Andes Energia plc

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2010

(Company No. 5083946)

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Andes Energia plc

CONTENTS

OVERVIEW

HIGHLIGHTS

Andes Energia plc ("Andes" or the "Company" and with its subsidiaries the "Group") is the oil and gas, electricity distribution and hydro-electric power company in Argentina with certain other exploration interests outside Argentina

The Group's focus is on the Argentinean energy sector, which it believes offers premium assets at undervalued prices and the ability to generate additional value from integrating the whole price chain from the exploitation of natural resources through to the distribution of the energy produced Its principal assets are a 51% indirect controlling interest in Empresa Distribuidora de Electricidad de Mendoza S A , the main electricity distribution company in the Province of Mendoza ("EDEMSA"), an indirect controlling 47% interest in Hidroelectrica Ameghino S A , a 60MW hydroelectric power plant in the Province of Chubut ("HASA") and oil and gas interests in Argentina which include four exploration licences covering nine licence blocks in the San Jorge and Neuquen basins and an interest in a producing field with reserves that was acquired after the year end

Financial

Year ended 31 December	2010	2009	Change
	US$'m	US$'m	
Revenue	171	139	23%
EBITDA	34	19	79%
Profit before tax	22	4	450%
Profit/(loss) for the year attributable to equity holders	4	(1)	N/A

Operational

- Acquisition of joint venture partner's interest in seven licence blocks after the year end
- Acquisition of 24% interest in producing field with reserves after the year end
- Continuation of geophysical studies and seismic reprocessing
- Listing of shares on Buenos Aires Stock Exchange
- Farm-in agreement with YPF for two blocks in the province of Neuquen
- Increase in EDEMSA's EBITDA for the year ended 31 December 2010 to AR$118 million (US$30 million) from AR$68 million (US$18 million) in the previous year
- Acquisition of rights in EDEMSA bonds with a face value of US$85 1 million
- Full impact of increase in electricity tariffs for the third review period charged by EDEMSA by on average 12% on 1 August 2009 and 12% on 1 December 2009

Andes Energia plc

CHAIRMAN'S STATEMENT

Overview

Our 2010 financial results incorporating the results of Andes together with its subsidiaries for the year ended 31 December 2010 are set out below

The Group recorded a profit before tax of US$22 million on revenue of US$171 million for the year compared to a profit before tax of US$4 million on revenue of US$139 million in 2009 This revenue increase results primarily from the EDEMSA tariff increase, the pass through of increases in the cost of energy purchased and an increase in demand During the year EDEMSA and the investment trust established by EDEMSA acquired the rights over EDEMSA bonds with a face value of US$85 1 million A surplus of AR$21 million (US$5 4 million), resulting from the net present value impact of the reduction in borrowings has been recognized in the income statement for the period under finance costs The profit after tax attributable to equity shareholders was US$4 million compared to a loss of US$1 million in 2009 Basic and diluted earnings per share was 3 55 cents for the year compared to a basic and diluted loss per share of 0 45 cents in 2009 In line with the dividend policy set out in the Group's re-admission document, no dividend is proposed

The results of HASA, our hydroelectric power plant, continue to benefit from the change in the regulations implemented in October 2008 that now allows HASA to sell all the electricity it generates to the wholesale market

We continue to advance the development of our oil and gas strategy and our main focus for the balance of 2011 is to formalise agreements and a work program that will hopefully allow us to maximise the potential of the licences we hold

Outlook

We are very pleased with the results for the year The repurchase of the debt has significantly changed the financial profile of EDEMSA, improving and reducing credit risk exposure and decreasing exposure to foreign exchange risk However, it is important that the implementation of a tariff polynomial formula, that recognises costs in real terms, is approved by the authorities to maintain EDEMSA's economic and financial sustainability

The results of HASA continue to benefit from the change in the regulations that allows HASA to sell all the electricity it generates to the wholesale market with revenue increasing 31% over 2009

The Group holds licences in prolific oil and gas provinces in Argentina all of which we believe have the potential for significant discoveries and reserves During the year the Group concluded a farm-in agreement with YPF S A ("YPF") for its two licence blocks Corralera and Mata Mora in the province of Neuquen in Argentina The Group now holds a 13 5% carried interest in these blocks, subject to completion of the agreement

After the year-end, the Group acquired a 24% working interest and exercised its option to acquire a further 10% working interest in Vega Grande a producing field located in the province of Mendoza in Argentina and secured an option to acquire the remaining 66% working interest and a 100% working interest in two further development blocks, La Paloma and Cerro Alquitran Furthermore, after the year–end, the Group completed the acquisition of its joint venture partner's interest in three exploration licences covering six blocks in the province of Chubut and one block in the province of Rio Negro in Argentina

The completion of these transactions means the Group is now an oil producer and owner of proven reserves which should now enable us to accelerate exploration activity on these blocks The Group's prime focus for the balance of this year and 2012 will be the development of our oil and gas interests

Neil Bleasdale
Chairman
10 May 2011

CHIEF EXECUTIVE'S REVIEW

Introduction

2010 has been a successful year for the Group, particularly for our electricity operating companies Whilst we were not able, during the year, to accelerate the exploration program in the oil and gas sector as quickly as we would have liked, the completion of a farm-in agreement with YPF and the acquisition of various other interests after the year-end places us in a strong position to accelerate activity on our oil and gas interests

The highlights for 2010 are

- Increase in EDEMSA's EBITDA for the year ended 31 December 2010 to AR$118 million (US$30 million) from AR$68 million (US$18 million) in the previous year
- Full impact of adjustment in electricity tariffs for the third review period charged by EDEMSA by on average 12% on 1 August 2009 and 12% on 1 December 2009
- Acquisition of rights in EDEMSA bonds with a face value of US$85 1 million
- Farm-in agreement with YPF for two blocks in the province of Neuquen
- Continuation of geophysical studies and seismic reprocessing
- Listing of the Company's shares on Buenos Aires Stock Exchange
- Acquisition of joint venture partner's interest in seven licence blocks after the year end
- Acquisition of 24% interest in producing field with reserves after the year end

We believe 2011 will be an exciting year for Andes in general and particularly for our oil and gas assets given the recent transactions that have been concluded We will focus on the development of these licences, which will provide our shareholders with a broader base of risk between pure exploration and production

Oil and Gas Interests*

Corralera and Mata Mora Blocks

Andes successfully concluded a farm-in agreement with YPF for the Corralera and Mata Mora blocks in the province of Neuquen YPF is Argentina's largest oil company and is controlled by Repsol YPF, S A ("Repsol"), Spain's largest oil and gas company Repsol has operations in Europe, Latin America, North America, the Middle East, Asia and North Africa and explores for and produces oil and natural gas, refines petroleum and transports petroleum products and liquefied petroleum gas At the end of 2009 YPF had estimated aggregate proven reserves of 1,013 million barrels of oil equivalent according to its filings with the NYSE

This agreement is subject to the province approving a 1 year extension to the exploration period and the formalisation of new *Union Transitoria de Empresas* Andes previously held a 20% working interest in the blocks and will now hold a 13 5% carried interest following completion Under the agreement, YPF will fund exploration work program commitments up to the stage of commercial discovery We believe our association with YPF will bring huge benefits to our oil and gas operations and we hope to be able to develop our relationship with them on other licensed areas

These two licenses are well located in terms of current gas production, within the largest gas producing basin in Argentina The Vaca Muerta source rock, present in these licenses, could eventually be found to be holding unconventional reserves

Confluencia, San Bernardo, Pampa Salamanca Norte, Buen Pasto, Sierra Cuadrada, Rio Senguerr and Laguna El Loro Blocks

The results of the Airborne survey undertaken by Carson Helicopters, Inc combined with the soil gas geochemical survey, performed by Exploration Technologies, Inc, and the existing well information, confirmed the presence of active petroleum systems in the Confluencia, San Bernardo and Buen Pasto blocks Wells El Bloque 1, Kil ch EB x-1001and Meseta del Humo x1 all showed presence of hydrocarbons that require further studies A new work programme is being formulated to deepen the knowledge of these blocks and their commercial potential

Furthermore, after the year-end, Andes completed the acquisition of its joint venture partner's interest in the consortium agreement that holds the licences for these blocks As a result of this transaction Andes now has a 98 per cent economic interest over these licences, after a 2% royalty due to the operator Andes is in advance negotiations with one of the major oil companies in Argentina for a farm-in agreement for these blocks

Oil andGas Interests (continued)*

Vega Grande, La Paloma and Cerro Alquitran

After the year end Andes completed the acquisition of a 34% working interest in Vega Grande with the option to acquire the remaining 66% of Vega Grande and 100% working interest in two further blocks, La Paloma and Cerro Alquitran Vega Grande is a producing asset located in the Mendoza province, with total 1P/2P reserves of 4 3 MM Boe, accumulated total production of 1 6 MM Boe and daily production of 150 bpd Approximately 172km of 2D seismic has been shot over the licence, which Andes consider to be under explored A reserves report was produced by Oilfield Production Consultants (OPC) Ltd for Andes, which shows for this asset

Vega Grande Reserves

	P90	P50	P50
Oil MMm³ (MMb)	0 35 (2 2)	0 69 (4 3)	1 18 (7 4)
Gas MMm³ (BCF)	49 (1 7)	104 (3 7)	184 (6 5)

Vega Grande Contingent Resources

	P90	P50	P50
Oil MMm³ (MMb)	0 33 (2 1)	0 56 (3 5)	0 90 (5 7)
Gas MMm³ (BCF)	55 (1 9)	110 (3 9)	190 (6 7)

Andes has also taken operational and management control of the block for which it will be compensated with a management fee of 5% of total production We believe Vega Grande to be an under-exploited and under-managed field with high potential

Other Interests

The Group has also maintained its interest in certain non-Argentine assets These are primarily investments in early stage gas and mineral exploration assets located in North America, Europe and Mauritania

Electricity Distribution and Power Generation

EDEMSA

During 2010, we consolidated the productivity and process efficiency gains made in 2009 Special emphasis has been placed on increasing productivity and the efficiency of processes with a particular focus on staff specific training to improve customer service We were able to further reduce business process times involving, contract renegotiations, invoice distribution, meter readings, and the management of bad debt

Losses Evolution

As of December 2010, EDEMSA reached an historical minimum record for energy losses of 10 8% Again, this has been the result of a co-ordinated effort between inspection activities, irregular situations detections, recovery of clients and a model of tracking anomalies and the consumption of our customers

Dec 2007	Dec 2008	Dec 2009	Dec 2010
12 0%	11 9%	11 3%	10 8%

Evolution of Energy Demand

Energy consumption of Argentina in 2010 increased by 5 9% over 2009, whilst the volume of energy sold by EDEMSA during 2010 in our concession area in Mendoza was 3,221 GWh, representing a growth of 6 7% over 2009

Cost of supply

During 2010 there was an increase in the average price of energy supplied of 1 5% due to seasonal price increases The pass through of these increases to customers recovers these cost increases

CHIEF EXECUTIVE'S REVIEW (continued)

Electricity Distribution and Power Generation (continued)

EDEMSA (continued)

Results

EDEMSA recorded a profit of AR$35million in 2010 and EBITDA of AR$118 million This represents significant progress from the profit of AR$9 million and EBITDA of AR$68 million in 2009 Sales for the year were AR$647 million, a 28 6% increase on 2009 revenues of AR$503 million This positive effect is explained by a number of factors, the tariff adjustments, strong growth in physical energy demand of 6 7%, and the pass through of increases in the cost of energy purchased Gross profit increased to AR$205 million, an increment of AR$84 million (69 4%) over 2009 gross profit of AR$121 million Operating profit improved to AR$90 million compared to AR$40 million in 2009, an increase of AR$50 million or 125%

