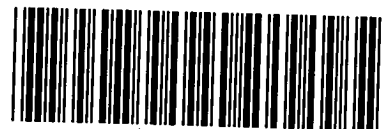


Andes Energia plc
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014
(Company No. 5083946)

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Andes Energia plc

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Andes Energia plc

STRATEGIC REPORT

OVERVIEW

Andes Energia plc (“Andes” or the “Company” and with its subsidiaries the “Group”) is a Latin American oil and gas group, with interests in Argentina, Colombia, Brazil and Paraguay.

Year ended 31 December	2014	2013
	US\$m	US\$m
Revenue	48.2	22.5
Operating profit / (loss)	**5.5	*(3.9)
EBITDA (see note 31)	**8.8	*(2.4)
Net operating cash generated from operations	14.6	3.4

* Before exceptional items of US\$6.2 million

** Before impairment charges of US\$3.8 million

Our financial results incorporating the results of Andes together with its subsidiaries for the year ended 31 December 2014 are set out below.

The Group recorded an operating profit of US\$5.5 million for the year before provisions for impairment compared to an operating loss before exceptional items on continuing operations of US\$3.9 million in 2013.

BUSINESS REVIEW

Andes’s portfolio includes:

- 46 licences
- 7.5 million net acres of licence area
- 20 million bbls of 2P net reserves in Argentina
- 640 million boe of net contingent and prospective resources
- 2014 average production of approximately 1,700 bpd

Andes is an oil and gas company focused on South America with interests in Argentina, Colombia, Brazil and Paraguay. The Company has interests in exploration, development and producing assets. The Company has 20 million bbls of conventional 2P reserves in Argentina and certified resources of 640 million boe. The Company’s licences cover 7.5 million acres across South America with 2 million net acres in unconventional plays including 250,000 net acres in the Vaca Muerta formation, which is the second largest shale oil deposit in the world and the only producing shale oil deposit outside of the USA. Over 250 wells have already been drilled and fracked in the Vaca Muerta formation. The Company currently produces 1,952 bpd in Argentina from 6 conventional fields, with positive cash flow generated. Andes, with its partner YPF, has 30 wells planned over the next 12 months, which will be funded by cash flow from production.

OPERATIONAL REVIEW

2014 highlights:

- Average production rate of 1,700 bpd in 2014 (2013: 916 bpd).
- A total of 25 development and appraisal wells were drilled and 9 wells were converted to injection wells in the Chachahuen block, which is now producing 709 bpd net to Andes.
- Las Varillas x-1 well was successfully fracked and tested in the Vaca Muerta shale formation.
- Successful operation on the Vega Grande x-1 well, testing the Vaca Muerta formation.
- Three new blocks with conventional oil discoveries were awarded to Andes by the regulator (ANH) in the Llanos basin, Colombia.
- Revenue increase of 114% year on year of which 79% results from production growth and 35% from recognising the results of 2013 acquisitions for the full year.
- 2014 average selling price of US\$73 per barrel.

Andes Energia plc

STRATEGIC REPORT (continued)

OPERATIONAL REVIEW (continued)

Post year end highlights:

- On 20 January 2015 Andes acquired a 51% interest in InterOil Exploration and Production ASA. The acquisition provides Andes with an interest in exploration and producing licences in Colombia and 5.7 million bbls of 2P reserves. The acquisition allows Andes to increase and diversify its production and reserve base. See note 33 for further details.
- Current daily production: Argentina 1,952 bpd; Colombia 1,500 bpd; total 3,452 bpd.
- Current selling price in Argentina is US\$77 per barrel and Colombia US\$61 per barrel.

Andes continued with its stated strategy to expand and diversify its oil and gas portfolio during 2014 and has been able to increase its average production in 2013 from 916 bpd to 1,700 bpd in 2014. Andes has experienced strong performance from its conventional activities and is well placed to develop its position in the Vaca Muerta formation.

Argentina

Summary

Type	Province	Licences	2P reserves (MMbbls)	Resources (MMbbls)	Current production (bbls/day)	Net acres
Conventional production/shale development	Mendoza	6	17.5	368.7	1,952	420,393
Conventional development	Mendoza	4	1.6	0.0	-	1,384
Shale oil development	Neuquén	2	0.2	171.0	-	39,230
Conventional/unconventional exploration	Rio Negro	1	N/A	32.0	-	124,788
Conventional/unconventional exploration	Chubut	7	N/A	16.7	-	2,771,402
Conventional exploration	Salta	3	0.3	50.0	-	2,865,439
Total		23	19.6	638.4	1,952	6,222,636

Chachahuen block - Mendoza

Licence status

The Argentine Province of Mendoza granted a 25 year right to develop the “Chachahuen Sur” (“ChuS”) oil field located in the Chachahuen block, to a joint operation between Andes, the state-run energy company YPF and the local firm Energia Mendocina. This development block covers an area of 72 km² in the south of the Chachahuen block that borders the energy-rich Neuquén Province. The remaining area (approximately 3,063 km²) is still in the exploration phase.

Development drilling (ChuS)

The 2014 drilling program focused on developing and delineating the ChuS field discovery by the well Chus x.-2. The well program targeted the clastic member, cycle 2 and 3 of the Rayoso formation. This unit was deposited during the early Cretaceous in a predominantly continental environment and is composed of a succession of fine sandstones, red mudstones, and minor evaporates. A total of 23 development wells were drilled and completed successfully during the year. The JV is planning to drill a total of 30 development wells during 2015.

Exploratory drilling

Two appraisal wells ChuS e-186 and ChuS e-187 were drilled and completed successfully, which targeted the sandstone of cycle 5 of Rayoso formation. The wells were placed approximately 2.2 km and 3.6 km respectively southeast of the discovery well ChuS x-44. ChuS e-186 came on stream in December 2014 at an initial rate of 96 bpd.

Enhanced Oil Recovery –Water Flood project

In order to enhance oil recovery a water flood pressure maintenance project, a method of secondary recovery, was initiated to displace residual oil. The project commenced continuous operation in November 2014 to support the pressure of the reservoirs and sweep or displace oil from the prolific cycle 2 of the Rayoso formation.

STRATEGIC REPORT (continued)

OPERATIONAL REVIEW (continued)

Chachahuen block - Mendoza (continued)

Enhanced Oil Recovery –Water Flood project (continued)

Nine producing wells were converted to injector wells and a network of brine injection wells were built as an extension of the facilities in the neighbouring DBE field. Each water flood pattern comprises four producing wells surrounding an injection well (an inverted five spot pattern).

An average rate of 1,800 bpd was injected during the first stage of the project. In 2015, it is planned to continue with this secondary recovery program, converting an additional 10 producing wells into injector wells.

Oil production (ChuS)

At the end of 2014 a total of 59 wells were on stream, producing approximately 3,545 bpd (Andes has a 20% working interest equivalent to 709 bpd).

In all of the wells, a progressing cavity pump artificial lift system was installed, which best suits the conditions of the wells and has long been proven to be efficient.

Puesto Pozo Cercado and Chañares Herrados blocks - Mendoza

During 2014, three wells were worked over, as a result production increased by an average of 30 bpd.

El Manzano West - Mendoza

During February 2014, Andes announced the results of the multi-target unconventional and conventional exploration well, Las Varillas x-1. The well, the most northerly well to be drilled into the Vaca Muerta formation, was vertically drilled reaching a total depth of 7,851 feet (2,393 metres) and encountered 410 feet (125 metres) of gross pay in the unconventional Vaca Muerta formation, the primary target. The drilling was characterised by the persistent presence of oil and gas shows through most of the Vaca Muerta interval. Geochemical data were sampled at two metre intervals through the entire Vaca Muerta column. Oil was also found in the mud pits. Two 18 metre core samples from the Vaca Muerta formation have been recovered and a comprehensive suite of logs has been run. The analysis of this data was used to design the completion, fracking and production testing of this well. The Las Varillas x-1 well was drilled by YPF. Andes was fully carried during the drilling of this well, as part of the farm-in agreement with YPF under which Andes has a 100% working interest in all production from the Agrio formation, which overlays the Vaca Muerta formation and a 40% carried interest in the Vaca Muerta and other formations.

Ñirihuau block - Chubut

An additional 500 soil gas samples were collected bringing the total to 3,000 samples. As part of our commitment work a total of 160 km of 2D seismic is being reprocessed and reinterpreted.

Colombia

In six out of the eight areas where Andes holds interests in Colombia (VMM-8, LLA-79, LLA-12, LLA-2, LLA-49 and LLA-28), the country's regulatory authority, ANH, has approved the start of operational phase 1. This means that Andes can commence the operations needed to realise the potential of these areas. These activities will include the recording of new seismic data, the reprocessing of existing data using new technologies and the evaluation of existing wells in the area. Data from recent discoveries in nearby areas will be incorporated into Andes's regional database to evaluate similar features within Andes's acreage.

In August 2014, three new blocks with conventional oil discoveries were awarded to Andes by the regulator (ANH) in the Llanos basin (YD LLA 2, YD LLA 5 and YD LLA 8).

Brazil and Paraguay

The Board is focused on the development of its Colombia and Argentina operations and is considering its options with regards to the development of its interests in Brazil and is still pursuing analysis and exploration activities in Paraguay.

Andes Energia plc

STRATEGIC REPORT (continued)

TRADING PERFORMANCE

Revenue from operations increased from US\$22.5 million in 2013 to US\$48.2 million in 2014. Average production has increased from 916 bpd in 2013 to 1,700 bpd in 2014. Exploration and development activities continue and we expect to see the benefit of these programs in future years. Revenue increase of 114% year on year of which 79% results from production growth and 35% from recognising the results of 2013 acquisitions for the full year.

FINANCIAL PERFORMANCE

Revenue has significantly increased to US\$48.2 million compared to US\$22.5 million in 2013, an increase of 114% primarily as a result of production from Chachahuen and CHPPC. The loss before tax of US\$4.1 million (before impairment provisions of US\$3.8 million) compares favourably with the US\$6.3 million loss before tax in 2013 (before the exceptional gain of US\$6.2 million) particularly given the investment of US\$20 million in exploration and development activities during the year.

The Group's total assets have decreased from US\$319 million in 2013 to US\$265 million at the end of the year mainly due to the devaluation of the Argentine Peso. The devaluation of the Argentine Peso resulted in US\$49 million of exchange losses being recognised in the comprehensive loss for the year (2013: US\$68 million).

Borrowings increased from US\$56 million in 2013 to US\$58 million at the end of the year. Net current liabilities increased from US\$1 million at the end of 2013 to US\$2 million at the end of 2014.

At year end, the Group had cash resources of US\$10.6 million compared to US\$8.2 million at the end of 2013, which management believes together with the free cash flow generated from existing activities will be sufficient to meet its ongoing working capital requirements. The directors will not be recommending the payment of a dividend.

EARNINGS PER SHARE

Basic and diluted loss per share increased from 0.1 cents in 2013 to 2.11 cents in 2014. During the year the number of shares in issue increased by 37 million to 552 million.

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 and consider the following to be relevant in assessing performance.

Sales:

Sales provide a measure of the Group activity that is influenced by production levels and oil prices. Revenue increased by US\$25.7 million to US\$48.2 million in 2014.

Price:

The average price of oil sales in 2014 was US\$73 per barrel compared to US\$74 per barrel in 2013.

