



ARGO

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ARGO GROUP LIMITED

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

ARGO GROUP LIMITED

MANAGEMENT AND ADMINISTRATION

DIRECTORS

Michael Kloter
Kyriakos Rialas
Andreas Rialas
David Fisher
Kenneth Watterson

REGISTERED OFFICE

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Douglas
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IM1 1LB

PRINCIPAL BANKER

Laiki Bank
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London
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AUDITORS

KPMG Audit LLC
Heritage Court
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IM99 1HN

NOMINATED ADVISER AND STOCKBROKER

Panmure Gordon (UK) Limited
Moorgate Hall
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CHAIRMAN'S STATEMENT

Key highlights for the twelve months ended 31 December 2010

- Steady performance across most of the Argo funds
- Revenues US\$10.9 million (2009: US\$11.7 million)
- Operating profit US\$1.2 million (2009: US\$0.9 million)
- Profit before tax US\$2.5 million (2009: US\$2.4 million)
- Maintained balance sheet strength - net assets US\$44.5 million (2009: US\$44.5 million) after dividend payment and share buybacks totalling US\$1.7 million (2009: Nil)
- Final dividend paid – 1.0p per share (2009: Nil) in respect of year ended 31 December 2009
- Final dividend declared on 11 March 2011 - 1.2p per share (2009:1.0p) in respect of year ended 31 December 2010

Business and operational review

Argo is pleased to report another profitable set of results for the year ended 31 December 2010.

Argo's primary business is to deliver a diversified approach to investing in emerging markets. Its investment objective is to provide investors with absolute returns in the six funds that it manages by investing in, inter alia, fixed income, special situations, local currencies and interest rate strategies, private equity, real estate, quoted equities, high yield corporate debt and distressed debt, although not every fund invests in each of these asset classes. Argo has a performance track record dating back to 2000 and this year celebrates its tenth anniversary.

Emerging markets continued to see large investment inflows last year, with a high proportion destined for long-only mutual funds. We believe that higher volatility - as witnessed in recent weeks - may weaken the attractiveness of such funds and that emerging market inflows should in time benefit the more actively managed hedge fund strategies. Our marketing team identified a number of potential leads during the period under review, and it is hoped that the funds will be able to raise more new money during the course of 2011.

For the year ended 31 December 2010 the Group generated revenues of US\$10.9 million (2009: US\$11.7 million) with management fees accounting for US\$10.0 million (2009: US\$10.9 million); the largest funds have yet to regain their high-water mark. Cost reductions mitigated the impact of slightly lower revenues with total costs falling to US\$9.7 million (2009: US\$10.8 million) as a direct result of the cost saving initiatives the Group implemented earlier. Overall, operating profit for the year was US\$1.2 million (2009: US\$0.9 million) and earnings per share were US\$0.03 (2009: US\$0.04).

Argo has maintained its strong balance sheet with over US\$27.5 million (2009: US\$26.6 million) in net current assets. The Group has held its net asset position of US\$44.5 million (2009: US\$44.5 million) despite paying a dividend of US\$1.1 million (2009: Nil) and buying back shares at a total cost of US\$605,000 (2009: Nil). The Company's investment in The Argo Fund ("TAF") continues to generate a return on assets well in excess of the prevailing rates available from bank deposits.

The Group employed 26 people (2009: 26) at the end of the year. In order to retain and properly incentivise its qualified personnel, the Company paid its employees variable compensation in the form of a cash bonus and intends to continue such practice in the aggregate amount of 30%-50% of profit before tax. It is also planned to issue stock options to further incentivise personnel and to align their interests with those of the shareholders of the Company.

Fund performance

Performance across the range of Argo funds was mixed for the year ended 31 December 2010, but the three main funds TAF, Argo Global Special Situations Fund SP ("AGSSF"), a segregated portfolio of the Argo Capital Investors Fund SPC, and Argo Distressed Credit Fund ("ADCF") all showed positive annual returns in the 8-10% range.

CHAIRMAN'S STATEMENT (continued)
Fund performance (continued)

The generally optimistic tone experienced in the first quarter of the year gave way to concern over the fiscal imbalances and credit metrics of peripheral European economies, most notably Greece and Ireland. Amidst mounting speculation concerning sovereign defaults, restructurings and the status of the Euro as a reserve currency, markets became very volatile and difficult to trade. Our hedge funds navigated the volatility by maintaining some short positions and then benefited from a better tone in the latter part of 2010.

The Argo Funds

Fund	Launch date	2010 Year total	2009 Year total	Since inception	Annualised performance	Sharpe ratio	Down months	AUM
		%	%	%	CAGR %			US\$m
The Argo Fund	Oct-00	8.55	12.18	134.26	9.50	0.80	16 of 123	109.3
Argo Global Special Situations Fund	Aug-04	8.21	12.85	48.34	6.95	0.65	17 of 77	92.2
AGSSF Holdings	Feb-09	-1.50	7.72	6.10	3.40	0.45	11 of 23	80.4
Argo Distressed Credit Fund	Oct-08	10.32	11.06	23.12	9.58	1.39	8 of 27	22.8
Argo Real Estate Opportunities Fund	Aug-06	2.65	-78.47	-72.37	-29.38	N/A	N/A	35.9*
Argo Capital Partners Fund	Aug-06	-3.97	-2.83	20.80	4.50	N/A	N/A	62.6
Total								403.2

* NAV only officially measured twice a year, March and September.

TAF and AGSSF recorded a pleasing annual return of 8.55% and 8.21% respectively and ADCF continued to build a solid track record of returns achieving 10.32% in the year to 31 December 2010 after the 11.06% recorded in 2009.

AGSSF Holdings Limited ("AHL") comprises assets that are currently more difficult to liquidate. In the year ended 31 December 2010 it delivered a return of -1.50%, an improvement on the -5.49% in the six months to 30 June 2010 but down from 7.72% in the year to 31 December 2009. This performance was in part driven by exchange rate fluctuations and despite difficult market conditions we believe that we are nearer to creating liquidity events for investors in the Fund.

The Argo Real Estate Opportunities Fund Limited ("AREOF") continues to operate in a particularly challenging and difficult environment in which regional and global property markets have remained weak. However, 2010 has seen a general stabilisation in the economic downturn, albeit at a low level, as the numbers of retailer bankruptcies and requests for rental concessions have materially decreased since the same period in 2009. Whilst AREOF has reported a further write down of investment property values in the financial year to 30 September 2010 it has successfully renegotiated and agreed terms with its bankers and continues to maintain tenant occupancy at around 97%-98%. Phase 3 of the 83,000 sqm Riviera Shopping City, Odessa, Ukraine was completed in summer 2010. The Fund's adjusted Net Asset Value was US\$35.9 million (€27.1 million) as at 30 September 2010, compared with US\$37.8 million (€26.4 million) a year earlier.

Argo Capital Partners Fund ("ACPF"), a private equity fund closed to new subscriptions, is now invested in four projects. ACPF reported a negative return of 3.97% for the year (2009: -2.83%). This Fund has suffered mainly from the lack of liquidity and demand for private equity assets in emerging markets. Whilst the intention was to sell some portfolio investments in 2010 it is disappointing that difficult operating conditions hindered this process. However, in February 2010 we did exit with profit (two times money to the fund) from one of the smaller investments, a generic pharmaceutical company in Peru, through a sale to Teva Pharmaceutical and it is hoped that further disposals will occur in the current year.

