

Argo Group Limited

Consolidated Financial Statements

For the year ended 31 December 2009

ARGO GROUP LIMITED

MANAGEMENT AND ADMINISTRATION

DIRECTORS:

Michael Kloter
Kyriakos Rialas
Andreas Rialas
David Fisher
Kenneth Watterson

REGISTERED OFFICE:

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PRINCIPAL BANKER:

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AUDITORS:

KPMG Audit LLC
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**NOMINATED ADVISER AND
STOCKBROKER:**

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CHAIRMAN'S STATEMENT

The company was incorporated on 14 February 2008 and acquired the Argo businesses on 13 June 2008. Whilst the comparative trading period is therefore from 14 February 2008 to 31 December 2008, financial data in respect of the Argo business has only been consolidated from 13 June 2008.

Key Highlights for the twelve months ended 31 December 2009

(the comparative trading period is from 13 June 2008 to 31 December 2008 unless otherwise stated)

- Improved performance across the Argo credit funds
- Remained profitable despite significant reduction in performance fee income
- Revenues of USD11.7 million (2008: USD16.6 million)
- Operating profit of USD0.9million (2008: USD9.3 million)
- Profit before tax of USD2.4 million (2008: USD8.2 million)
- Strong balance sheet: net assets of USD44.5 million (December 2008: USD40.9 million)

Business review

Argo is pleased to report its results for the year ended 31 December 2009. The Company was incorporated in February 2008 in the Isle of Man and began trading as a new group holding company on 13 June 2008, creating a shorter comparative period of 13 June to 31 December 2008. It listed on the AIM market in November 2008.

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.

For the year ended 31 December 2009 the Group generated revenues of USD11.7 million (period to 31 December 2008: USD16.6 million) with management fees accounting for USD10.9 million (period to 31 December 2008: USD9.0 million). The decline in revenues reflected lower performance fee income of USD0.4 million (period to 31 December 2008: USD7.5 million) during the period due to the application of the high-water mark across the funds. The Argo Fund Limited ("TAF") and Argo Global Special Situations Fund SP ("AGSSF"), a segregated portfolio of the Argo Capital Investors Fund SPC, will need to increase their NAV as at 28 February 2010 by 51.0% and 25.8% respectively in order to reach their high-water mark. Earnings per share were USD0.04 (period to 31 December 2008: USD0.09).

Assets under management ("AUM") decreased during the year ended 31 December 2009 by 33% to USD439.5 million from their level at 31 December 2008. The decrease of USD217 million was largely the result of, firstly, redemptions from AGSSF and TAF and, secondly, the write down of assets of the Argo Real Estate Opportunities Fund Limited ("AREOF") which is described in more detail below.

As foreshadowed in the interim Chairman's Statement, the Group subscribed USD11 million of existing cash resources for new shares in TAF on 5 June 2009. This allowed the Company to improve the return on assets by taking advantage of lower market valuations and achieve better returns than the prevailing rates available from bank deposits.

The directors recommend a final dividend of 1p per share (2008: Nil). The final dividend will be paid on 23 June 2010 to shareholders who are on the Register of Members on 28 May 2010. Going forward, it is intended that the Company implements a progressive dividend policy, paying a final dividend each year. In addition the directors intend to undertake a share purchase programme up to a maximum total value of USD2 million over a period of 12 months commencing from 1 April 2010. 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.

ARGO GROUP LIMITED

CHAIRMAN'S STATEMENT (continued)

Operational review

The number of new redemptions received by the Argo Funds declined significantly during the course of the year. As noted previously, TAF's board of directors decided to implement a 'gate' on redemptions effective 19 November 2008. Under the terms of this gate, the Fund would meet redemption requests amounting to 10% of TAF's total number of shares at each subsequent dealing date until all redemptions were satisfied. The gate became superfluous in the first half of 2009 and we hope that, in due course, this development combined with the better performance will encourage new investor interest to the Fund.

AGSSF Holdings Limited ("AHL") was established in February 2009 to hold approximately 40% of AGSSF's existing net assets comprising less liquid positions. Redemption requests to AGSSF have been met to date partly in cash – albeit restricted by the imposition of a gate – and partly through in specie distribution of AHL shares. This Fund still has a backlog of redemptions to meet but AGSSF's board of directors is continuing to work with the fund manager on a plan to normalise the operations of the Fund.