Domestic oil prices in Argentina are not directly linked with international price movements, and have not been affected by recent drops in WTI and Brent levels. National and Provincial States, together with oil producers, refiners and retail vendors formally agreed to establish a price of US\$77 per barrel for crude oil. Argentina used to be a net oil exporter until 2008 with extensive infrastructure available to transport oil from inland fields to the Atlantic Ocean coast. In 2014 the country imported minimal quantities of crude oil for the first time in 20 years, but in 2015 the supply/demand situation is expected to be balanced. All big refiners, except one, are crude producers also, and all of them sell the refined products domestically. Part of the refining capacity is located inland near oil fields, at more than 1,000 km from the Atlantic coastline, which implies a substantial transport cost to process imported crude oil. Additionally, the country is running with a shortage of foreign currency in the Central Bank reserves, and companies who want to import must ask for authorisation from the Central Bank to receive foreign currency to pay for imports. There is, therefore, an incentive for the State to promote the consumption of local crude oil instead of authorising oil imports, even at a higher price than import parity, to avoid a loss of foreign currency reserves and to incentivise domestic production, investments, jobs and other activities.

Andes Energia plc

STRATEGIC REPORT (continued)

KEY PERFORMANCE INDICATORS (continued)

Production:

Production is measured in barrels of oil per day and average production increased from 916 bpd in 2013 to 1,700 bpd in 2014.

Resources and Reserves

As the end of 2014 the Group had 20 million bbls of net 2P reserves and certified resources of 640 million boe. The Group's licences cover 2 million net acres.

Work programs:

During the year 25 wells were drilled and 10 workovers completed.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the Group are set out below:

Exploration and drilling – the Group's exploration and drilling programs may be unsuccessful. The Group seeks to mitigate these risks by undertaking extensive geological analysis prior to significant expenditure being incurred and considering farm-out opportunities.

Capital expenditure – the business relies on substantial investment in exploration programs and restrictions on the availability of funding would curtail the growth of the Group. A failure to fund licence commitments could result in the loss of upstream properties. The Group seeks to mitigate this risk through entering into joint operations in which the Group has a carried interest.

Exchange controls and access to capital – current foreign currency legislation in Argentina restricts the effective flow of capital out of Argentina, which could cause delays in the Group meeting its financial obligations outside Argentina. To mitigate this risk the Group holds funds outside Argentina.

Production – the Group's production may be adversely affected by technical problems and production performance may not be in line with expectations. The Group seeks to mitigate these risks by managing its responsibilities as an operator and by working closely with our partners in the field.

Environment – the Group's activities could be affected by environmental issues. The Group ensures it understands and effectively manages the actual and potential environmental impact of its current and future activities.

Health, safety, environment and community issues ("HSEC") – the Group has rigorous health and safety processes and procedures and is conscious that regulatory bodies could impose sanctions which could disrupt operations and ultimately levy penalties if these standards are not maintained. We are exposed to a wide range of significant health, safety, security and environmental risks including technical failure, natural disasters and other adverse conditions where we operate, which could lead to loss of containment of hydrocarbons and other hazardous material, as well as the risk of fires, explosions or other incidents. This could endanger stakeholders and result in significant costs to rectify any contamination or damage. Poor HSEC performance could also result in damaging publicity for the Group.

Appropriate insurances are maintained to manage the Group's financial exposure to any unexpected adverse events arising out of the normal operations.

Oil price fluctuations – the Group's financial performance is currently related to the Argentine oil price. The Group takes a conservative view when undertaking capital appraisal.

Andes Energia plc

STRATEGIC REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Economical and political - Legislation and business practices regarding local governmental regulation, foreign currency transactions and taxation are constantly evolving in some of the countries in which the Group operates. The risks inherent in conducting business in these economies include, but are not limited to, volatility in the financial markets and the general economy. The Argentine economy is particularly sensitive to local political developments and events. Argentina's national election for president and vice president will take place in October 2015 and other relevant federal elections will also take place during 2015. Based on recent polls, it is expected that the next national government will focus on controlling inflation, stability, the competitiveness of the Argentine Peso, levels of consumption and foreign and domestic investment and financing. As a result the Group's operations and financial position may be affected by these uncertainties. The Group monitors local changes in government regulation and takes appropriate action where necessary.

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On 20 January 2015 Andes acquired a 51% interest in InterOil Exploration and Production ASA for a consideration of US\$4.7 million. The acquisition provides Andes with an interest in exploration and producing licences in Colombia and 5.7 million bbls of 2P reserves. The acquisition allows Andes to increase and diversify its production and reserve base (see note 33 for more detail).

There were no other significant events after the balance sheet date.

OUTLOOK

Operationally, 2015 has started well, with group production increasing to 1,952 bpd in Argentina and 1,500 bpd in Colombia including InterOil's production, taking production levels to 3,452 bpd. Selling prices in Argentina have remained at US\$77/bbl (with Andes receiving a slight discount to this based on oil specification).

Andes, with its partner YPF, has 30 wells planned over the next 12 months, which will be funded primarily by field production cash flow.

With the General Election in Argentina set for October 2015 and pro-business candidates leading comfortably in the polls, Andes is very well placed to benefit from the development of the world class Vaca Muerta shale, where we have 250,000 net acres, all underpinned by oil prices of US\$77/bbl.

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

**Alejandro Jotayan
Director
20 May 2015**

Andes Energia plc

DIRECTORS' REPORT

The directors present their report for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

Andes is an oil and gas company focused on onshore blocks in South America. The Company has operations in Argentina, Colombia, Brazil and Paraguay, representing three of the largest economies and three of the four largest oil producing nations in South America.

NAMES, QUALIFICATIONS AND EXPERIENCE OF DIRECTORS

The names and details of the directors of the Company as at the date of this report were as follows:

Nicolás Mallo Huergo (Chairman and CEO JV Operations in Argentina)

Nicolás Mallo Huergo joined the board on 2 October 2007. Nicolás has 20 years experience in the energy markets and has executed many M&A transactions. He has a Law Degree from the Universidad Católica Argentina and a Master in Law (LLM.) with honours at Northwestern University School of Law, Chicago, U.S.A.

Alejandro Jotayan (Chief Executive Officer)

Alejandro Jotayan joined the board on 16 April 2013. Alejandro is an Industrial Engineer with a Master's Degree in Business Administration. He has 18 years of experience in the oil and gas industry in the Americas and Europe. He was Head of Strategy and Business Development at YPF until leaving in 2012. Previously, Alejandro has held several managerial positions in the exploration and production departments of Repsol-YPF working on the commercial development of the Vaca Muerta in the Neuquén basin. He also held managerial positions in commercial analysis, strategic planning and control and shareholder reporting in the Techint Group of Companies (Tenaris; Ternium; and Tecpetrol).

German Ranftl (Chief Financial Officer)

German Ranftl joined the board on 17 July 2012. German is a Public Accountant from the University of Buenos Aires graduating in 1990 and has a Masters in Business Administration from CEMA. He spent nearly 11 years in the banking sector, including eight years at ING Barings as a Vice President in Corporate Finance and Investment Banking. He was previously the Chief Financial Officer of EDEMSA.

Juan Carlos Esteban (VP E&P)

Juan Carlos Esteban joined the board on 24 June 2009. Juan Carlos joined the Company from YPF where he had 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 Neuquén basins. He has significant knowledge and experience in the areas where the Group holds its licences.

Nigel Duxbury (Non-Executive Director and Company Secretary)

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.

David Jackson (Non-Executive Director)

David Jackson joined the board on 17 July 2012. David has more than 30 years experience in international banking and finance having held senior positions in; Standard Chartered Bank (1990 - 2008), where he was a Managing Director in London and Hong Kong; Scandinavian Bank (1977 - 1990) in London, Bahrain, Singapore and Hong Kong where he was an Executive Director and a member of the Bank's General Management Committee; and Finance for Industry, where he was a Senior Legal Advisor (1973 - 1977). He retired from Standard Chartered Bank in 2008.

Carolina Landi (Non-Executive Director)

Carolina Landi joined the board on 17 July 2012. Carolina graduated from the University of Buenos Aires in 2003 with a law degree and obtained a LLM in Business Law from the University of Palermo in 2003. She previously practiced as a lawyer at the firm Laporta-Lopez & Partners. Carolina is currently the legal representative for the Patagonia Petroleo UTE.

Andes Energia plc

DIRECTORS' REPORT (continued)

NAMES, QUALIFICATIONS AND EXPERIENCE OF DIRECTORS (continued)

Javier Alvarez (Non-Executive Director)

Javier Alvarez joined the board on 17 July 2012. Javier has a Masters in Environmental Politics and Globalisation from King's College, University of London. Javier is an executive director and member of the board of directors of the British Argentine Chamber of Commerce.

Matthieu Milandri (Non-Executive Director)

Matthieu Milandri joined the board on 21 August 2013 and has been Investment Director at Mercuria Energy Trading SA since December 2011, with a particular focus on upstream oil and gas assets. Prior to joining Mercuria, Matthieu was CFO of Candax Energy Inc, a TSX-listed upstream company and Business Development and Financing Manager at Geopetrol, a private upstream group. Matthieu spent nine years with BNP Paribas in Frankfurt, Paris, New York, Houston and Geneva working in the oil and gas and commodities groups, providing him with a detailed understanding of junior oil and gas companies across the world. He graduated from ESSEC Business School in 1998 with a degree equivalent to an MBA with a specialisation in finance.

Alan Stark resigned from the board on 18 March 2014.

The Company had in place during the year and has in place at the date of this report, a Directors and Officers Liability Insurance policy for the directors.

RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to US\$10.9 million (2013: loss US\$0.4 million).

The directors do not recommend the payment of a dividend (2013: US\$nil).

FINANCIAL RISK MANAGEMENT

The Company's exposure to financial risk is set out in note 29 to the financial statements.

COUNTRY OF INCORPORATION

The Company was incorporated in England and Wales.

COUNTRIES OF OPERATION

The Group's activities are based in Argentina, Colombia, Brazil and Paraguay.

GOING CONCERN

The Directors have reviewed the cash position of the Company and Group for a period of 12 months from the date of this report against expected operational income, expenditure and specific contractual costs and consider that the Company and Group has sufficient resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Group's financial statements.

DISCLOSURE OF INFORMATION TO THE AUDITOR

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 audit 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.

Andes Energia plc

DIRECTORS' REPORT (continued)

FUTURE DEVELOPMENT

Andes has made significant progress during the year strengthening our portfolio and increasing production. The focus in 2015 is to continue to expand our work programs; to move forward with the Chachahuen development with YPF and further develop and enhance our unconventional acreage. The management team is focused on developing and enhancing the value of our portfolio and on increasing production.

EVENTS AFTER THE BALANCE SHEET DATE

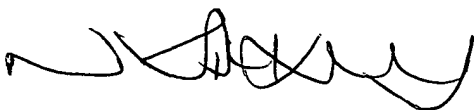
On 20 January 2015 Andes acquired a 51% interest in InterOil Exploration and Production ASA. The acquisition provides Andes with an interest in exploration and producing licences in Colombia and 5.7 million bbls of 2P reserves. The acquisition allows Andes to increase and diversify its production and reserve base (see note 33 for more detail).

There were no other significant events after the balance sheet date.

