from Noble and Edison of £75,000 per quarter, for a period of 450 days after the notice to withdraw, until 27 December 2019
- The current Second Phase of the Licence expires in November 2019. Discussions about the licence term beyond that date are underway with the Falkland Islands Government

## Joint Chairman’s statement and Managing Director’s review

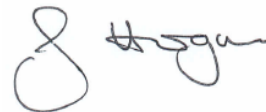
In October 2018 Noble Energy Falklands Limited (“Noble”) and Edison International S.p.A (“Edison”) served notice of their intention to withdraw from Production Licence PL001 (the Licence) in the North Falkland Basin, in which Argos held a 5% Overriding Royalty Interest under a Participation Agreement. The Licence covers an area of approximately 1,126 square kilometres in the North Falkland Basin.

On receipt of the notice Argos exercised the option under the Participation Agreement to have the Licence reassigned to it, which effectively terminated the Participation Agreement. Although the Participation Agreement has now terminated, under the terms of that agreement the Group will continue to receive quarterly cash payments from Noble and Edison of £75,000 per quarter, for a period of 450 days after the notice to withdraw. These payments, together with current cash balances of \$788,000 at year end 2018, leave the Group adequately financed for at least twelve months beyond sign-off.

The current Second Phase of the Licence expires in November 2019 and discussions about the licence term beyond that date are underway with the Falkland Islands Government. The Working Interest in the Licence was transferred back to Argos in February 2019 and the Company will seek to secure other partners to participate in its development.



Ian Thomson  
Chairman  
18 March 2019



John Hogan  
Managing Director

## 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 2018.

### Principal activity

In October 2018 Noble Energy Falklands Limited (“Noble”) and Edison International S.p.A (“Edison”) served notice of their intention to withdraw from Production Licence PL001 (the Licence) in the North Falkland Basin, in which Argos Resources Limited held a 5% Overriding Royalty Interest under a participation agreement. The Licence covers an area of approximately 1,126 square kilometres in the North Falkland Basin.

On receipt of the notice the Company exercised the option under the Participation Agreement to have the Licence reassigned to them which effectively terminated the Participation Agreement and the Working Interest in the Licence was transferred back to Argos in February 2019.

The current Second Phase of the Licence expires in November 2019. Discussions about the licence term beyond that date are underway with the Falkland Islands Government.

### 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 (2017: \$nil).

### Business review

The Group has returned a profit for the year ended 31 December 2018 of \$406,000 (2017: \$118,000) which equates to a profit per share of 0.18 cents (2017: 0.05 cents). The increase in profit is due to the recognition of the full amount of the income due under the Participation agreement in the current year, as Argos are contractually entitled to the income under the termination clause of the agreement.

Administration expenses were \$334,000 in 2018 compared to \$329,000 in 2017.

Shareholders’ equity has increased marginally from \$29.46 million to \$29.87 million in the year since 31 December 2017, as receipts under the Participation Agreement offset the administration costs leaving a small surplus. Cash in the year increased from \$758,000 to \$788,000.

IFRS 9 requires the consideration of the risk attached intercompany loan between the parent and subsidiary companies. This has resulted in an impairment provision in the accounts of the parent but it has no impact on the group accounts and does not affect the group’s view of the outcome of the project.

### Outlook for the next financial year

Although the Participation Agreement has now terminated, under the terms of that agreement the Group will continue to receive quarterly cash payments from Noble and Edison of £75,000 per quarter, which equates to \$96,000 at the year-end exchange rate, for a period of 450 days after the notice to withdraw.

The Group is therefore fully funded for at least twelve months beyond sign-off.

### Key performance indicators

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

## Statutory information (continued)

### 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 10.

### Substantial shareholders

As at 5 March 2019, the Company has been notified of interests in 3% or more of the Company's voting rights, based on an issued share capital of 220,713,205, as shown below:

Shareholder/Fund manager	Percentage of voting rights
Ian Thomson	12.93
Iain Aylwin	9.11
Orian Partners LP	6.29
Salida Capital International	6.33
JP Morgan Asset Management (UK) Ltd	4.93
Portogon Investments SA	4.53
Robert Smith	4.27

### 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 2018	At 31 December 2017
		Ordinary shares of	Ordinary shares of
		2 pence each	2 pence each
I M Thomson	Chairman	28,544,701	27,844,701
J Hogan	Managing Director	3,000,000	3,000,000
A Irvine	Finance Director	2,125,000	2,125,000
D Carlton	Non-executive	3,750,000	3,750,000
C Fleming	Non-executive	2,625,000	2,625,000
J Ragg	Non-executive	200,000	200,000
Total		40,244,701	39,544,701

The directors also hold options in the Company's shares which are detailed in the directors' remuneration report on page 19.

## **Statutory information (continued)**

### **Directors' service agreements**

The terms of the directors' service agreements or letters of engagement are summarised as follows. The Company entered into a service agreement with the executive directors Ian Thomson, John Hogan and Andrew Irvine on 8 July 2010 setting out the terms of their employment following the admission to AIM, which took place on 29 July 2010. The terms of the service contracts permit termination by either party giving notice to the other of not less than 12 months in the case of Ian Thomson and 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. Each non-executive director has been duly re-elected on the expiration of their term in office.

### **Related party transactions**

See note 16.

### **Events after the reporting date**

See note 19.

### **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 or charitable donations in the year under review (2017: \$nil).

### **Creditor payment policy**

It is the Group's policy to ensure that all of its suppliers are paid promptly and in accordance with contractual obligations. Average creditor days for the year were 1 day (2017: 3 days), on the basis of accounts payable (excluding retention held) as a percentage of purchase ledger turnover which includes amounts capitalised.

### **Directors' and officers' insurance**

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

### **Employees**

The Group employees consisted of three executive and three non-executive directors during the course of the year who are included in the total staff numbers shown in note 6 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 best practice.

## **Statutory information (continued)**

### **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 and parent Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

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 Group and parent Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent Company will continue in business.

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

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

### **Statement as to disclosure of information to the auditor**

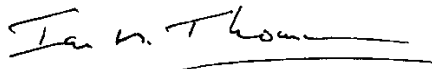
Each director in office at the date of this report has confirmed, as far as he is aware, that there is no relevant information of which the auditor is unaware. Each such director has confirmed that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

## Statement of directors' responsibilities in respect of the annual report and the financial statements (continued)

### 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 reappointment of BDO LLP as auditor of the Company.

On behalf of the board

A handwritten signature in black ink, appearing to read "Ian Thomson", with a horizontal line underneath it.

Ian Thomson  
Chairman

Date: 18 March 2019

## Corporate governance

### Chairman's statement on corporate governance

As an AIM company, Argos Resources Ltd is required to adopt a recognised Corporate Governance Code and the Company has chosen to apply the Quoted Companies Alliance ("QCA") Corporate Governance Code. The Company believes that high standards of corporate governance helps effective and efficient decision-making, reduces risk and adds value, which is important for the long-term benefit of all stakeholders.

Ultimate responsibility for the quality of, and approach to, corporate governance lies with the chair of the board.

The board meets 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. Corporate Governance is a standing agenda item for each board meeting where directors confirm their interests and related parties together with any external interests beyond a given threshold. There is also an opportunity to raise any concerns in relation to corporate governance more generally.

The Company has also adopted rules for dealings in the Company's shares to ensure compliance by directors. Any proposed share transaction by a director requires approval from the Chairman.

