Andes Energia plc

Annual Report and Financial Statements

For the Year Ended 31 December 2016

www.andesenergiaplc.com.ar

Stock Code: AIM: AEN; BCBA: AEN

Andes Energia plc ("Andes" or the "Company" and with its subsidiaries the "Group") is a Latin American oil and gas production, appraisal and exploration group, with interests in Argentina and Colombia.

The Group has interests in producing, development and exploration assets. The Group has 21 million bbls of conventional 2P reserves in Argentina and Colombia and certified prospective resources of 484 million boe. The Group's licences cover over 7.5 million acres across South America and has approximately 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 North America. Over 1,000 wells have already been drilled and fracked in the Vaca Muerta formation.

Our Highlights

Financial highlights

Year ended 31 December	2016 US$m	2015 US$m
Revenue	**67.8**	66.8
Operating profit	**(7.5)**	2.8
EBITDA (see note 33)	**14.6**	16.8
Net cash generated from operating activities	**25.1**	18.1

Operational highlights

- Average production rate of 3,449* boepd in 2016 (2015: 3,211* boepd) with the increase primarily arising from the Chachahuen conventional field
- A total of 98 wells (gross) were drilled in 2016: 70 producing wells; 16 injector wells; 12 exploratory wells including 1 stratigraphic well (heavy oil belt) (2015: 57 wells). 21 wells were converted to injection wells in the Chachahuen block, with an average production of 1,493 bpd net to Andes in 2016; an increase of 58% compared with the average of 945 pbd in 2015. At the end of March 2017, Chachahuen was producing 1,768 bpd net to Andes.
- Termination of activities in Paraguay without further obligations.
- 2016 average selling prices of US$59 and US$37 per barrel in Argentina and Colombia respectively (2015: US$71 and US$47 respectively).
- An oil discovery was made in the exploration well "Cerro Redondo x-1" encountering 6 metres of net oil pay in the sandstone of the Rayoso formation (cycle1).
- A second oil discovery was made in the exploration well "Cerro Morado Este x-1" encountering 7 metres of net oil pay in the sandstone of the Centenario formation.
- Oil prices in Argentina converging towards international prices.

Post year end highlights

- Two new credit facilities with Mercuria Energy Trading SA. The first, a US$20,000,000 facility to finance the drilling activities in Chachahuen and other working capital requirements. The second, a US$40,000,000 facility to finance other drilling activities of the Company, including activity in the Vaca Muerta, where the Company has 250,000 net acres.
- At the end of March 2017, current daily production: Argentina 2,518 bpd; Colombia 984* boepd; total 3,502* boepd.
- Current selling prices of approximately US$52 and US$50 per barrel in Argentina and Colombia respectively.
- Appointment of Anuj Sharma as Chief Executive Officer.
- Restructure of interest in Interoil and proposed changes to Interoil board and management as a result of which Andes will no longer be deemed to control Interoil and will no longer fully consolidate Interoil.

* Includes 100% of Interoil's net reserves and production in which Andes holds a 26% economic interest.

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Strategic Report

Overview

Andes Energia plc ("Andes" or the "Company" and with its subsidiaries the "Group") is a Latin American oil and gas production, appraisal and exploration group, with interests in Argentina and Colombia. Our audited financial results incorporating the results of Andes together with its subsidiaries and joint operations for the year ended 31 December 2016 are set out below.

Year ended 31 December	**2016**	2015
	US$m	US$m
Revenue	**67.8**	66.8
Operating (loss)/profit	**(7.5)**	2.8
EBITDA (see note 33)	**14.6**	16.8
Net cash generated from operating activities	**25.1**	18.1

The Group recorded EBITDA of US$14.6 million for the year 2016 (2015: US$16.8 million) and a net loss of US$26.3 million (2015: US$ 18.4 million loss).

BUSINESS REVIEW

Andes's portfolio includes:

- 43 licences
- Over 6.1 million net acres of licence area
- 21 million bbls of 2P net reserves in Argentina and Colombia
- 484 million boe of net contingent and prospective resource
- 2016 average production of approximately 3,449* boepd
- 250,000 net acres in Vaca Muerta

The Group has interests in producing, development and exploration assets. The Group has 21 million bbls of net conventional 2P reserves in Argentina and Colombia and net contingent and prospective resources of 484 million boe. The Group's licences cover over 6.1 million acres across South America and has approximately 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 North America. Over 1,000 wells have already been drilled and fracked in the Vaca Muerta formation. During March 2017, the Group produced ~3,502* boepd from 6 conventional fields in Argentina and 4 conventional fields in Colombia.

OPERATIONAL REVIEW

2016 highlights:

- Average production rate of 3,449* boepd in 2016 (2015: 3,211* boepd) with the increase primarily arising from the Chachahuen conventional field
- A total of 98 wells (gross) were drilled in 2016: 70 producing wells; 16 injector wells; 12 exploratory wells including 1 stratigraphic well (heavy oil belt) (2015: 57 wells). 21 wells were converted to injection wells in the Chachahuen block, with an average production of 1,493 bpd net to Andes in 2016; an increase of 58% compared with the average of 945 pbd in 2015. At the end of March 2017, Chachahuen was producing 1,768 bpd net to Andes.
- Termination of activities in Paraguay without further obligations.
- 2016 average selling prices of US$59 and US$37 per barrel in Argentina and Colombia respectively (2015: US$71 and US$47 respectively).
- An oil discovery was made in the exploration well "Cerro Redondo x-1" encountering 6 metres of net oil pay in the sandstone of the Rayoso formation (cycle1).
- A second oil discovery was made in the exploration well "Cerro Morado Este x-1" encountering 7 metres of net oil pay in the sandstone of the Centenario formation.
- Oil prices in Argentina converging towards international prices.

Post year end highlights:

- Two new credit facilities with Mercuria Energy Trading SA. The first, a US$20,000,000 facility to finance the drilling activities in Chachahuen and other working capital requirements. The second, a US$40,000,000 facility to finance other drilling activities of the Company, including activity in the Vaca Muerta, where the Company has 250,000 net acres.
- At the end of March 2017, current daily production: Argentina 2,518 bpd; Colombia 984* boepd; total 3,502* boepd.
- Current selling prices of approximately US$52 and US$50 per barrel in Argentina and Colombia respectively.
- Appointment of Anuj Sharma as Chief Executive Officer.
- Restructure of interest in Interoil and proposed changes to Interoil board and management as a result of which Andes will no longer be deemed to control Interoil and will no longer fully consolidate Interoil.

Andes has experienced strong performance from its conventional activities and is currently reviewing strategies, taking into account market conditions, to develop its position in the Vaca Muerta formation.

* Includes 100% of Interoil's net reserves and production in which Andes holds a 26% economic interest.

Argentina
Summary

Type	Province	Licences	2P reserves (MMbbls)	Resources (MMbbls)	Current production (bbls/day)
Conventional/unconventional exploration/development/production	Mendoza	7	16.1	214.8	2,518
Conventional exploration	Mendoza	4	N/A	–	–
Unconventional exploration/development	Neuquén	2	N/A	170.9	–
Conventional/unconventional exploration	Río Negro	1	N/A	32	–
Conventional/unconventional exploration	Chubut	7	N/A	16.7	–
Conventional exploration	Salta	3	N/A	50	–
Conventional exploration	Mendoza	6	N/A	–	–
Total		30	16.1	484.4	2,518

The following areas are in the process of being relinquished. In the Mendoza Province; Zampal Norte, Coiron I and II, Pampa del Sebo, San Rafael and Ñacuñan. In Chubut the Province: Rio Senguerr, Sierra Cuadrada, Buen Pasto, Pampa Salamanca Norte, Ñirihuau and 50% of Confluencia and San Bernardo.