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP 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 by order of the Board**



Nigel Duxbury
Company secretary
20 May 2015

Andes Energia plc

CORPORATE GOVERNANCE

THE UK CORPORATE GOVERNANCE 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 UK Corporate Governance Code, nor is it required to disclose its specific policies in relation to corporate governance. 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

During the year the Board met at least monthly to consider aspects of the Group's activities. The Board consists of the Chairman, Chief Executive Officer, Chief Financial Officer and the VP of Exploration & Production and five non-executive directors. All directors have access to the advice and services of the Company's professional advisers.

Remuneration Committee, Audit Committee and Nominations Committee

The Board is in the process of reforming the committees and electing new members. Whilst there are no formal committees at present the Board appoints sub-committees consisting of members of the board with relevant experience to review, inter alia, the relationship with auditors and review the interim and year end financial reports.

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. 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.

Andes Energia plc

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Directors' Report and the audited financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the Group and Parent financial statements in accordance with 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. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Group and of the profit/loss for the Group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 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 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.

Independent auditors' report to the members of Andes Energía plc

Our opinion

In our opinion:

- Andes Energía plc's group financial statements and parent company financial statements (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 2014 and of the group's loss and the group's and the parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("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.

What we have audited

Andes Energía plc's financial statements comprise:

- the Consolidated statement of financial position as at 31 December 2014 and Company statement of financial position as at 31 December 2014;
- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Consolidated cash flow statement and Company cash flow statement for the year then ended;
- the Consolidated statement of changes in equity and Company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and 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.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Andes Energia plc (continued)

Other matters on which we are required to report by exception (continued)

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' responsibilities statement set out on page 13, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Timothy McAllister (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

20 May 2015

Andes Energia plc
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	31-Dec-14 US\$'000	31-Dec-13 US\$'000
Revenue	3	48,229	22,456
Production cost		(30,630)	(14,224)
Gross profit		17,599	8,232
Other operating income/(expense) before exceptional items		996	(1,066)
Exceptional items	9/32	-	6,211
Total other operating income		996	5,145
Impairment charge		(3,796)	-
Distribution costs		(3,115)	(1,711)
Administrative expenses		(9,977)	(9,387)
Operating profit		1,707	2,279
Finance income	7	3,783	6,188
Finance costs	8	(13,397)	(8,561)
Loss before taxation		(7,907)	(94)
Taxation	10	(3,012)	(334)
Loss for the year from continuing operations		(10,919)	(428)
Loss per ordinary share from continuing operations		Cents	Cents
Adjusted basic and diluted loss per share		(2.11)	(1.58)
Basic and diluted loss per share	11	(2.11)	(0.10)

The notes on pages 24 to 58 are an integral part of these financial statements.

The finance costs are accrued and no interest has been paid during the year and the Group has the option on a large proportion of the loans to satisfy the interest in shares.

Andes Energia plc

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

	31-Dec-14	31-Dec-13
	US\$'000	US\$'000
Loss for the year	(10,919)	(428)
Translation differences	(48,760)	(68,058)
Total comprehensive loss for the year	(59,679)	(68,486)

The above items will not be subsequently reclassified to profit and loss.

The notes on pages 24 to 58 are an integral part of these financial statements.

Andes Energia plc

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

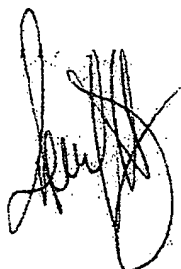
31 DECEMBER 2014

	Note	31-Dec-14 US\$'000	31-Dec-13 US\$'000
Non-current assets			
Intangible assets	13	165,104	219,831
Property, plant and equipment	14	61,185	60,812
Available for sale financial assets	15	1,646	1,634
Trade and other receivables	17	10,592	10,724
Deferred income tax assets	18	464	1,490
Total non-current assets		<u>238,991</u>	<u>294,491</u>
Current assets			
Inventories	19	618	540
Available for sale financial assets	15	2,644	3,680
Trade and other receivables	17	12,339	12,151
Restricted cash	20	5,944	3,561
Cash and cash equivalents	20	4,700	4,617
Total current assets		<u>26,245</u>	<u>24,549</u>
Current liabilities			
Trade and other payables	21	20,348	17,436
Financial liabilities	22	7,870	7,957
Total current liabilities		<u>28,218</u>	<u>25,393</u>
Non-current liabilities			
Trade and other payables	21	9,326	8,854
Financial liabilities	22	49,793	48,018
Deferred income tax liabilities	18	47,614	66,405
Provisions	23	1,727	454
Total non-current liabilities		<u>108,460</u>	<u>123,731</u>
Net assets		<u>128,558</u>	<u>169,916</u>
Capital and reserves			
Called up share capital	24	90,164	84,216
Share premium account		73,248	58,281
Other reserves	26	(69,554)	(17,753)
Retained earnings		34,700	45,172
Total equity		<u>128,558</u>	<u>169,916</u>

The notes on pages 24 to 58 are an integral part of these financial statements.

The financial statements on pages 16 to 58 were approved by the Board of Directors and authorised for issue on 20 May 2015 and were signed on its behalf by:

German Ranftl, Director



Company No. 5083946

Andes Energia plc

COMPANY STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2014

	Note	31-Dec-14 US\$'000	31-Dec-13 US\$'000
Non-current assets			
Property, plant and equipment		1	1
Investments in subsidiaries	16	278,557	296,811
Total non-current assets		<u>278,558</u>	<u>296,812</u>
Current assets			
Available for sale financial assets	15	636	612
Trade and other receivables	17	25,245	11,233
Restricted cash	20	5,944	3,561
Cash and cash equivalents (excluding bank overdrafts)	20	4,513	4,468
Total current assets		<u>36,338</u>	<u>19,874</u>
Current liabilities			
Trade and other payables	21	1,232	1,377
Financial liabilities	22	6,643	6,751
Total current liabilities		<u>7,875</u>	<u>8,128</u>
Non-current liabilities			
Trade and other payables	21	23,325	20,766
Financial liabilities	22	42,311	37,923
Total non-current liabilities		<u>65,636</u>	<u>58,689</u>
Net assets		<u>241,385</u>	<u>249,869</u>
Capital and reserves			
Called up share capital	24	90,164	84,216
Share premium account		73,248	58,281
Other reserves	26	33,939	54,008
Retained earnings		44,034	53,364
Total equity		<u>241,385</u>	<u>249,869</u>

The notes on pages 24 to 58 are an integral part of these financial statements.

The financial statements on pages 16 to 58 were approved by the Board of Directors and authorised for issue on 20 May 2015 and were signed on its behalf by:

German Ranftl, Director



Company No. 5083946

Andes Energia plc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

Capital and reserves	Share capital US\$'000	Share premium US\$'000	Retained earnings US\$'000	Other reserves US\$'000	Total US\$'000
At 1 January 2013	34,814	1,111	45,192	40,662	121,779
Loss for the year	-	-	(428)	-	(428)
Translation differences	-	-	-	(68,058)	(68,058)
Total comprehensive loss for the year	-	-	(428)	(68,058)	(68,486)
Issue of ordinary shares	49,402	57,170	-	-	106,572
Deferred contingent consideration shares (see note 32)	-	-	-	9,355	9,355
Fair value of share based payments (see note 25)	-	-	408	-	408
Issue of warrants	-	-	-	288	288
At 31 December 2013	84,216	58,281	45,172	(17,753)	169,916
Loss for the year	-	-	(10,919)	-	(10,919)
Translation differences	-	-	-	(48,760)	(48,760)
Total comprehensive loss for the year	-	-	(10,919)	(48,760)	(59,679)
Issue of ordinary shares (see note 24)	5,948	14,967	-	-	20,915
Deferred contingent consideration shares (see note 32)	-	-	-	(3,041)	(3,041)
Fair value of share based payments (see note 25)	-	-	447	-	447
At 31 December 2014	90,164	73,248	34,700	(69,554)	128,558

Other reserves	Merger reserve US\$'000	Warrant reserve US\$'000	Reverse acquisition reserve US\$'000	Translation reserve US\$'000	Deferred consideration reserve US\$'000	Total Other Reserves US\$'000
At 1 January 2013	55,487	1,817	-	(16,642)	-	40,662
Translation differences	-	-	-	(68,058)	-	(68,058)
Total comprehensive loss for the year	-	-	-	(68,058)	-	(68,058)
Deferred contingent consideration shares (see note 32)	-	-	-	204	9,151	9,355
Issue of warrants (see note 25)	-	288	-	-	-	288
At 31 December 2013	55,487	2,105	-	(84,496)	9,151	(17,753)
Translation differences	-	-	-	(48,760)	-	(48,760)
Total comprehensive loss for the year	-	-	-	(48,760)	-	(48,760)
Deferred contingent consideration shares (see note 18 and 32)	-	-	-	84	(3,125)	(3,041)
At 31 December 2014	55,487	2,105	-	(133,172)	6,026	(69,554)

The notes on pages 24 to 58 are an integral part of these financial statements.

Andes Energia plc

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

Capital and reserves	Share capital US\$'000	Share premium US\$'000	Retained earnings US\$'000	Other reserves US\$'000	Total US\$'000
At 1 January 2013	34,814	1,111	56,955	35,989	128,869
Loss for the year	-	-	(3,999)	-	(3,999)
Translation differences	-	-	-	8,376	8,376
Total comprehensive income for the year	-	-	(3,999)	8,376	4,377
Issue of ordinary shares	49,402	57,170	-	-	106,572
Deferred contingent consideration shares (see note 32)	-	-	-	9,355	9,355
Fair value of share based payments (see note 25)	-	-	408	-	408
Issue of warrants	-	-	-	288	288
At 31 December 2013	84,216	58,281	53,364	54,008	249,869
Loss for the year	-	-	(9,777)	-	(9,777)
Translation differences	-	-	-	(15,391)	(15,391)
Total comprehensive loss for the year	-	-	(9,777)	(15,391)	(25,168)
Issue of ordinary shares (see note 24)	5,948	14,967	-	-	20,915
Deferred contingent consideration shares (see note 32)	-	-	-	(4,678)	(4,678)
Fair value of share based payments (see note 25)	-	-	447	-	447
At 31 December 2014	90,164	73,248	44,034	33,939	241,385

Other reserves	Merger US\$'000	Warrant US\$'000	Deferred US\$'000	Translation US\$'000	Other reserves US\$'000
At 1 January 2013	55,487	1,817	-	(21,315)	35,989
Translation differences	-	-	-	8,376	8,376
Total comprehensive income for the year	-	-	-	8,376	8,376
Deferred contingent consideration shares (see note 32)	-	-	9,151	204	9,355
Issue of warrants (see note 25)	-	288	-	-	288
At 31 December 2013	55,487	2,105	9,151	(12,735)	54,008
Translation differences	-	-	-	(15,391)	(15,391)
Total comprehensive loss for the year	-	-	-	(15,391)	(15,391)
Deferred contingent consideration shares (see note 32)	-	-	(4,678)	-	(4,678)
At 31 December 2014	55,487	2,105	4,473	(28,126)	33,939

The notes on pages 24 to 58 are an integral part of these financial statements.