During the year EDEMSA and the investment trust established by EDEMSA, entered into agreements to acquire the rights over approximately 92% of EDEMSA bonds in issue At the end of the contractual period, EDEMSA and the trust will own 88 06% of the Class A notes, 100% of the Class B notes, 98 93% of the Class D notes and 98 93% of the Class D certificates These assets are stated net against borrowings in the balance sheet and a surplus of AR$21 million resulting from the net present value impact of the reduction in the borrowings has been recognised in the income statement under finance costs The present value of borrowings has fallen from AR$260 million at the end of 2009 to AR$138 million at the end of 2010

On 30 June 2010 EDEMSA signed an advisory services agreement with MSO Andes Energia Argentina S A , a wholly owned subsidiary of Andes Energia Plc, for the provision of advisory services During the year EDEMSA was charged AR$11 million for these services

Equity and financial structure

The above financial debt restructuring has significantly improved the capital structure of EDEMSA At the end of 2010 EDEMSA had a solvency ratio (net assets/liabilities) of 1 43 compared to 1 01 at the end of 2009 EDEMSA continues to meet its commitments under the Concession Agreement and has met and continues to meet all financial covenants and other commitments under the terms of the EDEMSA bond agreement

HASA

The company recorded a profit for the year of AR$6 7 million, an improvement of 109% compared to the 2009 profit of AR$3 2 million Sales increased to AR$21 million from AR$16 million in 2009, an increment of 31% Inflows from rainfalls were lower than the historical average resulting in 1,160 68Hm³ accumulating in the reservoir The power generated in the year was 179GWh, 20% higher than 2009 HASA is also considering participation in a 40MW wind-farm to take advantage of existing transportation lines

Luis Alvarez Poli
Chief Executive Officer
10 May 2011

***Qualified Person Review**
Mr Juan Carlos Esteban has reviewed the information contained in the report on the Group's oil and gas interests Mr Juan Carlos Esteban is a petroleum engineer with over 20 years of experience and is a member of the SPE (Society of Petroleum Engineers)

THE BOARD

Neil Bleasdale (Chairman)

Neil Bleasdale joined the board on 2 October 2007 Neil is the Chairman and Chief Executive Officer of EDEMSA He is a businessman and holds a B A (with honours) from the University of Leeds, England He also acts as a non-executive director and alternate director of a number of other Argentine companies

Luis Alvarez Poli (Chief Executive Officer)

Luis Alvarez Poli joined the board on 2 October 2007 and also represents the Group on the directive committee of the oil joint venture Luis graduated as a Certified Public Accountant and Corporate Administrator from the Universidad Católica Argentina in Buenos Aires He also has a postgraduate MBA from the Instituto de Altos Estudios Empresariales IAE Luis has more than 19 years of experience in capital markets, investor relations and financial restructuring in energy and media companies He was previously a financial director and manager in, among others, Transportadora de Gas del Sur and Petrobras (formerly Perez Companc) and has also worked for Banco Macro in the capital markets department

Nigel Duxbury (Finance Director)

Nigel Duxbury joined the board in July 2004 Nigel has extensive experience both as a finance director and senior executive in small and large quoted and unquoted companies within Europe, Asia and the USA He has a background in finance and accountancy, having qualified as a chartered accountant with Touche Ross, London

Juan Carlos Esteban (Chief Executive, Oil and Gas Operations)

Juan Carlos Esteban joined the board on 24 June 2009 as Chief Executive Officer of the group's oil and gas interests Juan Carlos joined the Company from YPF where he has been employed since 1985 At YPF he was responsible for production activities in Argentina and Bolivia and for the operations of YPF's fields in North Mendoza and Malargue in the Cuyana and Neuquen basins He has significant knowledge and experience in the areas where the group holds its licences

Marcelo Comba (Non-Executive Director)

Marcelo Comba joined the board on 2 October 2007 Marcelo graduated as a solicitor from the University of Buenos Aires in 1988 and became a Master in Business Law in 1994 After working in the legal departments of Siemens S A and Ferrovias SAC, he has worked since 2002 as a Partner in the law firm of Aidar Bestene-Garcia Moreno & Associates In 2004 he also became President of HASA

Nicolas Mallo Huergo (Non-Executive Director)

Nicolas Mallo Huergo joined the board on 2 October 2007 Nicolas graduated from the Universidad Católica Argentina in 1993 with a law degree, and obtained a Masters in Law (LLM) with honours at Northwestern University School of Law, Chicago, USA, in 1999 He has been and is a director of a number of local and foreign companies Previously, he practised as a lawyer in the firm Marval, O'Farrell & Mairal

Andes Energia plc

DIRECTORS' REPORT

The directors present their report and the audited financial statements of Andes Energia plc (the "Company" and collectively with its subsidiaries the "Group") for the year ended 31 December 2010

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is a Latin American energy group, with electricity distribution, hydro-electric power and oil and gas interests in Argentina The Company is required by the Companies Act to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2010 and of the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group The information that fulfils this requirement can be found in the Chairman's Statement and Chief Executive's Review, which are incorporated into this report by reference These sections also include details of expected future developments

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to US$9,647,733 (2009 US$1,065,827)

The directors do not recommend the payment of a dividend (2009 US$nil)

KEY PERFORMANCE INDICATORS

The directors use a range of performance indicators to monitor progress in the delivery of the Group's strategic objectives, to assess actual performance against targets and to aid management of the business

The Group's key performance indicators ("KPIs") include both financial and non-financial targets and such targets are set annually

Financial KPIs

Financial KPIs include

Sales
Sales provide a measure of Group activity that is influenced by various factors including tariff increases, the cost of supplies and energy losses

Gross margin
This represents the margin generated by the core business and excludes all non-operating costs, such as financing and tax expenses as well as one-off items such as negative goodwill

Capital expenditure
This provides a measure of the capital commitment required to maintain operations

EBITDA
This provides a measure of the cash generated by operations

Return on equity
This provides a measure of the profitability of the Group

Non-Financial KPIs

Non-financial KPIs address other important technical aspects of the business and include

Gross capacity
Gross capacity is the total generation capacity owned by Group companies and is affected by acquisitions, expansion programs and disposals

Energy losses
This measures the efficiency of the energy distributed It includes the technical and commercial loss

FINANCIAL RISK MANAGEMENT

The Company's exposure to financial risk is set out in note 30 to the accounts

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development and position, are set out in the Chairman's Statement and the Chief Executive's Review The Directors believe that the Group is well placed to manage its business risks and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the financial statements

SUPPLIER PAYMENT POLICY

It is the Group's policy to agree and clearly communicate the terms of payment as part of the commercial arrangement negotiated with suppliers and then to pay according to those terms based upon the timely receipt of an accurate invoice Trade creditor days for the Group have been calculated at 111 days (2009 104 days) This represents the ratio expressed in days between the amounts invoiced to the Group in the year by its suppliers and the amounts due at the year end to trade creditors falling due for payment within one year

COUNTRY OF INCORPORATION

The Company was incorporated in England and Wales

COUNTRY OF OPERATION

The Group's main activities are based in Argentina

THE DIRECTORS

The directors who served during the year were as follows

Neil Bleasdale – Chairman
Luis Alvarez Poli – Chief Executive Officer
Nigel Duxbury - Finance Director
Marcelo Comba – Non-Executive Director
Nicolas Mallo Huergo – Non-Executive Director

DISCLOSURE OF INFORMATION TO THE AUDITORS

In the case of each person who was a director at the time this report was approved

- so far as that director was aware there was no relevant available information of which the Company's auditors were unaware, and
- that director has taken all steps that the director ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors were aware of that information

This information is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

AUDITORS

Nexia Smith & Williamson have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the Annual General Meeting

Approved by the Board of Directors
and signed on behalf of the Board

Nigel Duxbury
Secretary
10 May 2011

Andes Energia plc

DIRECTORS' REMUNERATION REPORT

The purpose of the Remuneration Committee is to fix the remuneration of the executive directors and make recommendations to the Board on an overall remuneration policy for executive directors and other senior executives in order to retain, attract and motivate high-quality executives capable of achieving the Group's objectives

SERVICE CONTRACTS

All service agreements for directors are terminable on 3 months notice

SHARE OPTIONS

The Group believes that share ownership by executive directors and senior executives strengthens the links between their personal interest and those of investors and the Board intends to consider the adoption of a share option scheme in due course

DIRECTORS' REMUNERATION

The directors' remuneration information is set out in note 6 to the financial statements

By order of the Board

Nicolas Mallo Huergo
Chairman of the Remuneration Committee
10 May 2011

CORPORATE GOVERNANCE

THE COMBINED CODE

The Company's shares are traded on AIM and as such the Company is not formally required to comply with the provisions of the Combined Code on Corporate Governance, nor is it required to disclose its specific policies in relation to corporate governance However, the Board is committed to high standards of corporate governance and as the Company grows the Board will review their compliance with the Code from time to time and will adopt such of the provisions as they consider to be appropriate to the size of the Company

THE WORKINGS OF THE BOARD AND ITS COMMITTEES

The Board of Directors

The Board meets frequently to consider all aspects of the Group's activities The Board consists of the Chairman, Chief Executive Officer, Chief Executive Officer for the oil and gas operations, Finance Director and Non-executive directors All directors have access to the advice and services of the Company's professional advisors

Remuneration Committee

The Remuneration Committee comprises Nicolas Mallo Huergo and Marcelo Comba and is chaired by Nicolas Mallo Huergo Its terms of reference are discussed in the remuneration report

Audit Committee

The Audit Committee comprises Nicolas Mallo Huergo and Marcelo Comba and is chaired by Nicolas Mallo Huergo It is responsible for ensuring that the financial performance of the Group is properly reported on and monitored and for reviewing the auditors' reports relating to accounts and internal control systems

Nomination Committee

The Nominations Committee comprises Marcelo Comba and Nicolas Mallo Huergo and is chaired by Marcelo Comba It is responsible for the selection and appointment of Board members

Relations with Shareholders

Communications with shareholders are given a high priority by the Board which takes responsibility for ensuring that a satisfactory dialogue takes place Representatives from the Board plan to meet with the Company's institutional shareholders following the announcement of its final results and at other appropriate times The Group has a website containing investor information to improve communications with individual investors and other interested parties

Internal control

The directors acknowledge their responsibility for the Group's systems of internal control and for reviewing its effectiveness

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and the International Financial Reporting Standards (IFRSs) as adopted by the European Union

The directors are required to prepare financial statements for each financial period which present fairly the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- state that the Company and the Group have complied with IFRSs, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors confirm that they have complied with these requirements and having a reasonable expectation that the Company and the Group has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the financial statements

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Nexia Smith & Williamson

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ANDES ENERGIA PLC

We have audited the financial statements of Andes Energia plc for the year ended 31 December 2010, which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes 1 to 33 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2010 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Nexia Smith & Williamson

Sancho Simmonds
Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

25 Moorgate
London
EC2R 6AY

10 May 2011

Andes Energia plc

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	31-Dec-10	31-Dec-09
		US$	US$
Revenue	3	171,253,462	138,644,164
Cost of sales		(116,321,768)	(104,513,429)
Gross profit		54,931,694	34,130,735
Other operating income		4,855,531	5,983,904
Distribution costs		(14,744,453)	(12,720,425)
Administrative expenses		(18,401,946)	(16,273,091)
Operating profit	5	26,640,826	11,121,123
Finance income	7	288,235	5,608,405
Finance costs	8	(5,376,782)	(13,105,611)
Profit before taxation		21,552,279	3,623,917
Taxation	9	(11,904,546)	(2,558,090)
Profit for the year		9,647,733	1,065,827
Total comprehensive income/(loss) attributable to:			
Equity holders of the parent		4,320,916	(532,667)
Non-controlling interests		5,326,817	1,598,494
		9,647,733	1,065,827
		Cents	Cents
Basic and diluted earnings/(loss) per ordinary share	10	3 55	(0 45)