Conventional production
Chachahuen Sur (Development block)
Development and Delineation Drilling

A total of 98 wells were drilled in 2016: 70 producing wells; 16 injector wells; 12 exploratory wells including 1 stratigraphic well (heavy oil belt). 21 producing wells were converted into injector wells.

A total of 86 wells are planned to be drilled in 2017: 55 producing wells, 26 injector wells and 5 appraisal wells. 19 producing wells are planned to be converted into injector wells.

Oil Production

As of December 2016, the field had 155 producing wells on stream producing approximately 7,629 bpd (1,526 bpd net to Andes).

In the majority of wells (89%) Progressing Cavity Pump ("PCP") artificial lift system was installed which is best suited to the conditions of the wells and has proved efficient in neighbouring oil fields.

As part of our ongoing development activities, the construction of new facilities commenced on schedule. These include the construction of: an oil treatment plant (60% complete); an oil pipeline connecting Desfiladero Bayo to the sales point at Puesto Hernandez and the installation of a Lease Automatic Custody Transfer used for measuring the volume and quality of the oil (90% complete).

The first stage of gathering associated gas to supply electricity generators was also commissioned, which will reduce operational costs.

Enhanced Oil Recovery – Water Flood Project

Under the ongoing water flood project during the year, 16 injector wells were drilled and 21 producing wells were converted into injector wells.

As of December 2016 the project reached an average rate of injection of approximately 10,000 bpd through a total of 47 water injection wells.

Exploratory Activities

A total of 12 exploratory wells were drilled during 2016, of which 1 was a stratigraphic well. Of the other wells drilled: 2 are still being drilled; 3 are awaiting completion; 2 are under evaluation; 2 discovered oil; and 2 were abandoned.

Strategic Report (continued)

Chachahuen Sur (Exploration block)

This exploration block covers an area of 478 km².

Cerro Redondo x-1

The well is situated approximately 4.3 km northeast of the discovery well "Chus x-2" on the "Chachahuen Sur" evaluation block with the primary target to analyse the sandstone of cycle 1 of the Rayoso formation into the combined structural/stratigraphic traps where the updip seal is the claystones of the Neuquén Group above an unconformity.

The well was drilled to a total depth of 1,810 metres. A complete stratigraphic column showed oil in the drilling process, and the shallow horizon encountered good quality reservoir sandstone with a net oil pay of 6 metres. The well was cased at a depth of 845 metres to test the Rayoso formation. After fracture stimulation the well produced, by natural flow, 135 bpd with a water cut of approximately 15%. A buildup test was performed to further evaluate the potential reservoir properties of cycle 1 of the Rayoso formation.

The well came on stream on 27 June 2016 and after an initial clean up period produced at a gross rate of 81 bopd. A sucker rod artificial lift system was installed and the well is currently producing 58 bopd.

Cerro Morado Este x-1

The well is located approximately 37 km southeast of the discovery well "Chus x-2", on the "Chachahuen Centro" block and was drilled to investigate a combined stratigraphic /structural trap with the primary target the lower Centenario formation.

The well was drilled to a total depth of 596 metres. Oil shows were seen in the upper Centenario formation. The shallow horizon encountered good quality reservoir sandstone with a net oil pay of 7 metres. After a swabbing test, it was then completed with an artificial lift system using a PCP.

During production testing the well produced at an average gross rate of 33 bpd, with an API of 18.6 and water cut of approximately 2.5%.

Chachahuen Norte (Exploration block)

A stratigraphic well "Chu.es-3" was drilled successfully to a total depth of 300 metres with the main objective to collect core samples from the Neuquén formation.

As the reservoir in this part of the basin is coarse grained unconsolidated sandstone, special procedures were adopted during coring, handling, shipping and storage of the samples.

As a result, 130 metres of core was successfully recovered and shipped to the laboratory for testing.

The core analysis showed a reservoir porosity of 25%; average permeability of 400 md; and a maximum net pay of 1.5 metres with a cut-off oil saturation of 50%.

The operator plans to complete Chu.es-3 by installing an electrical heater in the bottom of the hole to enable oil samples to be taken.

Puesto Pozo Cercado and Chañares Herrados blocks – Mendoza

Oil production decreased 8% from 777 bopd in 2015 to 713 bopd in 2016 (net to Andes).

Production was impacted by the failure of the electric submersible pump system in wells CH 1006 and CH 1023. The operator plans to carry out well interventions and change the artificial lift system.

Vega Grande block – Mendoza

During the year oil production remained stable at a rate of 53 bpd. Andes holds a 100% interest in the block.

Oil production was maintained at the same level by minimising oil production losses and the oilfield was kept operational during the winter season, despite the adverse weather conditions.

An overhaul of the existing facilities is being carried out including: the installation of a storage tank in the battery; an upgrade of the electrical system; and the repair of the heat treater. In addition, wells AMx-1 and TEx-1 have been abandoned.

La Brea (Puesto Muñoz) – Mendoza

Oil production showed a minor decrease of 5 bpd, falling from 58 bpd in 2015 to 53 bpd in 2016. Production was maintained at the same level through the application of acid stimulations in PMu.a-7 well. Andes holds a 100% working interest in the block.

El Manzano West (Agrio formation) – Mendoza

Oil production decreased 30%, falling from 40 bopd in 2015 to 28 bopd in 2016. Andes holds a 100% working interest in production from the Agrio Formation.

El Manzano West (Other formations) – Mendoza

In a joint venture with YPF, the licence's block operator, production decreased 32%, falling from 28 bopd in 2015 to 19 bpd in 2016 (net to Andes). Andes holds a 40% working interest in production from formations other than the Agrio formation, including Vaca Muerta.

Conventional production/unconventional exploration

Zampal Norte – Mendoza

The Zampal Norte exploration concession is located in the north of the Cuyana Basin and in the north of the Mendoza Province.

As part of the general strategy to de-risk our exploratory portfolio, we have agreed with YPF to move the commitments on this licence (carried by YPF) to the Chachahuen block and relinquish this licence. Approval is still pending.

Pampa del Sebo, Coiron I and Coiron II – Mendoza

Due to environmental constraints, the operator was not able to obtain the requisite permits required. The operator is now seeking to revert the licences.

Ñacuñan and San Rafael – Mendoza

An assessment performed by the operator considered these blocks to have a very low prospectivity and as part of our strategy to de-risk the exploration portfolio these licences are in the process of being relinquished.

Ñirihuau block – Chubut

Having completed the first exploratory period and fulfilled the work commitments, management has decided to relinquish this area.

Colombia

Andes has interests in 9 exploration licences and through its 26% indirect interest in Interoil Exploration & Production ASA ("Interoil"), 2 further exploration licences and 2 producing licences (Altair and Puli C). During the year two of Andes's exploration licences were relinquished due to low prospectivity (YDND 2 and YDND 8).

At 31 December 2016, Andes held a 26% indirect controlling interest in Interoil, which operates exploration and producing oil and gas licences in the Middle Magdalena Valley and Llanos basins and has more than 30 years operating experience in Colombia. Interoil has net 2P reserves of 4.6 million boe.

In 2016 the average net production before royalties from Puli C and Altair was 1,091 boepd compared to 1,333 boepd in 2015. The average production decreased during 2016 as a result of system pressure restrictions and the low level of new investment due to the deferral of new projects under current market conditions.