Andes Energia plc

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	31-Dec-14 US\$'000	31-Dec-13 US\$'000
Cash generated from operations	28	14,640	3,431
Tax paid		-	(59)
Cash flows generated from operating activities		<u>14,640</u>	<u>3,372</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(18,234)	(1,828)
Purchase of exploration assets	13	(1,785)	(1,625)
Purchase of financial assets		(84)	(2,525)
Acquisition of subsidiaries		-	23
Net cash used in investing activities		<u>(20,103)</u>	<u>(5,955)</u>
Cash flows from financing activities			
Funds from borrowing		8,601	10,386
Interest received		-	11
Interest paid		-	-
Proceeds from issue of shares	24	33	359
Net cash generated from financing activities		<u>8,634</u>	<u>10,756</u>
Exchange losses on cash and cash equivalents		(705)	(174)
Net increase in cash and cash equivalents		<u>2,466</u>	<u>7,999</u>
Cash and cash equivalents at the beginning of the year		8,178	179
Cash and cash equivalents at the end of the year	20	<u>10,644</u>	<u>8,178</u>

Significant non-cash transactions

Significant non-cash transactions in 2013 were the acquisitions of Kilwer S.A., Ketsal S.A. and CHPPC Andes S.L.R (formerly MGM International S.R.L.) (see note 32).

The notes on pages 24 to 58 are an integral part of these financial statements.

Andes Energia plc
COMPANY CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	31-Dec-14 US\$'000	31-Dec-13 US\$'000
Cash used in operations	28	(1,302)	(3,139)
Interest received		-	11
Cash used in operating activities		<u>(1,302)</u>	<u>(3,128)</u>
Cash flows from investing activities		<u>-</u>	<u>-</u>
Cash flows from financing activities			
Investment in subsidiaries		(2,447)	(28)
Funds from borrowings		6,813	10,386
Interest paid		-	-
Proceeds from issue of shares		33	359
Net cash generated from financing activities		<u>4,399</u>	<u>10,717</u>
Net increase in cash and cash equivalents		3,097	7,589
Cash and cash equivalents at the beginning of the year		8,029	30
Exchange (losses)/gains on cash and cash equivalents		(669)	410
Cash and cash equivalents at the end of the year	20	<u>10,457</u>	<u>8,029</u>

Significant non-cash transactions

Significant non-cash transactions in 2013 were the acquisitions of Kilwer S.A., Ketsal S.A. and CHPPC Andes S.L.R (formerly MGM International S.R.L.) (see note 32).

The notes on pages 24 to 58 are an integral part of these financial statements.

Andes Energia plc

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company is incorporated in England and Wales and domiciled in the United Kingdom and is listed on the AIM Market of the London Stock Exchange. The principal activities of the Company and its subsidiaries ("the Group") and a description of its operations, are set out in the Directors' Report.

2. ACCOUNTING POLICIES

2.1 Going concern

The directors have reviewed the cash position of the Company and the Group as at the year end against expected operational income and expected expenditure for the 12 month period from the date of this report. Whilst the Board recognises that the Company and Group has net current liabilities as at the year end, due to the Company/Group having access to existing cash balances and future cash generation from subsidiary operations the directors consider that the Company/Group has sufficient resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis of accounting in preparing the financial statements.

The cash held in Group bank accounts at the balance sheet date was US\$10.6 million (2013: US\$8.2 million)

2.2 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs as adopted by the EU"), the Companies Act 2006 that applies to companies reporting under IFRS and IFRIC Interpretations.

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

Where a change in the presentation format between the prior year and current year financial statements has been made during the period, comparative figures have been restated accordingly. In the 2013 comparatives, US\$59.8 million of development and production assets classified as intangible assets have been re-classified as property, plant and equipment; exchange gains of US\$3.8 million recognised in administrative expenses in 2013 have been re-classified as finance income in the 2013 comparatives; and US\$1.3 million additions to intangibles have been re-classified as additions to property, plant and equipment to better reflect our accounting policies.

2.3 Critical accounting estimates and judgements

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.

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.

Licence renewal

The Group holds interest in 46 exploration licenses. The first phase of nine of these licences in Argentina expired in December 2014. Whilst normal practice would be to automatically enter the second exploration phase and relinquish some acreage, the Group, with its joint operating partner, YPF, is seeking to re-negotiate the terms of these licences. An impairment provision is recognised in relation to those areas in which the Group does not intend to carry out further exploration activities.

In addition the Group holds interests in a number of other exploration and production licences, the first phases of which complete during 2015 and 2017. It is the current intention of the directors to seek and obtain renewal of these licences and therefore the associated intangible and tangible assets are deemed to be recoverable through the future exploitation of the licences.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.3 Critical accounting estimates and judgements (continued)

Impairment of goodwill

The determination of whether or not goodwill has been impaired requires an estimate to be made of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation includes estimates about the future financial performance of the cash-generating units, including management's estimates of crude oil reserves, long-term crude oil prices, operating costs and future capital expenditure. The carrying amount of goodwill attributed is disclosed in note 13.

Impairment of exploration and evaluation assets ("E&E") and property, plant and equipment ("PP&E")

E&E and PP&E are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This assessment involves judgement as to (i) the likely future commerciality of the asset and when such commerciality should be determined, and (ii) future revenues and costs pertaining to the asset in question, and the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value (iii) areas in which the company is not planning to carry out further exploration activities. Note 13 discloses the carrying amounts of the Group's E&E and note 14 the PP&E.

Asset retirement obligations

The Group has asset retirement obligations in respect of its asset retirement obligation. The extent to which a provision is required in respect of these potential obligations depends, inter alia, on the legal requirements at the time of decommissioning, the cost and timing of any necessary decommissioning work and the discount rate to be applied to such.

Assumptions based on the current economic environment have been made, which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual asset retirement obligations will ultimately depend upon future market prices for the necessary decommissioning works required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend upon when the fields start and then cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

Depreciation

Oil and gas assets held in property, plant and equipment are depreciated on a unit of production basis at a rate calculated by reference to proved and probable reserves and incorporating the estimated future capital expenditure to be incurred in relation to producing these assets. Future capital expenditure is estimated using assumptions as to the numbers of wells required to produce those reserves, the cost of the wells, future production facilities and operating costs, together with assumptions on oil and gas realisations.

Tax

The Group is subject to the taxation requirements in the jurisdictions in which the Group operates. Significant judgement is required in determining the position for income taxes across these jurisdictions owing to the complexity of tax laws, frequent changes in tax laws and regulations, and the manner of their implementation. Judgement must also be exercised whilst interpreting the interaction between different taxes and interaction between tax rules of different jurisdictions.

Tax provisions are recognised by the Group in accordance with tax laws enacted or substantively enacted by the taxing jurisdictions and in accordance with requirements of the applicable accounting standards.

Estimation of oil and gas reserves

Oil and gas reserves are the quantities of oil and gas estimated by management and verified from time to time by industry experts that are calculated to be recoverable from known reservoirs under existing economic and operating conditions. Estimations of reserves are inherently imprecise and subject to revision and in consequence financial and accounting measures that are based on reserves are also subject to future revision. The prospective value of reserves is not carried in the statement of financial position but revisions in reserves could impact the carrying value of intangible assets and tangible assets and the amortisation/depreciation of such assets. On acquisitions, the fair value of such assets may also be based on estimates of oil and gas reserves.

Andes Energia plc

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.3 Critical accounting estimates and judgements (continued)

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 estimates, including the timing with which options will be exercised and the future volatility in the price of the Company's shares.

2.4 Adoption of new and revised International Financial Reporting Standards

Other than as set out below, the accounting policies have been applied consistently to all years presented.

(i) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014 and have no material impact on the Group:

- IFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted. See note 2.26 for further details.

Other standards amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

(ii) New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group.

2.5 Basis of consolidation

The consolidated financial statements include the financial statements of Andes Energia plc and its subsidiaries.

Subsidiaries are entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

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.

Andes Energia plc

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.6 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition 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. 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. Deferred consideration recognised as a liability at the acquisition date is subsequently measured at fair value with any changes recognised in the income statement. Deferred consideration recognised in shareholders' funds is not subsequently re-measured.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the fair value of the consideration 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.

Acquisition related costs are expensed as incurred.

2.7 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts recoverable for services provided and sales made 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.

Oil and gas production

Revenue from the sale of crude oil and gas is recognised when the risks and rewards of products passes out of the ownership of the Group to external customers and the revenue can be reliably measured.

Other operating income

Other operating income primarily arises from management services provided to third parties and is recognised at the time the service is provided.

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 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

No borrowing costs were capitalised during 2014. All borrowing costs are recognised in profit or loss in the period in which they are incurred.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

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 (refer to Note 16 for further details of the Groups Subsidiaries). 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, comparable with other oil and gas companies.

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 finance income and finance costs in the profit and loss for the period. Gains 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\$1.65 to £1 and AR\$8.1 to US\$1 and the closing rate used was US\$1.55 to £1 and AR\$8.54 to US\$1 (2013: average rate US\$1.56 to £1 and AR\$5.46 to US\$1 and closing rate US\$1.65 to £1 and AR\$6.49 to US\$1).

2.12 Employee benefits

The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation including provisions for salaries and holiday pay.

2.13 Taxation

Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.13 Taxation (continued)

Current and deferred tax (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Minimum notional income tax

The Company determines for Argentina's subsidiaries, the tax on notional presumed income by applying the current rate of 1% on the Company's taxable assets at year-end. The tax on notional presumed income and the income tax complement each other. The Company's tax obligation for each year will be equal to the higher of these taxes. However, should the tax on notional presumed income exceed income tax in any given fiscal year, such excess may be computed as a payment on account of any excess of income tax over the tax on minimum presumed income that may arise in any of the ten subsequent fiscal years.

The Company recognized the tax on notional presumed income earned in previous years as a credit, considering that it will offset future taxable income.

2.14 Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement and the grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity financial statements.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.15 Intangible assets

Goodwill

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 and evaluation assets

The Group applies the successful efforts method of accounting for exploration and evaluation costs, having regard to the requirements of IFRS 6, "Exploration for and Evaluation of Mineral Resources". The successful efforts method means that only costs which relate directly to the discovery and development of specific oil and gas reserves are capitalised.

Pre-licence costs are expensed in the year in which they are incurred.

Exploration and evaluation costs may include: license acquisition, geological and geophysical studies (for example seismic), direct labour costs and the drilling costs of exploratory wells. All licence acquisition, exploration and evaluation costs are initially capitalised by well, field or exploration area, as appropriate. Directly attributable expenditure, is capitalised in so far as it relates to specific exploration and evaluation activities. Upon completion of the evaluation phase, the projects are either transferred to PP&E or charged to expense (exploration costs) in the period in which the determination is made depending on whether reserves are found or not.

2.16 Property, plant and equipment

Property, plant and equipment are stated at historical cost less subsequent depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the items, including provisions for asset retirement obligations.

Development and production assets

When exploration and evaluation activities on a field are substantially complete and proved reserves are determined, the capitalised exploration and evaluation costs are transferred from intangible assets to property, plant and equipment and are depreciated over the expected economic life of the field.

All field development costs are considered construction in progress until they are finished and capitalised within oil and gas properties and are subject to depreciation once complete. Such costs may include the acquisition and installation of production facilities, development drilling costs (including dry holes, service wells and seismic surveys for development purposes), project-related engineering and the acquisition costs of rights and concessions related to approved properties.

Workovers of wells made to develop reserves and/or increase production are capitalised as development costs. Maintenance costs are charged to income when incurred.

Capitalised costs of proved oil and gas properties and production facilities and machinery are depreciated on a licensed area by licensed area basis, using the unit of production method, based on commercial proved and probable reserves. The calculation of the "unit of production" depreciation takes into account estimated future find and development costs and is based on current year end price levels. Changes in reserves and cost estimates are recognised prospectively.