Andes Energia plc

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	31-Dec-10	31-Dec-09
	US$	US$
Profit after tax	9,647,733	1,065,827
Fair value adjustment	(149,086)	340,103
Translation differences	(6,659,478)	(11,627,540)
Total comprehensive income/(loss)	2,839,169	(10,221,610)
Total comprehensive income/(loss) attributable to:		
Equity holders of the parent	435,649	(4,995,493)
Non-controlling interests	2,403,520	(5,226,117)
	2,839,169	(10,221,610)

Andes Energia Plc

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2010

	Note	31-Dec-10 US$	31-Dec-09 US$
Non-current assets			
Intangible assets	12	84,793,551	88,385,607
Property, plant and equipment	13	135,650,309	138,966,406
Investments	14	3,429,772	20,390,284
Available for sale financial assets	15	323,563	520,778
Trade and other receivables	17	391,479	336,322
Deferred income tax assets	18	23,805,946	32,918,562
Total non-current assets		248,394,620	281,517,959
Current assets			
Inventories	19	4,360,801	4,098,319
Available for sale financial assets	15	925,261	731,093
Trade and other receivables	17	31,575,094	31,621,550
Cash and cash equivalents	20	7,637,473	5,123,704
Total current assets		44,498,629	41,574,666
Current liabilities			
Trade and other payables	21	50,116,490	44,578,011
Financial liabilities	22	15,924,992	8,312,753
Provisions	23	8,284,586	10,078,696
Current tax liabilities		46,491	47,990
Total current liabilities		74,372,559	63,017,450
Non-current liabilities			
Trade and other payables	21	9,140,446	2,236,784
Financial liabilities	22	31,977,230	73,744,456
Deferred income tax liabilities	18	26,112,570	25,833,889
Total non-current liabilities		67,230,246	101,815,129
Net assets		151,290,444	158,260,046
Capital and reserves			
Called up share capital	24	24,362,726	23,947,876
Share premium account		30,131,248	29,644,391
Profit and loss account		(53,826,029)	(47,614,929)
Merger reserve	27	66,195,556	66,195,556
Reverse acquisition reserve	27	42,045,342	42,045,342
Translation reserve	27	(25,958,208)	(22,148,975)
Fair value reserve	27	169,648	245,682
Equity attributable to equity holders of the parent		83,120,283	92,314,943
Non-controlling interests	26	68,170,161	65,945,103
Total equity		151,290,444	158,260,046

The accounts were approved by the Board of Directors and authorised for issue on 10 May 2011 and were signed on its behalf by

Nigel Duxbury
Director

Company No. 5083946

Andes Energia Plc

COMPANY STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2010

	Note	31-Dec-10 US$	31-Dec-09 US$
Non-current assets			
Property, plant and equipment	13	-	1,252
Investments	16	96,768,019	99,423,650
Total non-current assets		96,768,019	99,424,902
Current assets			
Available for sale financial assets	15	925,261	731,093
Trade and other receivables	17	1,777,367	1,449,607
Cash and cash equivalents	20	6,240	(49,850)
Total current assets		2,708,868	2,130,850
Current liabilities			
Trade and other payables	21	2,963,959	1,542,148
Financial liabilities	22	272,047	311,051
Current tax liability		46,491	47,991
Total current liabilities		3,282,497	1,901,190
Non-current liabilities			
Financial liabilities	22	12,191,820	12,191,820
Total non-current liabilities		12,191,820	12,191,820
Net assets		84,002,570	87,462,742
Capital and reserves			
Called up share capital	24	24,362,726	23,947,876
Share premium account		30,131,248	29,644,391
Profit and loss account		(11,620,009)	(9,991,338)
Merger reserve	27	66,195,556	66,195,556
Translation reserve	27	(25,066,951)	(22,333,743)
Total equity		84,002,570	87,462,742

The accounts were approved by the Board of Directors and authorised for issue on 10 May 2011 and were signed on its behalf by

Nigel Duxbury
Director

Company No. 5083946

Andes Energia plc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

Capital and reserves	Share capital	Share premium	Profit and loss	Other reserves	Non controlling interests	Total
	US$	US$	US$	US$	US$	US$
At 1 January 2009	23,418,920	28,692,270	(47,332,067)	90,800,431	71,522,624	167,102,178
Profit/(loss) for the year	-	-	(532,667)	-	1,598,494	1,065,827
Fair value adjustments	-	-	-	169,504	170,599	340,103
Translation differences	-	-	-	(4,632,330)	(6,995,210)	(11,627,540)
Total comprehensive loss for the year	-	-	(532,667)	(4,462,826)	(5,226,117)	(10,221,610)
Issue of ordinary shares	528,956	952,121	-	-	-	1,481,077
Fair value of share based payments	-	-	249,805	-	-	249,805
Dividends	-	-	-	-	(351,404)	(351,404)
At 31 December 2009	23,947,876	29,644,391	(47,614,929)	86,337,605	65,945,103	158,260,046
Profit for the year	-	-	4,320,916	-	5,326,817	9,647,733
Fair value adjustments	-	-	-	(76,034)	(73,052)	(149,086)
Translation differences	-	-	-	(3,809,233)	(2,850,245)	(6,659,478)
Total comprehensive income for the year	-	-	4,320,916	(3,885,267)	2,403,520	2,839,169
Issue of ordinary shares	414,850	486,857	-	-	-	901,707
Acquisition of non-controlling interest (note 16)	-	-	(10,697,091)	-	-	(10,697,091)
Fair value of share based payments	-	-	165,075	-	-	165,075
Dividends	-	-	-	-	(178,462)	(178,462)
At 31 December 2010	24,362,726	30,131,248	(53,826,029)	82,452,338	68,170,161	151,290,444

Other reserves	Merger reserve	Reverse acquisition reserve	Translation reserve	Fair value reserve	Total other reserves
	US$	US$	US$	US$	US$
At 1 January 2009	66,195,556	42,045,342	(17,516,645)	76,178	90,800,431
Profit/(loss) for the year	-	-	-	-	-
Fair value adjustments	-	-	-	169,504	169,504
Translation differences	-	-	(4,632,330)	-	(4,632,330)
Total comprehensive loss for the year	-	-	(4,632,330)	169,504	(4,462,826)
Issue of ordinary shares	-	-	-	-	-
Fair value of share based payments	-	-	-	-	-
Dividends	-	-	-	-	-
At 31 December 2009	66,195,556	42,045,342	(22,148,975)	245,682	86,337,605
Profit for the year	-	-	-	-	-
Fair value adjustments	-	-	-	(76,034)	(76,034)
Translation differences	-	-	(3,809,233)	-	(3,809,233)
Total comprehensive loss for the year	-	-	(3,809,233)	(76,034)	(3,885,267)
Issue of ordinary shares	-	-	-	-	-
Acquisition of non-controlling interest (note 16)	-	-	-	-	-
Fair value of share based payments	-	-	-	-	-
Dividends	-	-	-	-	-
At 31 December 2010	66,195,556	42,045,342	(25,958,208)	169,648	82,452,338

Andes Energia plc

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital US$	Share premium US$	Profit and loss US$	Merger reserve US$	Translation reserve US$	Total US$
At 1 January 2009	23,418,920	28,692,270	(8,809,079)	66,195,556	(30,510,535)	78,987,132
Loss for the year	-	-	(1,432,064)	-	-	(1,432,064)
Translation differences	-	-	-	-	8,176,792	8,176,792
Total comprehensive income for the year	-	-	(1,432,064)	-	8,176,792	6,744,728
Issue of ordinary shares	528,956	952,121	-	-	-	1,481,077
Fair value of share based payments	-	-	249,805	-	-	249,805
At 31 December 2009	23,947,876	29,644,391	(9,991,338)	66,195,556	(22,333,743)	87,462,742
Loss for the year	-	-	(1,793,746)	-	-	(1,793,746)
Translation differences	-	-	-	-	(2,733,208)	(2,733,208)
Total comprehensive loss for the year	-	-	(1,793,746)	-	(2,733,208)	(4,526,954)
Issue of ordinary shares	414,850	486,857	-	-	-	901,707
Fair value of share based payments	-	-	165,075	-	-	165,075
At 31 December 2010	24,362,726	30,131,248	(11,620,009)	66,195,556	(25,066,951)	84,002,570

Andes Energia plc

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	31-Dec-10	31-Dec-09
		US$	US$
Profit for the year before taxation		21,552,279	3,623,917
Adjustments for.			
Depreciation		7,695,449	7,909,296
Movement in debt		3,614,587	9,450,298
Revaluation of investments		(539,627)	(66,251)
Increase in inventories		(5,224,456)	(3,341,122)
Increase in trade and other receivables		(1,957,287)	(7,456,546)
Increase in creditors and other payables		10,801,633	9,884,014
Increase in provisions for liabilities and charges		2,951,846	5,498,515
Profit on disposal of investments		15,808	76,441
Movement in tax provisions		(1,009,425)	(529,482)
Share based payments		165,075	249,805
Net cash generated from operating activities		38,065,882	25,298,885
Cash flows from investing activities			
Purchase of property, plant and equipment		(6,350,115)	(7,942,455)
Purchase of exploration assets		-	(40,021)
Sale/(purchase) of investments		5,879,156	(11,152,288)
Proceeds from sale of available for sale shares		-	51,732
Proceeds from grants		-	1,434,117
Net cash used in investing activities		(470,959)	(17,648,915)
Cash flows from financing activities			
Repayments of borrowings		-	(7,496,292)
Acquisition of interest in bonds (note 22)		(35,527,641)	-
Funds from borrowings		-	1,609,436
Proceeds from issue of shares		901,707	1,481,077
Dividends		(178,462)	(351,404)
Net cash used in financing activities		(34,804,396)	(4,757,183)
Net increase in cash and cash equivalents		2,790,527	2,892,787
Cash and cash equivalents at the beginning of the year		5,123,704	2,547,841
Effect of foreign exchange rate changes		(276,758)	(316,924)
Cash and cash equivalents at the end of the year	20	7,637,473	5,123,704

Andes Energia plc

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	31-Dec-10 US$	31-Dec-09 US$
Loss for the year before taxation		(1,793,746)	(1,432,064)
Adjustments for:			
Depreciation		1,213	1,451
Revaluation of investments		(206,549)	(66,251)
(Increases)decrease in trade and other receivables		(275,106)	289,063
Increase in creditors and other payables		272,956	106,097
Share based payments		165,075	249,805
Net cash used in operating activities		(1,836,157)	(851,899)
Cash flows from investing activities			
Purchase of investments		(461,824)	(77,928)
Net cash used in investing activities		(461,824)	(77,928)
Cash flows from financing activities			
Loans from subsidiaries		941,752	1,335,458
Funds from borrowings/(repayment of debt)		509,055	(1,910,968)
Proceeds from issue of shares		901,707	1,481,077
Net cash generated from financing activities		2,352,514	905,567
Net increase/(decrease) in cash and cash equivalents		54,533	(24,260)
Cash and cash equivalents at the beginning of the year		(49,850)	(22,771)
Effect of foreign exchange rate changes		1,557	(2,819)
Cash and cash equivalents at the end of the year	20	6,240	(49,850)

Andes Energia plc

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in England and Wales and was established to pursue opportunities that were considered to have potential for the generation of sustainable growth and profitability in both the short and medium terms

2. ACCOUNTING POLICIES

2.1 Introduction and reverse acquisition

Under IFRS 3 "Business Combinations" the acquisition of Sodem S A in 2007, through its two intermediate holding companies Inversora Andina de Electricidad S A and Mendinvert S A , by the Company was accounted for as a reverse acquisition Although the consolidated financial statements have been prepared in the name of the legal parent, the Company, they are in substance a continuation of the consolidated financial statements of the Sodem S A group The following accounting treatment has been applied in respect of the reverse acquisition