The Company has followed the QCA recommended location for each of the 10 principles in terms of whether these are published on the Company's website or in the annual report and accounts. The annual report and accounts disclosures are detailed below and the website disclosures can be found at <http://www.argosresources.com/docs/arg-corporate-governance.pdf>.

The following paragraphs describe how the company implements the key governance principles contained within the QCA code in relation to the required disclosure in annual accounts.

### Strategy and business model

Following the withdrawal of Noble and Edison the Company indicated its intention to take a reassignment of the Licence and this process was concluded and the Licence re-assigned in February 2019.

Although the Participation Agreement has now terminated the Group will continue to receive quarterly cash payments of £75,000 per quarter, which equates to \$96,000 at the year-end exchange rate, for a period of 450 days after the notice to withdraw. The Group is therefore fully funded for a period of more than 12 months beyond sign-off.

The main challenge and focus of the business going forward is to attract well-resourced partners to meet the drilling commitment under the Licence.

### Risk management

The Group's business, financial condition and results could be materially adversely affected by a number of factors.

## Corporate Governance (continued)

### 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 Licence area, no commercial volumes of oil or gas have yet been discovered and there is no certainty that such discoveries will ever be made.

*Mitigation: Although Noble and Edison have served notice to withdraw from the Licence there is no indication that this was due to a lack of prospectivity and the Company is actively seeking new partners to continue exploration in the area covered by the Licence.*

### Licence risk

The licence requires a well to be drilled by 25 November 2019. There is a risk that the licence will expire and not be extended.

*Mitigation: In August 2016 an extension of 3 years was approved by the Executive Council of the Falkland Islands Government and by the UK Secretary of State for Foreign and Commonwealth Affairs. This approval extended the current Second Phase of the Licence to November 2019. Discussions about the licence term beyond that date are underway with the Falkland Islands Government and the Company is actively seeking new partners to continue exploration in the Licence area.*

### Commercial risk

Even if quantities of oil or gas are discovered, there is a risk that these will not be developed.

*Mitigation: The Company is actively seeking partners with strong financial backgrounds and track records of expediting the process from commercial discovery to production.*

### Future funding requirements

There is a risk that funds run out before a partner is found.

*Mitigation: The Company has sufficient cash reserves to meet the ongoing overhead for a period of more than one year beyond sign-off, during which time the Company could seek to raise further finance if required.*

### Political risk

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

*Mitigation: In a referendum, conducted in 2013, the Falkland Islanders voted unequivocally to remain as a British Overseas Territory and the UK Government has stated that it has no doubt about its sovereignty and remains fully committed to the offshore prospecting policy pursued by the Falkland Islands Government.*

## The Board

The board members have a collective responsibility and legal obligation to promote the interests of the company, and are collectively responsible for defining corporate governance arrangements.

The board (and committees) are provided with high quality information in a timely manner to facilitate proper assessment of the matters requiring a decision or insight.

## **Corporate Governance (continued)**

The board has an appropriate balance between executive and non-executive directors, with three independent non-executive directors.

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.

The policy for managing financial risks is set by the board following recommendations from the Finance Director but the Company has no formal policy on the management of other types of risk as the directors are the only employees and as such decisions on risk are not delegated but assessed by the board in relation to all key management decisions.

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 and the Board is satisfied that it has a suitable balance between independence on the one hand, and knowledge of the Company on the other, to enable it to discharge its duties and responsibilities effectively.

Dennis Carlton is the senior non-executive director. Dennis is considered a valuable member of the Board and his experience in the oil industry more than outweighs any perceived loss of independence due to the time he has served as non-executive.

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](mailto: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 chairman 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.

## Corporate Governance (continued)

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

- 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 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](mailto: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 one meeting during the year and during that meeting the following items were considered:

- the auditors' report to members of the audit committee; and,
- in relation to the annual report:
  - changes in accounting policies and practices;
  - judgement areas and accounting issues which are of a subjective nature;
  - significant adjustments resulting from the audit;
  - the going concern position of the company for a period of 12 months from the date of approval of the accounts;
  - whether there is any indication of impairment to the carrying value of capitalised exploration expenditure which was transferred to royalty interests;
  - compliance with accounting standards;
  - compliance with the Quoted Companies Alliance ("QCA") Corporate Governance Code, AIM Rules and regulatory requirements;
  - compliance with corporate governance requirements;
  - narrative elements; and,
  - the draft RNS and annual report.

## **Corporate Governance (continued)**

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.

During the period since the year end one further meeting has been held.

### **Remuneration committee**

Board performance is subject to regular review, as well as that of its committees and the individual directors.

The Chairman meets with the non-executive directors annually, without the other executive directors present, to evaluate executive director performance in terms of contribution and commitment. In addition the Chairman also considers the non-executive director performance in terms of contribution and independence.

The Remuneration Committee meets annually to review the terms, conditions and performance of the 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 and succession planning, are carried out by the board as a whole.

No appointments to the board were made in the year under review.

## Corporate Governance (continued)

### Internal controls

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.

The Directors are expected to devote sufficient time to carry out their duties. Briefings take place where directors are unable to attend a meeting to ensure that all contributions are considered.

### Directors' attendance

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

	<b>Board meetings</b>	<b>Audit committee meetings</b>	<b>Remuneration committee meetings</b>
I M Thomson (Chairman)	5	-	-
J Hogan	5	-	-
A Irvine	5	-	-
D Carlton (chairman, remuneration committee)	5	1	1
C Fleming	1	1	1
J Ragg (chairman, audit committee)	3	1	1
<b>Total meetings during the year</b>	<b>5</b>	<b>1</b>	<b>1</b>



## Corporate Governance (continued)

### Directors

The board believes that there is an appropriate balance of sector, financial and public markets skills and experience, as well as an appropriate balance of personal qualities and capabilities. The Board supports members in their efforts to keep up to date with changing regulations and practices largely through Continuing Professional Development (CPD) as required by relevant professional body memberships. Details of individual board members are listed on the following pages, together with their qualifications, external appointments and any committee positions that they hold.

#### **Ian Thomson OBE**

##### **Executive Chairman (aged 79)**

###### Skills and experience

Ian, a Chartered Engineer, founded Argos in 1995. After an early career in the mining and energy equipment industry, he became the Managing Director of Evergreen Resources Inc.'s exploration and production interests in the UK and Europe.

###### External appointments

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

###### Committee membership

None

#### **John Hogan**

##### **Managing Director (aged 65)**

###### Skills and experience

John joined the board in 2005. John is a qualified geologist who has spent over 40 years in the oil industry. He was Chief Operating Officer of LASMO PLC and Managing Director of LASMO North Sea between 1989 and 2000. Since 2000, he has been active at board level in a number of privately held and quoted energy businesses internationally.

###### External appointments

John is a non-executive director of Chrysaor Holdings Ltd.

###### Committee membership

None

#### **Andrew Irvine FCCA**

##### **Finance Director (aged 57)**

###### Skills and experience

Drew 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.

## Corporate Governance (continued)

### External appointments

He is a director of Argos Group Limited, a Falkland Islands fishing quota holder, a member of the board of the Falkland Islands Fishing Companies Association and chairman of the Falkland Islands Pensions Scheme.

### Committee membership

None

### **Dennis Carlton**

#### **Senior Non-executive Director (aged 68)**

##### Skills and experience

Dennis joined the board in 2005, having served on the board of Argos Exploration since 1995. Dennis is a qualified petroleum geologist and has been involved with the North Falkland Basin since 1995. He was Chief Operating Officer of Evergreen Resources Inc. between 1981 and 2004, and following its merger, Vice President of Exploration, Western Division for Pioneer Natural Resources USA Inc. until 2008.