Andes Energia plc

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.16 Property, plant and equipment (continued)

Depreciation of the remaining property, plant and equipment assets not directly associated with oil and gas activities has been calculated by means of the straight line method by applying such annual rates as required to write-off their value at the end of their estimated useful lives, as follows:

Buildings	30 to 50 years
Machinery and equipment	up to 25 years
Other assets - Vehicles, furniture and fixtures	2 to 9 years

Land is not depreciated.

Depreciation is allocated in the consolidated income statement as production or administrative expenses, based on the nature of the associated asset.

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

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 (see impairment of assets, note 2.17).

2.17 Impairment of assets

Assets that are subject to amortisation or depreciation 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.

Oil and gas

Exploration, development and production assets are reviewed regularly for indications of impairment and costs are written off where circumstances indicate that the carrying value may not be recoverable. If any such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment.

2.18 Financial assets

Classification of Financial Assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

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NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.18 Financial assets (continued)

(c) 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 it within 12 months of the end of the reporting period.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the 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 for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets 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.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other operating (expense)/income' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'other operating (expense)/income'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.18 Financial assets (continued)

Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred in (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the separate consolidated income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the separate consolidated income statement.

2.19 Inventories

The Group's stocks of crude oil resulting from drilling operations are carried at the lower of cost and net realisable value.

Raw materials and consumables are measured at the lower of cost and net realisable value. Cost is determined using the weighted average cost formula method.

2.20 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.

Andes Energia plc

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.20 Trade receivables (continued)

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

2.21 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. Restricted cash includes cash used as security for guarantees provided under certain licences.

2.22 Trade payables

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

2.23 Financial liabilities

Bank loans and other borrowings are initially recognised at net proceeds of issue and subsequently measured at amortised cost.

2.24 Financial leases

Financial leases have been treated as financial purchases and stated at present value at the initial transaction date plus accrued interest at the year end.

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.

2.26 Jointly controlled operations

The company has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor.

The Company has assessed the nature of each of its joint arrangements and determined them to be joint operations on the basis that the Group has rights to the assets and obligations of the arrangement. The Company accounts for its share in the joint operations individual assets, liabilities, results and cash flows on a line-by-line basis with similar items in its financial statements based on the financial statements of the joint operation or in the case of joint operations in the formalisation process, the joint operation operator's financial returns.

At the date of these the financial statements, the legal proceedings necessary to create the formal structure under which the operation in the "Chachahuen" block will be governed (known in Argentina as a "UTE") have not been completed. Consequently, since there are no financial statements issued for that UTE, financial information obtained from YPF (the operator of the joint operation) was used in order to account the group's share in the joint operations individual assets, liabilities, results and cash flows.

Andes Energia plc

NOTES TO THE FINANCIAL STATEMENTS

3. REVENUE

Revenues from continuing operations relate primarily to the sale of oil produced.

4. SEGMENT REPORTING

IFRS 8 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. In the opinion of the Board, the operations of Andes, following the demerger in 2012, now comprise one class of business, oil and gas exploration, development and production and the sale of hydrocarbons and related activities. An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses and whose results are regularly reviewed by the Board. The Board considers and reviews operating segments by reference to geographic location. Whilst the Group now holds interests in licences in Argentina, Colombia, Brazil and Paraguay, during the year under review the only reportable geographic segment was Argentina and the results and the assets of the other segments (including unallocated items) are immaterial.

5. AUDIT AND NON-AUDIT FEES

	31-Dec-14 US\$'000	31-Dec-13 US\$'000
Analysis of auditors' remuneration is as follows:		
Audit of the consolidated financial statements	99	88
Audit of the subsidiaries	148	105
Total audit fees	247	193
 Tax advisory services	 4	 3
Total non-audit fees	4	3

Andes Energia plc

NOTES TO THE FINANCIAL STATEMENTS

6. STAFF COSTS AND DIRECTORS' EMOLUMENTS

a) Staff costs

The average monthly number of persons including executive directors was:

	31-Dec-14 No.	31-Dec-13 No.
Selling	7	6
Technical	21	15
Administration	27	26
	<u>55</u>	<u>47</u>

Staff costs for the above persons were:

	31-Dec-14 US\$'000	31-Dec-13 US\$'000
Wages and salaries	2,987	2,804
Social security costs	573	499
Share based payments	447	408
	<u>4,007</u>	<u>3,711</u>

b) Directors' emoluments

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

	31-Dec-14 US\$'000	31-Dec-13 US\$'000
Aggregate emoluments	<u>832</u>	<u>1,148</u>
	<u>832</u>	<u>1,148</u>
Emoluments of the highest paid director	<u>279</u>	<u>458</u>

Andes Energia plc

NOTES TO THE FINANCIAL STATEMENTS

6. STAFF COSTS AND DIRECTORS' EMOLUMENTS (continued)

b) Directors' emoluments (continued)

The AIM rules require the disclosure of details of directors' remuneration earned in respect of the financial year by each director of the AIM company acting in such capacity during the financial year. The information below provides this information. In compliance with the AIM rules it provides information relating solely to fees received and accrued for services provided to the Company during the year, as opposed to the Group:

	Fees	Bonuses	Emoluments	Emoluments
	2014	2014	2014	2013
	US\$'000	US\$'000	US\$'000	US\$'000
Nicolas Mallo Huergo	21	-	21	20
Alejandro Jotayan	-	90	90	271
Nigel Duxbury	182	79	261	141
David Jackson	8	-	8	8
Javier Alvarez	21	-	21	20
Rudolph Berends (resigned 21 August 2013)	-	-	-	115
Leandro Carbone (resigned 16 April 2013)	-	-	-	52
Total	232	169	401	627

All directors' service contracts are terminable on 3 months notice. Details of warrants granted to and held by directors during the year are detailed in note 25.

7. FINANCE INCOME

	31-Dec-14	31-Dec-13
	US\$'000	US\$'000
Interest receivable and similar income	3,783	6,188
	<u>3,783</u>	<u>6,188</u>

8. FINANCE COSTS

	31-Dec-14	31-Dec-13
	US\$'000	US\$'000
Interest costs	13,397	8,561
	<u>13,397</u>	<u>8,561</u>

9. EXCEPTIONAL ITEMS

In 2014, there was no exceptional item. In 2013, as a result of the acquisition of CHPPC Andes S.R.L (formerly MGM International S.R.L.) the Group recognised an exceptional gain of US\$6.2 million arising from the difference between the consideration paid and the fair value of the net assets acquired. More detail can be found in note 32c).

Andes Energia plc

NOTES TO THE FINANCIAL STATEMENTS

10. TAXATION

	31-Dec-14 US\$'000	31-Dec-13 US\$'000
Current tax	(3,635)	(1,172)
Deferred taxation	623	838
Tax charge	<u>(3,012)</u>	<u>(334)</u>
Loss on ordinary activities before tax	(7,907)	(94)
Tax credit on loss at standard rate of 35%	2,768	33
Effects of:		
Items not deductible for tax purposes	(132)	(1,132)
Effect of items not taxable	375	2,278
Temporary timing differences	(210)	-
Recovery of deferred tax position	1,316	179
Tax losses for which no deferred tax asset is recognised	<u>(7,129)</u>	<u>(1,692)</u>
Current tax charge	<u>(3,012)</u>	<u>(334)</u>

It should be noted that under Argentine tax law group relief, allowing taxable profits to be offset against taxable losses of companies with the same group, are not available.

The tax rate used for the 2014 and 2013 reconciliations above is the corporate tax rate of 35% payable by corporate entities in Argentina on taxable profits under tax law in that jurisdiction. There is no tax arising on any items within the consolidated statement of comprehensive income.

The Group is liable to pay a minimum notional income tax at the applicable tax rate (1%) for Argentina's subsidiaries, 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 carried forward as a partial payment of income tax for any of the ten following fiscal years.

Andes Energia plc

NOTES TO THE FINANCIAL STATEMENTS

11. LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss for the year attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. The basic and diluted loss per share are the same as there are no instruments that have a dilutive effect on earnings. Adjusted basic and diluted loss per share are presented after adjustment of exceptional items.

	31-Dec-14 Cents	31-Dec-13 Cents
Basic and diluted loss per share	(2.11)	(0.10)
Adjusted basic and diluted loss per share	(2.11)	(1.58)
	US\$'000	US\$'000
Loss for the financial year attributable to equity holders	(10,919)	(428)
Exceptional items	-	(6,211)
Tax on exceptional items	-	-
Adjusted loss for the financial year attributable to equity holders	(10,919)	(6,639)
	No,'000	No,'000
Weighted average number of shares	516,786	419,224
Effect of dilutive warrants	-	-
Diluted weighted average number of shares	516,786	419,224
	No,'000	No,'000
Potential number of dilutive shares (see note 25)	38,656	34,728

The warrants are deemed to be non-dilutive for the purposes of this calculation.

12. LOSS 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 income statement in these financial statements. The Company's loss for the year amounted to US\$9.8 million (2013: US\$4.0 million loss).

Andes Energia plc

NOTES TO THE FINANCIAL STATEMENTS

13. INTANGIBLE ASSETS

GROUP	Goodwill	Exploration and evaluation assets	Total
	US\$'000	US\$'000	US\$'000
Cost			
At 1 January 2013	27,845	123,751	151,596
Additions	-	1,625	1,625
Acquisitions	26,420	137,700	164,120
Foreign exchange movements	(12,445)	(60,267)	(72,712)
At 31 December 2013	41,820	202,809	244,629
Additions	-	1,785	1,785
Foreign exchange movements	(10,019)	(48,677)	(58,696)
At 31 December 2014	31,801	155,917	187,718
Accumulated amortisation and impairment			
At 1 January 2013	-	(32,803)	(32,803)
Charge for the year	-	(55)	(55)
Foreign exchange movements	-	8,060	8,060
At 31 December 2013	-	(24,798)	(24,798)
Impairment provision	-	(3,796)	(3,796)
Charge for the year	-	(165)	(165)
Foreign exchange movements	-	6,145	6,145
At 31 December 2014	-	(22,614)	(22,614)
Net Book Value			
At 31 December 2014	31,801	133,303	165,104
At 31 December 2013	41,820	178,011	219,831
Goodwill			

Goodwill of US\$6.7 million arose on the acquisition of Kilwer S.A. and US\$19.8 million on the acquisition of Ketsal S.A. More detail is provided in note 32.

Exploration

At the year end the Company holds interests in 46 licences at different stages of development. It holds 26 licences in Argentina, 11 licences in Colombia, 7 licences in Brazil and 2 licences in Paraguay. Six of the 46 licences are currently in production. The impairment provision of US\$3.8 million relates to certain areas in Argentina in which the Group does not intend to carry out further exploration activities.