(a) The assets and liabilities of the Sodem S A group are recognised and measured in the consolidated financial statements at the pre-combination carrying amounts, without restatement for fair value,
(b) The retained losses and other equity balances reflect the retained losses and other equity balances of the Sodem S A group immediately before the business combination and the results of the period from 1 January 2007 to the date of the business combination on 2 October 2007, are those of the Sodem S A group However, the equity structure appearing in the consolidated financial statements reflects the equity structure of the legal parent, the Company, including the equity instruments issued under the business combination

2.2 Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (including International Accounting Standards ("IAS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the European Union)

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments The principal accounting policies adopted are set out below

The preparation of the financial statements in conformity with generally accepted accounting practice required management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period Actual outcomes could differ from those estimates

2.3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

Impairment of intangibles

Determining whether intangibles are impaired requires an estimation of their value in use, which requires the Group to estimate future cash flows expected to arise and a suitable discount rate to calculate the present value

Share based payments

In determining the fair value of equity settled share based payments and the related charge to the income statement, the Group makes assumptions about future events and market conditions In particular, judgement must be made as to the likely number of shares that will vest and the fair value of each award granted The fair value is determined using a valuation model which is dependent on future estimates, including the timing with which options will be exercised and the future volatility in the price of the Company's shares

Bad debt and inventory provisions

A full line by line review of trade debtors is carried out at the end of each month Whilst every attempt is made to ensure that the bad debt and inventory provisions are as accurate as possible, there remains a risk that the provisions do not match the level of debts which ultimately prove to be uncollectable and the inventory is not sold at its carrying amount

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.3 Critical accounting estimates and judgements (continued)

Restoration and legal claims

Provisions for environmental restoration and legal claims are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated Provisions are not recognised for future operating losses Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date The discount rate used to determine the present value reflects current market assessments of the time value of money and the increases specific to the liability There remains a risk that the provisions do not match the level of claims, which ultimately prove to be made

2.4 New standards and interpretations

At the date of authorisation of these financial statements, certain new standards and interpretations to existing standards have been published that are mandatory for forthcoming financial periods, but which the Group has not adopted early Those which are considered relevant to the Group's operations are as follows

IFRS 2 (amended)	Group cash settled share based payment transactions,
IAS 24 (revised 2009)	Related party disclosures,
IAS 32 (amended)	Classification of rights issue,

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group

2 5 Basis of consolidation

The Group financial statements have been prepared on a reverse acquisition basis (see note 2 1) and incorporate the financial statements of Sodem S A and entities controlled by Sodem S A and the Company prepared to 31 December each year Control is achieved where the acquirer has the power to govern the financial and operating policies of an investee entity so to obtain benefits from its activities

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, where appropriate

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group

All intra-group transactions, balances, income and expenses are eliminated on consolidation

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein Non-controlling interests consist of the amounts of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination

2.6 Business combinations and goodwill

Acquisitions of subsidiaries and businesses are accounted for using the purchase method The cost of the business combination is measured as 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 the 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 "Business Combinations" are recognised at their fair values at the acquisition date

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.6 Business combinations and goodwill (continued)

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised If, after assessment, the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss Goodwill arising on acquisition is reviewed for impairment at least annually Any impairment is immediately recognised in profit or loss and is not subsequently reversed

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised

2.7 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts recoverable for services provided in the normal course of business, net of discounts, VAT and other sale related taxes

Revenue arising from the provision of services is recognised when and to the extent that the Group obtains the right to consideration in exchange of the performance of its contractual obligations

Electricity distribution
Revenue for electricity distribution service is recognized in the period the services are provided

Electricity generation
Revenue is recognized on delivery of energy to clients, in each case, when title and risks are transferred to the customer

2.8 Finance Income

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable

2.9 Finance Costs

Finance costs of debt are allocated to periods over the term of the related debt at the effective rate on the carrying amount

2.10 Exceptional items

Items of income and expense that are material by size and/or nature and are non-recurring are classified as exceptional items on the face of the income statement The separate reporting of these items helps give an indication of the Group's underlying performance

2.11 Foreign Currency

The individual financial statements of each Group company are maintained in the currency of the primary economic environment in which it operates (its functional currency), which in the case of the Argentinean companies is the Argentine Peso and in the case of the Company is Pounds Sterling For the purposes of the consolidated financial statements, the results and financial position of each Group entity are expressed in US Dollars, which is the presentation currency for the consolidated financial statements

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.11 Foreign Currency (continued)

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined Exchange differences arising are included in the profit and loss for the period Gain and losses arising on the translation of the opening net assets of the Company at prevailing exchange rates, are transferred to the translation reserve For the purposes of preparing 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 period Exchange differences arising on consolidation are classified as equity and transferred to the Group's translation reserve

The financial statements are presented in US$ and the average rate used was US$1 55 to £1 and the closing rate used was US$1 55 to £1 (2009 average rate US$1 57 to £1 and closing rate US$1 60 to £1)

2.12 Government Grants

Government subsidies are recognised at their fair value when there is reasonable certainty that those subsidies will be collected and that the Company will meet all the conditions established

Government subsidies received in relation to the purchase of fixed assets are deducted from the cost of such assets These assets are depreciated over their estimated useful lives on the basis of their net acquisition cost

2.13 Employee Benefits

The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation

The Group has defined contribution plans A defined contribution plan is a pension plan under which the Group pays fixed contributions The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods

2.14 Taxation

The Group has recorded the income tax charge based on the balance sheet liability method, thus acknowledging the temporary differences between accounting and taxable assets and liabilities

For the purpose of determining the amount of deferred assets and liabilities, a tax rate has been applied to temporary differences, which is expected to be in force at the time of their reversion or use, taking into account the legal provisions in force as of the date of these financial statements

Deferred tax assets are only recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised

The Group is liable to pay a minimum notional income tax at the applicable tax rate (1%), calculated on the amount of computable assets at the closing of the financial year This tax is supplementary to income tax and the Group's tax liability in each fiscal year will be the higher of the minimum notional income tax and the income tax for the year If the minimum notional income tax for a given financial year exceeds the amount of income tax, such excess may be computed as a partial payment of income tax for any of the ten following fiscal years

The credit of minimum notional income tax has been included under "Deferred tax" The Group has considered it will not be able to recover part of the credit for this tax and consequently, it has not been recorded

2.15 Share-based payments

Warrants are measured at fair value at the date of grant The fair value determined at the date of grant of the warrant is expensed on a straight-line basis over the vesting period The fair value is calculated using the binomial option pricing model

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.16 Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the parent's share of the net identifiable assets of the acquired business at the date of acquisition Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount The recoverable amount is the higher of an asset's fair value less costs to sell and value in use For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units)

Exploration assets are jointly controlled assets and in accordance with IAS 31 are recognised at cost Expenditure relating to the acquisition, exploration, appraisal and development of oil and gas interests is capitalised The capitalised costs are tested for impairment only if there are indications that the carrying amount of the asset may exceed the recoverable amount

Concession assets acquired are stated at fair value at the date of acquisition Amortisation is charged on a straight-line basis over the term of the concession

2.17 Property, plant and equipment

Property, plant and equipment are shown at cost less subsequent depreciation, except for land Costs include expenditures that are directly attributable to the acquisition of the items

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred

Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows

Network and transformer stations and other works	32 to 50 years
Buildings	30 to 50 years
Machinery and equipment	up to 25 years
Transformers	35 to 40 years
Vehicles, furniture and fixtures	3 to 5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount Work in progress is not depreciated

Gains and losses on disposals are determined by comparing proceeds with carrying amount

2.18 Impairment of assets

Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units) EDEMSA, HASA, Andes Oil & Gas S A and Andes Oil S A are considered different cash-generating units for this purpose

2.19 Investments

The Group classifies its investments in the following categories investments including loans and receivables and investment trusts and available-for-sale financial assets including listed and unlisted securities and other investments held for trading The classification depends on the purpose for which the investments were acquired Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.19 Investments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are held with no intention of trading They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets Loans and receivables are initially recognised at fair value and carried at amortised cost using the effective interest method

Investment Trusts

Assets held in investments trusts are valued in proportion to the Group's interest in the equity of the Trust

Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date

Purchases and sales of investments are recognised on trade date, the date on which the Group commits to purchase or sell the asset Investments are initially recognised at fair value plus transaction costs Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership

Investments held at fair value through profit or loss are investments that are irrevocably designated at initial recognition as held at fair value through profit or loss stated at fair value, with any resultant gain or loss recognised in profit or loss

2.20 Inventories

Inventories are measured at the lower of cost and net realisable value Cost is determined using the weighted average cost formula method

2.21 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable is impaired The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate The carrying amount of the asset is reduced through the use of a provision for impairment account and the amount of the loss is recognised in the income statement within distribution costs

When a trade receivable is uncollectable, it is written off against the provision for impairment Subsequent recoveries of amounts previously written off are credited against distribution costs in the income statement

2.22 Cash and cash equivalents

Cash and cash equivalents include call deposits held with banks and other short-term highly liquid investments with original maturities of 3 months or less

2.23 Trade Payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.24 Financial Liabilities

Bonds

The bonds were fair valued at the time of the debt restructuring and are subsequently carried at amortised cost The fair value was based on the present value of management's best estimate of the expenditure required, taking into account all the requirements established in the agreement with bond holders The discount rate used to determine the present value reflects current market assessments of the time value of money and the increases specific to the liability The Group has discounted the probable cash flows of bonds at an annual rate of 10 2%

As set out in note 22, during the year EDEMSA has acquired the rights to a proportion of the bonds

Other Borrowings

Other borrowings are stated at management's best estimate of the debt fair value

2.25 Provisions

Provisions for environmental restoration and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated Provisions are not recognised for future operating losses

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date The discount rate used to determine the present value reflects current market assessments of the time value of money and the increases specific to the liability

NOTES TO THE FINANCIAL STATEMENTS

3. REVENUE

All revenues relate to the rendering of services

4. OPERATIONAL SEGMENTS

IFRS8 requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the chief operating decision maker, which in the case of the Group is considered to be the Board of the Company The Board considers the Group in three separating operating segments, that is, electricity distribution, electricity generation and oil and gas

The following is an analysis of the Group's revenue and results by operating segment The Group's operations are predominantly in Argentina

	Revenue		Segment profit	
	31-Dec-10	31-Dec-09	31-Dec-10	31-Dec-09
Analysis of revenue and profit:	US$	US$	US$	US$
Electricity distribution	165,927,463	134,467,794	22,966,402	10,600,565
Electricity generation	5,325,999	4,176,370	2,263,954	1,159,715
	171,253,462	138,644,164	25,230,356	11,760,280
Central administration costs			(1,312,579)	(639,157)
Central administration income			2,723,049	-
Finance income			288,235	5,608,405
Finance costs			(5,376,782)	(13,105,611)
Profit before tax (continuing operations)			21,552,279	3,623,917

	31-Dec-10	31-Dec-09
Analysis of finance income	US$	US$
Electricity distribution	-	5,445,371
Electricity generation	142,193	159,749
Oil and gas interests	-	-
Total segment finance income	142,193	5,605,120
Other finance income	146,042	3,285
Consolidated finance income	288,235	5,608,405

	31-Dec-10	31-Dec-09
Analysis of finance costs	US$	US$
Electricity distribution	3,325,131	11,295,801
Electricity generation	-	77,588
Oil and gas interests	-	-
Total segment finance costs	3,325,131	11,373,389
Other finance costs	2,051,651	1,732,222
Consolidated finance costs	5,376,782	13,105,611

	31-Dec-10	31-Dec-09
Analysis of total assets:	US$	US$
Electricity distribution	235,747,286	265,821,900
Electricity generation	16,459,725	16,264,546
Oil and gas interests	31,748,173	32,795,394
Total segment assets	283,955,184	314,881,840
Unallocated assets	8,938,065	8,210,785
Consolidated total assets	292,893,249	323,092,625