### External appointments

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

### Committee membership

Dennis is a member of the Audit Committee and Chairman of the Remuneration Committee.

### **Christopher Fleming**

#### **Non-executive Director (aged 59)**

##### Skills and experience

Christopher joined the board in 2008. Christopher graduated from Aberdeen University with an M.A. in Economics and Law and joined Morgan Grenfell in 1985. Between 1987 and 2005 he was involved in the development of the Gilt Sales operations of Bankers Trust, Deutsche Bank and SBC Warburg as Head of Government Bond Sales of each of the banks. From 2005 to 2009 he was Head of EMEA Flow Rates, Credit and Currency Sales for RBS Global Markets and retired as Head of Global Markets EMEA Sales for Nomura International PLC in August 2016. In June 2017 Chris returned to Nomura as Vice Chairman of EMEA Wholesale.

### External appointments

Christopher is Chairman and co-founder of "mentorxchange", a company set up in 2016.

### Committee membership

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

## **Corporate Governance (continued)**

### **James Ragg LLB, FCA**

#### **Non-executive Director (aged 53)**

##### Skills and experience

James joined the board in 2008. James qualified as a Chartered Accountant in 1995, and after eight years with Saffery Champness, joined a Haines Watts accountancy practice as an audit and assurance partner in 2004. He subsequently managed the de-merger of his firm from Haines Watts and its renaming as Blue Spire South LLP where he was a Management Partner until September 2012, and a non-executive partner until September 2013.

##### External appointments

He is currently heading up the finance and development operations for a group of private companies.

##### Committee membership

James is Chairman of the Audit Committee and a member of the Remuneration Committee.

## **Going concern**

As at the date of approval of the financial statements the board is of the opinion that the Group and Company have adequate resources to continue in existence for at least 12 months from that date. The board has therefore continued to adopt the going concern basis in preparation of the financial statements. See also Accounting Policy note 1 on page 31.

## **Capital**

Capital is managed to ensure that the Group is able to continue as a going concern. The Group is not subject to any externally imposed capital requirements.

## Corporate Governance (continued)

### Remuneration report

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 did not recommend any changes to remuneration for executive members of the Board.

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

	2018 Fees £'000	2018 Pension contributions £'000	2018 Total £'000	2017 Fees and total £'000
I M Thomson	-	-	-	-
J Hogan	50	-	50	50
A Irvine	20	1	21	21
D Carlton	10	-	10	10
C Fleming	10	-	10	10
J Ragg	10	-	10	10
<b>Total directors' remuneration</b>	<b>100</b>	<b>1</b>	<b>101</b>	<b>101</b>
<b>Remuneration above converted to \$'000</b>	<b>132</b>	<b>2</b>	<b>134</b>	<b>131</b>

### Share options

The share options in place as at 31 December 2018 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	4,805,818	-	4,805,818	2
A Irvine	12/11/2009	-	-	-	2
D Carlton	12/11/2009	875,000	-	875,000	2
C Fleming	12/11/2009	-	-	-	2
J Ragg	12/11/2009	1,025,000	-	1,025,000	2
<b>Total</b>		<b>6,705,818</b>	<b>-</b>	<b>6,705,818</b>	

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARGOS RESOURCES LIMITED**

### **Opinion**

We have audited the financial statements of Argos Resources Ltd (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2018 which comprise the consolidated statements of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of cash flows, the consolidated and company statements of changes in equity and notes to the financial statements including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, with regards to the parent company financial statements, as applied in accordance with the Companies Act 1948 as amended by the Companies (Amendment) Ordinance 2006 as it applies in the Falkland Islands.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 and of the Group's profit 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 IFRSs as adopted by the European Union as applied in accordance with Companies Act 1948 as amended by the Companies (Amendment) Ordinance 2006 as it applies in the Falkland Islands 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 as it applies in the Falkland Islands.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director's have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Key Audit Matter

#### Accounting treatment and carrying value of Intangible Assets

In the prior year the Group's principal asset was a 5% overriding royalty interest (ORRI) in Licence PL001. As detailed in notes 1 and 12 to the financial statements, on 3 October 2018 Noble and Edison gave notice of their intention to withdraw from the Participation Agreement and surrender the Falkland Islands Production Licence PL001 to Argos on 2 January 2019.

The ORRI ceased to exist after the termination of the Participation Agreement and the Group regained the exploration rights. Upon cessation of the Participation Agreement, the Group's accounting policy was to derecognise the intangible ORRI asset and recognise an intangible exploration asset. This accounting policy is disclosed in Note 1.

The accounting for the cessation of the Participation Agreement is complex and there is a risk that the carrying value of the intangible asset is higher than the recoverable amount. Reviewing indicators of impairment often requires significant estimates and judgements and therefore we identified this as a key audit matter.

**How we addressed the key audit matter in the audit**

We reviewed the correspondence with Edison and Noble and confirmed the effective date of the termination agreement is on 3 October 2018.

We have obtained and reviewed the correspondence from the Falkland Islands Government approving the re-assignment of the PL001 exploration licence to Argos.

We have reviewed the Group's accounting policy for the de-recognition of the intangible ORRI asset and the recognition of an Intangible Exploration asset to ensure this is in line with the requirements of IFRS.

We reviewed Management's assessment of whether there were any indicators of impairment.

The royalty interest is similar in economic terms to holding a direct interest in the underlying licence as there is only a right to receive benefit from the ORRI on production and therefore many of the risks faced by the Group are the same as those faced by the owner of the licence.

We have considered the indicators of impairment applicable to exploration businesses, including the following indicators identified in IFRS 6 'Exploration for and Evaluation of Mineral Resources':

- The period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and was not expected to be renewed.
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
- Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Discussions about the licence term beyond November 2019 are underway with the Falkland Islands Government and the Company is actively seeking new partners to continue exploration in the Licence area.

### **Our application of materiality**

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality for the Group financial statements as a whole was set at \$500,000 for 2017 and 2018 being 1.5% of total assets which we consider to be the most significant determinant of the group's financial performance used by shareholders. Materiality for the Parent company has been set at 1.5% of total Parent assets at \$400,000 for 2017 and 2018. Materiality for the subsidiary, Argos Exploration Limited has been set at \$300,000, which was 1.5% of total assets capped at 80% of Group materiality.

In performing the audit, we apply a lower performance materiality at the individual account or balance level which is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. Performance materiality was set at 75 per cent of the above materiality levels. This threshold was used as a reasonable basis, taking into consideration; the expected value of misstatements was likely to be very low, based on past experience. There are few accounts which are subject to estimation, the components are all based within one location and there are no brought forward adjustments from the prior period.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of \$25,000. We also agreed to report differences below these thresholds that, in our view warranted reporting on qualitative grounds.

#### **An overview of the scope of our audit**

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements at the Group level.

The Group audit team performed a full scope audit of Argos Resources Limited and Argos Exploration Limited, being the parent company and wholly owned subsidiary respectively, along with the consolidation. These were all deemed to be significant components.

#### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.



## **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where Companies Act 1948 as amended by the Companies (Amendment) Ordinance 2006 as it applies in the Falkland Islands requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## **Responsibilities of Directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

## **Auditor's responsibilities for the audit of the financial statements**

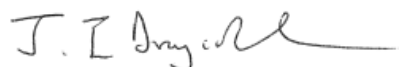
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## Use of our report

This report is made solely to the parent company's members, as a body, in accordance with section 235 of the Companies Act 1948 as amended by the Companies (Amendment) Ordinance 2006 as it applies in the Falkland Islands. Our audit work has been undertaken so that we might state to the parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.