The reduction in AUM and concomitant fall in revenues has necessitated a detailed review of the Company's cost base. Staff salaries were reduced by 15% effective 1 April 2009 and this was followed by a redundancy programme in the summer. The latter, together with some voluntary staff departures, has led to a decline in the headcount from 39 at the end of 2008 to 26 currently but the Company has ensured that the operational framework remains intact and that it retains the capacity to manage additional fund inflows as and when they occur. 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.

As part of the review of the Company's cost base the directors decided to transfer the Group's marketing activities to Argo Capital Management Limited and wind down the marketing businesses of Argo Investor Services Limited and Argo Investor Services AG. The former company was struck off on 14 December 2009.

Fund performance

Performance across the range of Argo Funds was mostly encouraging for the year ended 31 December 2009 with TAF, Argo Distressed Credit Fund Limited ("ADCF"), AGSSF and the AHL portfolio delivering positive returns for the year, in contrast to the draw-downs in 2008. The recovery in credit markets from March 2009 helped some of the funds' assets benefit from higher market valuations but whilst the return of confidence to these markets was encouraging, we erred on the side of caution and positioned the funds in line with this view by retaining some short strategies. Whilst TAF, AGSSF and ADCF all achieved double digit returns, the performance lagged those that adopted long-only strategies. However, whilst fund subscriptions have been sparse in our asset classes as new or returning investors prefer the daily/weekly liquidity terms offered by equity long/short, global macro and managed futures, we believe investors will at some point recognise the merits of uncorrelated strategies with managed downside risk.

Argo Funds

Fund	Launch	2009 Year total	2008 Year total	Since inception	Annualised performance	Sharpe ratio	Down months	AUM
		%	%	%	CAGR %			US\$m
The Argo Fund	Oct-00	12.18	-39.86	115.8	9.58	0.76	12 of 111	123.0
Argo Global Special Situations Fund	Aug-04	12.85	-26.88	37.08	6.63	0.59	15 of 65	122.1
AGSSF Holdings	Feb-09	7.72	N/A	7.72	8.63	1.34	4 of 11	76.4
Argo Distressed Credit Fund	Oct-08	11.06	0.49	11.61	8.76	1.37	5 of 15	13.1
Argo Real Estate Opportunities Fund	Aug-06	-78.47	-2.13	-72.5	-31.33	N/A	N/A	37.8*
Argo Capital Partners Fund	Aug-06	-2.83	-37.51	29.1	8.00	N/A	N/A	67.1
Total								439.5

* NAV reported twice a year, March and September.

CHAIRMAN'S STATEMENT (continued)

Fund performance (continued)

The Argo Real Estate Opportunities Fund Limited ("AREOF") was affected by challenging trading conditions and more specifically, retailer bankruptcies, increasing demand for rent concessions and a growing reluctance of tenants to make payments of their contractual obligations on a timely basis. Nevertheless, the Fund's two retail centre projects in Sibiu and Suceava in Romania continued to trade with high tenant occupancy levels. AREOF's first venture in Ukraine, the Riviera Shopping City in Odessa, was completed and opened in October 2009; it is currently 89% let and was the largest retail opening in the country last year.

The Company still received management fee income from the initial capital of EUR100 million. AREOF reported an adjusted NAV of EUR26.4 million as at end-September 2009 (compared with EUR122.6 million as at 30 September 2008) due to losses on investment properties, an impairment provision against land secured financial assets and the revaluation of development land; with the support of the Argo Funds AREOF has raised a further EUR10.5 million through a placing and open offer in October 2009 to support working capital needs and the cash flow requirements of its shopping centres.

The Argo Capital Partners Fund declined by 2.8% in the year ended 31 December 2009, attributable to adverse currency movements during the period. This private equity fund is closed to new subscriptions and is now invested in five projects having exited from an African banking investment in the first quarter of 2009. The realisation period for the Fund commences in August 2010 but can be extended for two years.

Outlook

2009 can be viewed as a period of stabilisation for the Company. Following the dramatic financial events of late-2008 and the unprecedented response from governments, markets enjoyed a fillip and there has been a marked return of confidence. However, the announcement of a debt standstill by Dubai World and, more recently, the speculation concerning Greek sovereign debt illustrate the pressures still facing the global economy.

Whilst the uncertainty surrounding the future of financial regulation continues the Company is well positioned to comply with the tighter restrictions currently being proposed by the draft EU directive. The directors believe that the Company is as well placed as it can be given that both the investment manager and adviser are already EU regulated and the primary business functions are outsourced to large, well-established banks in the EU.