NOTES TO THE FINANCIAL STATEMENTS

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

	31-Dec-10	31-Dec-09
Analysis of total liabilities:	**US$**	**US$**
Electricity distribution	111,077,219	144,775,122
Electricity generation	4,331,646	4,307,726
Oil and gas interests	25,371	16,916
Total segment liabilities	115,434,236	149,099,764
Unallocated liabilities	26,168,569	15,732,815
Consolidated total liabilities	141,602,805	164,832,579

	31-Dec-10	31-Dec-09
Analysis of total capital expenditure:	**US$**	**US$**
Electricity distribution capital expenditure	11,179,578	11,126,578
Electricity generation capital expenditure	36,638	10,744
Oil and gas interests	(19,248)	40,021
Total segment capital expenditure	11,196,968	11,177,343
Other capital expenditure	5,194	4,122
Consolidated total capital expenditure	11,202,162	11,181,465

	31-Dec-10	31-Dec-09
Analysis of total depreciation:	**US$**	**US$**
Electricity distribution depreciation	7,341,879	7,540,900
Electricity generation depreciation	85,974	90,283
Total segment depreciation	7,427,853	7,631,183
Other depreciation	2,732	1,919
Consolidated total depreciation	7,430,585	7,633,102

	31-Dec-10	31-Dec-09
Analysis of total amortisation:	**US$**	**US$**
Electricity distribution amortisation	-	-
Electricity generation amortisation	264,864	276,195
Total segment amortisation	264,864	276,195
Other amortisation	-	-
Consolidated total amortisation	264,864	276,195

5. OPERATING PROFIT

	31-Dec-10	31-Dec-09
	US$	**US$**
This is stated after charging:		
Impairment losses	264,864	276,195
Depreciation	7,430,585	7,633,102
Loss on foreign exchange	7,251	1,598,867
An analysis of auditors' remuneration is as follows:		
Audit services	82,770	83,838
Total audit fees	82,770	83,838

During the year, no remuneration was earned by the auditors for non-audit services

6. STAFF COSTS AND DIRECTORS' EMOLUMENTS

a) Staff costs

The average number of persons including executive directors was

	31-Dec-10 No.	31-Dec-09 No.
Selling	163	165
Technical	377	390
Administration	161	158
	701	713

Staff costs for the above persons were

	31-Dec-10 US$	31-Dec-09 US$
Wages and salaries	22,394,371	18,222,992
Social security costs	5,911,148	4,109,521
Share based payments	159,030	167,205
	28,464,549	22,499,718

b) Directors' emoluments

The directors' emoluments for services provided to the Company and other Group companies were as follows

	31-Dec-10 US$	31-Dec-09 US$
Aggregate emoluments	865,719	775,653
	865,719	775,653

The directors' emoluments, which relate solely to salaries, for services provided to the Company were as follows

	Emoluments 2010 £	Emoluments 2009 £
Luis Alvarez Poli	19,375	19,625
Nigel Duxbury	77,500	78,500
Neil Bleasdale	19,375	19,625
Marcelo Comba	19,375	19,625
Nicolas Mallo Huergo	19,375	19,625
Juan Carlso Esteban	19,375	9,813
Total	174,375	166,813

7. FINANCE INCOME

	31-Dec-10 US$	31-Dec-09 US$
Interest receivable and similar income	288,235	5,608,405
	288,235	5,608,405

8. FINANCE COSTS

	31-Dec-10 US$	31-Dec-09 US$
Interest costs	10,763,076	13,105,611
Debt restructure (note 22)	(5,386,294)	-
	5,376,782	13,105,611

9. TAXATION

	31-Dec-10 US$	31-Dec-09 US$
Current tax	2,590,173	1,831,143
Deferred taxation	9,314,373	726,947
Tax charge	11,904,546	2,558,090
Profit on ordinary activities before tax	21,552,279	3,623,917
Tax charge on profit at standard rate of 35%	7,543,298	1,268,371
Effects of		
Expenses not deductible for tax purposes	262,027	403,307
Recovery of deferred tax position	(133,708)	(36,647)
Recovery of minimum notional tax	906,350	429,956
Unrelieved tax losses	3,326,579	493,103
Current tax charge	11,904,546	2,558,090

The tax rate used for the 2010 and 2009 reconciliations above is the corporate tax rate of 35% payable by corporate entities in Argentina on taxable profits under tax law in that jurisdiction

NOTES TO THE FINANCIAL STATEMENTS

10. EARNINGS/(LOSS) PER SHARE

Earnings/(loss) per share is presented on two bases basic earnings/(loss) per share and diluted earnings/(loss) per share Basic earnings/(loss) per share is in respect of all activities and diluted earnings/(loss) per share takes into account the dilution effects which would arise on conversion or vesting of warrants in issue

	31-Dec-10	31-Dec-09
	Cents	Cents
Basic earnings/(loss) per share	3 55	(0 45)
Diluted earnings/(loss) per share	3 55	(0 45)
	US$	US$
Profit/(loss) for the financial year attributable to equity holders	4,320,916	(532,667)
	No.	No.
Weighted average number of shares	121,682,478	117,519,203
Effect of dilutive warrants	-	-
Diluted weighted average number of shares	121,682,478	117,519,203
	No.	No.
Potential number of dilutive warrants	29,300,000	31,300,000
	29,300,000	31,300,000

The warrants are deemed to be non-dilutive for the purposes of this calculation as the exercise price was more than the market price at the year-end

11. PROFIT FOR THE YEAR

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements The Company's loss for the year amounted to US$1,793,746 (2009 US$1,432,064 loss)

12. INTANGIBLE ASSETS

GROUP	Goodwill US$	Exploration US$	Concession US$	Total US$
Cost				
At 1 January 2009	61,806,313	29,742,890	11,103,167	102,652,370
Additions	-	40,021	-	40,021
Foreign exchange movements	(2,704,537)	3,012,483	(1,075,438)	(767,492)
At 31 December 2009	59,101,776	32,795,394	10,027,729	101,924,899
Reclassification to debtors	-	(19,248)	-	(19,248)
Foreign exchange movements	(2,293,104)	(1,027,973)	(422,432)	(3,743,509)
At 31 December 2010	56,808,672	31,748,173	9,605,297	98,162,142
Amortisation				
At 1 January 2009	(11,718,598)	-	(374,265)	(12,092,863)
Amortisation	-	-	(276,195)	(276,195)
Foreign exchange movements	(1,212,269)	-	42,035	(1,170,234)
At 31 December 2009	(12,930,867)	-	(608,425)	(13,539,292)
Amortisation	-	-	(264,864)	(264,864)
Foreign exchange movements	404,090	-	31,475	435,565
At 31 December 2010	(12,526,777)	-	(841,814)	(13,368,591)
Net Book Value				
At 31 December 2010	44,281,895	31,748,173	8,763,483	84,793,551
At 31 December 2009	46,170,909	32,795,394	9,419,304	88,385,607

12. INTANGIBLE ASSETS (continued)

Goodwill

Goodwill at the beginning of 2008 of US$50,550,028 arose on the acquisition of the electricity business in the Province of Mendoza in 1998 The recoverable amount of this asset is determined based on value-in-use calculations These calculations use cash flow projections based on financial budgets, adapted to cover a five year period Cash flows beyond the five year period are extrapolated using estimated growth rates The cash flows include estimated assumptions for tariff increases, gross margins, growth rates and discount rates Management determines the budgeted gross margin based on past performance and its expectations for market development The weighted average growth rates are consistent with the forecasts included in industry reports The discount rates used are pre-tax and reflect specific risks relating to the industry

Goodwill at the beginning of 2008 of US$6,435,794 arose on the acquisition of the Group's interest in HASA in 2007 The recoverable amount is determined based on value-in-use calculations These calculations use the net present value of projected EBITDA and NOPAT (net operating profit after taxes) based on historic performance and calculate a fair value over the remaining term of the concession

Exploration assets

Patagonia Oil & Gas S A ("Patagonia") and a subsidiary of the Group are parties to a consortium agreement setting out the terms under which they would participate in public bids in Argentina and South America for permits for exploration and exploitation of hydrocarbons in certain areas Each party to the consortium agreement has 50% voting rights and equal authority with respect to the administration and governance of the consortium In economic terms, the Group has a 20% carried working interest and a 3% direct working interest in oil and gas assets acquired by the consortium Until a licence block is declared commercial, Patagonia is obligated to contribute all funds required to comply with the consortium's obligations under awarded licences, save to the extent of the 3% working interest held by the Group Such contributions are then recouped out of any proceeds before distribution of profit shares to the two partners

The Group is also party to a royalty agreement via Andes Oil S A , under which it will earn a 20% royalty on the value of the marketed hydrocarbons produced in each of the licence blocks after deduction of the Government's royalty and the carried participation of the operator

Three exploration licences have been awarded to date covering a total of seven blocks Exploration licences run for an initial period of three years followed by a second exploration period of two years and a final exploration period of one year At the end of each exploration phase, 50% of the remaining area must be relinquished or converted into an exploitation or evaluation concession

Exploitation concessions are granted for a period of 25 years although an extension of 10 years may be granted under terms and conditions to be established at the time of the extension

In addition the Group also has a 20% interest in 2 licence blocks in the province of Neuquen

Concession assets

The concession assets were acquired as part of the acquisition of HASA and were recognised at fair value at the date of acquisition The fair value of the assets acquired was determined based on value-in-use calculations

Under the contracts by which the Group's electricity generation and distribution assets were acquired and are regulated, there are restrictions on use and also obligations to maintain relevant assets with the intention of protecting the services they provide

NOTES TO THE FINANCIAL STATEMENTS

13. PROPERTY, PLANT AND EQUIPMENT

GROUP	Network and transformer stations and other works	Buildings and land	Machinery and equipment	Transformers	Work in progress and others	Total
	US$	US$	US$	US$	US$	US$
Cost						
At 1 January 2009	226,521,776	14,227,819	14,113,287	22,555,365	25,519,255	302,937,502
Transfers	5,875,814	439,601	398,006	1,581,931	(8,295,352)	-
Grants	-	-	-	-	(517,372)	(517,372)
Additions	10,409	-	281,394	-	10,849,641	11,141,444
Disposals	(66,560)	-	-	-	(9,881)	(76,441)
Foreign exchange movements	(22,062,469)	(1,387,293)	(1,379,693)	(2,217,811)	(2,512,783)	(29,560,049)
At 31 December 2009	210,278,970	13,280,127	13,412,994	21,919,485	25,033,508	283,925,084
Transfers	6,919,407	2,619,578	968,483	1,434,535	(11,942,003)	-
Grants	-	-	-	-	(1,179,679)	(1,179,679)
Additions	-	16,205	195,629	-	11,009,576	11,221,410
Disposals	-	-	(11,232)	-	(4,576)	(15,808)
Foreign exchange movements	(9,010,977)	(617,605)	(590,389)	(955,043)	(1,007,755)	(12,181,769)
At 31 December 2010	208,187,400	15,298,305	13,975,485	22,398,977	21,909,071	281,769,238
Depreciation						
At 1 January 2009	(121,275,644)	(2,795,125)	(8,178,284)	(9,374,089)	(10,604,314)	(152,227,456)
Charge for the year	(5,052,529)	(269,468)	(679,060)	(582,637)	(1,049,408)	(7,633,102)
Foreign exchange movements	11,852,406	276,375	805,268	920,163	1,047,668	14,901,880
At 31 December 2009	(114,475,767)	(2,788,218)	(8,052,076)	(9,036,563)	(10,606,054)	(144,958,678)
Charge for the year	(4,761,798)	(271,115)	(672,349)	(606,155)	(1,119,168)	(7,430,585)
Foreign exchange movements	4,927,524	123,440	353,936	394,053	471,381	6,270,334
At 31 December 2010	(114,310,041)	(2,935,893)	(8,370,489)	(9,248,665)	(11,253,841)	(146,118,929)
Net Book Value						
At 31 December 2010	93,877,359	12,362,412	5,604,996	13,150,312	10,655,230	135,650,309
At 31 December 2009	95,803,203	10,491,909	5,360,918	12,882,922	14,427,454	138,966,406