Puli field

The structure in Puli C is complex and the technical team has been working on a new static model that will be the base for a dynamic model. The dynamic model will better explain the behaviour of the main producing reservoirs in the structure.

Simultaneously, an enhanced maintenance program, including new pumps and paraffin cutting, in order to diminish the deferred production due to the malfunction in the subsurface and surface equipment, has been implemented and the results obtained, were very positive.

Workovers campaign

A new workover program is planned once the new static and dynamic modelling work is completed.

Strategic Report (continued)

Exploration licences

Andes is currently conducting geological studies, petrophysical interpretation and reprocessing of existing seismic data on its exploration licences in Colombia. In the YDND-5, YDND-8 and YDLLA-2 blocks, soil gas samples were collected during the dry season as part of our licence commitments.

In the blocks LLA-2, LLA-28 and LLA-79 the Agencia Nacional de Hidrocarburos ("ANH"), approved the change of our commitments from seismic acquisition to geochemical sampling. This activity will be performed during the dry season in 2017.

Andes has also presented to the ANH a proposal to replace the existing seismic activities commitments in LLA-12 and LLA-49 with geochemical survey works. A decision from the ANH is still pending.

At Interoil, an agreement to transfer the US$22 million assigned exploration commitments on COR-6 to Altair and LLA-47 was agreed with the ANH and confirmed by the Attorney General's office, subject to Court approval. The obligations include high density geochemical sampling of 10,000 surface points to be taken on Altair and 20,000 on LLA-47, both to be completed by March 2017, in addition to drilling 1 stratigraphic well on the Altair licence and 2 exploratory wells on the Altair licence; all wells to be completed by April 2018. However, the Court did not ratify the agreement and the Company filed a motion for reconsideration, which was rejected by the Court.

In December 2016, Interoil secured an agreement with SLS Energy ("SLS"), pursuant to which SLS will assume responsibility for 90% of the capex for the Turaco well in Altair and 60% of the capex for 3 wells in LLA-47. The consideration will be respectively 85% of the net operating income after taxes from the Altair well and 36% once the cost of the investment has been recovered, and 43% of the net operating income after taxes from the wells in LLA-47, and 22% once the cost of the investment has been recovered.

Paraguay

Based on an analysis of the data collected and as part of our strategy to prioritise low risk projects at a time of low international oil prices, Andes management has decided to relinquish the area, after having completed phase 1 of its exploratory commitments.

TRADING PERFORMANCE

Revenue from operations increased from US$66.8 million in 2015 to US$67.8 million in 2016. Average production has increased from 3,211* boepd in 2015 to 3,449* boepd in 2016. Exploration and development activities continue and the Group expects to see the benefit of these programs in future years.

FINANCIAL PERFORMANCE

Revenue has increased to US$67.8 million compared with US$66.8 million in 2015. The loss before tax amounted to US$28.4 million compared with a loss before tax of US$12.4 million in 2015. Gross profit margin fell from 32% to 25% primarily due to increased depreciation charges and increased transportation costs.

EBITDA has decreased to US$14.6million (2015: US$16.8 million).

The Group's total assets fell from US$265.3 million at the end of 2015 to US$236.8 million at the end of 2016, in part due to the impact of the devaluation of the Argentine Peso in 2016. The devaluation of the Argentine Peso and Pounds Sterling resulted in US$12.6 million of translation differences being recognised in the comprehensive loss for the year (2015: US$56.9 million) primarily relating to intangible assets and PP&E, which are carried in the functional currency of AR$, and does not reflect an impairment in the carrying value of these assets.

Net current liabilities were US$23.5 million at the year end compared to US$0.8 million at the end of 2015.

At year end, the Group had cash and restricted cash resources of US$21.7 million compared to US$27.3 million at the end of 2015. Andes management believes the current cash position together with the free cash flow generated from existing activities and credit facilities available to it, will be sufficient to meet its ongoing working capital requirements and investment commitments. The directors will not be recommending the payment of a dividend.

EARNINGS PER SHARE

Basic and diluted loss per share was 3.76 cents in 2016 compared to 2.68 cents in 2015.

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´s activity that is influenced by production levels and oil prices. Revenue increased by US$1 million to US$67.8 million in 2016.

Price:

The average price of oil sales in Argentina in 2016 was US$59 per barrel compared to US$71 per barrel in 2015.

The average price of oil sales in Colombia in 2016 was US$37 per barrel compared to US$47 per barrel in 2015.

Domestic oil prices in Argentina are converging towards international price levels.

*Includes 100% of Interoil's net reserves and production in which Andes holds a 26% economic interest.

Production:
Production is measured in barrels of oil per day and average production increased from 3,211* boepd in 2015 to 3,449* boepd in 2016, which has primarily resulted from increased production in Chachahuen.

Resources and Reserves
The Group has 21 million bbls of net 2P reserves in Argentina (16.1 million bbls) and Colombia (4.6 million boe) and net contingent and prospective resources of 485 million boe.

Work programs:
A total of 98 wells were drilled in 2016: 70 producing wells; 16 injector wells; 12 exploratory wells including 1 stratigraphic well (heavy oil belt). 21 producing wells were converted into injector wells.

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.

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.

The individual financial statements of each Group subsidiary are maintained in the currency of the primary economic environment in which it operates (its functional currency) with the results and financial position of each Group subsidiary expressed in US Dollars, which is the presentation currency for the consolidated financial statements. Movements in exchange rates could adversely impact translation differences recognised in other comprehensive income.

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. The Group is exposed to a wide range of significant health, safety, security and environmental risks including technical failure, natural disasters and other adverse conditions where it operates, 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 insurance cover is 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 linked to the Argentine oil price and Brent and WTI in Colombia. The Group takes a conservative view of future oil prices when reviewing capital projects.

Economical and political – legislation and business practices regarding local governmental regulation, foreign currency transactions and taxation are constantly evolving in 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.

Licences – In Interoil, a subsidiary, an agreement to transfer the US$22 million assigned exploration commitments on COR-6 to Altair and LLA-47 was agreed with the ANH and confirmed by the Attorney General's office in Colombia, subject to Court approval. The obligations include high density geochemical sampling of 10,000 surface points to be taken on Altair and 20,000 on LLA-47 in addition to drilling 1 stratigraphic well and 2 exploratory wells on the Altair licence; all wells to be completed by April 2018. However, the Court did not ratify the agreement and the Company filed a motion for reconsideration, which was rejected by the Court.

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE
On 29 March 2017, the Company entered into two new credit facilities with Mercuria Energy Trading S.A. The first, a US$20,000,000 facility to finance the drilling activities in Chachahuen (the Company´s producing field in partnership with YPF) and other working capital requirements. The second, a US$40,000,000 facility to finance other drilling activities of the Company, including activity in Vaca Muerta, where the Company has 250,000 net acres.

* Includes 100% of Interoil's net reserves and production in which Andes holds a 26% economic interest.

Strategic Report (continued)

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE (continued)

In respect of Interoil's licences, Interoil elected to combine the phase 1 and 2 commitments under the LLA-47 licence agreement, which was approved by the ANH. Interoil now has a commitment to drill 10 wells before 10 February 2020 and expects to have completed the drilling of the first three wells in May 2017. Interoil also elected to combine the phase 1 and 2 commitments under the Altair licence agreement, which was also approved by the ANH. On Altair, Interoil now has a commitment to drill 2 wells before January 2019.