BDO LLP  
Chartered Accountants  
London

Date: 18 March 2019

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 2018**

		Year ended 31 December 2018 \$'000	Year ended 31 December 2017 \$'000
	<b>Note</b>		
Other income	4	784	380
Administrative expenses	5	(334)	(329)
Finance income	9	4	1
Foreign exchange (losses)/gains		(48)	66
<b>Profit for the year attributable to owners of the parent</b>		<b>406</b>	<b>118</b>
<b>Total comprehensive income for the period attributable to owners of the parent</b>		<b>406</b>	<b>118</b>
Basic and diluted earnings per share (cents)	11	0.18	0.05

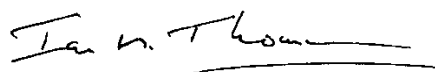
The notes on pages 30 to 44 form part of the financial statements.

**Consolidated statement of financial position**  
**As at 31 December 2018**

	Note	2018 \$'000	2017 \$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Exploration intangible assets and royalty interests	12	28,749	28,749
		28,749	28,749
<b>Current assets</b>			
Other receivables	13	392	14
Cash and cash equivalents		788	758
<b>Total current assets</b>		<b>1,180</b>	<b>772</b>
<b>Total assets</b>		<b>29,929</b>	<b>29,521</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	14	61	59
<b>Total liabilities</b>		<b>61</b>	<b>59</b>
<b>Total net assets</b>		<b>29,868</b>	<b>29,462</b>
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	15	6,696	6,696
Share premium		30,071	30,071
Retained losses		(6,899)	(7,305)
<b>Total shareholders' equity</b>		<b>29,868</b>	<b>29,462</b>

The notes on pages 30 to 44 form part of the financial statements.

These financial statements were approved by the directors and authorised for issue on 18 March 2019 and are signed on their behalf by:



I M Thomson  
Chairman

## Consolidated statement of cash flows

### Year ended 31 December 2018

	Year ended 31 December 2018 \$'000	Year ended 31 December 2017 \$'000
<b>Cash flows from operating activities</b>		
Profit for period before taxation	406	118
Adjustments for:		
Finance income	9	(1)
Foreign exchange loss/(gain)	50	(67)
<b>Net cash inflow from operating activities before changes in working capital</b>	<b>452</b>	<b>50</b>
Increase in other receivables	(378)	1
Increase/(decrease) in other payables	2	(89)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>76</b>	<b>(38)</b>
<b>Investing activities</b>		
Interest received	4	1
<b>Net cash received from investment activities</b>	<b>4</b>	<b>1</b>
<b>Financing activities</b>		
Issue of ordinary shares (share options exercised)	-	27
<b>Net cash from financing activities</b>	<b>-</b>	<b>27</b>
Net increase/(decrease) in cash and cash equivalents	80	(10)
Cash and cash equivalents at beginning of period	758	701
Exchange (losses)/gains on cash and cash equivalents	(50)	67
<b>Cash and cash equivalents at end of the year</b>	<b>788</b>	<b>758</b>

The notes on pages 30 to 44 form part of the financial statements.

**Consolidated statement of changes in equity**  
**Year ended 31 December 2018**

	Share capital \$'000	Share premium \$'000	Retained losses \$'000	Total equity \$'000
At 1 January 2017	6,669	30,071	(7,423)	29,317
Total comprehensive income for the year	-	-	118	118
Shares issued (share options exercised)	27	-	-	27
<hr/>				
At 31 December 2017 And 1 January 2018	6,696	30,071	(7,305)	29,462
<hr/>				
Total comprehensive income for the year	-	-	406	406
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<b>At 31 December 2018</b>	<b>6,696</b>	<b>30,071</b>	<b>(6,899)</b>	<b>29,868</b>

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 and the share payment reserve.

The notes on pages 30 to 44 form part of the financial statements.

# Notes to the consolidated financial statements

## Year ended 31 December 2018

### 1 Accounting policies

#### The Group and its operations

Argos Resources Ltd is an AIM quoted, limited liability company. The Group comprises 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 address of its registered office is Argos House, H Jones Road, Stanley, Falkland Islands, FIQQ 1ZZ.

Following the withdrawal of Noble and Edison from Licence PL001 the Company exercised the option under the Participation Agreement to have the Licence reassigned to them, which effectively terminated the Participation Agreement. The Licence re-assignment process was concluded in February 2019.

#### 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 18 March 2019 and are subject to adoption at the Annual General Meeting of shareholders which is expected to be held in Stanley, Falkland Islands, in October 2019.

#### Basis of preparation

These financial statements have been prepared under the historical cost convention, using the accounting policies set out below, which have been consistently applied unless stated otherwise. 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

##### Standards which have been implemented in the year

##### IFRS 9 'Financial Instruments'

The standard replaces all phases of the financial instruments project and IAS 39 'Financial Instruments: Recognition and Measurement'. The standard is effective from periods beginning on or after January 2018 and introduces:

- new requirements for the classification and measurement of financial assets and financial Liabilities; and,
- a new model for recognising provisions based on expected credit Losses.

The impact of IFRS 9 has been assessed at a Group level, and there is no material impact on the consolidated results of the Group, as all financial instruments have been classified as amortised cost and the expected credit loss impairment is minimal.

# Notes to the consolidated financial statements

## Year ended 31 December 2018

### Accounting policies (continued)

#### IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 replaced IAS 18 'Revenue' and IAS 11 'Construction Contracts' for accounting periods commencing on or after 1 January 2018. The core principle of the standard is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring promised goods or services to a customer. The Group performed an impact assessment during the prior year regarding the accounting requirements of IFRS 15. As the Group has not previously had any revenue there has been no impact on adoption of the standard.

#### Standards which have been issued but are not yet effective

The International Accounting Standards Board (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 2018 and have not been adopted early. The Group is currently assessing the impact of these standards and based on the Group's current operations do not expect them to have a material impact on the financial statements.

<b>New Standards</b>	<b>Effective date</b>
IFRS 16 Leases	01-Jan-19
<b>Amendments to Existing Standards</b>	
Annual Improvements to IFRSs (2015-2017 Cycle)*	01-Jan-19
Amendments to References to the Conceptual Framework in IFRS Standards	01-Jan-20
Definition of Material - Amendments to IAS 1 and IAS 8	01-Jan-20

#### IFRS 16 'Leases'

IFRS 16 'Leases' will replace IAS 17 'Leases' for periods commencing on or after 1 January 2019. There are no leases within the Group and there is no impact expected on the Group accounts.

#### Going concern

Following the withdrawal of Noble and Edison the Company indicated its intention to take a reassignment of the Licence and this process was concluded and the Licence re-assigned in February 2019.

Although the Participation Agreement has now terminated the Group will continue to receive quarterly cash payments of £75,000 per quarter, which equates to \$96,000 at the year-end exchange rate, for a period of 450 days after the notice to withdraw.

The directors consider that the Group's available financial resources are 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 2018 using the acquisition method of accounting. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition.



# Notes to the consolidated financial statements

## Year ended 31 December 2018

### Accounting policies (continued)

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 and 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.

#### Intangible assets – capitalised exploration expenditure, impairment and royalty interests

##### *Evaluation and exploration (E&E) expenditure*

As part of the 2015 farmout transaction the Group retained an ORRI of 5% of gross revenues from all hydrocarbon discoveries developed within the Licence area and the accumulated historical E&E cost was reclassified as "royalty interests". The Group therefore believes that the most appropriate method of accounting for the Noble and Edison withdrawal is to reclassify the ORRI to E&E asset accounting for it using the method, as permitted under IFRS 6 whereby all historic costs associated with oil exploration are capitalised as intangible assets, pending determination of feasibility of the project.