13. PROPERTY, PLANT AND EQUIPMENT (continued)

COMPANY	Machinery and equipment	Work in progress and others	Total
Cost	US$	US$	US$
At 1 January 2009	7,631	6,814	14,445
Foreign exchange movements	789	705	1,494
At 31 December 2009	8,420	7,519	15,939
Foreign exchange movements	(263)	(235)	(498)
At 31 December 2010	8,157	7,284	15,441
Depreciation			
At 1 January 2009	(5,156)	(6,814)	(11,970)
Charge for the year	(1,451)	0	(1,451)
Foreign exchange movements	(561)	(705)	(1,266)
At 31 December 2009	(7,168)	(7,519)	(14,687)
Charge for the year	(1,213)	0	(1,213)
Foreign exchange movements	224	235	459
At 31 December 2010	(8,157)	(7,284)	(15,441)
Net Book Value			
At 31 December 2010	-	-	-
At 31 December 2009	1,252	-	1,252

14. INVESTMENTS

	The Group		The Company	
	31-Dec-10	31-Dec-09	31-Dec-10	31-Dec-09
	US$	US$	US$	US$
Non-current assets				
Loans to other entities	3,260,164	3,787,044	-	-
Investment trusts	169,608	16,603,240	-	-
	3,429,772	20,390,284	-	-

Loans to other entities

The energy and capacity that HASA does not sell in the Argentine term market is sold in the Argentine wholesale market through transactions administrated by the Compañia Administradora del Mercado Mayorista Eléctrico S A ("CAMMESA") However, the lack of determination of a uniform price by the Argentine Energy Secretariat led there to being insufficient funds to finance the wholesale market, resulting in the creation of the Fund for the Necessary Investments to allow for the Increase of Electric Power Supply in the Argentine Wholesale Electric Power Market ("FONINVEMEM") Participating creditor agents were required to invest in such fund the amounts owed to them Furthermore, participating agents are entitled to share in the benefits of the construction of two new electricity generating companies The loan detailed above represents the amount invested in the fund and is carried at amortised cost

Investment trust

On 17 November 2008, EDEMSA set up an Administration and Guarantee Trust called "Fideicomiso Cuyo" ("Trust") Under the agreement, Prever Fideicomiso S A is the trustee and EDEMSA the trustor, beneficiary and ultimate beneficiary

The trust has been set up to administer assets assigned by the trustor to the trust and the trustee will make investments to increase the value of the assets assigned

At the year end EDEMSA bonds held by the Trust were accounted for in accordance with note 22

15. AVAILABLE FOR SALE FINANCIAL ASSETS

	The Group		The Company	
	31-Dec-10	31-Dec-09	31-Dec-10	31-Dec-09
	US$	US$	US$	US$
Non-current assets				
Unlisted equity securities	7,321	7,643	-	-
Other investments	86,908	513,135	-	-
Listed government bonds	229,334	-	-	-
	323,563	520,778	-	-
Current assets				
Loans to other entities	87,401	79,417	87,401	79,417
Unlisted equity securities	837,860	651,676	837,860	651,676
	925,261	731,093	925,261	731,093

NOTES TO THE FINANCIAL STATEMENTS

15 AVAILABLE FOR SALE FINANCIAL ASSETS (continued)

Loans to other entities

Loans to other entities are carried at amortised cost, which is management's best estimate of their fair value

Unlisted equity securities

Unlisted equity securities represent investments in equity securities that are not quoted on a recognised stock exchange and are stated at management's best estimate of fair value

Loans to subsidiaries

Loans to subsidiaries are carried at amortised cost, which is management's best estimate of their fair value

Other investments

Other investments are carried at amortised cost, which is management's best estimate of their fair value

16. INVESTMENTS IN SUBSIDIARIES

	2010 US$	2009 US$
Non-current assets		
As at 1 January	99,423,650	90,102,679
Additions	451,358	-
Foreign exchange movements	(3,106,989)	9,320,971
As at 31 December	96,768,019	99,423,650

NOTES TO THE FINANCIAL STATEMENTS

16. INVESTMENTS IN SUBSIDIARIES (continued)

At 31 December 2010 the Company had the following subsidiary undertakings They have the same year-end date as the Company and have been included in the consolidated financial statements The Company's principal subsidiary undertakings all have share capital consisting solely of ordinary shares Interests are held either directly or indirectly

	Country of incorporation	Area of operation	Ownership Interest %	Activity
Andes Energy LLC	United States	United States	100	Holding
Andes Energia Argentina S A	Argentina	Argentina	100	Holding
MSO Andes Energia Argentina S A	Argentina	Argentina	100	Services
Andes Electricidad S A	Argentina	Argentina	100	Holding
Andes Oil S A	Argentina	Argentina	100	Oil and gas
Andes Oil and Gas S A	Argentina	Argentina	100	Oil and gas
Inversora Andina de Electricidad S A	Argentina	Argentina	100	Holding
Mendinvert S A	Argentina	Argentina	100	Holding
Sodem S A	Argentina	Argentina	100	Holding
Empresa Distribuidora de Electricidad de Mendoza S A	Argentina	Argentina	51	Electricity distribution
Hidroelectrica del Sur S A	Argentina	Argentina	80	Holding
Hidroelectrica Ameghino S A	Argentina	Argentina	47	Electricity generation

On 21 February 2008 the Group exercised the option to acquire the remaining 50% indirect interest in Sodem S A for a consideration of US$33,637,333 plus costs of US$269,079 at a rate of US$2 to £1 The terms of the Acquisition included the possibility of an earn-out payment However, under the stock purchase agreement certain elements of the earn-out were open to interpretation and as the parties failed to reach agreement an arbitrator was appointed Andes submitted a paper to support their belief that no earn-out was payable The arbitration process has now been concluded In accordance with the adjustment price determination resolution established by the arbitrator the Group is required to make a cash payment of US$180,000 per month for 60 months, in full and final settlement of the vendor's claims in relation to the Acquisition At the time of the exercise of the option the acquisition of this non-controlling interest was accounted for under the economic equity method being shown as a movement on profit and loss account reserves The earn-out payment has been accounted for on a basis consistent with this treatment

The Company is deemed to control HASA by virtue of its controlling interest of 80% in Hidroelectrica del Sur S A ("HDS"), which in turn has a controlling interest of 59% in HASA

NOTES TO THE FINANCIAL STATEMENTS

17. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	31-Dec-10	31-Dec-09	31-Dec-10	31-Dec-09
	US$	US$	US$	US$
Non-current				
Trade receivables	391,479	336,322	-	-
	391,479	336,322	-	-
Current				
Trade receivables	11,677,986	12,081,068	-	-
Less provision for impairment	(5,000,455)	(5,619,548)	-	-
	6,677,531	6,461,520	-	-
Prepayments and accrued income	13,382,827	12,062,016	-	-
Advances under option agreements	1,738,827	1,404,496	1,738,827	1,404,496
Advance to suppliers	673,558	777,212	2,170	2,240
Other taxes and social security	1,915,293	3,785,356	1,906	2,523
Grants	1,835,467	711,805	-	-
Other debtors	5,351,591	6,419,145	34,464	40,348
	31,575,094	31,621,550	1,777,367	1,449,607

Trade receivables are non-interest bearing and generally have a 40 to 60 day term Due to their short maturities, the fair value of trade receivables approximates to their book value

A provision for impairment of trade receivables is established when there is no objective evidence that the Group will be able to collect all amounts due according to the original terms The Group considers factors such as default or delinquency in payment, significant financial difficulties of the debtor and the probability that the debtor will enter bankruptcy in deciding whether the trade receivable is impaired

The directors consider that the carrying amount of other receivables approximates to their fair value

	The Group		The Company	
	2010	2009	2010	2009
	US$	US$	US$	US$
Provision for impairment of trade receivables				
As at 1 January	5,619,548	4,715,147	-	-
Foreign exchange movements	(236,731)	(456,702)	-	-
Impairment losses recognised on receivables	677,728	1,365,016	-	-
Amounts written off as uncollectible	(11,191)	(3,913)	-	-
Reclassified	(1,048,899)	-	-	-
As at 31 December	5,000,455	5,619,548	-	-

As at 31 December 2010, trade receivables of US$5,000,455 were impaired (2009 US$5,619,548) As at 31 December 2010 trade receivables of US$5,392,895 were past due but not impaired (2009 US$4,020,542) The ageing analysis of these trade receivables is as follows

	The Group		The Company	
	31-Dec-10	31-Dec-09	31-Dec-10	31-Dec-09
	US$	US$	US$	US$
Ageing of past due but not impaired				
Up to 3 months past due	1,351,427	800,184	-	-
3 to 6 months past due	481,247	582,770	-	-
Over 6 months past due	3,560,221	2,637,588	-	-
	5,392,895	4,020,542	-	-

18. DEFERRED TAX

GROUP	Provision for bad debts	Notional income tax	Provision charges	Other	Carry forward	Total
Deferred tax asset	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**
At 1 January 2009	2,090,195	14,255,361	4,008,825	2,088,449	14,169,381	36,612,211
Adjustments in respect of prior periods	292,767	491,858	2,157,131	145,904	(3,845,871)	(758,211)
Credited to the profit and loss account	-	275,581	-	-	332,037	607,618
Foreign exchange movement	(208,585)	(1,396,827)	(433,465)	(205,340)	(1,298,839)	(3,543,056)
At 31 December 2009	2,174,377	13,625,973	5,732,491	2,029,013	9,356,708	32,918,562
Adjustments in respect of prior periods	-	16,356	-	-	-	16,356
(Charged)/credited to the profit and loss account	153,635	202,718	(2,726,298)	474,873	(6,021,488)	(7,916,560)
Foreign exchange movement	(94,989)	(578,847)	(181,330)	(95,953)	(261,293)	(1,212,412)
At 31 December 2010	2,233,023	13,266,200	2,824,863	2,407,933	3,073,927	23,805,946

	Fair value of property, plant and equipment	Write off from intangibles	Borrowings	Total
Deferred tax liability	**US$**	**US$**	**US$**	**US$**
At 1 January 2009	18,270,595	3,741,595	6,379,352	28,391,542
Adjustments in respect of prior periods	(745,126)	573,223	368,329	196,426
Foreign exchange movement	(1,754,060)	(374,410)	(625,609)	(2,754,079)
At 31 December 2009	15,771,409	3,940,408	6,122,072	25,833,889
Charged/(credited) to the profit and loss account	(747,887)	549,706	1,595,994	1,397,813
Foreign exchange movement	(647,889)	(178,125)	(293,118)	(1,119,132)
At 31 December 2010	14,375,633	4,311,989	7,424,948	26,112,570

No deferred tax asset has been recognised for the Company in respect of timing differences relating to tax losses and accelerated capital allowances, as there is insufficient evidence that the potential asset will be recovered The amount of the asset not recognised is approximately US$1,891,135 (2009 US$1,599,085)

19. INVENTORIES

	31-Dec-10 US$	31-Dec-09 US$
Raw materials and consumables	4,360,801	4,098,319
	4,360,801	4,098,319

20. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	31-Dec-10 US$	31-Dec-09 US$	31-Dec-10 US$	31-Dec-09 US$
Cash at bank and in hand	7,637,473	5,123,704	6,240	(49,850)
	7,637,473	5,123,704	6,240	(49,850)

The directors consider that the carrying amount of cash and cash equivalents approximates to their fair value