In March 2017, the ANH sent a letter inviting Interoil to pay US$22 million pursuant to the ANH's claim for damages for breach of the COR-6 licence contract. This is not a mandatory payment order and the company has responded to the ANH reiterating its position and its continuing willingness to formalise the agreement reached with the ANH to transfer the COR-6 licence commitments to the Altair and LLA-47 licences. The company is still optimistic that a mutually agreeable solution can be reached with the ANH and will continue to pursue all legal alternatives.

In March 2017, Interoil announced that drilling operations had begun in Altair. The well was drilled to a total depth of 6,800 feet and tested for oil in the upper section of C7 formation. The testing will continue to determine the size of the oil accumulation for its commercial evaluation for production and further development. The rig was then moved to LLA-47 for the drilling program planned in this licence.

At the end of March, the Company announced that Alejandro Jotayan had stepped down from the board and his position as Chief Executive Officer with Anuj Sharma appointed as non board level Chief Executive Officer and with Nicolas Mallo Huergo assuming the role of Executive Chairman on an interim basis.

In May, the Company announced a restructure of its holding in Andes Interoil Limited ("AIL"), which holds a 51% interest in Interoil. The Company has a 51% interest in AIL and Canacol Energy Ltd the remaining 49%. Further to an agreement with Canacol, Canacol transferred all its shares in AIL to the Company in exchange for the Company transferring to Canacol 16,172,052 shares in Interoil currently held through AIL. Following these transactions, the Company's economic interest in Interoil will remain unchanged at 26% of the total share capital and votes of Interoil held through its wholly owned subsidiary AIL. Furthermore, following proposed changes to the composition of the board and senior management of Interoil, it has been determined that, subject to these changes being implemented, the Company will no longer be deemed to control Interoil. Therefore Interoil will no longer be fully consolidated and going forward Andes's 26% share of the results and net assets of Interoil will be equity accounted, in the consolidated results of the Group. See note 34.

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

OUTLOOK

Operationally, 2017 has started well, with Group production in March 2017 currently at 2,518 bpd in Argentina and 984* boepd in Colombia; a total of 3,502 boepd.

Andes, with its partner YPF, the state Argentine oil company, has 86 new wells planned in 2017, 5 appraisal wells, 55 production wells and 26 injector wells. Additionally, 19 reconversions are expected to be performed. Out of the 86 planned wells, 30 wells have been drilled since the beginning of 2017. The wells will be funded primarily by field production cash flow and available credit facilities.

For Andes's licences in Colombia, an aggresive exploration campaign of geochemical surveys are being conducted as part of the committed investment activities with the ANH. In Interoil, a drilling campaign of 1 exploration well on the Altair licence and between 2 and 4 exploration wells on the LLA-47 licence is currently ongoing.

Approved by the board of directors and signed on behalf of the board

Nicolas Mallo Huergo
Executive Chairman
25 May 2017

* Includes 100% of Interoil's net reserves and production in which Andes holds a 26% economic interest.

Directors' Report

The directors present their report for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

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

NAMES, QUALIFICATIONS AND EXPERIENCE OF DIRECTORS

The directors of the Company who were in office during the year and up to the date of signing the financial statements 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 Masters in Law (LLM) with honours at Northwestern University School of Law, Chicago, U.S.A.

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 practised as a lawyer at the firm Laporta-Lopez & Partners. Carolina is currently the legal representative for the Patagonia Petroleo UTE.

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.

Sir Michael Rake (Non-Executive Director) (appointed 19 September 2016)

Sir Michael is Chairman of BT Group plc as well as Chairman of payments processing firm Worldpay Group plc, a director of S&P Global and Chairman of Majid Al Futtaim Holdings LLC. He was President of the CBI from 2013 to 2015; a member of the Prime Minister's Business Advisory Group from 2010 to 2015; non-executive director of Barclays plc from 2008, becoming Deputy Chairman from 2012 to 2015; Chairman of the private equity oversight group the Guidelines Monitoring Committee from 2008 to 2013; Chairman of easyJet plc from 2010 to 2013; the first Chairman of the UK Commission for Employment and Skills from 2007 to 2010. He was a director of the Financial Reporting Council from 2008 to 2011. Sir Michael was International Chairman of KPMG. Prior to his appointment as International Chairman he was Chairman of KPMG in Europe and Senior Partner of KPMG in the UK. Sir Michael was knighted in 2007. In 2011 he received the British American Business UK Transatlantic Business Award in recognition of outstanding business leadership.

Directors' Report (continued)

NAMES, QUALIFICATIONS AND EXPERIENCE OF DIRECTORS (continued)

Alejandro Jotayan resigned from the board on 30 March 2017 and was replaced as non board level Chief Executive Officer by Anuj Sharma.

The Company had 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$26.3 million (2015: loss US$18.4 million).

The directors do not recommend the payment of a dividend (2015: US$ nil).

FINANCIAL RISK MANAGEMENT

The Company's exposure to financial risk is set out in note 31 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 and Colombia.

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 and Group having access to existing cash balances at the date of this report, future cash generation from subsidiary operations and available credit facilities, the directors 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 of accounting in preparing the financial statements.

DISCLOSURE OF INFORMATION TO THE AUDITORS

Each Director in office at the date of approval of this report has confirmed that:

- so far as that director is aware there was no relevant audit information of which the Company's auditors are 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 are 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.

DIRECTORS' INDEMNITIES

As permitted by the Articles of Association, the directors have the benefit of an indemnity, which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its directors.

FUTURE DEVELOPMENT

Andes has made significant progress during the year strengthening our portfolio and increasing production. The focus in 2017 is to continue to develop our work programs; to move forward with the Chachahuen development with YPF and further develop our plans for the 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 29 March 2017, the Company entered into two new credit facilities with Mercuria Energy Trading S.A.. The first, a US$20,000,000 facility to finance the drilling activities in Chachahuen (the Company´s producing field in partnership with YPF) and other working capital requirements. The second, a US$40,000,000 facility to finance other drilling activities of the Company, including activity in Vaca Muerta, where the Company has 250,000 net acres.

In respect of Interoil's licences, the company elected to combine the phase 1 and 2 commitments under the LLA-47 licence agreement, which was approved by the ANH. Interoil now has a commitment to drill 10 wells before 10 February 2020 and expects to have completed the drilling of the first three wells in May 2017. Interoil also elected to combine the phase 1 and 2 commitments under the Altair licence agreement, which was also approved by the ANH. On Altair, Interoil now has a commitment to drill 2 wells before January 2019.

In March 2017, the ANH sent a letter inviting Interoil to pay US$22 million pursuant to the ANH's claim for damages for breach of the COR-6 licence contract. This is not a mandatory payment order and the company has responded to the ANH reiterating its position and its continuing willingness to formalise the agreement reached with the ANH to transfer the COR-6 licence commitments to the Altair and LLA-47 licences. The company is still optimistic that a mutually agreeable solution can be reached with the ANH and will continue to pursue all legal alternatives.

In March 2017, Interoil announced that drilling operations has begun in Altair. The well was drilled to a total depth of 6,800 feet and tested for oil in the upper section of C7 formation. The testing will continue to determine the size of the oil accumulation for its commercial evaluation for production and further

development. The rig was then moved to LLA-47 for the drilling program planned in this licence.

At the end of March, the Company announced that Alejandro Jotayan had stepped down from the board and his position as Chief Executive Officer with Anuj Sharma appointed as non board level Chief Executive Officer and with Nicolas Mallo Huergo assuming the role of Executive Chairman on an interim basis.