Andes Energia plc

NOTES TO THE FINANCIAL STATEMENTS

14. PROPERTY, PLANT AND EQUIPMENT

GROUP	Buildings and land	Machinery and equipment	Development and production assets	Work in progress and other assets	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cost					
At 1 January 2013	660	438	48,156	197	49,451
Acquisitions	-	56	29,200	-	29,256
Additions	200	223	1,281	124	1,828
Foreign exchange movements	(194)	(226)	(17,488)	(66)	(17,974)
At 31 December 2013	666	491	61,149	255	62,561
Transfers	-	89	-	(89)	-
Additions	153	2,489	15,592	-	18,234
Foreign exchange movements	(167)	(333)	(14,775)	(54)	(15,329)
At 31 December 2014	652	2,736	61,966	112	65,466
Accumulated depreciation					
At 1 January 2013	(53)	(216)	(467)	(42)	(778)
Charge for the year	(228)	(101)	(1,121)	(15)	(1,465)
Foreign exchange movements	49	140	294	11	494
At 31 December 2013	(232)	(177)	(1,294)	(46)	(1,749)
Charge for the year	(49)	(88)	(2,946)	(4)	(3,087)
Foreign exchange movements	58	130	358	9	555
At 31 December 2014	(223)	(135)	(3,882)	(41)	(4,281)
Net Book Value					
At 31 December 2014	429	2,601	58,084	71	61,185
At 31 December 2013	434	314	59,855	209	60,812

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NOTES TO THE FINANCIAL STATEMENTS

15. AVAILABLE FOR SALE FINANCIAL ASSETS

	The Group		The Company	
	31-Dec-14	31-Dec-13	31-Dec-14	31-Dec-13
	US\$'000	US\$'000	US\$'000	US\$'000
Non-current assets				
Time deposits	1,544	1,634	-	-
Other investments	102	-	-	-
	<u>1,646</u>	<u>1,634</u>	<u>-</u>	<u>-</u>
Current assets				
Unlisted equity securities	2,587	3,667	636	612
Other investments	57	13	-	-
	<u>2,644</u>	<u>3,680</u>	<u>636</u>	<u>612</u>

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 - other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3 - techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Time deposits – Level 1

Time deposits represent a non current fixed term deposit, in US\$ currency with a carried interest of 1.9%.

Unlisted equity securities – Level 3

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. During 2013 the Group recognised an impairment of US\$1.6 million in the carrying value of its interest in its demerged utility operation that was acquired as part of the Ketsal acquisition.

Other investments – Level 3

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

16. INVESTMENTS IN SUBSIDIARIES

	31-Dec-14	31-Dec-13
	US\$'000	US\$'000
Non-current assets		
As at 1 January	296,811	147,035
Additions	2,447	135,132
Transfer	(2,946)	-
Foreign exchange movements	(17,755)	14,644
As at 31 December	<u>278,557</u>	<u>296,811</u>

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16. INVESTMENTS IN SUBSIDIARIES (continued)

At 31 December 2014 the Company had the following principal 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. All the interests are held partly directly and partly indirectly through intermediate subsidiaries, which are wholly owned.

	Country of incorporation	Area of operation	Ownership Interest %	Activity
Andes Energia Argentina S.A.	Argentina	Argentina/ Colombia/Brazil	100	Holding
MSO Andes Energia Argentina S.A.	Argentina	Argentina	100	Services
Andes Oil S.A.	Argentina	Argentina	100	Oil and gas
Andes Oil and Gas S.A.	Argentina	Argentina	100	Oil and gas
Grecoil y Cia. S.A.	Argentina	Argentina	100	Oil and gas
AEN Netherlands Cooperatief U.A.	Netherlands	Netherlands	100	Holding
AEN Energy Mendoza S.A.	Argentina	Argentina	100	Holding
AEN Energy Argentina S.A.	Argentina	Argentina	100	Holding
Patagonia Oil & Gas S.A.	Argentina	Argentina	100	Oil and gas
Andes Hidrocarburos Investments S.A.	Argentina	Argentina and Paraguay	100	Oil and gas
Kilwer S.A.	Argentina	Argentina and Paraguay	100	Oil and gas
Ketsal S.A.	Argentina	Argentina	100	Oil and gas
CHPPC Andes S.R.L (formerly MGM International S.R.L.)	Argentina	Argentina	100	Oil and gas

17. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	31-Dec-14 US\$'000	31-Dec-13 US\$'000	31-Dec-14 US\$'000	31-Dec-13 US\$'000
Non-current				
Other taxes and social security	1,560	1,827	-	-
Other receivables	9,032	8,897	-	-
	10,592	10,724	-	-
Current				
Trade receivables	5,753	4,132	1,910	1,586
Less: provision for impairment	(18)	(9)	-	-
	5,735	4,123	1,910	1,586
Prepayments and accrued income	34	41	34	41
Loans to subsidiaries	-	-	21,964	8,337
Other taxes and social security	2,154	3,610	-	-
Other receivables	4,416	4,377	1,337	1,269
	12,339	12,151	25,245	11,233

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NOTES TO THE FINANCIAL STATEMENTS

17. TRADE AND OTHER RECEIVABLES (continued)

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	
	31-Dec-14	31-Dec-13	31-Dec-14	31-Dec-13
	US\$'000	US\$'000	US\$'000	US\$'000
Provision for impairment of trade receivables				
As at 1 January	9	-	-	-
Impairment losses recognised on receivables	-	10	-	-
Foreign exchange movements	(3)	(1)	-	-
Additions	12	-	-	-
As at 31 December	18	9	-	-

As at 31 December 2014, US\$0.02 million receivables were impaired (2013: US\$0.01 million). As at 31 December 2014 trade receivables of US\$1.9 million were past due but not impaired (2013: US\$1.6 million). The ageing analysis of these trade receivables is as follows:

	The Group		The Company	
	31-Dec-14	31-Dec-13	31-Dec-14	31-Dec-13
	US\$'000	US\$'000	US\$'000	US\$'000
Ageing of past due but not impaired				
Up to 3 months past due	-	-	-	-
3 to 6 months past due	-	-	-	-
Over 6 months past due	1,910	1,586	1,910	1,586
	1,910	1,586	1,910	1,586

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NOTES TO THE FINANCIAL STATEMENTS

18. DEFERRED TAX

GROUP	Notional income tax US\$'000	Provision charges US\$'000	Other US\$'000	Carry forward losses US\$'000	Total US\$'000
Deferred tax asset					
At 1 January 2013	106	5	31	13	155
Adjustment in respect of prior periods	(76)	-	-	(11)	(87)
Arising on acquisition	-	-	-	938	938
Credited to the income statement	1	60	23	754	838
Foreign exchange movement	(14)	(11)	(11)	(318)	(354)
At 31 December 2013	17	54	43	1,376	1,490
Credited to the income statement	-	318	52	(1,076)	(706)
Foreign exchange movement	(4)	(29)	(13)	(274)	(320)
At 31 December 2014	13	343	82	26	464

	Acquisitions US\$'000	Total US\$'000
Deferred tax liability		
At 1 January 2013	33,724	33,724
Arising on acquisition	51,987	51,987
Foreign exchange movement	(19,306)	(19,306)
At 31 December 2013	66,405	66,405
Deferred consideration reserve	(1,637)	(1,637)
Recovery of deferred tax profit credited to income statement	(1,329)	(1,329)
Foreign exchange movement	(15,825)	(15,825)
At 31 December 2014	47,614	47,614

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

During the year the Company issued shares to satisfy deferred consideration that became due as a result of production targets being met in relation to the acquisition of MGM International S.R.L. (see note 32c)), which resulted in the reverse of US\$1.6 million of the deferred tax liability recognised at the time of the acquisition.

The Group did not recognise deferred income tax assets of US\$3.1 million (2013: US\$3.5 million) in respect of losses amounting to US\$8.8million (2013: US\$9.9 million) that can be carried forward against future taxable income. Losses amounting to US\$0.02 million will expire between 2018 and 2019.

The Company did not recognise deferred income tax assets of US\$6.3 million (2013: US\$2.9 million) in respect of tax losses amounting to US\$18million (2013: US\$8.2 million) as there is insufficient evidence that the potential asset will be recovered.

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NOTES TO THE FINANCIAL STATEMENTS

19. INVENTORIES

	31-Dec-14 US\$'000	31-Dec-13 US\$'000
Crude oil	618	540
	<u>618</u>	<u>540</u>

No inventory was written off in the period.

20. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	31-Dec-14 US\$'000	31-Dec-13 US\$'000	31-Dec-14 US\$'000	31-Dec-13 US\$'000
Cash at bank and in hand	4,700	4,617	4,513	4,468
	<u>4,700</u>	<u>4,617</u>	<u>4,513</u>	<u>4,468</u>
Restricted cash at bank and in hand	5,944	3,561	5,944	3,561
	<u>5,944</u>	<u>3,561</u>	<u>5,944</u>	<u>3,561</u>
Total cash and cash equivalents	10,644	8,178	10,457	8,029

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

US\$ 5.9 million (2013: US\$3.6 million) of restricted cash is a security for stand by letter of credit and overdraft facilities provided by the Company's bank. The bank has a charge over this amount.

21. TRADE AND OTHER PAYABLES

	The Group		The Company	
	31-Dec-14 US\$'000	31-Dec-13 US\$'000	31-Dec-14 US\$'000	31-Dec-13 US\$'000
Current				
Trade payables	10,525	10,164	744	649
Social security and other taxes	8,161	4,581	-	-
Accrued expenses	275	-	-	-
Other payables	1,387	2,691	488	728
	<u>20,348</u>	<u>17,436</u>	<u>1,232</u>	<u>1,377</u>
Non-current				
Trade payables	2,216	-	-	-
Social security and other taxes	2,285	3,632	46	49
Other payables	4,825	5,222	1,370	-
Loans from subsidiaries	-	-	21,909	20,717
	<u>9,326</u>	<u>8,854</u>	<u>23,325</u>	<u>20,766</u>
Total trade and other payables	29,674	26,290	24,557	22,143

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

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NOTES TO THE FINANCIAL STATEMENTS

22. FINANCIAL LIABILITIES

	The Group		The Company	
	31-Dec-14 US\$'000	31-Dec-13 US\$'000	31-Dec-14 US\$'000	31-Dec-13 US\$'000
Current				
Other borrowings	7,870	7,916	6,643	6,751
Financial leasing	-	20	-	-
Accrued financial interest	-	21	-	-
	<u>7,870</u>	<u>7,957</u>	<u>6,643</u>	<u>6,751</u>
	The Group		The Company	
	31-Dec-14 US\$'000	31-Dec-13 US\$'000	31-Dec-14 US\$'000	31-Dec-13 US\$'000
Non-current				
Other borrowings	49,659	45,510	42,311	37,923
Accrued financial interest	134	2,508	-	-
	<u>49,793</u>	<u>48,018</u>	<u>42,311</u>	<u>37,923</u>
Total financial liabilities	<u>57,663</u>	<u>55,975</u>	<u>48,954</u>	<u>44,674</u>

In 2014 other borrowings include a US\$11.8 million unsecured convertible loan that carries interest at a rate of 11% repayable in June 2018; a US\$30.5 million unsecured convertible loan that carries interest at a rate of 11% repayable in March 2023; a US\$0.2 million unsecured loan that carries interest at a rate of 10% repayable within 5 years from the date of drawdown; a US\$1.4million unsecured loan that carries interest at 10% repayable in April 2015; a US\$5 million unsecured loan that carries interest at 9.75% + LIBOR repayable in December 2015; and a US\$8.7 million AR\$ denominated loan that carries interest at a rate between 18% to 27% repayable within 3 years some portion of which is classified as current.