CHAIRMAN'S STATEMENT (continued)

Assets under management ("AUM")

During the year AUM decreased from US\$439.5 million to US\$403.2 million. Despite positive fund performance the Group experienced an 8.3% (US\$36.3 million) decline in AUM largely due to continuing, albeit declining, net redemptions throughout the year and Euro/Dollar foreign exchange volatility. Since the year end redemptions have arisen solely in AGSSF, this being the only fund that has retained its original gate conditions.

Dividends and share purchase programme

Underlining the Board's confidence in the future prospects of the Group, the directors recommend a final dividend of 1.2p per share (2009: 1.0p). The final dividend will be paid on 22 June 2011 to shareholders who are on the Register of Members on 27 May 2011. The final dividend for the year ended 31 December 2009 of US\$1,125,888 was paid on 23 June 2010 to ordinary shareholders who were on the Register of Members on 28 May 2010. Going forward, the Company intends, subject to its financial performance, to pay a final dividend each year.

During the year the directors authorised the repurchase of 3,268,126 shares at a total cost of US\$605,000. The directors intend to continue with their share purchase programme on a rolling basis up to a maximum total value of US\$2 million over a period of 12 months commencing from 1 April each year.

The directors firmly believe that a return of excess cash to shareholders through dividends and buy-backs will send a positive message to investors in the Company.

Outlook

The Board is satisfied with the Group's current cost base and its alignment with the lower AUM. Costs are appropriate and are reviewed periodically so as to optimise the efficient deployment of Company resources.

More emphasis is being placed on direct communication with existing and new fund investors with the purchase of two databases to assist in growing the funds with additional subscriptions.

Management has recently observed greater mobility and a new air of optimism in the market conditions that will affect positively the workout of some of the less liquid and private equity transactions in the funds. A significant number of man hours is being spent on such transactions and there is continuous communication with investors about the funds' performance.

The Group's priorities continue to be the achievement of consistent investment performance and increasing AUM both of which the Group has the capacity to achieve without a corresponding increase in costs. Emerging markets remain attractive and despite the continuing challenges posed by the global markets for asset gathering the Board is confident about the future of the business and believes that special situations strategies will outperform in the coming year.



Michael Kloter
Non-Executive Chairman

Date: 11 March 2011

DIRECTORS' REPORT

The directors present their annual report and the audited accounts of the Group for the year ended 31 December 2010.

Principal activity

The principal activity of the Company is that of a holding company and the principal activity of the wider Group is that of an investment management business.

Results, review of the business and future prospects

The Consolidated Statement of Comprehensive Income is set out on page 12. The Chairman's Statement set out on page 3 includes information about the Group's business and performance during the year and an indication of future prospects.

Directors and their interests

The directors, who served throughout the year and held office at 31 December 2010 and to date, along with their beneficial interests (including those of connected parties) in the ordinary shares of the Company are as follows:

	31 December 2010 Ordinary shares No.	31 December 2009 Ordinary shares No.
Michael Kloter	1,000,000	1,000,000
Kyriakos Rialas	8,768,363	8,768,363
Andreas Rialas	15,638,146	15,638,146
David Fisher	-	-
Kenneth Watterson	88,141	88,141

Michael Kloter's interest is represented through a corporate vehicle, currently Dodoni AG, the indirect beneficiaries of which are Michael Kloter and his family.

Kyriakos Rialas' interest is represented by the shareholding of Wisynco Investments Inc., the beneficiaries of which include Kyriakos Rialas and his family.

Andreas Rialas' interest is represented by a direct interest in 460,833 shares and the holding of 15,177,313 shares by Farkland Ventures Inc. (a company belonging to Rialco Trust) the beneficiaries of which are potentially Andreas Rialas and his family.

Biographical details of the current directors are set out on page 10.

Corporate governance statement

The directors recognise the value of the Principles of Good Governance and Code of Best Practice as set out in the UK Corporate Governance Code to the extent appropriate taking into account the size of the Company and the nature of its business.

Whilst the Company is not obliged by the Alternative Investment Market ("AIM") rules to do so, the Board intends, where appropriate, to comply with the main provisions of the Principles of Good Governance and Code of Best Practice as set out in the UK Corporate Governance Code.

Regulatory Information

Argo Group Limited has two main operating companies, Argo Capital Management (Cyprus) Limited and Argo Capital Management Limited, which are regulated by the Cyprus Securities and Exchange Commission and the UK Financial Services Authority ("FSA") respectively. As such the Group is subject to the conduct of business rules, compliance requirements and minimum capital standards of those bodies.

Argo Group Limited is also admitted to trading on the Alternative Investment Market of the London Stock Exchange and is subject to the disclosure requirements and governance processes that this status demands.

DIRECTORS' REPORT (continued)**Audit Committee**

The Audit Committee was established in November 2008. Membership comprises at least two members, each being an independent non-executive director. The Audit Committee now comprises Ken Watterson (chair), David Fisher and Michael Kloter. The Board is satisfied that the members of the Audit Committee have recent and relevant financial experience.

The Audit Committee is a sub-committee of the Board and makes recommendations to the Board which retains the right of final decision. The Audit Committee has primary responsibility for reviewing the consolidated financial statements, liaising with the external auditors and reviewing the effectiveness of internal controls.

The terms of reference of the Audit Committee include the following:

- Review of interim and full-year accounts including the accounting policies, principles and practices underlying them and the auditors' findings. The Committee reviews this information in advance of its consideration by the Board allowing adequate time before Board approval to complete any actions requested by the Committee;
- review of the effectiveness of the external auditors, approval of the scope and cost of their external audit work and their reappointment;
- review of the valuation policies of the underlying Argo Funds which are also audited by KPMG
- review of non-audit work carried out by the external auditors (and trends in the non-audit fees) in accordance with the Committee's policy to ensure the safeguarding of audit independence and objectivity;
- monitor and review of the Group's framework of internal controls, the identification and control of major risks and the results of the Group's risk review process;
- consideration of developments in corporate governance and accounting standards in the UK;
- review of reports provided by the external compliance monitoring adviser;
- consideration of the results of the Group's review of intangible asset impairment and going concern;
- consideration of the Group's technology strategy and related risks;
- consideration of the Group's treasury objectives and policies;
- shareholder communications and other announcements; and
- any material litigation involving the Group.

The Audit Committee met formally three times during the year and there was full attendance at the meetings. The Committee met with the external auditors, without the executive directors being present, to review the scope of their audit and findings thereon for the interim and year end financial statements. The Committee recommended to the Board that a resolution be put to the shareholders for the reappointment of the auditors at the annual general meeting.

The Audit Committee considered the need for an internal audit function and concluded that, for the Group at its current stage of development, such a function is not required. It should be noted, however, that the investment manager, Argo Capital Management (Cyprus) Limited, has an internal audit function, being a requirement of its license under the regulations of the Cyprus Securities and Exchange Commission. Similarly, the investment adviser, Argo Capital Management Limited, is reviewed by an external compliance consultant as part of its duty to satisfy its responsibilities under the FSA regulations.