21. TRADE AND OTHER PAYABLES

	The Group		The Company	
	31-Dec-10 US$	31-Dec-09 US$	31-Dec-10 US$	31-Dec-09 US$
Current				
Trade payables	22,910,746	20,335,272	233,693	456,288
Social security and other taxes	12,734,285	9,789,918	-	4,476
Royalties payable	907,754	791,306	-	-
Accrued expenses	7,869,346	9,620,901	162,091	238,899
Government payables related to compensation funds	1,609,150	3,132,791	-	-
Other creditors	4,085,209	907,823	888,978	81,248
Loans from subsidiaries	-	-	1,679,197	761,237
	50,116,490	44,578,011	2,963,959	1,542,148

	The Group		The Company	
	31-Dec-10 US$	31-Dec-09 US$	31-Dec-10 US$	31-Dec-09 US$
Non-current				
Other creditors	9,140,446	2,236,784	-	-
	9,140,446	2,236,784	-	-

The directors consider that the carrying amount of trade and other payables approximates to their fair value

22. FINANCIAL LIABILITIES

	The Group		The Company	
	31-Dec-10	31-Dec-09	31-Dec-10	31-Dec-09
	US$	US$	US$	US$
Current				
Bonds	8,279,375	6,585,434	-	-
Bank borrowings	6,489,028	-	-	-
Other borrowings	884,542	1,416,268	-	-
Accrued financial interest	272,047	311,051	272,047	311,051
	15,924,992	8,312,753	272,047	311,051

	The Group		The Company	
	31-Dec-10	31-Dec-09	31-Dec-10	31-Dec-09
	US$	US$	US$	US$
Non-current				
Bonds	19,785,410	61,552,636	-	-
Other borrowings	12,191,820	12,191,820	12,191,820	12,191,820
	31,977,230	73,744,456	12,191,820	12,191,820

Bonds

Bond terms

The bonds represent the amounts owed to EDEMSA's bondholders The discount rate used to determine the present value reflected market assessments of the time value of money and the increases specific to the liability EDEMSA discounted the probable cash flows of the new debt applying a 10 2% annual rate in US$

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date

As at 31 December 2010 the following EDEMSA debt securities were in issue

(i) Class A simple, non-convertible notes with a face value of US$1 00 each, due in 2018, for a total amount of US$58,650,000
(ii) Class B simple, non-convertible notes with a face value of US$1 00 each, due in 2018, for a total amount of US$17,814,969
(iii) Class D simple, non-convertible notes with a face value of US$1 00 each, due in 2018, for a total amount of US$14,544,706 and US$14,544,706 Class D Certificates, due in 2027.

The basic terms of the securities are as follows

(i) The notes are direct, unconditional and general obligations of EDEMSA and will be treated, at all times, pari passu with other outstanding present or future non-priority, general obligation notes of EDEMSA, except for notes with priorities according to effective legal regulations The company may redeem the notes at any time in certain cases
(ii) The notes provide for the payment of principal in arrears in quarterly installments on 31 March, 30 June, 30 September and 31 December, each year, beginning on 31 March 2007 The annual principal amortisation schedule steps up
(iii) The notes establish that interest will be paid quarterly in arrears on the principal payment dates The first interest payment date was 31 March 2007
(iv) The class A and class B notes provide that interest will accrue on the outstanding principal as from the date of issue at a step-up annual fixed rate established in accordance with the following a 1% interest rate during the first two years as from the date of issue, a 2% interest rate in the third and fourth years and a 4% interest rate as from that year (i e from the fifth year onwards)

NOTES TO THE FINANCIAL STATEMENTS

22 FINANCIAL LIABILITIES (continued)

Bonds (continued)

Bond terms (continued)

(v) The class D notes provide that interest will accrue on outstanding principal as from 1 January 2009 at a step-up annual fixed rate established in accordance with the following no interest will accrue during the first two years as from the date of issue, a 1% interest rate in the third and fourth years and a 3% interest rate as from the fifth year
(vi) The class D notes include an additional payment based on excess cash flows semi-annually from 30 April 2008 to 31 October 2027 This right is represented in the Class D certificates

Under the agreement with bondholders, EDEMSA must comply with certain covenants including
(i) Debt/EBITDA ratios
(ii) Capital expenditures restrictions
(iii) Working capital restrictions

The terms and conditions of the notes also include standard commitments for these transactions related to the following

- Restrictions on liens
- Restrictions on new indebtedness
- Restrictions on transactions with shareholders and related companies
- Restrictions on restricted payments
- Delivery of financial statements
- Restrictions on mergers and consolidations

As of the end of this period, all the above commitments have been fulfilled

Acquisition by EDEMSA

In June 2010 EDEMSA entered into a contract for the Assignment of Rights with Magnus International S A , whereby it fully and irrevocably acquired the rights over 88 06% of the Class A notes issued by EDEMSA In consideration for the assignment, EDEMSA paid Magnus International S A the sums of US$13,048,556 and AR$21,600,000, with the latter sum payable in twelve equal and consecutive monthly instalments of AR$1,800,000

Acquisition by EDEMSA Investment Trust

In November 2008, as detailed in note 14, EDEMSA set up a Trust

In June 2010, EDEMSA was notified by the Trust that it had entered into a contract for the Assignment of Rights with Magnus International S A whereby it fully and irrevocably acquired the rights over 96 07% of the Class B notes issued by EDEMSA and over 98 93% of the Class D notes issued by EDEMSA In consideration for the assignment, the Trust paid Magnus International S A the sum of US$11,930,980

It should be noted that the Trust already held Class B notes issued by EDEMSA with a face value of US$700,000 (3 93% of the Class B notes in issue) and 16,367,734 Class D certificates issued by EDEMSA (98 93% of the certificates in issue)

Considering that almost all the trust assets, as detailed in the foregoing paragraphs, correspond to securities issued by EDEMSA or EDEMSA's right to hold them in the future, in these financial statements EDEMSA has been considered the beneficiary and holder of all the assets in the Trust

Acquired rights and obligations

The above rights acquired by EDEMSA and the Trust include the rights, obligations and responsibilities attached to and related to the Total Return Swap ("TRS") entered into between Deutsche Bank AG and the Company on 27 May 2010 for a term of 3 years which, prior to the transfer to EDEMSA and the Trust, had been acquired by Magnus International S A

22. FINANCIAL LIABILITIES (continued)

Bonds (continued)

Acquired rights and obligations (continued)

Under the TRS, US$24,359,020 of finance was provided, which under the conditions of the TRS is due for repayment within three years and carries an annual interest rate of 15% The payment of this sum is funded from the normal payment flows generated from the EDEMSA bonds with a potential surplus or deficit being determined at the end of the TRS term (through normal or early termination, as set forth in the contract) as a result of comparing the payment flows from the EDEMSA bonds with the financed amount including accruing interest As collateral the Company has pledged 80% of its indirect interest in Andes Energia Argentina S A and through its intermediary companies a first security interest in 85% of SODEM S A and a second security interest in 15% of SODEM S A , which holds the Group's 51% interest in EDEMSA For the amounts paid and payable, and as a result of the assignment, EDEMSA and the Trust shall receive at the date of termination of the TRS, Class A notes with a face value of US$51,650,000 (88 06% of Class A notes in issue), Class B notes with a face value of US$17,114,969 (96 07% of Class B notes in issue), and Class D notes with a face value of US$16,367,734 (98 93% of the Class D notes in issue)

Accounting treatment

As described above, considering the transaction as a whole and the structure of the interests acquired by EDEMSA, whether directly or through its participation in the Trust, EDEMSA has recognized the effects of this transaction by calculating the net present value of the joint obligations arising under the contracts and the existing bond obligations Although the bond obligations will remain in force until termination of the TRS, the rights acquired by EDEMSA give EDEMSA the benefit of receiving the notes, the subject of the TRS, upon termination of the TRS and EDEMSA and the Trust will hold, together with the bonds already held by the Trust, 88 06% of the Class A notes, 100 00% of the Class B notes, 98 93% of the Class D note and 98 93% of the Class D certificates The bond liabilities have been shown net of these assets

A surplus of AR$21 million (US$5 4 million) resulting from the net present value impact of the reduction in the borrowings has been recognised in the income statement under finance costs

The maturity profile of financial liabilities based on gross undiscounted cash flows is summarized below

	The Group		The Company	
	31-Dec-10	31-Dec-09	31-Dec-10	31-Dec-09
	US$	US$	US$	US$
Maturity profile				
Within 1 year	17,369,982	9,284,700	1,421,875	1,573,569
Between 1 and 5 years	36,662,233	50,555,112	13,846,334	15,108,834
After 5 years	3,236,107	60,706,135	-	-
	57,268,322	120,545,947	15,268,209	16,682,403
Interest payments	(10,773,538)	(22,669,878)	(3,076,389)	(4,490,583)
	46,494,784	97,876,069	12,191,820	12,191,820

Other borrowings - Current

During 2002, as a result of the economic crisis in Argentina, HDS restructured its debt All creditors apart from one agreed to the restructure HDS and this creditor are renegotiating the final amount and payment schedule and HDS has recorded the debt as of 31 December 2010 in other borrowings, at management's best estimate of the debt fair value

Other borrowings – Non-current

At the year end the Company had a US$5,000,000 senior secured loan facility repayable within 4 years This debt carries a quarterly coupon at an interest rate of 12 75% per annum, with the principal due for repayment by March 2013 In addition the Company had a US$7,191,820 unsecured loan facility repayable within 4 years This debt carries a quarterly coupon at an interest rate of 12 50% per annum, with the principal due for repayment by May 2013

22. FINANCIAL LIABILITIES (continued)

Other borrowings – Non-current (continued)

The payment of interest for the period from 15 November 2009 to 14 February 2010 was satisfied by the issue of 580,706 ordinary shares at 28 pence on 16 February 2010, the payment of interest for the period from 15 February 2010 to 14 May 2010 was satisfied by the issue of 723,408 ordinary shares at 20 pence on 1 July 2010, the payment of interest for the period from 15 May 2010 to 14 August 2010 was satisfied by the issue of 688,741 ordinary shares at 20 pence on 28 September 2010, and the payment of interest for the period from 15 August 2010 to 14 November 2010 was satisfied by the issue of 683,595 ordinary shares at 20 pence on 24 November 2010 The lender has the option to convert the loan, in whole or part, into ordinary shares of the Company on 30 days notice at a price equal to the average price of the ordinary shares of the Company for the previous 90 days, subject to the terms of the loan agreement

Bank borrowings

At the year end bank borrowings of AR$23,963,881 were outstanding repayable within 12 months Of the amount outstanding, AR$9,000,000 carries interest at a rate of 14% per annum, AR$2,339,163 carries interest at a rate of 18 5% per annum, and AR$12,624,718 carries interest at a rate of 13 5% per annum In addition, at the year end, AR$1,914,362 had been drawn down on an overdraft facility repayable within 12 months and carrying interest at a rate of 16 5% per annum The loans are unsecured

23 PROVISIONS

	Legal Claims US$
At 1 January 2009	8,690,809
Additional provisions	4,104,300
Used during the year	(1,826,940)
Foreign exchange movements	(889,473)
At 31 December 2009	10,078,696
Additional provisions	2,258,826
Used during the year	(3,659,259)
Foreign exchange movements	(393,677)
At 31 December 2010	8,284,586

Provisions for environmental restoration and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated Provisions are not recognised for future operating losses Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability Management is not able to practically assess the likely timing for the potential settlement of such obligations

24. CALLED UP SHARE CAPITAL

	2010 Number of shares	2010 US$	2009 Number of shares	2009 US$
Authorised				
Ordinary shares of 10 pence	500,000,000	100,000,000	500,000,000	100,000,000
Allotted, called up and fully paid				
Ordinary shares of 10 pence	123,140,195	24,362,726	120,463,745	23,947,876