In 2013 other borrowings include a US\$10.6 million unsecured convertible loan that carries interest at a rate of 11% repayable in June 2018; a US\$27.3 million unsecured convertible loan that carries interest at a rate of 11% repayable in March 2023; a US\$6.5 million unsecured loan that carries interest at a rate of 9.75% with no fixed repayment date; a US\$0.2 million unsecured loan that carries interest at a rate of 10% repayable within 5 years from the date of drawdown; a US\$0.06 million loan with no interest and no fixed repayment terms; a US\$ 1.1 million Argentine Pesos denominated loan that carries interest at a rate of between 18% to 22% with no fixed repayment terms; a US\$2.6 million Argentine Pesos denominated loan that carries interest at a rate between 18% to 22% repayable within 3 years; and a US\$7.6 million loan that carries interest at a rate of 10% with no fixed repayment terms.

The maturity profile of financial liabilities based on gross undiscounted cash flows including interest to maturity is summarized below:

	The Group		The Company	
	31-Dec-14 US\$'000	31-Dec-13 US\$'000	31-Dec-14 US\$'000	31-Dec-13 US\$'000
Maturity profile				
Within 1 year	8,126	8,639	6,899	7,433
Between 1 and 5 years	24,147	19,990	17,374	17,374
After 5 years	74,743	76,794	74,510	71,794
	<u>107,016</u>	<u>105,423</u>	<u>98,783</u>	<u>96,601</u>
Interest payments	(49,353)	(49,448)	(49,829)	(51,927)
	<u>57,663</u>	<u>55,975</u>	<u>48,954</u>	<u>44,674</u>

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NOTES TO THE FINANCIAL STATEMENTS

23. PROVISIONS

	Asset retirement obligations US\$'000	Legal claims US\$'000	Total US\$'000
At 1 January 2013	145	-	145
Additional provisions	410	-	410
Foreign exchange movements	(101)	-	(101)
At 31 December 2013	454	-	454
Additional provisions	547	910	1,457
Foreign exchange movements	(137)	(47)	(184)
At 31 December 2014	864	863	1,727

The Group makes full provision for the future cost of decommissioning oil production facilities and pipelines on a discounted present value basis. The asset retirement obligations provision represents the estimated present value of the costs of abandonment at the end of the relevant licence periods. These provisions are based on current economic factors and current environmental requirements, which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions.

24. CALLED UP SHARE CAPITAL

	2014 Number of shares '000	2014 US\$'000	2013 Number of shares '000	2013 US\$'000
Allotted, called up and fully paid				
Ordinary shares of 10 pence	551,584	90,164	514,770	84,216

The issued share capital is reconciled as follows:

	2014 No.	2014 US\$'000	2013 No.	2013 US\$'000
Balance at beginning of year	514,770,468	84,216	198,958,991	34,814
Vendor consideration	14,766,666	2,310	172,991,456	27,061
Placing to directors and other parties	-	-	8,628,441	1,350
Debt conversion	22,009,417	3,632	134,191,580	20,991
Warrant exercise	37,000	6	-	-
Balance at end of year	551,583,551	90,164	514,770,468	84,216

All shares carry the same rights.

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NOTES TO THE FINANCIAL STATEMENTS

25. WARRANTS

The Group has constituted warrant instruments to create and issue warrants subscribing for ordinary shares as follows.

- a) Founder warrants – Warrants issued at the time of the 2007 reverse acquisition of Argentine and utility assets
- b) 2007 warrants – Warrants issued to management
- c) Acquisitions - Warrants granted as acquisition consideration
- d) 2012 and 2013 warrants – Warrants issued to management and advisers
- e) Other warrants

Details of warrants granted are detailed as follows:

Exercise period	Type	At start of year	Granted during year	Lapsed/ exercised during year	At end of year	Exercise price
		2014 No.	2014 No.	2014 No.	2014 No.	
July 2005 to July 2014	a)	1,179,500	-	(1,179,500)	-	54 pence
October 2008 to October 2014	b)	2,392,700	-	(2,392,700)	-	54 pence
June 2012 to September 2017	c)	1,011,000	-	-	1,011,000	45 pence
June 2012 to September 2017	c)	1,011,000	-	-	1,011,000	54 pence
June 2012 to September 2017	c)	2,696,000	-	-	2,696,000	70 pence
June 2012 to June 2019	d)	4,461,880	-	-	4,461,880	54 pence
July 2012 to July 2017	d)	1,500,000	-	-	1,500,000	54 pence
January 2013 to January 2018	c)	16,175,998	-	-	16,175,998	54 pence
November 2013 to November 2020	d)	2,000,000	-	-	2,000,000	40 pence
August 2013 to August 2020	e)	2,300,000	-	-	2,300,000	40 pence
December 2014 to December 2017	e)	-	7,500,000	-	7,500,000	40 pence
		<u>34,728,078</u>	<u>7,500,000</u>	<u>(3,572,200)</u>	<u>38,655,878</u>	

The weighted average remaining contractual life of the warrants is 2.8 years. All warrants, apart from the 7,961,880 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.

	2014 No.	2014 WAEP	2013 No.	2013 WAEP
Outstanding at 1 January	24,373,498	52.9 pence	22,073,498	55.5 pence
Granted during the year	7,500,000	43.0 pence	2,300,000	40.0 pence
Lapsed during the year	(1,142,500)	54.0 pence	-	-
Exercised during the period	<u>(37,000)</u>	-	<u>-</u>	-
Outstanding at 31 December	<u>30,693,998</u>		<u>24,373,498</u>	
Exercisable at 31 December	<u>28,393,998</u>		<u>22,073,498</u>	

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NOTES TO THE FINANCIAL STATEMENTS

25. WARRANTS (continued)

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.

	2014 No.	2014 WAEP	2013 No.	2013 WAEP
Outstanding at 1 January	10,354,580	54.0 pence	8,354,580	54.0 pence
Granted during the year	-	-	2,000,000	40.0 pence
Lapsed during the year	(2,392,700)	54.0 pence	-	-
Outstanding at 31 December	<u>7,961,880</u>		<u>10,354,580</u>	
Exercisable at 31 December	<u>7,961,880</u>		<u>8,354,480</u>	

The fair values of warrants, which fall under the scope of IFRS 2, were calculated using the Black-Scholes model. The estimated fair values of options, which fall under IFRS 2 and the inputs used in the model to calculate those fair values are as follows:

Date of grant	Number	Estimated fair value	Share price at date of agreement	Exercise price	Expected volatility percentage	Expected life years	Risk free rate percentage	Expected dividends percentage
June 2012	4,461,880	23 pence	45.25 pence	54 pence	53%	4.43	1.80%	0%
July 2012	1,500,000	14 pence	38.25 pence	54 pence	53%	2.55	1.80%	0%
November 2013	2,000,000	10 pence	22.50 pence	40 pence	53%	5.83	1.80%	0%

The Group recognised an expense of US\$447,170 related to equity settled share-based payment transactions during the year (2013: US\$407,944). Warrants granted to and held by directors during the year are detailed below:

	01-Jan-14 No.	Granted in the year No.	Lapsed/ exercised during the year No.	31-Dec-14 No.	Exercise price	Exercise dates
Nicolas Mallo Huergo	235,900	-	(235,900)	-	54 pence	2014
Nicolas Mallo Huergo	606,600	-	-	606,600	54 pence	2019
German Ranftl	235,900	-	(235,900)	-	54 pence	2014
German Ranftl	606,600	-	-	606,600	54 pence	2019
Juan Carlos Esteban	674,000	-	-	674,000	54 pence	2019
Nigel Duxbury	404,400	-	(404,400)	-	54 pence	2014
Nigel Duxbury	269,600	-	-	269,600	54 pence	2019
David Jackson	1,500,000	-	-	1,500,000	54 pence	2017
Carolina Landi	80,880	-	(80,880)	-	54 pence	2014
Carolina Landi	134,800	-	-	134,800	54 pence	2019
Senior Management	1,058,180	-	(1,058,180)	-	54 pence	2014
Senior Management	552,680	-	-	552,680	54 pence	2019
Alejandro Jotayan	2,000,000	-	-	2,000,000	40 pence	2020
	<u>8,359,540</u>	-	<u>(2,015,260)</u>	<u>6,344,280</u>		

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26. 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 considerations.

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.

Warrant reserve

The warrant reserve results from the valuation attributed to warrants granted.

Deferred consideration reserve

This reserve results from the deferred contingent considerations shares to be issued in relation to the acquisition of CHPPC Andes S.L.R. (formerly MGM International S.R.L.).

27. CAPITAL COMMITMENTS

Over the next 3 to 6 years, the Group has licence commitments to fulfil seismic acquisition programs and the drilling of exploration wells. The Group has farm-in agreements with third parties to fund these commitments on the majority of its licences and will look to secure further farm-in agreements or fund directly the commitments under the other licences from its operational cash flow.

In Argentina the Group has a carried interest in the exploration phase of the majority of its licences. Where the Group does not have a carried interest there are commitments to complete 2D and 3D seismic and 6 exploratory wells between 2017 and 2018.

In Colombia in respect of 8 of the licences there are commitments to complete 2D seismic and 8 exploratory wells by August 2016. The Group is looking, with its joint operations partner, for farm in partners to fund this exploratory phase. In respect of 3 of the licences there are commitments to reprocess seismic data and perform petro-physical studies by 2017.

As at the date of these financial statements the commitments in monetary terms is unknown.

The commitments on the licences in Brazil and Paraguay are still subject to regulatory formalisation.

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28. CASH GENERATED FROM OPERATIONS

Note	Group		The Company	
	31-Dec-14 US\$'000	31-Dec-13 US\$'000	31-Dec-14 US\$'000	31-Dec-13 US\$'000
Loss for the year before taxation	(7,907)	(94)	(9,777)	(3,999)
Exceptional items	-	(6,211)	-	-
Loss for the year before taxation and exceptional items	(7,907)	(6,305)	(9,777)	(3,999)
Adjustments from operating activities				
Depreciation and amortization	3,252	1,520	-	-
Exchange movements	434	(100)	1,008	(3,541)
Revaluation of investments	(64)	1,866	(64)	(33)
Increase in inventories	(218)	(300)	-	-
Increase in trade and other receivables	(4,022)	(8,336)	(1,493)	(221)
Increase in creditors and other payables	7,916	10,410	2,619	541
Decrease in intergroup loans	-	-	(1,235)	(1,793)
Finance costs	13,397	8,561	7,523	3,453
Finance income	(3,783)	(6,188)	(330)	(464)
Impairment provisions	3,796	-	-	-
Movement in provisions	1,392	(615)	-	-
Acquisition fees	-	2,510	-	2,510
Share based payments	447	408	447	408
Net cash generated from operating activities	14,640	3,431	(1,302)	(3,139)

29. FINANCIAL RISK MANAGEMENT

The directors have reviewed the consolidated financial statements and have concluded that there are no significant differences between the book values and the fair values of the assets and liabilities of the Group and Company as at 31 December 2014.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to maintain sufficient financial flexibility in order to undertake its investment plans, and to optimise the weighted average cost of capital and tax efficiency.

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NOTES TO THE FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT (continued)

Capital risk management (continued)

To maintain or adjust the optimum capital structure, the Group may put in place new debt facilities, issue new capital for cash, repay or restructure existing debt, amend its dividend policy, or undertake other such restructuring activities as appropriate.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group monitors capital on the basis of the net debt ratio, that is, the ratio of net debt to net debt plus equity. Net debt is calculated as gross debt, as shown in the balance sheet, less cash and cash equivalents and excludes finance lease liabilities.