Remuneration Committee

The Remuneration Committee was established in November 2008. Membership comprises at least two members, each being an independent non-executive director. The Remuneration Committee now comprises Michael Kloter (chair), Ken Watterson and David Fisher.

In accordance with authority delegated by the Board of directors the terms of reference of the Remuneration Committee cover the following:

- To determine and agree with the Board of directors the framework or broad policy for the remuneration of the chief executive and such other members of the executive management as it is designated to consider;

DIRECTORS' REPORT (continued)

Remuneration Committee (continued)

- To review the framework or broad policy for remuneration to ensure it remains appropriate and relevant and in formulating proposals, be sensitive to the need for an appropriate balance between long and short-term elements of pay.

The Remuneration Committee met formally twice during the year and there was full attendance at the meeting. The Chief Executive Officer and Chief Investment Officer attended all or part of the meeting at the invitation of the Remuneration Committee but took no part in the determination of their own remuneration.

Dividends and share purchase programme

The directors recommend a final dividend of 1.2p per share (2009: 1.0p). The final dividend will be paid on 22 June 2011 to shareholders who are on the Register of Members on 27 May 2011. The final dividend for the year ended 31 December 2009 of US\$1,125,888 was paid on 23 June 2010 to ordinary shareholders who were on the Register of Members on 28 May 2010. Going forward, the Company intends, subject to its financial performance, to pay a final dividend each year.

During the year the directors authorised the repurchase of 3,268,126 shares at a total cost of US\$605,000. The directors intend to continue with their share purchase programme on a rolling basis up to a maximum total value of US\$2 million over a period of 12 months commencing from 1 April each year.

The directors firmly believe that a return of excess cash to shareholders through dividends and buy-backs will send a positive message to investors in the Company.

Donations

During the year the Group made charitable donations of US\$5,412 (2009: US\$3,571).

Creditor payments policy

It is the Group's policy and practice to agree commercial terms of business with suppliers prior to the supply of goods and services. In the absence of any dispute, the Group pays, wherever possible, in accordance with those agreed terms. The number of days' purchases of the Group represented by trade creditors at 31 December 2010 was 6 (2009: 5).

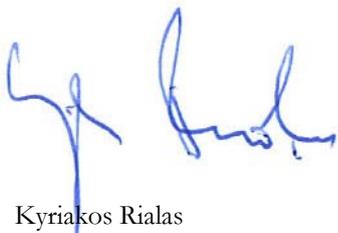
Statement of disclosure to auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware. Each director has taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Auditors

Our auditors, KPMG Audit LLC, being eligible, have expressed their willingness to continue in office. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Signed on behalf of the Board



Kyriakos Rialas
Chief Executive Officer

Date: 11 March 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the consolidated financial statements in accordance with applicable law and regulations. In addition, the directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards.

The consolidated financial statements are required to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing these consolidated 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 they have been prepared in accordance with International Financial Reporting Standards; and
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time its financial position. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation governing the preparation and dissemination of financial statements may differ from one jurisdiction to another.

DIRECTORS**Michael Kloter****Non-Executive Chairman**

Michael holds a law degree from the University of Geneva, Switzerland, and a lawyer's licence of the Canton of Zurich, Switzerland. After gaining professional experience as a clerk at the District Court of Zurich and experience in a business law practice in Zurich, Switzerland he founded his own law firm in Zurich in 1995. Since then he has practised as a business lawyer and acts as director for a number of companies.

Kyriakos Rialas**Chief Executive Officer**

Kyriakos has 25 years of professional investment and managerial experience in the financial services sector. He has overall responsibility for risk management, legal, regulatory and general management of the Argo business. Prior to joining Argo, he was General Manager of Emporiki Bank in Cyprus from 1999 to 2003 where he managed a portfolio of syndicated loans worth US\$1 billion. Kyriakos has also worked for the Treasury department of the Bank of Cyprus Group and London Forfaiting Cyprus where he was Finance Director, overseeing subsidiaries in India, Russia, Thailand and Hong Kong. Before that he worked for Capital Intelligence in bank analysis and rating for emerging markets. He has a degree in Engineering from the University of Cambridge and qualified as a Chartered Accountant with KPMG in London. He started his banking career in the fixed income division of SG Warburg & Co in London.

Andreas Rialas**Chief Investment Officer**

Prior to founding Argo, Andreas worked for Deutsche Bank for three years where he was involved in emerging markets proprietary trading and trade finance specialist products. Before that, he was at London Forfaiting (Asia) Ltd as Head of Secondary Debt Trading in emerging markets. Andreas has travelled extensively in both Eastern and Western Europe visiting and cultivating relationships with banks. He originated and syndicated many pioneering syndicated loan and trade finance transactions for Eastern European borrowers in the Baltic States, Bulgaria, the Czech Republic, Croatia, Kazakhstan, Macedonia, Romania, Russia, Slovakia and Ukraine. In his role as Head of Secondary Debt Trading at London Forfaiting (Asia) Ltd, he developed extensive knowledge of the Asian Debt Markets and was responsible for the secondary trading in Europe of primary assets originated by the Hong Kong subsidiary of London Forfaiting (Asia) Ltd. He studied law at the University of London, graduating in 1991 and subsequently trained to be an English Barrister specialising in banking law qualifying in 1993.

David Fisher**Non-Executive Director**

David Fisher is Chairman of the Investment Committee of Innova Capital, one of Central Europe's leading private equity firms; of EnerCap Partners, a new renewable energy fund in Central Europe; and of Da Vinci CIS Private Sector Growth Fund Limited. In June 2010 he was appointed to the Board of Argo Real Estate Opportunities Fund Limited. He has over 30 years of experience in business, finance and law.

As a Partner at Innova and as the Chief Investment Officer for CARESBAC-Polska and the Romanian-American Enterprise Fund, David has made and managed more than 30 private equity investments in Central & Eastern Europe in the last 15 years. Formerly he was Group Vice President and General Counsel of Communications Equity Associates, a worldwide media, entertainment and communications merchant bank. He is a Chartered Director with the Institute of Directors and holds a Diploma in International Commercial Arbitration from the Chartered Institute of Arbitrators. David holds degrees from Davidson College (BA), Vanderbilt Law School (JD) and Harvard Business School (MBA). He is an American who has lived and worked in Europe for more than 15 years.

Kenneth Watterson**Non-Executive Director**

Kenneth has 23 years of experience within the financial services industry. His specific areas of expertise include compliance and risk management, operations and change management. Kenneth holds a Master's degree from the University of St. Andrews and a Master's degree from London Guildhall University in Financial Regulation & Compliance Management, specialising in Corporate Governance. He has board experience within a number of UK, Isle of Man and Channel Islands companies. Kenneth has worked with Coutts and Close Bros international private banks and as the Chief Operating Officer and director of a US\$1.6 billion hedge fund group.

REPORT OF THE INDEPENDENT AUDITORS, KPMG AUDIT LLC, TO THE MEMBERS OF ARGO GROUP LIMITED

We have audited the consolidated financial statements of Argo Group Limited for the year ended 31 December 2010 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Shareholders' Equity, the Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs).

This report is made solely to the Group's members, as a body. Our audit work has been undertaken so that we might state to the Group'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 Group and the Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 9, the directors are responsible for the preparation of consolidated financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the consolidated financial statements

An audit involves obtaining evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the consolidated financial statements.