As an initial fair value could not be reliably determined the E&E asset was measured at cost, which was the carrying amount of the ORRI, with no gain or loss. The E&E asset is therefore presented as an intangible asset and carried at cost less accumulated amortisation and any impairment provision.

Costs incurred include appropriate technical and administrative expenses but not general overheads. If an exploration project is successful, the related expenditures are 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.

##### *Impairment*

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed the recoverable amount.

In accordance with IFRS 6 the Group firstly considers the following facts and circumstances in their assessment of whether the Group's exploration and evaluation assets may be impaired:

- whether the period for which the Group has the right to explore in a specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- whether substantive expenditure on further exploration for and evaluation of mineral resources in a specific area is neither budgeted nor planned;
- whether exploration for and evaluation of hydrocarbons in a specific area have not led to the discovery of commercially viable quantities of hydrocarbons and the Group has decided to discontinue such activities in the specific area; and,
- whether sufficient data exists to indicate that although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full from successful development or by sale.

## Notes to the consolidated financial statements

### Year ended 31 December 2018

#### Accounting policies (continued)

If any such facts or circumstances are noted the Group must perform an impairment test in accordance with the provisions of IAS 36, assessing the recoverable amount of the E&E assets together with all development and production assets, as a single cash generating unit (CGU). The aggregate carrying value is compared against the expected recoverable amount of the CGU. The recoverable amount is the higher of value in use and the fair value less costs to sell.

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

##### *Overriding royalty interest (ORRI)*

In October 2018 Noble and Edison served notice of their intention to withdraw from the Licence in which the Group retained an ORRI entitling them to 5% of all oil and gas produced from all hydrocarbon discoveries developed within the Licence area. The Participation Agreement was terminated in October 2018 when Argos exercised the option to have the Licence reassigned to them.

The Group considered that the ORRI was similar in economic terms to holding a direct interest in the underlying licence as there was only a right to receive benefit from the ORRI on production and many of the risks faced by the Group were the same as those faced by the owner of the licence. These risks were seen as:

- Existence risk - whether oil is found in commercially extractable quantities;
- Production risk – whether the operator is able to get any discovery to commercial production;
- Timing risk – commencement and quantity as determined by the operator; and,
- Price risk – determined by future commodity supply and demand.

##### **Other income**

Income from the Participation Agreement has been recognised each quarter when it is received. The termination clause of the Participation agreement requires Noble & Edison to continue to pay Argos the income from the Participation Agreement for a period of 450 days after notice has been given. The full amount of income remaining under the agreement has been recognised, as Argos are contractually entitled to the income under the termination clause of the agreement. The remaining income will be received over quarterly payments until 27 December 2019.

##### **Financial instruments**

###### *Financial assets*

The Group classifies its financial assets depending on the purpose for which the asset was acquired. The Group has classified its financial assets as amortised cost.

###### *Financial assets held at amortised cost*

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets were referred to as 'Loans and receivables' in the prior period. 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 at variable interest rates that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Any interest earned is accrued and classified as interest receivable.

# Notes to the consolidated financial statements

## Year ended 31 December 2018

### Accounting policies (continued)

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

#### *Financial liabilities*

The Group classifies its financial liabilities depending on the purpose for which the liability was incurred. All are non-derivative liabilities and are measured at amortised cost.

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.

#### **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. Monetary amounts 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:

	<b>2018</b>	<b>2017</b>
£:US\$	1.28	1.35

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#### **Income taxes and deferred taxation**

Deferred tax assets and liabilities are not discounted and shall be measured using the liability method at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

#### **Share based remuneration**

The Company has issued share options to directors and key personnel. The Group accounts for the costs of the issue of these options in line with IFRS 2 "Share based payments". Under this standard, the cost of providing for such options is based on the fair value of the options at the date of grant and is charged to the consolidated statement of comprehensive income or, if appropriate, capitalised over the expected vesting period of the options and credited to retained losses.

#### **Revenue and income**

Income from the Participation Agreement consists of quarterly payments of £75k paid in advance in accordance with the Participation Agreement.

As a result of the withdrawal from Noble & Edison, the termination clause of the Agreement stipulates that Noble & Edison are required to continue to make quarterly payments of £75k for 450 days after notice of withdrawal has been provided. The income expected to be received each quarter for the remaining period until 27 December 2019 has been recognised as a receivable.

Investment income consists of interest receivable for the period. Interest income is recognised as it accrues.

## Notes to the consolidated financial statements

### Year ended 31 December 2018

## 2 Financial instruments

The Group's financial assets comprise of cash and cash equivalents and other receivables, which are categorised as "financial assets held at amortised cost". These were referred to as 'loans and receivables' in the prior period. Financial liabilities comprise other payables which are categorised as financial liabilities held at amortised cost and these are all 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. 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 monetary assets and liabilities are in Sterling there is a risk of loss in relation to the net Sterling financial assets position, should there be a devaluation of Sterling against US\$. The risk of any loss, in terms of meeting future liabilities, is however eliminated by matching the currencies of cash balances with the currencies of projected liabilities.

As of 31 December 2018 the Group's financial assets and financial liabilities were denominated in a mixture of US\$ and Sterling which consisted of:

	<b>Financial assets held at amortised cost</b>		
	<b>Sterling denominated \$'000</b>	<b>US\$ denominated \$'000</b>	<b>Total \$'000</b>
<b>Financial assets</b>			
Other receivables	382	-	382
Cash and cash equivalents	781	7	788
	1,163	7	1,170
	<b>Financial liabilities held at amortised cost</b>		
<b>Financial Liabilities</b>			
Other payables	(61)	-	(61)
Add: amounts received in advance	-	-	-
Net financial assets	1,102	7	1,109

**Notes to the consolidated financial statements**  
**Year ended 31 December 2018**

**Financial instruments (continued)**

At 31 December 2017 the comparative balances were:

	Sterling denominated \$'000	US\$ denominated \$'000	Total \$'000
<b>Financial assets</b>			
Other receivables	14	-	14
Less: prepayments	(10)	-	(10)
Cash and cash equivalents	756	2	758
	760	2	762
<b>Financial liabilities</b>			
Other payables	(59)	-	(59)
Add: amounts received in advance	-	-	-
Net financial assets	701	2	703

If the US\$ had strengthened against Sterling by 10%, the profit for the year would decrease and equity would reduce by \$110K (2017: decrease in profit and equity of \$70K). Conversely if the US\$ weakens against Sterling by 10% the profit for the year and equity would increase by \$110K (2017: increase in loss and equity of \$70K).

**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 two high quality institutions, Lloyds Bank PLC, which is part owned by the British government, and Standard Chartered Bank. The following was the split of funds between the various institutions at 31 December 2018:

<b>Institution</b>	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Lloyds Bank PLC	645	665
Standard Chartered Bank	143	93
	788	758

## Notes to the consolidated financial statements

### Year ended 31 December 2018

#### Financial instruments (continued)

##### 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 6 months.

##### Credit risk

The Group is not exposed to credit risk as it does not trade, and the cash balances held by the Group are spread between two 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

When conducting an impairment review of its assets, the Group exercises judgement in making assumptions about future oil and gas prices, oil and gas reserves/resources and future development and production costs. By their nature, impairment reviews include significant judgements regarding future financial resources and commercial and technical feasibility to enable the successful realisation of the exploration and evaluation expenditure or capitalised value of the royalty interest. Changes in the judgements used can result in significant charges to the statement of comprehensive income as any impairment loss arising from the review is charged to the statement of comprehensive income whenever the carrying amount of the asset exceeds its recoverable amount.