The performance of the Company's funds has improved significantly, new redemptions have tailed off and the cost base has been realigned with the lower AUM. Although the challenge of re-building the business franchise remains the directors are confident that the long track record of our credit funds, continued steady performance and renewed marketing efforts will yield results in the coming year.

Michael Kloter
Non-Executive Chairman

Date: 29 March 2010

DIRECTORS' REPORT

The directors present their annual report and the audited accounts of the Group for the year ended 31 December 2009.

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 2009 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 2009	31 December 2008
	Ordinary shares	Ordinary shares
	No.	No.
Michael Kloter	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	-

Michael Kloter's interest is represented through a corporate vehicle, currently Kloter Board Services 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

Whilst the Company is not obliged by the AIM rules to do so, the board intends, where appropriate for a company of its size and nature, to comply with the main provisions of the Principles of Good Governance and Code of Best Practice set out in the Combined Code.

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

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 and the accounting policies, principles and practice underlying them, liaising with the external auditors and reviewing the effectiveness of internal controls.

DIRECTORS' REPORT (continued)

Audit Committee (continued)

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

- duties in relation to external reporting including reviews of consolidated financial statements, shareholder communications and other announcements;
- duties in relation to the external auditors, including appointment, dismissal, approval of fees and discussion of audit findings;
- monitor and review of the effectiveness of the Company's financial reporting and controls and its systems for internal control and risk management.

The Audit Committee met twice formally 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;
- 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 once 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

The directors recommend a final dividend of 1p per share (2008: Nil). The final dividend will be paid on 23 June 2010 to shareholders who are on the Register of Members on 28 May 2010. Going forward, it is intended that the Company implements a progressive dividend policy, paying a final dividend each year. In addition the directors intend to undertake a share purchase programme up to a maximum total value of USD2 million over a period of 12 months commencing from 1 April 2010. 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.

DIRECTORS' REPORT (continued)

Donations

During the year the Group made charitable donations of US\$3,571 (2008: US\$3,512).

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 2009 was 5 (2008: 40).

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: 29 March 2010

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 disclose with reasonable accuracy at any time the financial position of the Group and to allow for the preparation of consolidated financial statements. 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 24 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, 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. 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 USD1.6 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 2009 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. These consolidated financial statements have been prepared under the accounting policies set out therein.

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 Auditors

The directors' responsibilities for preparing the consolidated financial statements in accordance with applicable laws and regulations and International Financial Reporting Standards are set out in the Statement of Directors' Responsibilities on page 9.

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the consolidated financial statements give a true and fair view. We also report to you if, in our opinion, the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit.

We read the Directors' Report and any other information accompanying the consolidated financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the UK Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements.

Opinion

In our opinion the consolidated financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Group's affairs as at 31 December 2009 and of the Group's profit for the year then ended.

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

29 March 2010

ARGO GROUP LIMITED**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2009**

		Year ended 31 December 2009 US\$'000	14 February to 31 December 2008 US\$'000
Management fees		10,900	8,967
Incentive fees		437	7,473
Other income		352	160
Revenue	2(e), 3	11,689	16,600
Legal and professional expenses		(866)	(1,465)
Management and incentive fees payable	2(f)	(263)	(707)
Operational expenses		(1,870)	(1,479)
Employee costs	4	(7,222)	(4,077)
Foreign exchange gain/(loss)		269	(691)
Amortisation of intangible assets	10	(692)	(380)
Depreciation	11	(119)	(78)
Excess of acquirer's interest in net value of identifiable net assets	9	-	1,556
Operating profit	6	926	9,279
Interest income on cash and cash equivalents		134	258
Unrealised gain/(loss) on investments		1,361	(1,368)
Profit on ordinary activities before taxation	3	2,421	8,169
Taxation	7	387	(1,409)
Profit for the year/period after taxation attributable to members of the Company	8	2,808	6,760
Other comprehensive income			
Exchange differences on translation of foreign operations		785	625
Total comprehensive income for the year/period		3,593	7,385
Earnings per share (basic)	8	US\$0.04	US\$0.09
Earnings per share (diluted)	8	US\$0.04	US\$0.09

The company was incorporated on 14 February 2008 and acquired the Argo businesses on 13 June 2008 when it began to trade as a new group.

The notes on pages 16 to 36 form part of these consolidated financial statements.