Opinion on the consolidated financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of the Group's profit for the year then ended; and
- have been properly prepared in accordance with IFRSs.



KPMG Audit LLC
Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man IM99 1HN

14 March 2011

ARGO GROUP LIMITED**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2010**

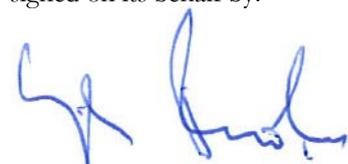
	Note	Year ended 31 December 2010 US\$'000	Year ended 31 December 2009 US\$'000
Management fees		10,034	10,900
Incentive fees		434	437
Other income		480	352
Revenue	2(e), 3	10,948	11,689
Legal and professional expenses		(614)	(866)
Management and incentive fees payable	2(f)	(444)	(263)
Operational expenses		(1,931)	(1,870)
Employee costs	4	(5,864)	(7,222)
Foreign exchange (loss)/gain		(134)	269
Amortisation of intangible assets	9	(651)	(692)
Depreciation	10	(99)	(119)
Operating profit	6	1,211	926
Interest income on cash and cash equivalents		57	134
Unrealised gain on investments		1,226	1,361
Profit on ordinary activities before taxation	3	2,494	2,421
Taxation	7	(267)	387
Profit for the year after taxation attributable to members of the Company	8	2,227	2,808
Other comprehensive income			
Exchange differences on translation of foreign operations		(469)	785
Total comprehensive income for the year		1,758	3,593
		Year ended 31 December 2010 US\$	Year ended 31 December 2009 US\$
Earnings per share (basic)	8	0.03	0.04
Earnings per share (diluted)	8	0.03	0.04

The notes on pages 16 to 35 form part of these consolidated financial statements.

ARGO GROUP LIMITED**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010**

		At 31 December 2010 US\$'000	At 31 December 2009 US\$'000
Assets			
Non-current assets			
Intangible assets	9	16,719	17,557
Fixtures, fittings and equipment	10	41	136
Loans and advances receivable	14	253	226
		17,013	17,919
Current assets			
Investments	11	15,563	14,337
Trade and other receivables	12	1,312	1,972
Cash and cash equivalents	13	11,907	13,069
Loans and advances receivable	14	5	36
		28,787	29,414
Total assets	3	45,800	47,333
Equity and liabilities			
Equity			
Issued share capital	15	737	769
Share premium		32,199	32,772
Revenue reserve		13,749	12,648
Foreign currency translation reserve	2(d)	(2,139)	(1,670)
Total equity		44,546	44,519
Current liabilities			
Trade and other payables	16	1,054	2,692
Taxation payable	7	200	122
Total current liabilities	3	1,254	2,814
Total equity and liabilities		45,800	47,333

These consolidated financial statements were approved by the Board of directors on 11 March 2011 and were signed on its behalf by:



Kyriakos Rialas
Chief Executive Officer



Michael Kloter
Non-Executive Chairman

The notes on pages 16 to 35 form part of these consolidated financial statements.

ARGO GROUP LIMITED**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
YEAR ENDED 31 DECEMBER 2010**

	Issued share capital 2009 US\$'000	Share premium 2009 US\$'000	Revenue reserve 2009 US\$'000	Foreign currency translation reserve 2009 US\$'000	Total 2009 US\$'000
As at 1 January 2009	769	32,772	9,840	(2,455)	40,926
Total comprehensive income					
Profit for the period after taxation	-	-	2,808	785	3,593
As at 31 December 2009	769	32,772	12,648	(1,670)	44,519

	Issued share capital 2010 US\$'000	Share premium 2010 US\$'000	Revenue reserve 2010 US\$'000	Foreign currency translation reserve 2010 US\$'000	Total 2010 US\$'000
As at 1 January 2010	769	32,772	12,648	(1,670)	44,519
Total comprehensive income					
Profit for the period after taxation	-	-	2,227	(469)	1,758
Transactions with owners recorded directly in equity					
Dividends to equity holders (Note 15)	-	-	(1,126)	-	(1,126)
Purchase of own shares (Note 15)	(32)	(573)	-	-	(605)
As at 31 December 2010	737	32,199	13,749	(2,139)	44,546

The notes on pages 16 to 35 form part of these consolidated financial statements.

ARGO GROUP LIMITED**CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2010**

	Note	Year ended 31 December 2010 US\$'000	Year ended 31 December 2009 US\$'000
Net cash inflow from operating activities	18	932	3,003
Cash flows from investing activities			
Interest received on cash and cash equivalents		57	134
Purchase of current asset investments	11	-	(11,000)
Purchase of fixtures, fittings and equipment	10	(8)	(23)
Net cash used in investing activities		49	(10,889)
Cash flows from financing activities			
Repurchase of own shares		(605)	-
Dividends paid		(1,126)	-
Net cash used in financing activities		(1,731)	-
Net decrease in cash and cash equivalents		(750)	(7,886)
Cash and cash equivalents at 1 January 2010 and 1 January 2009		13,069	20,058
Foreign exchange (loss)/gain on cash and cash equivalents		(412)	897
Cash and cash equivalents as at 31 December 2010 and 31 December 2009		11,907	13,069

The notes on pages 16 to 35 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. CORPORATE INFORMATION

The Company was incorporated on 14 February 2008 in the Isle of Man under the Companies Act 2006 and started to trade on 13 June 2008. Its registered office is at 33-37 Athol Street, Douglas, Isle of Man, IM1 1LB and the principal place of business is at 10 Vasilissis Frederikis Street, 1066 Nicosia, Cyprus. The principal activity of the Company is that of a holding company and the principal activity of the wider Group is that of an investment management business. The functional and presentational currency of the Group undertakings is US dollars. The Group has 26 (2009: 26) employees.

Wholly owned subsidiaries	Country of incorporation
Argo Capital Management (Cyprus) Limited	Cyprus
Argo Capital Management Limited	United Kingdom
Argo Capital Management Property Limited	Cayman Islands
Argo Capital Management (Asia) Pte. Ltd.	Singapore
North Asset Management Srl	Romania
North Asset Management Sarl	Luxembourg
Argo Investor Services AG	Switzerland

2. ACCOUNTING POLICIES**(a) Accounting convention**

These consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments, and in accordance with International Financial Reporting Standards.

These accounts have been prepared on the basis that the Company is a going concern.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are consolidated from the date upon which control is transferred to the Company and cease to be consolidated from the date upon which control is transferred from the Company.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(c) Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

Goodwill

Goodwill arising on the consolidation represents the excess of the cost of the acquisition over the Company's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Any excess of the Company's interest in the fair value of the identifiable assets and liabilities over the cost of the acquisition (negative goodwill) is immediately recognised in the Consolidated Statement of Comprehensive Income. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed at least annually for impairment. Any impairment is recognised immediately in the Consolidated Statement of Comprehensive Income.

2. ACCOUNTING POLICIES (continued)

(c) Business combinations (continued)

Intangible assets

The Group's principal intangible asset is a fund management contract recorded at directors' valuation at the date of acquisition. The directors' valuation is based on the underlying share price of the vendor and its assets under management at the time of acquisition. This intangible asset has a finite life and is amortised on a straight line basis over the period of the contract. Impairment tests are undertaken annually to determine any diminution in the recoverable amount below carrying value. The Group does not capitalise internally generated goodwill or intangible assets.