In May, the Company announced a restructure of its holding in Andes Interoil Limited ("AIL"), which holds a 51% interest in Interoil. The Company has a 51% interest in AIL and Canacol Energy Ltd the remaining 49%. Further to an agreement with Canacol, Canacol transferred all its shares in AIL to the Company in exchange for the Company transferring to Canacol 16,172,052 shares in Interoil currently held through AIL. Following these transactions, the Company's economic interest in Interoil will remain unchanged at 26% of the total share capital and votes of Interoil held through its wholly owned subsidiary AIL. Furthermore, following proposed changes to the composition of the board and senior management of Interoil, it has been determined that, subject to these changes being implemented, the Company will no longer be deemed to control Interoil. Therefore Interoil will no longer be fully consolidated and going forward Andes's 26% share of the results and net assets of Interoil will be equity accounted, in the consolidated results of the Group.

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
25 May 2017

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 on average meets monthly to consider aspects of the Group's activities. The board consists of the Chairman, Chief Financial Officer and the VP of Exploration & Production and six 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

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 the 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.

Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Group and the company and of the profit or loss of the Group for that period.

In preparing these 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 Group´s and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and Company 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 (www.andesenergiaplc.com). 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 Energia plc

Report on the Financial Statements

Our opinion

In our opinion:

- Andes Energia Plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2016 and of the Group's loss and the Group's and the 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 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

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Consolidated statement of financial position and Company statement of financial position as at 31 December 2016;
- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Consolidated statement of changes in equity and Company statement of changes in equity for the year then ended;
- the Consolidated cash flow statement and Company cash flow statement 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 IFRSs as adopted by the European Union, and applicable law and, as regards the 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, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group, the company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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 17, 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 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 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

25 May 2017

Consolidated Income Statement

For the Year Ended 31 December 2016

	Note	**2016 US$'000**	2015 US$'000
Revenue	3	**67,768**	66,815
Production cost		**(50,945)**	(45,705)
Gross profit		**16,823**	21,110
Exploration costs		**(2,317)**	(577)
Other operating income		**1,491**	4,010
Impairment charge	12/13	**(7,065)**	–
Distribution costs		**(3,471)**	(4,657)
Administrative expenses	30	**(12,961)**	(17,049)
Operating (loss)/profit		**(7,500)**	2,837
Finance income	7	**6,887**	9,343
Finance costs	8	**(27,803)**	(24,627)
Loss before taxation		**(28,416)**	(12,447)
Taxation	9	**2,140**	(5,938)
Loss for the year		**(26,276)**	(18,385)
Loss attributable to:			
Equity holders of the parent		**(22,766)**	(15,226)
Non-controlling interests		**(3,510)**	(3,159)
		(26,276)	(18,385)
Loss per ordinary share		**Cents**	Cents
Basic and diluted loss per share	10	**(3.76)**	(2.68)

The notes on pages 24 to 59 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2016

	2016 **US$'000**	2015 US$'000
Loss for the year	**(26,276)**	(18,385)
Translation differences	**(12,567)**	(56,869)
Total comprehensive loss for the year	**(38,843)**	(75,254)
Total comprehensive loss attributable to:		
Equity holders of the parent	**(35,333)**	(72,095)
Non-controlling interests	**(3,510)**	(3,159)
	(38,843)	(75,254)

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

The notes on pages 24 to 59 are an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	**2016 US$'000**	2015 US$'000
Non-current assets			
Intangible assets	12	**94,829**	109,258
Property, plant and equipment	13	**82,474**	94,145
Available for sale financial assets	14	**5,655**	5,599
Trade and other receivables	17	**8,945**	10,039
Deferred income tax assets	18	**3,072**	1,547
Total non-current assets		**194,975**	220,588
Current assets			
Inventories	19	**945**	1,954
Available for sale financial assets	14	**2,316**	1,414
Trade and other receivables	17	**16,837**	14,088
Restricted cash	20	**9,070**	9,593
Cash at bank and in hand	20	**12,630**	17,702
Total current assets		**41,798**	44,751
Current liabilities			
Trade and other payables	21	**37,757**	22,644
Financial liabilities	22	**27,157**	22,259
Provisions	23	**409**	691
Total current liabilities		**65,323**	45,594
Non-current liabilities			
Trade and other payables	21	**16,092**	18,169
Financial liabilities	22	**78,840**	76,767
Deferred income tax liabilities	18	**27,782**	38,005
Provisions	23	**4,076**	3,596
Total non-current liabilities		**126,790**	136,537
Net assets		**44,660**	83,208
Capital and reserves			
Called up share capital	24	**98,414**	98,414
Share premium account		**86,865**	86,865
Other reserves	26	**(138,990)**	(126,423)
Retained earnings		**(786)**	21,685
Equity attributable to equity holders of the parent		**45,503**	80,541
Non-controlling interests	29	**(843)**	2,667
Total equity		**44,660**	83,208

The notes on pages 24 to 59 are an integral part of these financial statements.

The financial statements on pages 16 to 59 were approved by the board of directors and authorised for issue on 25 May 2017 and were signed on its behalf by:

German Ranftl, Director

Company No. 5083946

Company Statement of Financial Position

As at 31 December 2016

	Note	**2016 US$'000**	2015 US$'000
Non-current assets			
Investments in subsidiaries	15	**234,134**	275,898
Total non-current assets		**234,134**	275,898
Current assets			
Available for sale financial assets	14	**110**	114
Trade and other receivables	17	**26,925**	27,229
Restricted cash	20	**5,442**	5,458
Cash at bank and in hand	20	**1,438**	6,218
Total current assets		**33,915**	39,019
Non-current liabilities			
Trade and other payables	21	**23,270**	18,529
Financial liabilities	22	**40,704**	36,102
Total non-current liabilities		**63,974**	54,631
Current liabilities			
Trade and other payables	21	**1,420**	1,281
Financial liabilities	22	**10,064**	12,781
Total current liabilities		**11,484**	14,062
Net assets		**192,591**	246,224
Capital and reserves			
Called up share capital	24	**98,414**	98,414
Share premium account		**86,865**	86,865
Other reserves	26	**(17,813)**	22,506
Retained earnings		**25,125**	38,439
Total equity		**192,591**	246,224

The notes on pages 24 to 59 are an integral part of these financial statements.

The financial statements on pages 16 to 59 were approved by the board of directors and authorised for issue on 25 May 2017 and were signed on its behalf by:

German Ranftl, Director

Company No. 5083946

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2016

	Called up capital	Share premium	Retained earnings	Other Reserves	Equity attributable to equity holders of the parent	Non controlling interests	Total equity
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2015	90,164	73,248	34,700	(69,554)	128,558	–	128,558
Loss for the year	–	–	(15,226)	–	(15,226)	(3,159)	(18,385)
Translation differences	–	–	–	(56,869)	(56,869)	–	(56,869)
Total comprehensive loss for the year	–	–	(15,226)	(56,869)	(72,095)	(3,159)	(75,254)
Issue of ordinary shares	8,250	13,617	–	–	21,867	–	21,867
Fair value of share based payments	–	–	332	–	332	–	332
Acquisition of subsidiary	–	–	–	–	–	4,653	4,653
Reduction of interest in subsidiary	–	–	1,879	–	1,879	1,173	3,052
At 31 December 2015	98,414	86,865	21,685	(126,423)	80,541	2,667	83,208
Loss for the year	–	–	(22,766)	–	(22,766)	(3,510)	(26,276)
Translation differences	–	–	–	(12,567)	(12,567)	–	(12,567)
Total comprehensive loss for the year	–	–	(22.766)	(12,567)	(35,333)	(3,510)	(38,843)
Fair value of share based payments	–	–	295	–	295	–	295
At 31 December 2016	98,414	86,865	(786)	(138,990)	45,503	(843)	44,660

Other reserves	Merger reserve US$'000	Warrant reserve US$'000	Translation reserve US$'000	Deferred consideration reserve US$'000	Total other reserves US$'000
At 1 January 2015	55,487	2,105	(133,172)	6,026	(69,554)
Translation differences	–	–	(56,869)	–	(56,869)
Total comprehensive loss for the year	–	–	(56,869)	–	(56,869)
At 31 December 2015	55,487	2,105	(190,041)	6,026	(126,423)
Translation differences	–	–	(12,567)	–	(12,567)
Total comprehensive loss for the year	–	–	(12,567)	–	(12,567)
At 31 December 2016	55,487	2,105	(202,608)	6,026	(138,990)

The notes on pages 24 to 59 are an integral part of these financial statements.