ARGO GROUP LIMITED**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009**

		At 31 December	Restated
		2009	(Note 23)
	Note	US\$'000	At 31 December
			2008
			US\$'000
Assets			
Non-current assets			
Intangible assets	10	17,557	18,110
Fixtures, fittings and equipment	11	136	237
Loans and advances receivable	15	226	235
		<u>17,919</u>	<u>18,582</u>
Current assets			
Investments	12	14,337	1,976
Trade and other receivables	13	1,972	2,214
Cash and cash equivalents	14	13,069	20,058
Loans and advances receivable	15	36	44
		<u>29,414</u>	<u>24,292</u>
Total assets	3	<u>47,333</u>	<u>42,874</u>
Equity and liabilities			
Equity			
Issued share capital	16	769	769
Share premium		32,772	32,772
Revenue reserve		12,648	9,840
Foreign currency translation reserve	2(d)	(1,670)	(2,455)
Total equity		<u>44,519</u>	<u>40,926</u>
Current liabilities			
Trade and other payables	17	2,692	717
Taxation payable	7	122	1,231
Total current liabilities	3	<u>2,814</u>	<u>1,948</u>
Total equity and liabilities		<u>47,333</u>	<u>42,874</u>

These consolidated financial statements were approved by the board of directors on 29 March 2010 and were signed on its behalf by:

Kyriakos Rialas
Chief Executive Officer

Michael Kloter
Non-Executive Chairman

The notes on pages 16 to 36 form part of these consolidated financial statements.

ARGO GROUP LIMITED
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
YEAR ENDED 31 DECEMBER 2009**

	Issued share capital 2008 US\$'000	Share premium 2008 US\$'000	Revenue reserve 2008 US\$'000	Foreign currency translation reserve 2008 US\$'000	Total 2008 US\$'000
As at 14 February 2008 (date of incorporation)	-	-	-	-	-
Total comprehensive income					
Total comprehensive income for the period (Restated Note 23)	-	-	9,840	(2,455)	7,385
Contributions by and distributions to owners					
Issue of 76,931,620 shares (US\$0.01 par)	769	32,772	-	-	33,541
As at 31 December 2008	769	32,772	9,840	(2,455)	40,926
	769	32,772	9,840	(2,455)	40,926
	769	32,772	9,840	(2,455)	40,926
As at 1 January 2009 (Restated Note 23)	769	32,772	9,840	(2,455)	40,926
Total comprehensive income					
Total comprehensive income for the Year	-	-	2,808	785	3,593
As at 31 December 2009	769	32,772	12,648	(1,670)	44,519
	769	32,772	12,648	(1,670)	44,519
	769	32,772	12,648	(1,670)	44,519

The notes on pages 16 to 36 form part of these consolidated financial statements.

ARGO GROUP LIMITED**CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2009**

		Year ended 31 December 2009 US\$'000	14 February to 31 December 2008 US\$'000
Net cash inflow from operating activities	19	3,003	3,818
Cash flows from investing activities			
Interest received on cash and cash equivalents		134	258
Purchase of current asset investments	12	(11,000)	-
Acquisition of the Argo businesses	9	-	10,057
Proceeds from disposal of current asset investments		-	6,199
Purchase of fixtures, fittings and equipment	11	(23)	(25)
Repayment of loans		-	(199)
Net cash (used in)/from investing activities		(10,889)	16,290
Net (decrease)/increase in cash and cash Equivalents		(7,886)	20,108
Cash and cash equivalents at 1 January 2009 and 14 February 2008 (date of incorporation)		20,058	-
Foreign exchange gain/(loss) on cash and cash Equivalents		897	(50)
Cash and cash equivalents as at 31 December 2009 and 31 December 2008		13,069	20,058

The notes on pages 16 to 36 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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 (2008: 39) 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 Limited	Cayman Islands
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 purchase 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2009

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 in which the operation is disposed of.

(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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2009

2. ACCOUNTING POLICIES (continued)**(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 for 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 and Argo Distressed Credit Fund 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.

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 three 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2009

2. ACCOUNTING POLICIES (continued)

(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 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2009

2. ACCOUNTING POLICIES (continued)

(n) Accounting estimates, assumptions and judgements (continued)

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 10)

It has also 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) Changes in accounting policies

For the 2009 financial statements the Group has adopted IAS 1 "Presentation of Financial Statements" (Revised 2007), IFRS 8 "Operating Segments" and IFRS 7 Improving Disclosures about Financial Instruments and Fair Value Hierarchy.