24. CALLED UP SHARE CAPITAL (continued)

Pursuant to the acquisition on 2 October 2007, deferred consideration of up to an additional 252,962,962 ordinary shares is payable over the next few years based on certified oil and gas reserves As at 31 December 2010 no deferred consideration has been recognised in the financial statements as no oil and gas reserves have been certified

To satisfy, in lieu of cash, interest due on loans made to the Company as referred in note 22 above, the Company issued, 580,706 ordinary shares at 28 pence on 16 February 2010, 723,408 ordinary shares at 20 pence on 1 July 2010, 688,741 ordinary shares at 20 pence on 28 September 2010, and 683,595 ordinary shares at 20 pence on 14 November 2010

25. WARRANTS

The Group has constituted warrant instruments to create and issue warrants to subscribe for ordinary shares Details of warrants granted are as follows

At start of year No.	Granted during year No.	Lapsed during year No	At end of year No.	Exercise price	Exercise date from	Exercise date to
1,750,000	-	-	1,750,000	54 pence	July 2005	July 2014
12,000,000	-	-	12,000,000	54 pence	October 2008	October 2012
12,000,000	-	-	12,000,000	54 pence	October 2008	October 2012
3,550,000	-	-	3,550,000	54 pence	October 2008	October 2014
2,000,000	-	(2,000,000)	-	54 pence	October 2008	October 2010
31,300,000	-	(2,000,000)	29,300,000			

The weighted average remaining contractual life of the warrants is 1 96 years All warrants, apart from the 3,550,000 granted to management and advisers, are outside the scope of IFRS 2 "Share-Based Payments" For those warrants outside the scope of IFRS 2 "Share-Based Payments" the table below summarises the number of warrants and the associated weighted average exercise price (WAEP) outstanding during the year

	2010 No	2010 WAEP	2009 No.	2009 WAEP
Outstanding at 1 January	25,750,000	54 pence	25,750,000	54 pence
Granted during the year	-	54 pence	-	54 pence
Exercised during the period	-	54 pence	-	54 pence
Outstanding at 31 December	25,750,000		25,750,000	
Exercisable at 31 December	25,750,000		25,750,000	

For those warrants within the scope of IFRS 2 "Share Based Payments" the table below summarises the number of warrants and the associated weighted average exercise price (WAEP) outstanding during the year

	2010 No	2010 WAEP	2009 No.	2009 WAEP
Outstanding at 1 January	5,550,000	54 pence	5,550,000	54 pence
Granted during the year	-	54 pence	-	54 pence
Lapsed during the year	(2,000,000)	54 pence	-	54 pence
Exercised during the year	-	54 pence	-	54 pence
Outstanding at 31 December	3,550,000		5,550,000	
Exercisable at 31 December	3,550,000		5,550,000	

25. WARRANTS (continued)

The fair values of warrants, which fall under the scope of IFRS 2, were calculated using the binomial option pricing model The estimated fair values of options, which fall under IFRS 2 and the inputs used in the binomial option model to calculate those fair values are as follows

Date of grant	Number	Estimated fair value	Share price	Exercise price	Expected volatility percentage	Expected life years	Risk free rate percentage	Expected dividends percentage
7 September 2007	3,550,000	21 pence	54 pence	54 pence	35%	7	5 10%	0%

The Group recognised an expense of US$165,075 related to equity settled share-based payment transaction during the year (2009 US$249,805)

26. NON-CONTROLLING INTERESTS

	2010 US$	2009 US$
At 1 January	65,945,103	71,522,624
Profit attributable to non-controlling interests	5,326,817	1,598,494
Fair value adjustments	(73,052)	170,599
Dividends	(178,462)	(351,404)
Translation differences	(2,850,245)	(6,995,210)
At 31 December	68,170,161	65,945,103

27. RESERVES

Merger reserve

The merger reserve is a non-distributable capital reserve arising from the issue and allotment of shares at a price higher than the nominal value of the shares and issued to satisfy purchase consideration

Reverse acquisition reserve

The reverse acquisition reserve is a non-distributable capital reserve arising on consolidation as a result of the business combination with Sodem S A

Translation reserve

The translation reserve results from exchange differences arising from the translation of the assets and liabilities of the Group's operations into the presentation currency at exchange rates prevailing on the balance sheet date and income and expense items at the average exchange rates for the period

Fair Value Reserve

The fair value reserve is a reserve arising from the valuation of certain assets and liabilities at fair value

28. CAPITAL COMMITMENTS

	31-Dec-10 US$	31-Dec-09 US$
Commitments for the acquisition of property, plant and equipment	2,344,711	2,025,722

28. CAPITAL COMMITMENTS (continued)

The Group has a 3% working interest in certain oil and gas assets acquired by the consortium referred to in note 12 Where the consortium has been awarded an exploration permit in respect of a licence block the Group is obligated to contribute 3% of all monetary funds required to comply with and fulfil its contractual obligations imposed under the permit

The Group has a 20% working interest in 2 licence blocks in the Neuquen basin The Group is obligated to contribute 20% of all monetary funds required to comply with and fulfil all contractual obligations imposed under the permit

29. CONTINGENCIES

(a) Contingent asset

On 3 July 2006, EDEMSA was notified by the Argentine fiscal bureau of the disallowance of a portion of value added tax credits used in prior years The assessment is based on an objection by that authority that the credits used by EDEMSA derived from drawbacks on exports acquired from third parties

On 7 August 2006, an appeal was lodged before the General Director of the Argentine fiscal bureau against the administrative resolutions that disallowed the above-mentioned credits

At the date of these financial statements, the Group has paid to the tax authority as a result of that claim AR$2,667,163 The Group has received from the tax bureau a demand to pay interest of AR$2,734,301 on the amount claimed, which the Group has made a provision for An appeal has been lodged to avoid payment of the interest

In the opinion of EDEMSA's tax advisors, the criterion used by the Argentine fiscal bureau is not in line with tax regulations The directors of EDEMSA believe it will recover this amount from the Argentine fiscal bureau and have taken the necessary steps to enforce its rights in the face of the Tax Authority's claim Notwithstanding, EDEMSA has accrued the interest requested by the fiscal authority

(b) Contingent liability

The Company has received a claim from the Argentine fiscal bureau in respect of a different interpretation of tax assessed in certain years On 25 June 2007 the Company received notice from the authorities of its intention to pursue the claim plus interest and penalties In the opinion of EDEMSA's tax advisors, the criterion used by the Argentine fiscal bureau is not in line with tax regulation For this reason the Company has not made a provision for this claim On 19 July 2007 EDEMSA filed appeals with the National Tax Court The Group does not believe an estimate of its financial effect is practicable and could be misleading

30. FINANCIAL RISK MANAGEMENT

The Group's operations expose it to a variety of financial risks that include the effects of changes in price risk, credit risk, foreign exchange risk, liquidity risk and cash flow and fair value interest rate risk At 31 December 2010 the Group had not entered into any derivative transactions nor does it trade financial instruments as a matter of policy

Price risk

Whilst the Group is not subject to price risk due to the service nature of the services it provides, the Group's business is based on a regulated tariff structure If future tariff reviews are not forthcoming this will adversely affect cash flows and the ability of the Group to invest in the business and could impair group asset values The Group has not entered into any derivative arrangements in this connection In connection with electricity sales, the Group is not exposed to risk in relation to fluctuations in the prices paid to purchase the electricity in the market since any price fluctuations are passed on to the customers

The Group is exposed to commodity price risk in relation to the purchase of copper wires used in the distribution networks The Group does not use derivatives to hedge this risk The Group is also exposed to price risk due to inflationary increases in the price of the goods and services it purchases and equity securities price risk on quoted equity investments

NOTES TO THE FINANCIAL STATEMENTS

30. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

The Group's business is exposed to credit risks due to the possibility that customers may fail to meet their financial obligations In accordance with the local legislation, the Group is not able to subject its customer portfolio to a regular credit risk assessment The Group has the right to disconnect services if customers fail to meet their financial obligations The Group is also subject to counterparty credit risk attributable to its deposits of cash and cash equivalents The risk is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies

The carrying amount of financial assets represents the maximum credit exposure The maximum exposure to credit risk at the reporting date was

	31-Dec-10	31-Dec-09
	US$	US$
Investments	3,429,772	20,390,284
Available for sale financial investments	1,248,824	1,251,871
Trade and other receivables	18,583,747	19,895,858
Cash and cash equivalents	7,637,473	5,123,704
	30,899,816	46,661,717

Foreign exchange risk

The Group is exposed to foreign exchange risk with respect to the AR$/US$ Foreign exchange risk arises from recognised liabilities, mainly bonds The bonds are denominated in US$, whilst the revenue and expenses of the operating unit are denominated in AR$ However, as noted in note 22, during the year, the Group has entered into various agreements to repurchase approximately 92% of these bonds, which has significantly reduced the Group's exposure to this currency risk The net value of notes outstanding as at 31 December 2010 was US$28 million (2009 US$68 million) AR$/US$ exchange rate fluctuations impact the results for any period relating to any unhedged amount of the outstanding debt In 2010, the effect of exchange rate fluctuation was AR$10 7million If the AR$ had weakened a further 5% against the US$ with all other variables held constant, the exchange loss for 2010 would have been approximately AR$13 5 million higher

Capital and liquidity risk

The Group manages its capital to ensure that it remains sufficiently funded to support its business strategy and maximise shareholder value The Group's funding needs are met through a combination of debt and equity The Group monitors its net debt position on an ongoing basis The Group includes within net debt, interest bearing loans and borrowings less cash and cash equivalents Capital includes share capital, share premium and other reserves and accumulated losses

Cash flow and fair value interest rate risk

The Group's interest rate risk arises primarily from its bonds and other corporate debt The Bonds and other corporate debt only accrue interest at fixed rates Borrowings at fixed rates expose the Group to fair value interest rate risk The Group does not use derivative instruments to hedge this risk

NOTES TO THE FINANCIAL STATEMENTS

31. FINANCIAL INSTRUMENTS

Categories of financial instruments

	31-Dec-10	31-Dec-09
	US$	US$
Financial assets		
Cash and bank balances	7,637,473	5,123,704
Loans and receivables	35,314,138	35,824,334
Available for sale financial assets	1,331,031	17,775,694
	44,282,642	58,723,732
Financial liabilities		
Amortised cost	99,289,812	119,251,102
	99,289,812	119,251,102

Available for sales financial assets are valued based on quoted prices at the year end

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values

32. RELATED PARTY TRANSACTIONS

Directors

During the year the Group was invoiced by EP&F Capital plc US$34,452 (2009 US$35,920) in respect of office facilities Nigel Duxbury is director of EP&F Capital plc At the period end US$116,740 (2009 US$84,942) was outstanding

Key Management Compensation

Compensation for key management of the Company who have authority for planning, directing and controlling the Group,

	31-Dec-10	31-Dec-09
	US$	US$
Salaries and other short term benefits	865,719	775,653
Share based payments	70,215	71,121
	935,934	846,774

33. POST BALANCE SHEET EVENTS

After the year end Andes completed the acquisition of a 34% working interest in Vega Grande with the option to acquire the remaining 66% of Vega Grande and 100% working interest in two further blocks, La Paloma and Cerro Alquitran

Under the consortium agreement between Andes and Patagonia (the "Consortium"), *Union Transitoria de Empresas* consisting of the Consortium and the operator were awarded three exploration licences covering six blocks in the province of Chubut and one block in the province of Rio Negro in Argentina After the year-end Andes reached agreement to acquire from the owners of Patagonia, their respective interests in the consortium As a result of this transaction Andes now has a 100% interest over these licences, subject to an operator interest of 2%

Andes Energia plc

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Luis Alvarez Poli (Chief Executive)
Nigel Duxbury (Finance Director)
Juan Carlos Esteban (Chief Executive, Oil and Gas Operations)
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