Company Statement of Changes in Equity

For the Year Ended 31 December 2016

Capital and reserves	Called up share capital US$'000	Share premium account US$'000	Retained earnings US$'000	Other reserves US$'000	Total equity US$'000
At 1 January 2015	90,164	73,248	44,034	33,939	241,385
Loss for the year	–	–	(6,741)	–	(6,741)
Translation differences	–	–	–	(11,433)	(11,433)
Total comprehensive loss for the year	–	–	(6,741)	(11,433)	(18,174)
Issue of ordinary shares	8,250	13,617	–	–	21,867
Fair value of share based payments (see note 25)	–	–	332	–	332
Reduction of interest in subsidiary	–	–	814	–	814
At 31 December 2015	98,414	86,865	38,439	22,506	246,224
Loss for the year	–	–	(13,609)	–	(13,609)
Translation differences	–	–	–	(40,319)	(40,319)
Total comprehensive loss for the year	–	–	(13,609)	(40,319)	(53,928)
Fair value of share based payments (see note 25)	–	–	295	–	295
At 31 December 2016	98,414	86,865	25,125	(17,813)	192,591

Other reserves	Merger reserve US$'000	Warrant reserve US$'000	Translation reserve US$'000	Deferred consideration reserve US$'000	Total other reserves US$'000
At 1 January 2015	55,487	2,105	(28,126)	4,473	33,939
Translation differences	–	–	(11,433)	–	(11,433)
Total comprehensive loss for the year	–	–	(11,433)	–	(11,433)
At 31 December 2015	55,487	2,105	(39,559)	4,473	22,506
Translation differences	–	–	(40,319)	–	(40,319)
Total comprehensive loss for the year	–	–	(40,319)	–	(40,319)
At 31 December 2016	55,487	2,105	(79,878)	4,473	(17,813)

The notes on pages 24 to 59 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the Year Ended 31 December 2016

	Note	**2016 US$'000**	2015 US$'000
Cash generated from operations	28	**25,761**	18,751
Tax paid		**(705)**	(643)
Net cash flows generated from operating activities		**25,056**	18,108
Cash flows from investing activities			
Purchase of property, plant and equipment	13	**(20,374)**	(24,418)
Proceeds from sale of property, plant and equipment		**–**	17
Proceeds from sale of interest in subsidiary		**–**	814
Purchase of exploration assets	12	**(7,739)**	(2,233)
Purchase of financial assets		**(1,178)**	(6,402)
Acquisition of subsidiary net of cash acquired		**–**	12,018
Proceeds from sale of investments in group companies		**–**	3,128
Net cash used in investing activities		**(29,291)**	(17,076)
Cash flows from financing activities			
Repayments of borrowings		**(18,967)**	(1,794)
Funds from borrowings		**21,013**	6,107
Interest paid		**(1,673)**	(837)
Interest received		**204**	392
Proceeds from issue of shares	24	**–**	12,315
Net cash generated from financing activities		**577**	16,183
Exchange losses on cash and cash equivalents		**(1,937)**	(564)
Net (decrease)/increase in cash and cash equivalents		**(5,595)**	16,651
Cash and cash equivalents at the beginning of the year		**27,295**	10,644
Cash and cash equivalents at the end of the year	20	**21,700**	27,295

The notes on pages 24 to 59 are an integral part of these financial statements.

Company Cash Flow Statement

For the Year Ended 31 December 2016

	Note	**2016 US$'000**	2015 US$'000
Cash generated from/(used in) operations	28	**6**	(2,001)
Cash generated from/(used in) operating activities		**6**	(2,001)
Cash flows from investing activities			
Purchase of intangible assets		**(119)**	(115)
Proceeds from sale of financial assets		**–**	17
Proceeds from sale of interest in subsidiary		**–**	814
Purchase of investments		**(16)**	–
Purchase of investments in group companies		**–**	(12,454)
Proceeds from sale of investments in group companies		**–**	3,128
Net cash used in investing activities		**(135)**	(8,610)
Cash flows from financing activities			
Investment in subsidiaries		**(157)**	(4,956)
Repayment of borrowings		**(10,476)**	–
Funds from borrowings		**8,715**	5,000
Interest paid		**(1,084)**	–
Interest received		**9**	–
Proceeds from issue of shares	24	**–**	12,315
Net cash (used in)/generated from financing activities		**(2,993)**	12,359
Net (decrease)/increase in cash and cash equivalents		**(3,122)**	1,748
Cash and cash equivalents at the beginning of the year		**11,676**	10,457
Exchange losses on cash and cash equivalents		**(1,674)**	(529)
Cash and cash equivalents at the end of the year	20	**6,880**	11,676

The notes on pages 24 to 59 are an integral part of these financial statements.

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 Registered Office address is Berkeley Square House, 2nd Floor, Berkeley Square, London W1J 6BD. 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 have net current liabilities as at the year end, due to the Company and Group having access to existing cash balances at the date of this report, future cash generation from subsidiary operations and available credit facilities, the directors 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 of accounting in preparing the financial statements.

The cash held in Group bank accounts at the balance sheet date was US$21.7 million including US$9.1 million of restricted cash (2015: US$27.3 million including US$9.6 million of restricted cash)

2.2 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") applicable to companies reporting under IFRS and the Companies Act 2006. The financial statements comply with IFRS as adopted by the European Union ("IFRSs as adopted by the EU").

The consolidated financial statements are presented in thousands (US$'000) of US Dollars and all values are rounded to the nearest thousand (US$'000), except in the footnotes and where otherwise indicated.

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; these policies have been consistently applied to all years presented, unless otherwise stated.

2.3 Critical accounting estimates and judgements

The preparation of the financial statements in conformity with generally accepted accounting practice requires 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.

Licences

The Group holds interests in 43 exploration or exploitation licences: 30 in Argentina and 13 in Colombia. In Argentina, the Group has applied to revert 1 licence and, with its joint venture partner YPF, to revert 10 of these licences and 50% of 2 licences.

In Interoil, an agreement to transfer the US$22 million assigned exploration commitments on COR-6 to Altair and LLA-47 was agreed with the ANH and confirmed by the Attorney General's office, subject to Court approval. The obligations include high density geochemical sampling of 10,000 surface points to be taken on Altair and 20,000 on LLA-47 in addition to drilling 1 stratigraphic well on the Altair licence and 2 exploratory wells on the Altair licence; all wells to be completed by April 2018. However, the Court did not ratify the agreement and the Company filed a motion for reconsideration, which was rejected by the Court. In March 2017, the ANH sent a letter inviting Interoil to pay US$22 million pursuant to the ANH's claim for damages for breach of the COR-6 licence contract. This is not a mandatory payment order and the company has responded to the ANH reiterating its position and its continuing willingness to formalise the agreement reached with the ANH to transfer the COR-6 licence commitments to the Altair and LLA-47 licences. The company is still optimistic that a mutually agreeable solution can be reached with the ANH and will continue to pursue all legal alternatives.