	The Group	
	31-Dec-14	31-Dec-13
	US\$'000	US\$'000
Borrowings, excluding finance lease liabilities	57,663	55,955
Less: Cash and cash equivalents	(10,644)	(8,178)
Net debt	47,019	47,777
Equity	128,588	169,916
Net debt ratio	37%	28%

The directors consider a net debt ratio of 37 % to be within the acceptable range.

Financial risk management

The Group's financial instruments comprise cash and cash equivalents, trade receivables, non-current receivables, trade and other financial payables and borrowings. The Group does not speculate in financial instruments. The numerical disclosures in this note deal with financial assets and liabilities as defined in IFRS 7 "Financial Instruments: Disclosure".

The Group is exposed through its operations to a number of financial risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policy for managing these risks is set by the key management of the Group and all such risks are managed at a Group level within the organisation. The policies for these risks are described further below:

Derivatives, financial instruments and risk management

The Group does not use derivative instruments or financial instruments to manage its exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices. The Group does not enter into hedging positions in respect of its exposure to foreign currency risk.

Market risk

The Group is exposed to market risks. Market risks arise from open positions in (a) foreign currencies and (b) interest bearing liabilities and commodity risks, all of which are exposed to general and specific market movements. Management does not set limits on the value of risk that may be accepted. However, management is on alert for significant market movements and takes these movements into account in their future dealings.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated, for example, changes in interest rate and changes in foreign currency rates.

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NOTES TO THE FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT (continued)

Foreign currency risk management

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Argentine Economy is particularly sensitive to local political developments and events. Argentina's national election for president and vice president will take place in October 2015, and other relevant federal elections will also take place during 2015. Based on initial polls it is expected that the next national government will focus on controlling inflation, stability, competitiveness of the Argentine Peso, levels of consumption and foreign and domestic investment and financing.

The Group is mainly exposed to currency risks on certain bank deposits, debtors and creditors denominated in GBP and Peso.

The Group's exposure to foreign currency risk was as follows, based on US dollar equivalent carrying amounts at the reporting date:

	The Group	
	£'000	ARS'000
Trade and other receivables	2,117	11,711
Cash and cash equivalents	(125)	1,393
Trade and other payables	(795)	(46,304)
Net exposure	1,197	(33,200)

The following table presents sensitivities of profit and loss (after tax) and equity to changes in exchange rates applied at the end of the year relative to the functional currency of the Group, with all other variables held constant:

	31-Dec-14
	US\$'000
AR\$ strengthening by 20%	(778)
AR\$ weakening by 20%	778

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to cash flow interest rate risk is minimal since the Group has limited exposure to variable interest liabilities. The Group is exposed to fair value interest rate risk through its fixed rate borrowings.

The Group does not have formal policies and procedures in place for management of interest rate risks as management considers this risk as insignificant to the Group's business.

Market operational risks

The Group operates predominantly in Argentina. The nature of the Group's operations requires the commitment of significant funding through its investment in oil and gas operations and exploration and evaluation. It is the nature of oil and gas operations that each project is long-term. It may be many years before the exploration and oil and gas development properties held by the Group are proven to be viable and for progress to reach commercial production. To control these risks the Group has entered into a number of joint operations in which they hold a carried interest.

Market price risk

As an "unhedged oil producer" through its production, the Group is exposed to only market price risk. Given the restrictions imposed in Argentina, crude oil volumes can only be sold on the domestic market without any right to export at world market prices.

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NOTES TO THE FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT (continued)

Market price risk (continued)

The Group manages this risk with reference to annual budgets and periodic forecasts including sensitivity analyses of projected production rates and crude oil domestic prices, which are quoted in Argentine Peso. This risk will continue to be closely monitored by the Group in future periods.

Other price risk

The Group does not have any financial instruments which have a significant risk that their fair value or future cash flows will fluctuate materially because of changes in market prices other than those set out in this note.

Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk may arise as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets currently. One of the main customers is YPF, one of the largest players in the sector in Argentina. The Group has adopted a policy of only dealing with creditworthy counterparties to mitigate the risk of financial loss from default. It is the Group's policy to assess the credit risk of all new customers before entering into contracts and also, where possible, to trade only with established entities.

The credit risk on cash and cash equivalent balances is limited as the counterparties are banks with high credit ratings assigned by international ratings agencies.

The Group and Company's maximum exposure to credit risk by class of assets is as follows:

	The Group		The Company	
	31-Dec-14	31-Dec-13	31-Dec-14	31-Dec-13
	US\$'000	US\$'000	US\$'000	US\$'000
Financial assets				
Financial assets within trade and other receivables	22,896	22,834	25,245	11,233
Cash and cash equivalents	10,644	8,178	10,457	8,029
	33,540	31,012	35,702	19,262

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is monitored by the Group to ensure that it has sufficient resources to meet its financial obligations as they fall due.

The liquidity risk of the Group is managed by the Board. New borrowings are taken on where additional funds are required. The Group intends to maintain a balance of funding designed to reduce liquidity risks whilst also seeking to minimise the costs of borrowing. Where appropriate the board will seek additional funds from the issue of share capital, private or public placements.

The Group monitors its liquidity requirements through monthly management accounts and periodic cash flow forecasts.

The table below shows the Group and Company's financial liabilities at 31 December 2014 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows.

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NOTES TO THE FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT (continued)

Group	Less than 1 year US\$'000	From 1 year to 5 years US\$'000	More than 5 years US\$'000	Total future payments US\$'000
Borrowings	7,870	24,147	25,646	57,663
Other provisions	-	45	819	864
Creditors	12,187	7,041	-	19,228
	20,057	31,233	26,465	77,755

Company	Less than 1 year US\$'000	From 1 year to 5 years US\$'000	More than 5 years US\$'000	Total future payments US\$'000
Borrowings	6,643	17,374	24,937	48,954
Other provisions	-	-	-	0
Creditors	488	1,370	21,909	23,767
	7,131	18,744	46,846	72,721

The Group monitors capital on the basis of the net debt ratio, that is, the ratio of net debt to net debt plus equity. Net debt is calculated as gross debt, as shown in the balance sheet, less cash and cash equivalents and excludes finance lease liabilities.

30. RELATED PARTY TRANSACTIONS

Company

Amounts owed by and to its subsidiaries are disclosed in notes 17 and 21 respectively.

Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

Key Management Compensation

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

	The Group		The Company	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Short term employee benefits	832	1,306	433	644
Share based payments	286	261	286	261
	1,118	1,567	719	905

Emoluments of the highest paid director	279	458
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The directors do not receive any short term or long term benefits.

Andes Energia plc

NOTES TO THE FINANCIAL STATEMENTS

31. EBITDA

EBITDA is calculated as follows:

	31-Dec-14	31-Dec-13
	US\$'000	US\$'000
Loss for the period from continuing operations	(10,919)	(428)
Less: Exceptional items (see note 9)	-	(6,211)
Add: Depreciation and amortisation (see notes 13 and 14)	3,252	1,520
Add: Impairment write downs (see note 13)	3,796	-
Less: Finance income (see note 7)	(3,783)	(6,188)
Add: Finance costs (see note 8)	13,397	8,561
Add: Tax	3,012	334
EBITDA	8,755	(2,412)

32. ACQUISITIONS

a) Kilwer S.A. ("Kilwer")

On 11 March 2013 the Group acquired 100% of Kilwer. Kilwer is a private oil and gas company with exploration and development assets in Argentina. The combination of Kilwer's and Andes's assets is strategically very valuable; providing a participation in 10 new licences; increasing the Group's participation interest in an additional 10 licences; giving Andes operator status in other licences; and bringing additional production.

The consideration for the acquisition of Kilwer was satisfied by the issue of 60,676,666 ordinary shares (the "Issued Shares"), the issue of a US\$10,000,000 convertible bond (the "Convertible Bond") with a five year term and 11% coupon (principal and coupon bullet) and a US\$25,000,000 bond with a ten year term and 11% coupon (principal and coupon bullet). If the Company sells its interest in the Kilwer's shares the bond has priority over other debt.

Acquisition costs for the acquisitions of both Kilwer and Ketsal totalled US\$2.5 million and was recognised as an expense in the 2013 income statement.

The assets and liabilities acquired were measured at fair value at the date of acquisition.

The goodwill arose after the application of IAS 12 "Income taxes" and is attributable principally to expanding growth opportunities in Argentina.

b) Ketsal S.A. ("Ketsal")

On 11 April 2013 the Group acquired 100% of Ketsal. Ketsal is a private oil and gas company with exploration and development assets in Argentina. The combination of Ketsal's and Andes's assets is strategically very valuable further strengthening and increasing our position in 12 licences and bringing additional production.

Acquisition costs for the acquisitions of both Kilwer and Ketsal totalled US\$2.5 million and this has been recognised as an expense in the income statement as of 2013.

The consideration for the acquisition of Ketsal was satisfied by the issue of 82,781,457 ordinary shares (the "Issued Shares") and the issue of a US\$56,000,000 convertible bond (the "Convertible Bond") with a ten year term and 8% coupon (principal and coupon bullet).

The assets and liabilities acquired were measured at fair value at the date of acquisition.

The goodwill arose after the application of IAS 12 "Income taxes" and is attributable principally to expanding growth opportunities in Argentina.

Andes Energia plc

NOTES TO THE FINANCIAL STATEMENTS

32. ACQUISITIONS (continued)

c) CHPPC Andes S.L.R. ("CHPPC") (formerly MGM International S.R.L)

On 4 June 2013 the Group acquired 100% of CHPPC. CHPPC has an interest in two producing fields in the province of Mendoza. CHPPC was acquired from Mercuria Energy Asset Management B.V.. The acquisition of CHPPC increased the Group's reserves and significantly increased production.

The consideration for the acquisition was satisfied by the issue of 29,533,333 ordinary shares (the "Issued Shares") and contingent deferred consideration totalled a further 29.5 million shares, subject to certain production targets being met.

There were no material acquisition costs.

The assets and liabilities acquired were measured at fair value at the date of acquisition.

The acquisition resulted in an excess in Andes's interest in the net fair value of CHPPC's identifiable assets and liabilities over cost of US\$6,211,108, which has been recognised as an exceptional item in other operating income in the income statement in 2013.

During the year the Company issued shares to satisfy deferred consideration that became due as a result of production targets being met in relation to the acquisition of CHPPC, which resulted in the reverse of US\$1.6 million of the deferred tax liability recognised at the time of the acquisition.

33. EVENTS AFTER THE BALANCE SHEET

On 20 January 2015, the Group acquired a 51% interest in IOX. Andes acquired its interest through the participation in a private placement by InterOil of 330,000,000 shares at NOK0.11. The acquisition provides Andes with an interest in exploration and producing licences in Colombia and 5.7 million bbls of 2P reserves. The acquisition allows Andes to increase and diversify its production and reserve base. Andes believes its management and technical capabilities established in the region, combined with InterOil's existing operational base and personnel will contribute to accelerating the development of both companies' acreage in Colombia. At the date of these financial statements, the Group does not have sufficient information to perform a purchase price allocation required by IFRS 3 as the acquired group's financial statements have not yet been closed. Consequently, the initial accounting for the acquisition is not yet complete.

Andes Energia plc

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German Ranftl (CFO)
Juan Carlos Esteban (VP E&P)
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