#### Re-assignment of PL001 licence

On receipt of the notice, from Noble and Edison to withdraw from the Licence, Argos exercised its option to have the Licence re-assigned to the Company. This process required the approval of the Falkland Islands Government and was not completed by 31 December 2018. A judgement was therefore required in terms of completion. At 31 December 2018 there had been no indication from the Falkland Islands Government that re-assignment of the Licence would be refused.

<b>4 Other income</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Income from the Participation Agreement	784	380
Total	784	380

The termination clause of the Participation agreement requires Noble & Edison to continue to pay Argos the income from the Participation Agreement for a period of 450 days after notice has been given. The full amount of income remaining under the agreement has been recognised, as Argos are contractually entitled to the income under the termination clause of the agreement. The remaining income will be received over quarterly payments until 27 December 2019.

**Notes to the consolidated financial statements**  
**Year ended 31 December 2018**

<b>5 Administrative expenses</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Directors' remuneration (see note 6)	134	131
Professional fees	159	139
Other expenses	41	59
<b>Total</b>	<b>334</b>	<b>329</b>

<b>6 Directors' remuneration</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Remuneration and fees	132	129
Pensions*	2	2
<b>Total</b>	<b>134</b>	<b>131</b>

\*A Irvine is accruing retirement benefits under a defined contribution pension arrangement.

Directors' remuneration, by director, is disclosed in the directors' remuneration report on page 19. The average monthly number of employees, including directors, during this and the preceding year was 6.

<b>7 Auditor's remuneration</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	25	25
Fees payable to the Company's auditor for the audit of the subsidiary's annual financial statements	5	5
Review of interim accounts	-	-
<b>Total payable for audit related services</b>	<b>30</b>	<b>30</b>
Fees payable to the Company's auditor for other services:		
Taxation	2	4
Fees payable to the Company's auditor for the Taxation services for the subsidiary company	1	4
	<b>33</b>	<b>38</b>

## Notes to the consolidated financial statements

### Year ended 31 December 2018

#### 8 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.

	Average share price on date exercised (pence)	Exercise price (pence)	Number
At 1 January 2017		2	9,080,818
Exercised – 4 September 2017	3.125	2	(1,000,000)
At 31 December 2017			
And 31 December 2018			8,080,818

All options outstanding at the end of the year and at the end of the comparative period had vested and remained exercisable. The weighted average contractual life of the options is 8.87 years.

<b>9 Finance income</b>	<b>2018</b> <b>\$'000</b>	<b>2017</b> <b>\$'000</b>
Interest on bank deposits	4	1

<b>10 Taxation</b>	<b>2018</b> <b>\$'000</b>	<b>2017</b> <b>\$'000</b>
Total tax:		
Corporation tax on losses for the year	-	-
Reconciliation of total tax:		
Profit before tax	406	118
Profit on ordinary activities multiplied by the standard rate of corporation tax of 26%	105	31
Effects of:		
Unrelieved tax losses and other deductions arising in the period	94	68
Receipts not taxable	(204)	(99)
Interest receivable not taxable	-	-
Expenses not deductible for tax purposes	5	-
Total tax for the year	-	-

The Group has capital tax losses carried forward of \$23m. The resulting deferred tax assets and liabilities have been offset and the Group and Company intend to manage the assets in the future so as to utilise all of the carried forward capital and trading losses.



**Notes to the consolidated financial statements**  
**Year ended 31 December 2018**

**Taxation (continued)**

The group has the following temporary differences:

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Trading Losses Carried forward	7,900	7,900
Capital losses carried forward	22,900	23,200
Accelerated tax depreciation	(28,700)	(28,900)
Net Deferred Tax Asset	2,100	2,200

The resulting deferred tax assets and liabilities have been offset and the Group and Company intend to manage the assets in the future so as to utilise all of the carried forward losses.

In respect of the net deferred tax asset, no deferred tax asset has been recognised due to the uncertain timing of the utilisation of losses.

**Notes to the consolidated financial statements**  
**Year ended 31 December 2018**

**11 Earnings per share**

	<b>2018</b>	<b>2017</b>
	<b>Number</b>	<b>Number</b>
Shares in issue brought forward (2 pence shares)	220,713,205	219,713,205
Options exercised	-	1,000,000
<hr/>		
Shares in issue carried forward	220,713,205	220,713,205
<hr/>		
Weighted average shares in issue	220,713,205	220,036,493

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit for the year	406	118
Weighted average number of ordinary shares in issue during the year	220,713,205	220,036,493
<hr/>		
Basic earnings per ordinary share (cents)	0.18	0.05

**Diluted earnings per share**

	<b>2018</b>	<b>2017</b>
	<b>Number</b>	<b>Number</b>
Shares in issue brought forward (2 pence shares)	220,713,205	219,713,205
Options exercised	-	1,000,000
Dilutive securities in issue during the period but not converted	8,080,818	8,080,818
<hr/>		
Shares in issue, plus the weighted average number of dilutive securities in issue but not converted	228,794,023	228,794,023
<hr/>		
Weighted average number of shares, plus the weighted average number of dilutive securities in issue during the period but not converted	228,794,023	228,794,023

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit for the year	406	118
Weighted average number of shares, plus the weighted average number of dilutive securities in issue during the period but not converted	228,794,023	228,794,023
<hr/>		
Diluted earnings per ordinary share (cents)	0.18	0.05

Basic earnings per share has been computed by dividing the earnings by the weighted average number of shares in issue during the period. Diluted earnings per share is calculated by dividing the earnings by the weighted average number of shares, plus the weighted average number of dilutive securities in issue during the period but not converted.

**Notes to the consolidated financial statements**  
**Year ended 31 December 2018**

**12 Exploration and evaluation (E&E) intangible assets and royalty interest (ORRI)**

	Royalty interests \$'000	Exploration & evaluation (E&E) assets \$'000	Total \$'000
At 1 January 2017 and 1 January 2018	28,749	-	28,749
Royalty interests reclassified as E&E assets	(28,749)	28,749	-
At 31 December 2018	-	28,749	28,749

The Group reclassified “royalty interests” as E&E expenditure on termination of the Participation Agreement in October 2018. Details of the accounting policies adopted by the Group for these types of assets and the consideration of impairment is detailed in note 1 on page 33. As at 31 December 2018 the Falkland Islands Government were still in progress of re-assigning the PL001 licence. In February 2019 the licence was approved and re-assigned back to Argos.

The PL001 licence expires on 29 November 2019 and discussions about the licence term beyond that date are underway with the Falkland Islands Government and the Company is actively seeking new partners to continue exploration in the Licence area.