2. ACCOUNTING POLICIES (continued)

2.3 Critical accounting estimates and judgements (continued)

Licences (continued)

An impairment provision of 100% is recognised in case of areas in which the Group does not intend to carry out further exploration activities.

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 12.

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, (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 and (iii) areas in which the company is not planning to carry out further exploration activities. Note 12 discloses the carrying amounts of the Group's E&E and note 13 the PP&E.

Asset retirement obligations

The Group has a liability 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 developed and undeveloped reserves and incorporating the estimated future capital expenditure to be incurred in relation to producing the undeveloped reserves. Future capital expenditure is estimated using assumptions as to the numbers of wells required to produce those undeveloped reserves, the cost of the wells and future production facilities.

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 as a 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.

Notes to the Financial Statements (continued)

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.

Consolidation of Interoil

On 20 January 2015, the Company acquired a 51% interest in Interoil Exploration and Production ASA ("IOX"), through its subsidiary Andes Interoil Ltd. Subsequent to the acquisition, on 16 November 2015 Canacol Energy Ltd agreed to acquire 49% of the share capital of Andes Interoil Ltd ("AIL"), which holds the Group's 51% interest in Interoil for $3.1 million. The Company retains control of Interoil with a 26% indirect interest through its control of AIL and representation on the board and in senior management of IOX.

2.4 Adoption of new and revised International Financial Reporting Standards

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

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases

Management is still evaluating the potential impact of these new pronouncements on the Group's financial statements.

2.5 Basis of consolidation

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

(i) Subsidiaries

Subsidiaries are 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.

(ii) Joint arrangements

Under IFRS 11 *Joint Arrangements* investments in joint ventures are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has assessed the nature of each of its joint arrangements and determined them to be joint operations. The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings. Further details are set out in note 16.

(iii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Andes Energia Plc.

2. ACCOUNTING POLICIES (continued)

2.6 Business combinations

The acquisition method of accounting is used to account for the business combinations of the Group. 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 costs and income

Interest expense and interest income are 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 2016.

2.10 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 Argentine companies is the Argentine Peso, in the case of the Colombian companies is US Dollars and in the case of the Company is Pounds Sterling (refer to note 15 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.

Notes to the Financial Statements (continued)

2. ACCOUNTING POLICIES (continued)

2.10 Foreign currency (continued)

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising are included in 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$1.36 to £1 and AR$14.76 to US$1 and the closing rate used was US$1.23 to £1 and AR$15.9 to US$1 (2015: average rate US$1.53 to £1 and AR$9.24 to US$1 and closing rate US$1.48 to £1 and AR$13.1 to US$1).

2.11 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.

2.12 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 substantially 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.

In accordance with IAS 12, where an entity's tax return is prepared in a currency other than its functional currency, changes in the exchange rate between the two currencies generate temporary differences with the respect to the valuation of non-monetary assets and liabilities, which are recognised in the income statement.

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.

2. ACCOUNTING POLICIES (continued)

2.12 Taxation (continued)

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

2.13 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 (continued)

2. ACCOUNTING POLICIES (continued)

2.14 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 accounts for exploration and evaluation activities in accordance with IFRS 6 Exploration for and Evaluation of Mineral Resources, capitalising all exploration and evaluation costs until such time as the economic viability of producing the underlying resources is determined. The Group applies a criteria that approximates to the successful efforts method of accounting for exploration and evaluation costs. The criteria means that costs which relate to the discovery and development of specific oil and gas reserves are ultimately capitalised.

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

Exploration and evaluation costs may include: licence 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 (after being tested for impairment) or charged to expense (exploration costs) in the period in which the determination is made depending on whether reserves are found or not.

2.15 Property, plant and equipment and other intangible assets

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.

Oil and gas 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 (after being tested for impairment) 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 profit and loss when incurred.

Capitalised costs of proved oil and gas properties and production facilities and machinery are depreciated on a licenced area by licenced area basis, using the unit of production method, based on commercial proved developed and undeveloped reserves. The calculation of the "unit of production" depreciation takes into account estimated future capital expenditure to produce the undeveloped reserves.

2. ACCOUNTING POLICIES (continued)

2.15 Property, plant and equipment and other intangible assets (continued)

Other assets

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 non-financial assets, note 2.16).

2.16 Impairment of non-financial assets

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 cash-generating units ("CGUs") to which goodwill has been allocated. The value in use calculation includes estimates about the future financial performance of the CGUs, 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 12.

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, (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 and (iii) areas in which the company is not planning to carry out further exploration activities. Note 12 discloses the carrying amounts of the Group's E&E and note 13 the PP&E.

2.17 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 'financial liabilities' in the balance sheet.

Notes to the Financial Statements (continued)

2. ACCOUNTING POLICIES (continued)

2.17 Financial assets (continued)

Classification of 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.

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.

2. ACCOUNTING POLICIES (continued)

2.17 Financial assets (continued)

Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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, 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 to 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.

2.18 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.

2.19 Trade and other receivables

Trade and other 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.

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.

2.20 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.

Notes to the Financial Statements (continued)

2. ACCOUNTING POLICIES (continued)

2.21 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of the business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.22 Financial liabilities

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

2.23 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.

2.24 Provisions

Provisions for asset retirement obligations and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

The Group records the fair value of the liability for asset retirement obligations in the period in which the wells are drilled. When the liability is initially recorded, the Group capitalises the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability accretes to its present value at each reporting period and the capitalised cost is depreciated over the estimated useful life of the related asset. According to interpretations and application of current legislation and on the basis of the changes in technology and the variations in the costs of restoration necessary to protect the environment, the Group has considered it appropriate to periodically re-evaluate future costs of well-capping. The effects of this recalculation are included in the financial statements in the period in which this recalculation is determined and reflected as an adjustment to the provision and the corresponding property, plant and equipment asset.

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. 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. The Group's reportable geographic segments were Colombia and Argentina. The board monitors performance of the business by analysing the revenue and EBITDA of each segment.

The following is an analysis of the Group's revenue, results and EBITDA by operating segment:

	2016				2015			
Analysis of revenue and profit:	**Argentina US$'000**	**Colombia US$'000**	**Unallocated Corporate US$'000**	**Total US$'000**	Argentina US$'000	Colombia US$'000	Unallocated Corporate US$'000	Total US$'000
Revenue	**52,685**	**15,083**	**–**	**67,768**	49,052	17,763	–	66,815
Operating profit/(loss)	**(3,737)**	**(1,541)**	**(2,222)**	**(7,500)**	3,528	3,120	(3,811)	2,837
Finance income	**3,176**	**1,417**	**2,294**	**6,887**	629	1,629	7,085	9,343
Finance costs	**(8,257)**	**(3,814)**	**(15,732)**	**(27,803)**	(8,247)	(2,238)	(14,142)	(24,627)
Loss before tax	**(8,818)**	**(3,938)**	**(15,660)**	**(28,416)**	(4,090)	2,511	(10,868)	(12,447)
Taxation	**1,353**	**787**	**–**	**2,140**	(1,662)	(4,276)	–	(5,938)
Loss for the year	**(7,465)**	**(3,151)**	**(15,660)**	**(26,276)**	(5,752)	(1,765)	(10,868)	(18,385)
Add: Depreciation and amortisation	**8,464**	**6,538**	**–**	**15,002**	9,018	4,891	–	13,909
Add: Impairment charges	**7,065**	**–**	**–**	**7,065**	–	–	–	–
Less: Finance income	**(3,176)**	**(1,417)**	**(2,294)**	**(6,887)**	(629)	(1,629)	(7,085)	(9,343)
Add: Finance costs	**8,257**	**3,814**	**15,732**	**27,803**	8,247	2,238	14,142	24,627
Add: Tax	**(1,353)**	**(787)**	**–**	**(2,140)**	1,662	4,276	–	5,938
EBITDA	**11,792**	**4,997**	**(2,222)**	**14,567**	12,546	8,011	(3,811)	16,746