The adoption of IAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. It also gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses are unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income. IAS 1 affects the presentation of owner changes in equity and introduces a "Statement of Comprehensive Income".

The Group adopted the amendments to IFRS 7 Improving Disclosures about Financial Instruments effective from 1 January 2009. These amendments require the Group to disclose certain information about financial instruments measured at fair value in the Statement of Financial Position. In the first year of application comparative information need not be presented for the disclosures required by the amendment. Accordingly, the disclosure for the fair value hierarchy is only presented for the year ended 31 December 2009.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2009

2. ACCOUNTING POLICIES (continued)**(p) Changes in accounting policies (continued)****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 7 Statement of Cash Flows (Revised 2009)	1 January 2010
IAS 17 Leases (Revised 2009)	1 January 2010
IAS 24 Related Party Disclosures - Revised definition of related parties	1 January 2011
IAS 27 Consolidated and Separate Financial Statements – Amendment relating to cost of an investment on first-time adoption (Revised 2008)	1 July 2009
IAS 32 Financial Instruments: Presentation - Amendments relating to classification of rights issues	1 February 2010
IAS 36 Impairment of Assets (Revised 2009)	1 January 2010
IAS 38 Intangible Assets	1 July 2009
IAS 39 Financial Instruments: Recognition and Measurement – Amendments for embedded derivatives when reclassifying financial instruments	30 June 2009
IAS 39 Financial Instruments: Recognition and Measurement – Amendments for eligible hedged items	1 July 2009
IAS 39 Financial Instruments: Recognition and Measurement (Revised 2009)	1 January 2010
IFRS 3 Business Combinations – Comprehensive revision on applying the acquisition method	1 July 2009
IFRS 9 Financial Instruments	1 January 2013
 IFRIC Interpretation	
IFRIC 9 Reassessment of Embedded Derivatives	30 June 2009

The directors do not expect the adoption of the other standards and interpretations to have a material impact on the Group's financial statements in the period of initial application.

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

(q) Dividends payable

Interim and final dividends are recognised when paid.

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

For the year ended 31 December 2009

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	Argo Investor Services Ltd	Other	Year ended 31 December
	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 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

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

For the year ended 31 December 2009

3. SEGMENTAL ANALYSIS (continued)

	Argo Group Ltd	Argo Capital Management (Cyprus) Limited	Argo Capital Management Limited	Argo Investor Services Limited	Other	Year ended 31 December
	2008	2008	2008	2008	2008	2008
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenues from external customers	-	11,657	3,265	-	1,678	16,600
Intersegment revenues	2,088	-	3,797	-	708	6,593
Reportable segment profit/(loss)	1,002	2,026	5,208	(1,837)	225	6,624
Intersegment profit/(loss)	2,088	(6,827)	3,797	-	708	(234)
Reportable segment assets	34,598	12,359	7,439	2,431	5,175	62,002
Reportable segment liabilities	54	549	1,434	32	297	2,366

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

	14 February to 31 December
	2008
	US\$'000
Revenues	
Total revenues for reportable segments	23,193
Elimination of intersegment revenues	(6,593)
Group revenues	16,600
Profit or loss	
Total profit for reportable segments	6,624
Elimination of intersegment loss	234
Other unallocated amounts	1,311
Profit on ordinary activities before taxation	8,169
Assets	
Total assets for reportable segments	62,002
Elimination of intersegment receivables	(431)
Elimination of Company's cost of investments	(18,697)
Group assets	42,874
Liabilities	
Total liabilities for reportable segments	2,366
Elimination of intersegment payables	(418)
Group liabilities	1,948

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

For the year ended 31 December 2009

4. EMPLOYEE COSTS

	Year ended 31 December 2009 US\$'000	14 February to 31 December 2008 US\$'000
Wages and salaries	6,571	3,789
Social security costs	550	234
Pension costs	41	-
Other	60	54
	<u>7,222</u>	<u>4,077</u>

5. KEY MANAGEMENT PERSONNEL REMUNERATION

Included in employee costs are payments to:

	Year ended 31 December 2009 US\$'000	14 February to 31 December 2008 US\$'000
Directors and key management personnel	<u>3,157</u>	<u>1,376</u>

6. OPERATING PROFIT

Operating profit is stated after charging:

	Year ended 31 December 2009 US\$'000	14 February to 31 December 2008 US\$'000
Auditors' remuneration	117	80
Directors' fees	2,543	1,013
Operating lease payments	<u>624</u>	<u>336</u>