**13 Other receivables**

	2018 \$'000	2017 \$'000
Income from the Participation Agreement	378	-
Prepayments	10	10
Other	4	4
	392	14

**14 Trade and other payables**

	2018 \$'000	2017 \$'000
Trade payables	1	1
Accruals	60	58
	61	59

## Notes to the consolidated financial statements

### Year ended 31 December 2018

<b>15 Share capital</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Authorised:</b>		
500,000,000 ordinary shares of 2 pence each	14,960	14,960
<b>Allotted, issued and fully paid:</b>	<b>Number</b>	<b>\$'000</b>
Ordinary shares of 2 pence each		
At 1 January 2017	219,713,205	6,669
Shares issued (share options exercised) during 2017	1,000,000	27
At 31 December 2017 and 31 December 2018	220,713,205	6,696

## 16 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:

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Due to Argos Georgia Ltd at 1 January	-	-
Expenses paid on behalf of the Group	5	-
Loans repaid/creditor balances paid	(5)	-
Office running costs*	-	-
Due to Argos Georgia Ltd at 31 December	-	-

\* The services and agency agreement between the Company and Argos Georgia Ltd in which Argos Georgia Ltd provided certain agency, accounting, secretarial and operational services to the Company was terminated with effect from 31 March 2016. The cost of continued provision of these services, which has not been charged for, is \$15,000. The key management personnel are the directors only.

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 19 and in note 6.

## 17 Commitments

### (a) Capital commitments

The Second Phase of the PL001 licence requires an Oil Well to be drilled.

### (b) Operating commitments

There were no ongoing commitments at 31 December 2018 nor for the comparative period.

**Notes to the consolidated financial statements**  
**Year ended 31 December 2018**

**18 Contingent liabilities**

The Group has no anticipated material contingent liabilities.

**19 Events after the reporting date**

Licence PL001 was approved and re-assigned back to Argos in February 2019.

## Parent Company financial statements

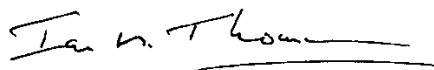
### Statement of financial position

As at 31 December 2018

	Note	2018 \$'000	2017 \$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investments	7	2,120	2,120
		<b>2,120</b>	<b>2,120</b>
<b>Current assets</b>			
Other receivables	8	9,795	25,752
Cash and cash equivalents		788	758
		<b>10,583</b>	<b>26,510</b>
<b>Total assets</b>		<b>12,703</b>	<b>28,630</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	9	44	41
		<b>44</b>	<b>41</b>
<b>Total liabilities</b>		<b>44</b>	<b>41</b>
<b>Total net assets</b>		<b>12,659</b>	<b>28,589</b>
<b>Capital and reserves attributable to equity holders of the company</b>			
Share capital	10	6,696	6,696
Share premium		30,071	30,071
Retained losses		(24,108)	(8,178)
<b>Total shareholders' equity</b>		<b>12,659</b>	<b>28,589</b>

The notes on pages 48 to 52 form part of the financial statements.

These financial statements were approved by the directors and authorised for issue on 18 March 2019 and are signed on their behalf by:



Ian Thomson  
Chairman

## Parent Company financial statements

### Statement of cash flows Year ended 31 December 2018

	Year ended 31 December 2018 \$'000	Year ended 31 December 2017 \$'000
<b>Cash flows from operating activities</b>		
Profit for period before taxation	28	118
Adjustments for:		
Finance income	(4)	(1)
Foreign exchange	50	(67)
IFRS 9 provision in current year	2	-
<b>Net cash inflow from operating activities before changes in working capital</b>	<b>76</b>	<b>50</b>
(Increase) in other receivables	(3)	(91)
Increase in other payables	3	3
<b>Net cash inflow/(outflow) from operating activities</b>	<b>76</b>	<b>(38)</b>
<b>Investing activities</b>		
Interest received	4	1
<b>Net cash used in investment activities</b>	<b>4</b>	<b>1</b>
<b>Financing activities</b>		
Issue of ordinary shares (share options exercised)	-	27
<b>Net cash from financing activities</b>	<b>-</b>	<b>27</b>
Net increase/(decrease) in cash and cash equivalents	80	(10)
Cash and cash equivalents at beginning of period	758	701
Exchange (losses)/gains on cash and cash equivalents	(50)	67
<b>Cash and cash equivalents at end of the year</b>	<b>788</b>	<b>758</b>

The notes on pages 48 to 52 form part of the financial statements.

## Parent Company financial statements

### Statement of changes in equity Year ended 31 December 2018

	Share capital \$'000	Share premium \$'000	Retained earnings/ (deficit) \$'000	Total equity \$'000
At 1 January 2017	6,669	30,071	(8,296)	28,444
Profit for year	-	-	118	118
Shares issued (share options exercised)	27	-	-	27
At 31 December 2017	6,696	30,071	(8,178)	28,589
IFRS 9 adjustment on intercompany debt	-	-	(15,958)	(15,958)
At 1 January 2018	6,696	30,071	(24,136)	12,631
Profit for year	-	-	28	28
At 31 December 2018	6,696	30,071	(24,108)	12,659

The notes on pages 48 to 52 form part of the financial statements.



# Notes to the parent Company financial statements

## Year ended 31 December 2018

### 1 Accounting policies

#### Basis of preparation

The financial statements have been prepared under the historical cost convention. All accounting policies are consistent with those adopted in the Group financial statements except as otherwise noted below.

The amount due from the subsidiary company is repayable on demand.

#### Investments

Investments are measured at cost at acquisition and are then subsequently measured at cost less impairment

The Group's financial assets comprise of cash and cash equivalents and other receivables, which are categorised as "financial assets held at amortised cost" These financial assets were referred to as 'loans and receivables' in the prior period. Financial liabilities comprise other payables which are categorised as financial liabilities held at amortised cost and these are all current financial liabilities.

#### Changes in accounting standards

Please refer to Changes in accounting standards, Note 1, in the group financial statements.

There are no Leases and IFRS 16 will not have an impact.

#### Standards implemented in the year

##### IFRS 9 'Financial Instruments'

###### Classification and measurement

There was no impact to the Parent resulting from the application of the classification and measurement requirements of IFRS 9.

###### Impairment

The adoption of IFRS 9 has impacted the Parent company. This is a result of the existing incurred loss approach under IAS 39 being replaced by the forward looking expected credit loss model approach of IFRS 9. The expected credit loss model is required to be applied to the intercompany loan receivable which is classified as held at amortised cost. Please refer to note 12 for the detail on the impact and assumptions used in the calculation.

The transition method requires a retrospective application for the first time adoption of IFRS 9, however the standard has allowed an exemption to not restate the comparative information with differences being recorded in opening retained earnings, these changes have been processed at the date of initial application (i.e. 1 January 2018), and presented in the statement of changes in equity as at 31 December 2018.

##### IFRS 15 'Revenue from contracts with customers'

There is no impact on the parent accounts relating to the implementation of IFRS 15.

## Notes to the parent Company financial statements

### Year ended 31 December 2018

### 3 Significant accounting judgements, estimates and assumptions

#### Application of the expected credit loss model prescribed by IFRS 9

The new IFRS 9 account standard, requires the Parent company to make assumptions when implementing the forward-looking expected credit loss model. This model is required to be used to assess the intercompany loan receivable from Argos Exploration Limited for impairment.

Estimations were made regarding the credit risk of the counterparty and the probability of default in each of the credit loss scenarios. The following was considered; the expected future oil prices, the value of the reserves reflected in the independent economic assessment of the Licence area; the ability to sell the project, and the ability to find a new farm-out partner.

#### Re-assignment of PL001 licence

On receipt of the notice, from Noble and Edison to withdraw from the Licence, Argos exercised its option to have the Licence re-assigned to the Company. This process required the approval of the Falkland Islands Government and was not completed by 31 December 2018. A judgement was therefore required in terms of completion. At 31 December 2018 there had been no indication from the Falkland Islands Government that re-assignment of the Licence would be refused.

### 4 Financial instruments

The policy for managing financial risks is set by the board following recommendations from the Finance Director.