Impairment of intangible assets

At each balance sheet date the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

(d) Foreign currency translation

The consolidated financial statements are expressed in US dollars. Transactions denominated in currencies other than US dollars have been translated at the rate of exchange prevailing at the date of the transaction. Assets and liabilities in other currencies are translated to US dollars at the rates of exchange prevailing at the balance sheet date. The resulting profits or losses are reflected in the Consolidated Statement of Comprehensive Income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve. Such translation differences are recognised in the Consolidated Statement of Comprehensive Income as income or as expenses in the year of the operation's disposal.

(e) Revenue

Revenue is recognised to the extent that it is probable that economic benefit will flow to the Group and the revenue can be reliably measured.

Management and incentive fees receivable

The Group recognises revenue for providing management services to mutual funds. Revenue accrues on a monthly basis on completion of management services and is based on the assets under management of each mutual fund.

Incentive fees generally arise monthly or annually, however for the Argo funds incentive fees may arise monthly, annually or on realisation of an investment. In addition, for the Argo Real Estate Opportunities Fund Ltd (managed by Argo Capital Management Property Ltd) incentive fees may be triggered at any time on realisation of a property asset.

2. ACCOUNTING POLICIES (continued)**(e) Revenue (continued)****Management and incentive fees receivable (continued)**

The management and incentive fees receivable from the Argo Real Estate Opportunities Fund Ltd are defined in the management contract between that company and Argo Capital Management Property Ltd. The management contract has a fixed term expiring on 26 July 2013.

(f) Management and incentive fees payable

The Group pays management and incentive fees based on a proportion of fees receivable from mutual funds. Fees payable are accrued on a monthly basis consistent with revenue streams earned.

(g) Depreciation

Plant and equipment is initially recorded at cost and depreciated on a straight-line basis over the expected useful lives of the assets as follows:

Leasehold	33 1/3% per annum
Fixtures and fittings	10% to 33 1/3% per annum
Office equipment	10% to 33 1/3% per annum
Computer equipment and software	20% to 33 1/3% per annum

(h) Investments held at fair value through profit or loss

All investments are classified as held at fair value through profit or loss. Investments are initially recognised at fair value. Transaction costs are expensed as incurred.

After initial recognition, investments are measured at fair value, with unrealised gains and losses on investments and impairment of investments recognised in the Consolidated Statement of Comprehensive Income. Investments held at fair value in managed mutual funds are valued at fair value of the net assets as provided by the administrators of those funds. Investments in the management shares of The Argo Fund Ltd, Argo Capital Investors Fund SPC, Argo Capital Partners Fund Ltd, Argo Distressed Credit Fund Limited and AGSSF Holdings Limited are stated at fair value, being the recoverable amount.

(i) Trade date accounting

All 'regular way' purchases and sales of financial assets are recognised on the 'trade date', i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of the asset within the time frame generally established by regulation or convention in the market place.

(j) Financial instruments

Financial assets and liabilities are recognised on the Consolidated Statement of Financial Position when the Company becomes party to the contractual provisions of the instrument.

Non-derivative financial instruments include trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables. The initial and subsequent measurement of non-derivative financial instruments is dealt with below.

Trade and other receivables

Trade and other receivables do not carry any interest and are stated at their original invoice amount as reduced by appropriate allowances for estimated irrecoverable amounts. An estimate for doubtful debts is made when collection is no longer probable. Bad debts are written off when identified.

2. ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments which are readily convertible to known amounts of cash, subject to insignificant risk of changes in value, and have a maturity of less than six months from the date of acquisition.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash in hand and bank deposits.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

(k) Loans and borrowings

All loans and borrowings payable are initially recognised at cost, calculated as the fair value of the consideration received less issue costs where applicable. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost. Amortised cost is calculated by using the effective interest method, taking into account any issue costs, and discounts and premiums on settlement.

All loans and borrowings receivable are initially recognised at cost and subsequently measured at amortised cost.

(l) Current taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted or substantially enacted by the balance sheet date.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other periods or because it excludes items that are never taxable or deductible.

(m) Deferred taxation

Deferred income tax is provided for using the liability method on temporary timing differences at the balance sheet date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised in full for all temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carried forward unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax credits and unused losses can be utilised.

The carrying amount of deferred income tax assets is revalued at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

2. ACCOUNTING POLICIES (continued)

(n) Accounting estimates, assumptions and judgements

The preparation of the consolidated financial statements necessitates the use of estimates, assumptions and judgements. These estimates, assumptions and judgements affect the reported amounts of assets, liabilities and contingent liabilities at the balance sheet date as well as affecting the reported income and expenses for the year. Although the estimates are based on management's knowledge and best judgment of information and financial data, the actual outcome may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that and prior periods, or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Group's accounting policies, which are described above, management has made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements:

- Management and incentive fees
- Intangibles (see note 9)

It has been assumed that, when available, the audited financial statements of the funds under the Group's management will confirm the net asset values used in the calculation of management and performance fees receivable.

(o) Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Benefits, such as rent free periods, received and receivable as incentives to take on operating leases are spread on a straight line basis over the lease term, or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rent.

(p) Financial Instruments and Fair Value Hierarchy

The following represents the fair value hierarchy of financial instruments measured at fair value in the Statement of Financial Position. The hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

2. ACCOUNTING POLICIES (continued)

(q) Changes in accounting policies

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year, and have not been applied in preparing these consolidated financial statements:

New/Revised International Accounting Standards/International Financial Reporting Standards (IAS/IFRS)	Effective date (accounting periods commencing after)
IAS 24 Related Party Disclosures - Revised definition of related parties	1 January 2011
IFRS 7 Financial Instruments: Disclosures – Addition of explicit statement that qualitative disclosures to be made in the context of quantitative disclosures	1 January 2011
IFRS 7 Financial Instruments: Disclosures – Amendments relating to enhancing disclosures about transfers of financial assets	1 July 2011
IAS 1 Presentation of Financial Statements – Amendments clarifying that the analysis of other comprehensive income may be presented either in the Statement of Changes in Equity or in the notes to the accounts	1 January 2011
IAS 32 Financial Instruments: Presentation - Amendments relating to classification of rights issues	1 February 2010
IFRS 9 Financial Instruments – part of IASB’s wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets and liabilities: amortised costs and fair value. The guidance on IAS 39 on impairment of financial assets and hedge accounting continues to apply	1 January 2013
IAS 12 Deferred Tax: Recovery of Underlying Assets – Amendments introduce presumption that carrying amount of the underlying assets will normally be through sale	1 January 2012
IFRS 3 Business Combinations – Improvements clarifying contingent consideration arising in a business combination; limitation on accounting policy choice to measure non-controlling interests upon initial recognition and expansion on the requirement to allocate the market-based measure of replacement awards between the consideration transferred and post-combination remuneration applies to all replacement awards	1 July 2010
IAS 27 Consolidated and Separate Financial Statements – Amendments clarify that the consequential amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 and IAS 31 resulting from IAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering	1 July 2010

The directors do not expect the adoption of these standards and interpretations to have a material impact on the Group’s financial statements in the period of initial application, except for IFRS 9 Financial Instruments, which becomes mandatory for the Group’s 2013 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

Any standard adopted during the year has presentational impact only; it is therefore not necessary to adjust comparative information.