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

For the year ended 31 December 2009

7. TAXATION

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

Income Statement

	Year ended 31 December 2009 US\$'000	14 February to 31 December 2008 US\$'000
Taxation (credit)/charge for the year/period on Group companies	<u>(387)</u>	<u>1,409</u>

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

	Year ended 31 December 2009 US\$'000	14 February to 31 December 2008 US\$'000
Profit before tax	<u>2,421</u>	<u>8,169</u>
Applicable Isle of Man tax rate for Argo Group Limited of 0%	-	-
Timing difference	(7)	144
Non-deductible expenses	11	7
Non-taxable income	(12)	(15)
Other adjustments	(131)	25
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	<u>(248)</u>	<u>1,248</u>
Tax charge	<u>(387)</u>	<u>1,409</u>

Balance Sheet

	At 31 December 2009 US\$'000	At 31 December 2008 US\$'000
Corporation tax payable	<u>122</u>	<u>1,231</u>

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

For the year ended 31 December 2009

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 2009 US\$'000	14 February to 31 December 2008 US\$'000
Net profit for the year/period after taxation attributable to members	<u><u>2,808</u></u>	<u><u>6,760</u></u>
		No. of shares
Weighted average of ordinary shares for basic earnings per share	76,931,620	76,931,620
Effect of dilution	-	-
Weighted average number of ordinary shares for diluted earnings per share	<u><u>76,931,620</u></u>	<u><u>76,931,620</u></u>
	Year ended 31 December 2009 US\$	14 February to 31 December 2008 US\$
Earnings per share (basic)	0.04	0.09
Earnings per share (diluted)	<u><u>0.04</u></u>	<u><u>0.09</u></u>

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

For the year ended 31 December 2009

9. BUSINESS COMBINATIONS

At an Extraordinary General Meeting held in the Cayman Islands on 13 June 2008 the shareholders of Absolute Capital Management Holdings Limited passed a resolution to distribute the Argo division of its group to shareholders, to be managed and owned independently under the newly formed Argo Group Limited.

The demerger was completed by making a distribution of shares of Argo Group Limited to the shareholders of Absolute Capital Management Holdings Limited. The total purchase consideration was 76,931,619 ordinary shares of US\$0.01 each with an aggregate fair market value (determined by a calculation of assets under management) of \$33,541,727 apportioned as follows:

Argo Capital Management (Cyprus) Ltd	\$13,501,195
Argo Capital Management Ltd	\$12,063,619
Argo Investor Services Ltd	\$4,048,125
Argo Capital Management Property Ltd	\$3,928,787
Argo Capital Management (Asia) Pte. Ltd	\$1

The Argo businesses acquired as part of this transaction contributed the following to the consolidated net profit on ordinary activities after tax: Argo Capital Management (Cyprus) Ltd US\$8,450,936 (profit), Argo Capital Management Ltd US\$415,745 (profit), Argo Investor Services Ltd US\$1,836,600 (loss), Argo Capital Management Property Ltd US\$62,645 (profit) and Argo Capital Management (Asia) Pte Ltd US\$390,517 (loss).

The fair value of the identifiable net assets and liabilities of the Argo businesses at the date of acquisition and the consideration are detailed below:

	Argo Capital Management (Cyprus) Ltd	Argo Capital Management Ltd	Argo Investor Services Ltd	Argo Capital Management Property Ltd	Argo Capital Management (Asia) Pte Ltd	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Intangible assets – fund management contracts	7,188	7,757	-	3,889	-	18,834
Fixtures, fittings & equipment	25	313	4	11	10	363
Investments	5,500	-	4,000	-	-	9,500
Trade & other receivables	5,204	1,490	37	1,284	191	8,206
Bank & cash	3,167	5,678	218	717	277	10,057
Trade & other payables	(7,583)	(3,174)	(58)	(878)	(169)	(11,862)
Net assets acquired	13,501	12,064	4,201	5,023	309	35,098
Excess of acquirer's interest in net value of identifiable net assets	-	-	(153)	(1,095)	(308)	(1,556)
Total	13,501	12,064	4,048	3,928	1	33,542
Satisfied by:						
Shares issued	13,501	12,064	4,048	3,928	1	33,542
Total	13,501	12,064	4,048	3,928	1	33,542

Net cash inflow arising on acquisition	US\$'000
Cash and cash equivalents acquired	10,057
	10,057

Intangible assets represent the fair value of fund management contracts of the Argo businesses, essentially the Argo Funds and the Argo Real Estate Opportunities Fund Ltd (managed by Argo Capital Management Property Ltd) to which it provides management and advisory services.

