

QUARTERLY REPORT JUNE 2013

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KEY POINTS

Intercept Hill (EL4164) **Argo – 100%**

- No expenditure during the quarter.
- Refer to Subsequent Matters below.

Toondulya (EL4284) **Argo 100%**

- No expenditure during the quarter.
- Refer to Subsequent Matters below.

Investment in Pantheon Resources Plc (“Pantheon”) **Argo 6.83%**

- As previously announced, the Pantheon JV has conducted an extensive geological study on the acreage, greatly enhancing the understanding of the play and resulting in a reduced risk profile and an increase in the potential for reserves.
- Argo has been advised by Pantheon that, discussions between Vision Gas Resources LLC ("Vision") and interested parties in respect of the restructuring of the Tyler County Joint Venture ("JV") continue. A further announcement will be made when the restructuring has been successfully concluded, following which Vision intends to commit to a suitable rig and then drill the Kara Farms #1H well.

Pantheon's 25% working interest in the Tyler County JV will not be affected by the restructuring.

- The value of Argo's investment in Pantheon is now valued at \$2,118,904 at an exchange rate of 0.6072 at the end of the June Quarter.

SUMMARY OF ACTIVITY

PANTHEON RESOURCES PLC (*Argo 6.83% shareholder*)

At Pantheon's AGM held in December 2012, the Managing Director of Vision Gas Resources LLC ("Vision"), Mr Bobby Gray, made a presentation on the Tyler County Project for which Vision is the operator with a 75% interest. During this talk and the ensuing discussion, he expressed his belief that the extensive geological study recently undertaken had substantially increased reserve potential as well as lowered the geological risk of the Joint Venture ("JV") acreage in which Pantheon holds a 25% working interest. He advised that he hoped that the Kara Farms #1H ("KF#1H") well would commence drilling during first quarter 2013. He also stated that this intention was dependent upon two key factors; completion of the restructuring of the JV and availability of a suitable rig.

Over recent months the restructuring has moved forward positively with Pantheon taking a prominent and active part. The Group has been in the forefront of introducing potential new partners to Vision for entry into the JV although this restructuring will not impact upon Pantheon's 25% interest in the Tyler County Project. Discussions with parties are now at an advanced stage. These negotiations are by nature complex, with extensive geological and geophysical due diligence requirements, and there can be no guarantee as to the timing or outcome of any decision, it is anticipated that they should be concluded satisfactorily in the second half of 2013. It is the current plan to commit to a rig and then drill the KF#1 well immediately on finalisation of the restructuring of the JV.

The second stated condition for the commencement of drilling was the availability of a suitable rig. Concomitant with this were an experienced, high quality crew to manage the anticipated well conditions and some further reduction in rig rates. Circumstances have been moving in the JV's favour on both rig rates and commodity prices. As part of the restructuring negotiations, Vision has indicated that currently a rig could be on location in as little as 40 days of a request for mobilisation. The strengthening of the US natural gas price over recent months further underpins Pantheon's confidence in the Tyler County Project's.

KF#1H is considered by the operator of the Pantheon joint venture (Pantheon 25% working interest), to be a development/appraisal well targeting, in the first instance, a liquids-rich Woodbine Sandstone reservoir underlying the extensive gas-rich Austin Chalk formation. Over the intervening period, the operator has:

1. Completed a comprehensive two plus year analysis, in conjunction with the Bureau of Economic Geology at the University of Texas at Austin, aimed at decoding the geophysical expression of productive Woodbine by analyzing data from 2,500 Woodbine wells, over 2,600 miles of 2D seismic and the acquisition of 3D seismic over producing Woodbine;
2. Upgraded the potential for its Woodbine play following the conclusion of the extensive two plus year study leading to reduced risk profile and increased potential for hydrocarbon;
3. Concluded that Woodbine underlying JV acreage appears analogous to the nearby Polk County Double A Wells field. It is estimated that production from the Double A Wells field of circa 20 million barrels of condensate and 415 bcf of natural gas to date;
4. Confirmed JV belief that its acreage may have potential to contain a similar size field;
5. Noted that, if confirmed to be present, has potential for development of up to 17 horizontal or up to 50 vertical wells to drain the Woodbine field;