(r) Dividends payable

Interim and final dividends are recognised when declared.

ARGO GROUP LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2010

3. SEGMENTAL ANALYSIS

The Group operates as a single asset management business.

The operating results of the companies set out in note 1 above are regularly reviewed by the directors of the Group for the purposes of making decisions about resources to be allocated to each company and to assess performance. The following summary analyses revenues, profit or loss, assets and liabilities:

	Argo Group Ltd	Argo Capital Management (Cyprus) Limited	Argo Capital Management Limited	Argo Capital Management Property Limited	Other	Year ended 31 December 2010
	2010	2010	2010	2010	2010	2010
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenues from external customers	-	7,845	38	3,063	2	10,948
Intersegment revenues	3,084	-	3,057	-	547	6,688
Reportable segment profit/(loss)	3,692	1,699	(1,283)	(1,737)	127	2,498
Intersegment profit/(loss)	3,084	(4,500)	3,057	(2,257)	547	(69)
Reportable segment assets	47,455	5,112	4,622	2,881	603	60,673
Reportable segment liabilities	88	514	851	80	43	1,576

Revenues, profit or loss, assets and liabilities may be reconciled as follows:

	Year ended 31 December 2010 US\$'000
Revenues	
Total revenues for reportable segments	17,636
Elimination of intersegment revenues	(6,688)
Group revenues	10,948
Profit or loss	
Total profit for reportable segments	2,498
Elimination of total intersegment losses	69
Other unallocated amounts	(73)
Profit on ordinary activities before taxation	2,494
Assets	
Total assets for reportable segments	60,673
Elimination of intersegment receivables	(325)
Elimination of Company's cost of investments	(14,548)
Group assets	45,800
Liabilities	
Total liabilities for reportable segments	1,576
Elimination of intersegment payables	(322)
Group liabilities	1,254

ARGO GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2010

3. SEGMENTAL ANALYSIS (continued)

	Argo Group Ltd	Argo Capital Management (Cyprus) Limited	Argo Capital Management Limited	Argo Capital Management Property Limited	Argo Investor Services Ltd	Other	Year ended 31 December 2009
	2009	2009	2009	2009	2009	2009	2009
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenues from external customers	-	8,587	-	3,085	-	17	11,689
Intersegment revenues	11,705	-	3,409	-	-	574	15,688
Reportable segment profit/(loss)	10,863	(8,272)	(2,068)	304	(2,349)	(105)	(1,627)
Intersegment profit/(loss)	11,705	(15,424)	3,409	-	(226)	574	38
Reportable segment assets	45,463	4,070	6,801	5,300	76	475	62,185
Reportable segment liabilities	56	911	1,602	405	26	117	3,117

Revenues, profit or loss, assets and liabilities may be reconciled as follows:

	Year ended 31 December 2009
	US\$'000
Revenues	
Total revenues for reportable segments	27,377
Elimination of intersegment revenues	(15,688)
Group revenues	11,689
Profit or loss	
Total loss for reportable segments	(1,627)
Elimination of total intersegment profits	(38)
Other unallocated amounts	4,086
Profit on ordinary activities before taxation	2,421
Assets	
Total assets for reportable segments	62,185
Elimination of intersegment receivables	(304)
Elimination of Company's cost of investments	(14,548)
Group assets	47,333
Liabilities	
Total liabilities for reportable segments	3,117
Elimination of intersegment payables	(303)
Group liabilities	2,814

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2010

4. EMPLOYEE COSTS

	Year ended 31 December 2010 US\$'000	Year ended 31 December 2009 US\$'000
Wages and salaries	5,399	6,571
Social security costs	421	550
Pension costs	-	41
Other	44	60
	5,864	7,222

5. KEY MANAGEMENT PERSONNEL REMUNERATION

Included in employee costs are payments to:

	Year ended 31 December 2010 US\$'000	Year ended 31 December 2009 US\$'000
Directors and key management personnel	3,561	3,680

The remuneration of the Directors of the Company for the year was as follows:

				Year ended 31 December 2010 US\$'000	Year ended 31 December 2009 US\$'000
Executive Directors	Salaries US\$'000	Fees US\$'000	Benefits US\$'000	Cash bonus US\$'000	
Kyriakos Rialas	226	-	-	304	530
Andreas Rialas	223	-	2	475	700
Non-Executive Directors					
Michael Kloter	-	74	-	-	74
David Fisher	-	39	-	-	39
Ken Watterson	-	39	-	-	39

6. OPERATING PROFIT

Operating profit is stated after charging:

	Year ended 31 December 2010 US\$'000	Year ended 31 December 2009 US\$'000
Auditors' remuneration	111	117
Depreciation	99	119
Amortisation	651	692
Directors' fees	2,592	2,543
Operating lease payments	530	624

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2010

7. TAXATION

Taxation rates applicable to the parent company and the Cypriot, UK, Singaporean, Luxembourg, Swiss and Romanian subsidiaries range from 0% to 28% (2009: 0% to 28%).

Income Statement

	Year ended 31 December 2010 US\$'000	Year ended 31 December 2009 US\$'000
Taxation charge/(credit) for the year on Group companies	273	(387)
Over provision in respect of prior years	(6)	-
Tax on profit on ordinary activities	267	(387)

The tax charge/(credit) for the year can be reconciled to the profit per the Consolidated Statement of Comprehensive Income as follows:

	Year ended 31 December 2010 US\$'000	Year ended 31 December 2009 US\$'000
Profit before tax	2,494	2,421
Applicable Isle of Man tax rate for Argo Group Limited of 0%	-	-
Timing differences	16	(7)
Non-deductible expenses	16	11
Non-taxable income	(14)	(12)
Other adjustments	(4)	(131)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	253	(248)
Tax charge	267	(387)

Balance Sheet

	At 31 December 2010 US\$'000	At 31 December 2009 US\$'000
Corporation tax payable	200	122

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2010

8. EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit for the period by the weighted average number of shares outstanding during the period.

	Year ended 31 December 2010 US\$'000	Year ended 31 December 2009 US\$'000
Net profit for the year after taxation attributable to members	2,227	2,808
	No. of shares	No. of shares
Weighted average of ordinary shares for basic earnings per share	75,150,213	76,931,620
Effect of dilution	-	-
Weighted average number of ordinary shares for diluted earnings per share	75,150,213	76,931,620
	Year ended 31 December 2010 US\$	Year ended 31 December 2009 US\$
Earnings per share (basic)	0.03	0.04
Earnings per share (diluted)	0.03	0.04

9. INTANGIBLE ASSETS

	Fund management contracts US\$'000
Cost	
At 1 January 2009	18,490
Foreign exchange movement	247
At 31 December 2009	18,737
Foreign exchange movement	(79)
At 31 December 2010	18,658
Amortisation and impairment	
At 1 January 2009	380
Amortisation of Argo business intangible assets	692
Foreign exchange movement	108
At 31 December 2009	1,180
Amortisation of Argo business intangible assets	651
Foreign exchange movement	108
At 31 December 2010	1,939
Net book value	
At 31 December 2009	17,557
At 31 December 2010	16,719

The Group tests intangible assets annually for impairment, or more frequently if there are indications that the intangible assets may be impaired. The recoverable amounts of the intangible assets that have been reviewed for impairment are separately identifiable business units within the Group. The value in use approach has been used as the businesses were not considered saleable in their current form due to certain factors, the main being reliance on certain key individuals.