The Argo Group Limited ordinary shares were admitted to trading on AIM on 18 November 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2009

10. INTANGIBLE ASSETS

	Fund management contracts US\$'000
Cost	
Acquisition of Argo businesses	18,834
Foreign exchange movement	(344)
At 31 December 2008	18,490
Foreign exchange movement	139
At 31 December 2009	18,629
Amortisation and impairment	
Amortisation of Argo business intangible assets	380
At 31 December 2008	380
Amortisation of Argo business intangible assets	692
At 31 December 2009	1,072
Net book value	
At 31 December 2008	18,110
At 31 December 2009	17,557

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 (2008: US\$14.9m) being allocated to Argo Capital Management (Cyprus) Limited and Argo Capital Management Limited as US\$7.2m (2008: US\$7.2m) and US\$7.7m (2008: US\$7.7m) respectively.

The key assumptions on which the directors have based their five year discounted cash flow analysis are a pre-tax discount rate of 15% (2008: 15%), an inflation rate of 5% (2008: 5%) and a growth in assets under management (which determine management and performance fee income) of 15% to 20% (2008: 15% to 20%), with 4.5% to 6% (2008: 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 (2008: 25% higher) or the growth rate of assets under management had been 25% lower (2008: 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\$2.6m (2008: US\$3.2m), 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2009

11. FIXTURES, FITTINGS AND EQUIPMENT

	Fixtures, fittings & equipment US\$ '000
Cost	
Acquisitions through business combinations	363
Additions	25
Disposals	(4)
Foreign exchange movement	(69)
At 31 December 2008	315
Additions	23
Disposals	(25)
Foreign exchange movement	(14)
At 31 December 2009	299
Accumulated Depreciation	
Depreciation charge for period	78
At 31 December 2008	78
Depreciation charge for period	119
Disposals	(3)
Foreign exchange movement	(31)
At 31 December 2009	163
Net book value	
At 31 December 2008	237
At 31 December 2009	136

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

For the year ended 31 December 2009

12. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

		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	0	0
10	Argo Capital Investors Fund SPC	0	0
10	Argo Capital Partners Fund	0	0
100	Argo Distressed Credit Fund Ltd	0	0
100	AGSSF Holdings Ltd	0	0
		<u>0</u>	<u>0</u>
		<u>0</u>	<u>0</u>
Holding	Investment in ordinary shares	Total cost US\$ '000	Fair value US\$ '000
66,435	The Argo Fund Ltd	14,343	14,337
		<u>14,343</u>	<u>14,337</u>
		<u>14,343</u>	<u>14,337</u>
		At 31 December 2008	At 31 December 2008
Holding	Investment in management shares	Total cost US\$ '000	Fair value US\$ '000
10	The Argo Fund Ltd	0	0
10	Argo Capital Investors Fund SPC	0	0
10	Argo Capital Partners Fund Ltd	0	0
100	Argo Distressed Credit Fund Ltd	0	0
		<u>0</u>	<u>0</u>
		<u>0</u>	<u>0</u>
Holding	Investment in ordinary shares	Total cost US\$ '000	Fair value US\$ '000
10,270	The Argo Fund Ltd	3,343	1,976
		<u>3,343</u>	<u>1,976</u>
		<u>3,343</u>	<u>1,976</u>

13. TRADE AND OTHER RECEIVABLES

	At 31 December 2009	At 31 December 2008
	US\$ '000	US\$ '000
Trade receivables	1,166	1,780
Other receivables	677	195
Prepayments and accrued income	129	239
	<u>1,972</u>	<u>2,214</u>
	<u>1,972</u>	<u>2,214</u>

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

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

For the year ended 31 December 2009

14. CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents is a balance of US\$103,000 (2008: US\$116,000) 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.