#### Foreign exchange

As the functional currency is US\$ and some of the current monetary assets and liabilities are in Sterling there is a risk of loss in relation to the net Sterling financial assets position, should there be a devaluation of Sterling against US\$. The risk of any loss, in terms of meeting future liabilities, is however eliminated by matching the currencies of cash balances with the currencies of projected liabilities.

As of 31 December 2018 the Company's financial assets and financial liabilities were denominated in a mixture of US\$ and Sterling which consisted of:

	Amortised cost		
	Sterling denominated \$'000	US\$ denominated \$'000	Total \$'000
<b>Financial assets</b>			
Other receivables	14	9,781	9,795
Less: prepayments	(10)	-	(10)
Cash and cash equivalents	781	7	788
	785	9,788	10,573
	Amortised cost		
<b>Financial liabilities</b>			
Other payables	(44)	-	(44)
Net financial assets	741	9,788	10,529

## Notes to the parent Company financial statements Year ended 31 December 2018

### Financial instruments (continued)

At 31 December 2017 the comparative balances were:

	Sterling denominated \$'000	US\$ denominated \$'000	Total \$'000
<b>Current assets</b>			
Other receivables	14	25,738	25,752
Less: prepayments	(10)	-	(10)
Cash and cash equivalents	756	2	758
	760	25,740	26,500
<b>Financial liabilities</b>			
Other payables	(41)	-	(41)
Net financial assets	719	25,740	26,459

If the US\$ had strengthened against Sterling by 10%, the profit for the year would decrease and equity would reduce by \$74K (2017: decrease in profit and equity of \$72K). Conversely if the US\$ weakens against Sterling the profit for the year and equity would increase by \$74K (2017: increase in profit and equity of \$72K).

#### 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 two high quality institutions, Lloyds Bank PLC, which is part owned by the British government, and Standard Chartered Bank. The following was the split of funds between the various institutions at 31 December 2018.

Institution	2018 \$'000	2017 \$'000
Lloyds Bank PLC	645	665
Standard Chartered Bank	143	93
	788	758

#### Interest rates

The Company 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 Company 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 6 months.

# Notes to the parent Company financial statements

## Year ended 31 December 2018

### Financial instruments (continued)

#### Credit

The Company is not exposed to credit risk, other than amounts due from the subsidiary company, as it does not trade and the cash balances held by the Company are spread between two reputable institutions. Please refer to note 12 for the details of the expected credit loss on the intercompany receivable due from the subsidiary company.

#### Fair values

The fair values of the Company's financial assets and liabilities are not materially different from the carrying values in the statement of financial position and notes to the financial information.

### 5 Loss attributable to the members of the parent Company

The profit for the year was \$28 thousand (2017: \$118 thousand). A separate income statement for the Company has not been presented as permitted by the Companies Act 1948 as amended by the Companies (Amendment) Ordinance 2006 (Falkland Islands Companies Act) as it applies in the Falkland Islands.

### 6 Staff costs

The information given in note 6 of the consolidated financial statements relates wholly to the Company. There is no difference between the directors' remuneration of the parent Company and the Group.

### 7 Investments

	2018	2017
	\$'000	\$'000
<b>Investment in subsidiary</b>		
Cost:		
At 1 January and		
31 December	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

**Notes to the parent Company financial statements**  
**Year ended 31 December 2018**

<b>8 Other receivables</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Amounts due from subsidiary company (see below)	9,781	25,738
Prepayments	10	10
Other	4	4
	<b>9,795</b>	<b>25,752</b>

Amounts due from subsidiary company	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
As at 1 January	25,738	25,646
Opening provision for impairment	(15,958)	-
Restated through opening retained earnings	9,780	25,646
Movement in year	3	92
Increase in impairment in year	(2)	-
As at 31 December	<b>9,781</b>	<b>25,738</b>

Please refer to note 12 for the detail of how the provision for impairment has been calculated.

<b>9 Trade and other payables</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade payables	1	1
Accruals	43	40
	<b>44</b>	<b>41</b>

## 10 Share capital

Share capital movements are set out note 15 on page 43 of the consolidated financial statements.

## 11 Other statutory disclosures

### Audit services

Costs incurred on audit and other services provided by the auditor are provided on a consolidated basis in note 7 of the consolidated financial statements.

### Share based remuneration

The information given in note 8 of the consolidated financial statements relates wholly to the Company.

# Notes to the parent Company financial statements

## Year ended 31 December 2018

### Other statutory disclosures (continued)

#### Related party transactions

The information given in note 16 of the consolidated financial statements relates wholly to the Company.

#### Commitments

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

#### Events after the balance sheet date

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

## 12 Effects of changes in accounting policies

The Parent adopted IFRS 9 with a transition date of 1 January 2018. The Parent has chosen not to restate comparatives on adoption of IFRS 9 and, therefore, are not reflected in the restated prior year financial statements. Rather, these changes have been processed at the date of initial application (i.e. 1 January 2018) and recognised in the opening equity balances.

The increase in loss allowance resulted in a reduction to opening reserves, at 1 January 2018, as follows:

Accounts affected	\$'000
Intercompany loan receivable (opening balance as presented under IAS39)	25,741
Total current assets	25,741
Cumulative transition adjustment	15,958
Retained earnings Restated balance (in accordance with IFRS 9)	15,958 9,780

The increase in the loss allowance is only as a result of the application of the expected credit loss model. This is a result of the existing incurred loss approach under IAS 39 being replaced by the forward looking expected credit loss model approach of IFRS 9. No loss allowance had previously been recognised, as no loss event had previously occurred.

The impairment assessment of the loan has been performed using a lifetime expected credit loss model.

The loan to the subsidiary company, Argos Exploration Limited, is classified as repayable on demand. IFRS 9 requires consideration of the expected credit risk associated with the loan. As the subsidiary company does not have any liquid assets to sell to repay the loan, should it be recalled, the conclusion reached was that the loan should be categorised as stage 3.

## **Notes to the parent Company financial statements**

### **Year ended 31 December 2018**

#### **Effects of changes in accounting policies (continued)**

As part of the assessment of expected credit losses of the intercompany loan receivable, the Directors have considered the expected future oil prices; the value of the reserves reflected in the independent economic assessment of the Licence area; the ability to sell the project, the ability to find a new farm-out partner and the exploration project risk provided in the Competent Persons Report. The Directors have also assessed the cash flow scenarios of the above considerations.

The credit risk of the intercompany loan was assessed at the date of initial application of IFRS 9, being 1 January 2018, and again at the current year-end. There had no change in the significant credit risk at year-end.

## Investor Information and advisors

### Registered office

Argos House  
H Jones Road  
Stanley  
Falkland Islands

### Business address

Argos House  
H Jones Road  
Stanley  
Falkland Islands

### Company Secretary

Kevin Kilmartin  
Argos House  
H Jones Road  
Stanley  
Falkland Islands

### Nominated advisor and broker

Cenkos Securities PLC  
6.7.8 Tokenhouse Yard  
London, EC2R 7AS

### Solicitors (Falkland Islands law)

Kevin Kilmartin  
Argos House  
H Jones Road  
Stanley  
Falkland Islands

### Auditors

BDO LLP  
55 Baker Street  
London, W1U 7EU

### Registrars

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

### Bankers

Lloyds Bank PLC  
3-5 Bridge Street  
Newbury  
UK, RG14 5HB

### Bankers

Standard Chartered Bank  
Ross Road  
Stanley  
Falkland Islands

### Website

[www.argosresources.com](http://www.argosresources.com)