At the balance sheet date the carrying value of goodwill was US\$14.9m (2009: US\$14.9m).

The key assumptions on which the directors have based their five year discounted cash flow analysis are a pre-tax discount rate of 15% (2009: 15%), an inflation rate of 5% (2009: 5%) and a growth in assets under management (which determine management and performance fee income) of 10% to 12.5% (2009: 15% to 20%), with 3.0% to 3.75% (2009: 4.5% to 6%) of this estimated to be from annual profits. The assumption of growth in assets under management has been based on the historic performance of the funds. The calculations use cash flow projections based on actual operating results. The result of this review has been compared to the carrying value of goodwill and accordingly the directors have concluded that there is no impairment to goodwill. As an added sensitivity, if the estimated discount rate applied to the discounted cash flows had been 25% higher (2009: 25% higher) or the growth rate of assets under management had been 25% lower (2009: 25% lower) there would still have been no impairment of goodwill as the net present value of future cash flows would still have been higher than the carrying value of goodwill.

At the balance sheet date the carrying value of the Argo Real Estate Opportunities Fund Limited management contract is US\$1.8m (2009: US\$2.6m), net of amortisation. The intangible asset has been amortised over 5 years and 44 days, being the remaining period of the contract from the date of acquisition.

10. FIXTURES, FITTINGS AND EQUIPMENT

	Fixtures, fittings & equipment US\$ '000
Cost	
At 1 January 2009	315
Additions	23
Disposals	(25)
Foreign exchange movement	(14)
At 31 December 2009	299
Additions	8
Disposals	-
Foreign exchange movement	(12)
At 31 December 2010	295
Accumulated Depreciation	
At 1 January 2009	78
Depreciation charge for period	119
Disposals	(3)
Foreign exchange movement	(31)
At 31 December 2009	163
Depreciation charge for period	99
Disposals	-
Foreign exchange movement	(8)
At 31 December 2010	254
Net book value	
At 31 December 2009	136
At 31 December 2010	41

ARGO GROUP LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2010

11. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

		At 31 December 2010	At 31 December 2010
Holding	Investment in management shares	Total cost US\$ '000	Fair value US\$ '000
10	The Argo Fund Ltd	-	-
10	Argo Capital Investors Fund SPC	-	-
10	Argo Capital Partners Fund	-	-
100	Argo Distressed Credit Fund Ltd	-	-
100	AGSSF Holdings Ltd	-	-
		-	-

Holding	Investment in ordinary shares	Total cost US\$ '000	Fair value US\$ '000
66,435	The Argo Fund Ltd	14,343	15,563
		14,343	15,563

		At 31 December 2009	At 31 December 2009
Holding	Investment in management shares	Total cost US\$ '000	Fair value US\$ '000
10	The Argo Fund Ltd	-	-
10	Argo Capital Investors Fund SPC	-	-
10	Argo Capital Partners Fund Ltd	-	-
100	Argo Distressed Credit Fund Ltd	-	-
100	AGSSF Holdings Ltd	-	-
		-	-

Holding	Investment in ordinary shares	Total cost US\$ '000	Fair value US\$ '000
66,435	The Argo Fund Ltd	14,343	14,337
		14,343	14,337

12. TRADE AND OTHER RECEIVABLES

	At 31 December 2010	At 31 December 2009
	US\$ '000	US\$ '000
Trade receivables	1,060	1,166
Other receivables	41	677
Prepayments and accrued income	211	129
	1,312	1,972

The directors consider that the carrying amount of trade and other receivables approximates their fair value. All trade receivable balances are recoverable within one year from the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2010

13. CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents is a balance of US\$100,000 (2009: US\$103,000) which represents a bank guarantee in respect of credit cards issued to Argo Capital Management Property Limited. Due to the nature of this balance it is not freely available.

14. LOANS AND ADVANCES RECEIVABLE

	At 31 December 2010 US\$'000	At 31 December 2009 US\$'000
Deposits on leased premises - current	5	36
Deposits on leased premises - non-current	253	226
	258	262

The deposits on leased premises are retained by the lessor until vacation of the premises at the end of the lease term as follows:

	At 31 December 2010 US\$'000	At 31 December 2009 US\$'000
Current:		
Lease expiring within one year	5	36

	At 31 December 2010 US\$'000	At 31 December 2009 US\$'000
Non-current:		
Lease expiring in second year after balance sheet date	33	-
Lease expiring in third year after balance sheet date	220	226
	253	226

15. SHARE CAPITAL

The Company's authorised share capital is unlimited ordinary shares with a nominal value of US\$0.01.

	31 December 2010 No.	31 December 2010 US\$'000	31 December 2009 No.	31 December 2009 US\$'000
Issued and fully paid				
Ordinary shares of US\$0.01 each	73,663,494	737	76,931,620	769
	73,663,494	737	76,931,620	769

The directors recommend a final dividend of 1.2p per share (2009: 1.0p) for the year ended 31 December 2010. The final dividend for the year ended 31 December 2009 of US\$1,125,888 was paid on 23 June 2010 to ordinary shareholders who were on the Register of Members on 28 May 2010. Going forward, the Company intends, subject to its financial performance, to pay a final dividend each year.

In addition, the directors authorised the repurchase of 750,000 shares on 6 April 2010, 1,518,126 shares on 2 June 2010 and 1,000,000 shares on 30 September at respective purchase prices of US\$0.20, US\$0.18 and US\$0.20 per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2010

16. TRADE AND OTHER PAYABLES

	At 31 December 2010 US\$ '000	At 31 December 2009 US\$ '000
Trade and other payables	49	44
Other creditors and accruals	1,005	2,648
	1,054	2,692

Trade and other payables are normally settled on 30-day terms.

17. OBLIGATIONS UNDER OPERATING LEASES

Operating lease payments represent rentals payable by the Group for certain of its business premises. The leases have no escalation clauses or renewal or purchase options and no restrictions imposed on them.

As at the balance sheet date, the Group had outstanding future minimum lease payments under non-cancellable operating leases, which fall due as follows.

	At 31 December 2010 US\$ '000	At 31 December 2009 US\$ '000
Operating lease liabilities:		
Within one year	440	527
In the second to fifth years inclusive	305	607
Present value of minimum lease payments	745	1,134

18. RECONCILIATION OF NET CASH INFLOW FROM OPERATING ACTIVITIES TO PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year ended 31 December 2010 US\$ '000	Year ended 31 December 2009 US\$ '000
Profit on ordinary activities before taxation	2,494	2,421
Interest income	(57)	(134)
Amortisation of intangible assets	651	692
Depreciation	99	119
(Decrease)/increase in payables	(1,638)	1,975
Decrease in receivables	97	259
Increase in fair value of current asset investments	(1,226)	(1,361)
Loss on disposal of fixtures, fittings & equipment	-	23
Net foreign exchange loss/(gain)	134	(269)
Income taxes repaid/(paid)	378	(722)
Net cash inflow from operating activities	932	3,003

19. RELATED PARTY TRANSACTIONS

71% of revenue derives from funds in which two of the Company's directors, Andreas Rialas and Kyriakos Rialas, have an influence through the provision of investment advisory services.