15. LOANS AND ADVANCES RECEIVABLE

	At 31 December 2009 US\$'000	At 31 December 2008 US\$'000
Deposits on leased premises - current	36	44
Deposits on leased premises-non-current	226	235
	<u>262</u>	<u>279</u>

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 2009 US\$'000	At 31 December 2008 US\$'000
Current:		
Lease expiring within one year	<u>36</u>	<u>44</u>
	At 31 December 2009 US\$'000	At 31 December 2008 US\$ '000
Non-current:		
Lease expiring in second year after balance sheet date	-	30
Lease expiring in third year after balance sheet date	226	205
	<u>226</u>	<u>235</u>

16. SHARE CAPITAL

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

	2009 No.	2009 US\$'000
Issued and fully paid		
Ordinary shares of US\$ 0.01 each	76,931,620	769
At 1 January 2009 and 31 December 2009	<u>76,931,620</u>	<u>769</u>

17. TRADE AND OTHER PAYABLES

	At 31 December 2009 US\$ '000	At 31 December 2008 US\$ '000
Trade and other payables	44	49
Other creditors and accruals	2,648	668
	<u>2,692</u>	<u>717</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2009

18. 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 2009 US\$ '000	At 31 December 2008 US\$ '000
Operating lease liabilities:		
Within one year	527	573
In the second to fifth years inclusive	607	969
Present value of minimum lease payments	<u><u>1,134</u></u>	<u><u>1,542</u></u>

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

	Year ended 31 December 2009 US\$ '000	14 February to 31 December 2008 US\$ '000
Profit on ordinary activities before taxation	2,421	8,169
Interest income	(134)	(258)
Other income	-	(42)
Amortisation of intangible assets	692	380
Depreciation	119	78
Increase/(decrease) in payables	1,975	(10,001)
Decrease in receivables	259	5,538
(Increase)/decrease in fair value of current asset investments	(1,361)	1,368
Loss on disposal of fixtures, fittings & equipment	23	-
Negative goodwill	-	(1,556)
Net foreign exchange (gain)/loss	(269)	691
Income taxes paid	(722)	(549)
Net cash inflow from operating activities	<u><u>3,003</u></u>	<u><u>3,818</u></u>

20. RELATED PARTY TRANSACTIONS

73% 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\$45,986 (2008:US\$24,220) for services rendered to the Group in the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2009

21. 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-subsidiary 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, Bank Julius Baer & Co Ltd, UBS AG and ABN-AMRO Bank (Luxembourg).

(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 12. 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.

(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 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 2009 the exposure would be a profit or loss to the Consolidated Statement of Comprehensive Income of approximately US\$266,000 (2008:US\$800,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2009

21. FINANCIAL INSTRUMENTS (continued)

(g) Interest rate risk

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

	Total as per balance sheet	Variable interest rate instruments*	Fixed interest rate instruments	Instruments on which no interest is receivable
	US\$ '000	US\$ '000	US\$ '000	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.

The interest rate profile of the Group at 31 December 2008 is as follows:

	Total as per balance sheet	Variable interest rate instruments*	Fixed interest rate instruments	Instruments on which no interest is receivable
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial Assets				
Financial assets at fair value through profit or loss	1,976	-	-	1,976
Loans and receivables	2,493	-	-	2,493
Cash and cash equivalents	20,058	1,525	16,899	1,634
	24,527	1,525	16,899	6,103
Financial liabilities				
Financial liabilities at fair value through profit or loss	717	-	-	717

* Changes in the interest rate may cause movements.

The average interest rate at the period end was 1.29%. 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 2009

21. FINANCIAL INSTRUMENTS (continued)

(h) Fair value

The carrying values of the financial assets and liabilities equate to the fair value of the financial assets and liabilities and are as follows:

	At 31 December 2009 US\$ '000	At 31 December 2008 US\$ '000
Financial Assets		
Financial assets at fair value through profit or loss	14,337	1,976
Loans and receivables	2,234	2,493
Cash and cash equivalents	13,069	20,058
	29,640	24,527
Financial Liabilities		
Financial liabilities at fair value through profit or loss	2,692	717

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 2009			
	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	Total US\$ '000
Financial assets at fair value through profit or loss	-	14,337	-	14,337
Financial liabilities at fair value through profit or loss	560	2,132	-	2,692

22. 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 has filed a motion to dismiss Cascade's claim, which motion is pending before the court. The directors believe that the claim against Argo is wholly without merit and Argo intends vigorously to defend its position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2009

23. PRIOR PERIOD ADJUSTMENT

Comparative figures have been restated due to a reclassification in the 31 December 2008 financial statements, resulting in a transfer from Foreign Currency Translation Reserve to Revenue Reserve of US\$3,080,270. This occurred due to a reclassification between pre and post acquisition reserves on the acquisition of the Argo businesses.

24. 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.