6. Noted that the JV's Woodbine target is a gas condensate play. This makes it correlated to the oil price as the associated liquids usually trade at par or a premium to the crude oil price; and
7. Indicated that gross NPV10, on a mean reserve case, is estimated to be <US\$100 million per vertical Woodbine well and <US\$200 million per horizontal well using a US\$100 per barrel constant price for crude oil and a constant US\$4.50 per mmbTU for natural gas.

MANAGEMENT CHANGES:

Effective March 18, 2013, Argo announced the resignation of Dr Hugh Herbert as Chairman and Managing Director of the Company after seven years of service to the Board. Resignation arrangements with Dr Hugh Herbert were finalized in the Quarter and all necessary company information and materials were returned to the Company.

During the Quarter, Mr Andrew Van Der Zwan was appointed as Executive Director

CORPORATE

Cash reserves at the end of the June Quarter stood at \$211,667 with no secured debt while the value of the Pantheon Resources Plc investment was \$2,118,906 at an exchange rate of 0.6072. This represents a value gain from Purchase of \$428,044.

Performance Share Grants were approved at the Shareholders meeting on 13 June 2013. (Refer to ASX announcement of June 13).

The Board has recognised the need to conserve cash whilst the company reviews its options going forward. To this end changes to the structure of the Board were made in February and March and as a result the monthly cash burn rate has been dramatically reduced this quarter. Concurrent with the recent board and management changes, Argo has reviewed its strategy in light of the prevailing market conditions. Over the past 6 months, the Company's focus has been to preserve the cash reserves and to review its asset portfolio with the objective of determining the optimum strategy to create shareholder value, given the present asset mix and capital position.

The Board continues to examine quality corporate opportunities in the natural resources sector. The Board will continue to weigh such opportunities in the context of the potential for material capital appreciation for Argo shareholders should the Pantheon JV commence drilling and enjoy some success.

SUBSEQUENT MATTERS

Argo Exploration Ltd ('Argo') advises that the following exploration licence areas; Intercept Hill EL4164, and Toondulya EL4284 have now been relinquished by the company.

As noted in the March 2013 Quarterly report, Mount Isa Mines ('Xstrata Copper') has given notice of their withdrawal from the Exploration Farm In and Joint Venture Agreement on EL4164.

Analysis of the drilling results from Oak Dam South and the Winjabbie East Prospects has determined that these prospects are unlikely to host an economic ore deposit of sufficient size and scale to meet the strategic requirements of a company of their size. Argo subsequently impaired the full value of the project in its balance sheet.

Whilst Argo believes that EL4164 has some remaining exploration potential, the depth, geology and other characteristics of the asset would require material additional capital to further exploit. Given the lack of commercial success by both Argo and Xstrata Copper to date, coupled with the lack of available capital, the company has determined that it is in the best interests of shareholders not to commit further significant funds to high risk exploration of EL4164. The Board has reviewed the carrying amount of each of the projects and as previously advised, written down the value of Intercept Hill Project. The Toondulya Project will now be written down.

This decision to relinquish the exploration licences has been made in the context of the present volatility in equity markets and commodity prices, scarcity and cost of capital, and the diminished appetite for greenfields exploration risk. Additionally, these exploration licences carried minimum capital expenditure requirements, which would have impacted the company in the short to medium term. Continued evaluation and exploration on these exploration licences would have required material additional capital, which in the present environment could be highly dilutionary to existing shareholders.

CORPORATE DIRECTORY

Board of Directors

Andrew Van Der Zwan
Christopher Martin
Justin Hondris

Joint Company Secretaries

Melanie Leydin
Justin Mouchacca

Issued Share Capital

Argo Exploration Ltd has 125,220,000 ordinary shares currently on issue.

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Please direct shareholding enquiries to the share registry