Michael Kloter, the non-executive chairman, is also partner in a legal firm which supplies services to the Group. This firm charged US\$7,180 (2009: US\$45,986) for services rendered to the Group in the year.

20. FINANCIAL INSTRUMENTS

(a) Use of financial instruments

The wider Group has maintained sufficient cash reserves not to use alternative financial instruments to finance the Group's operations. The Group has various financial assets and liabilities such as trade and other receivables, loans and advances, cash, short-term deposits, and trade and other payables which arise directly from its operations.

The Group's non-subsiary investments in funds were entered into with the purpose of providing seed capital for these funds.

(b) Market risk

Market risk is the risk that a decline in the value of assets adversely impacts on the profitability of the Group, either as a result of an asset not meeting its expected value or through the decline of assets under management generating lower fees. The principal exposures of the Group are in respect of its seed investments in its own funds. Lower management fee and incentive fee revenues could result from a reduction in asset values.

(c) Capital risk management

The primary objective of the Group's capital management is to ensure that the Company has sufficient cash and cash equivalents on hand to finance its ongoing operations. This is achieved by ensuring that trade receivables are collected on a timely basis and that excess liquidity is invested in an optimum manner. This is achieved by placing fixed short-term deposits or using interest bearing bank accounts.

At the year-end cash balances were held at Royal Bank of Scotland, Laiki Bank, Bank of Cyprus, United Overseas Bank, Bancpost and UBS AG.

(d) Credit/counterparty risk

The Group will be exposed to counterparty risk on parties with whom it trades and will bear the risk of settlement default. Credit risk is concentrated in the funds under management as detailed in note 11. Trade receivables are normally settled on 30-day terms.

The Group's principal financial assets are bank and cash balances, trade and other receivables and investments held at fair value through profit or loss. These represent the Company's maximum exposure to credit risk in relation to financial assets and are represented by the carrying amount of each financial asset in the balance sheet.

(e) Liquidity risk

Liquidity risk is the risk that the Group may be unable to meet its payment obligations. This would be the risk of insufficient cash resources and liquid assets, including bank facilities, being available to meet liabilities as they fall due.

The main liquidity risks of the Group are associated with the need to satisfy payments to creditors. Trade receivables and trade payables are on 30-day terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2010

20. FINANCIAL INSTRUMENTS (continued)

(f) Foreign exchange risk

Foreign exchange risk is the risk that the Group will sustain losses through adverse movements in currency exchange rates.

The Group is subject to short-term foreign exchange movements between the calculation date of fees in currencies other than US dollars and the date of settlement. The Group holds cash balances in US dollars, Sterling, Singapore dollars, Swiss Francs, Romanian Lei and Euros.

If there was a 5% increase or decrease in the exchange rate between the US dollar and the other operating currencies used by the Group at 31 December 2010 the exposure would be a profit or loss to the Consolidated Statement of Comprehensive Income of approximately US\$74,000 (2009: US\$266,000).

(g) Interest rate risk

The interest rate profile of the Group at 31 December 2010 is as follows:

	Total as per balance sheet US\$ '000	Variable interest rate instruments* US\$ '000	Fixed interest rate instruments US\$ '000	Instruments on which no interest is receivable US\$ '000
Financial Assets				
Financial assets at fair value through profit or loss	15,563	-	-	15,563
Loans and receivables	1,570	-	-	1,570
Cash and cash equivalents	11,907	600	8,282	3,025
	29,040	600	8,282	20,158
Financial liabilities				
Financial liabilities at fair value through profit or loss	1,054	-	-	1,054

* Changes in the interest rate may cause movements.

The average interest rate at the year end was 0.5%. Any movement in interest rates would have an immaterial effect on the profit/loss for the period.

The interest rate profile of the Group at 31 December 2009 is as follows:

	Total as per balance sheet US\$ '000	Variable interest rate instruments* US\$ '000	Fixed interest rate instruments US\$ '000	Instruments on which no interest is receivable US\$ '000
Financial Assets				
Financial assets at fair value through profit or loss	14,337	-	-	14,337
Loans and receivables	2,234	-	-	2,234
Cash and cash equivalents	13,069	2,300	7,343	3,426
	29,640	2,300	7,343	19,997
Financial liabilities				
Financial liabilities at fair value through profit or loss	2,692	-	-	2,692

* Changes in the interest rate may cause movements.

The average interest rate at the year end was 0.3%. Any movement in interest rates would have an immaterial effect on the profit/loss for the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2010

20. FINANCIAL INSTRUMENTS (continued)

(h) Fair value

The carrying values of the financial assets and liabilities approximate the fair value of the financial assets and liabilities and can be summarised as follows:

	At 31 December 2010 US\$ '000	At 31 December 2009 US\$ '000
Financial Assets		
Financial assets at fair value through profit or loss	15,563	14,337
Loans and receivables	1,570	2,234
Cash and cash equivalents	11,907	13,069
	29,040	29,640
Financial Liabilities		
Trade and other payables	1,054	2,692

Financial assets and liabilities, other than investments, are either repayable on demand or have short repayment dates. The fair value of investments is stated at the redemption prices quoted by fund managers and is based on the fair value of the underlying net assets of the funds because, although the funds are listed, there is no active market. Redemption gates are currently imposed by the funds thereby limiting the Group's ability to realise the value of its investments in a timely manner.

Fair value hierarchy

The table below analyses financial instruments measured at fair value at the end of the reporting period by the level of the fair value hierarchy (see note 2).

	At 31 December 2010			Total US\$ '000
	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	
	Financial assets at fair value through profit or loss	-	15,563	

	At 31 December 2009			Total US\$ '000
	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	
	Financial assets at fair value through profit or loss	-	14,337	

21. CLAIM RELATING TO LAWSUIT AGAINST FORMER GROUP COMPANY

Argo Group Limited (“Argo”) has been named as an additional defendant in a lawsuit filed against Absolute Capital Management Holdings Limited (now named ACMH Limited (“ACMH”)) and others. The suit has been filed in the United States District Court for the District of Colorado, by an investor in several of ACMH's investment funds. This litigation arose after the demerger of Argo from ACMH. The plaintiff, The Cascade Fund LLLP (“Cascade”), has made a number of claims against ACMH. In the event that Cascade’s claim against ACMH proves successful, Cascade is seeking to include Argo assets as part of the ACMH asset pool available to it by way of compensation.

Argo considers that the courts of Colorado do not have jurisdiction over it and that the claim against Argo is wholly without merit. In April 2010 the Colorado court dismissed Cascade’s action against ACMH for failure to state a claim, following which Cascade filed a second amended complaint. Argo subsequently filed a motion to dismiss Cascade’s second amended complaint, which motion is pending before the court. Argo intends to continue to vigorously defend its position.

22. EVENTS AFTER THE BALANCE SHEET DATE

The directors consider that there has been no event since the year end that has a significant effect on the Group’s position.



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ARGO