5. AUDIT AND NON-AUDIT FEES

	2016 US$'000	2015 US$'000
Analysis of auditors' remuneration is as follows:		
Audit of the consolidated financial statements	**97**	126
Audit of the subsidiaries	**150**	200
Total audit fees	**247**	326

6. STAFF COSTS AND DIRECTORS' EMOLUMENTS

a) Staff costs

The average monthly number of persons including executive directors was:

	2016 No.	2015 No.
Selling	**3**	4
Technical	**76**	92
Administration	**58**	53
	137	149

Notes to the Financial Statements (continued)

6. STAFF COSTS AND DIRECTORS' EMOLUMENTS (continued)

a) Staff costs (continued)

Staff costs for the above persons were:

	2016 US$'000	2015 US$'000
Wages and salaries	**4,936**	7,859
Social security costs	**874**	1,227
Share based payments	**295**	332
	6,105	9,418

b) Directors' emoluments

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

	2016 US$'000	2015 US$'000
Aggregate emoluments	**1,763**	2,061
	1,763	2,061
Emoluments of the highest paid director	**856**	986

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:

	Emoluments 2016 US$'000	Emoluments 2015 US$'000
Nicolas Mallo Huergo	**17**	19
Alejandro Jotayan	**232**	361
Nigel Duxbury	**165**	185
David Jackson	**7**	8
Javier Alvarez	**17**	19
Sir Michael Rake	**23**	–
Total	**461**	592

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

	2016 US$'000	2015 US$'000
Exchange gain	**5,032**	8,234
Interest receivable and similar income	**1,855**	1,109
	6,887	9,343

8. FINANCE COSTS

	2016 US$'000	2015 US$'000
Exchange losses	**11,031**	6,355
Interest costs	**16,772**	18,272
	27,803	24,627

9. TAXATION

	2016 US$'000	2015 US$'000
Current tax	**(4,548)**	(4,105)
Deferred taxation	**6,688**	(1,833)
Tax charge/(credit)	**2,140**	(5,938)
Loss on ordinary activities before tax	**(28,416)**	(12,447)
Tax credit on loss at standard rate of 35% (2015: 35%)	**9,946**	4,356
Effects of:		
Expenses not deductible for tax purposes	**(4,934)**	(2,006)
Effect of items not taxable	**28**	1,194
Differences due to the effect of exchange rate movements	**3,031**	(2,186)
Tax losses for which no deferred tax asset is recognised	**(5,931)**	(7,296)
Total tax charge/(credit)	**2,140**	(5,938)

The Group is subject to a number of different tax regimes in the countries in which it operates. At the end of 2016, the countries in which the Group had the most activities are Argentina and Colombia. As the majority of the Group's operations are based in Argentina the tax rate of this country has been used as the notional tax rate to perform the reconciliation above.

Under Argentine tax law group relief, allowing taxable profits to be offset against taxable losses of companies with the same group, is not available.

The tax rate used for the 2016 and 2015 reconciliations above is a notional corporate tax rate of 35% based on the rate payable by corporate entities in Argentina on taxable profits under tax law in that jurisdiction, which the board believes is the most appropriate basis to use given the fact our main operations are based in Argentina. 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.

The Colombian statutory tax rate for the year ending 31 December 2016 was 39% (2015: 39%), which included the 25% (2015: 25%) general income tax rate and the fairness tax ("CREE") at 14% (2015: 14%).

In accordance with IAS 12, where an entity's tax return is prepared in a currency other than its functional currency, changes in the exchange rate between the two currencies generate temporary differences with respect to the valuation of non-monetary assets and liabilities, which are recognised in the income statement.

Notes to the Financial Statements (continued)

10. LOSS PER ORDINARY SHARE FROM CONTINUING OPERATIONS

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.

	2016 **Cents**	2015 Cents
Basic and diluted loss per share	**(3.76)**	(2.68)
Adjusted basic and diluted loss per share	**(3.76)**	(2.68)
	US$'000	US$'000
Loss for the year attributable to equity holders	**(22,766)**	(15,226)
Adjusted loss for the year attributable to equity holders	**(22,766)**	(15,226)
	No.'000	No.'000
Weighted average number of shares	**605,505**	569,064
Effect of dilutive warrants	**–**	–
Diluted weighted average number of shares	**605,505**	569,064
	No.'000	No.'000
Potential number of dilutive warrants (note 25)	**59,240**	59,240

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

11. 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$13.6 million (2015: US$6.7 million loss).

12. INTANGIBLE ASSETS

GROUP	Goodwill US$'000	Exploration and evaluation assets US$'000	Total US$'000
Cost			
At 1 January 2015	31,801	155,917	187,718
Additions	–	2,233	2,233
Foreign exchange movements	(11,069)	(54,832)	(65,901)
At 31 December 2015 and at 1 January 2016	20,732	103,318	124,050
Additions	–	7,739	7,739
Exploration costs charged to income statement	–	(1,718)	(1,718)
Foreign exchange movements	(3,651)	(18,715)	(22,366)
At 31 December 2016	**17,081**	**90,624**	**107,705**
Accumulated amortisation and write off			
At 1 January 2015	–	(22,614)	(22,614)
Charge for the year	–	(70)	(70)
Foreign exchange movements	–	7,892	7,892
At 31 December 2015 and at 1 January 2016	–	(14,792)	(14,792)
Impairment losses charged to income statement	–	(578)	(578)
Charge for the year	–	(259)	(259)
Foreign exchange movements	–	2,753	2,753
At 31 December 2016	**–**	**(12,876)**	**(12,876)**
Net Book Value			
At 31 December 2016	**17,081**	**77,748**	**94,829**
At 31 December 2015	20,732	88,526	109,258

Exploration and evaluation assets

At the year end the Group holds interests in 43 licences at different stages of exploration or exploitation. It holds 30 licences in Argentina and 13 licences in Colombia. 8 of the 43 licences are currently in production.

In 2016, an impairment provision of US$0.1 million was recognised for 100% of Ñirihuau and US$6.5 million was recognised for the producing asset Vega Grande.

Notes to the Financial Statements (continued)

13. PROPERTY, PLANT AND EQUIPMENT

GROUP	Buildings and land US$'000	Machinery and equipment US$'000	Development and production assets US$'000	Work in progress and other assets US$'000	Total US$'000
Cost					
At 1 January 2015	652	2,736	61,966	112	65,466
Acquisitions	–	–	137,267	822	138,089
Transfers	–	–	112	(182)	(70)
Additions	62	900	23,192	264	24,418
Foreign exchange movements	(245)	(1,337)	(23,611)	(36)	(25,229)
At 31 December 2015 and at 1 January 2016	**469**	**2,299**	**198,926**	**980**	**202,674**
Transfers	–	–	801	(801)	–
Additions	178	235	18,951	1,010	20,374
Foreign exchange movements	(95)	(485)	(11,984)	(967)	(13,531)
At 31 December 2016	**552**	**2,049**	**206,694**	**222**	**209,517**
Accumulated depreciation and impairment provision					
At 1 January 2015	(223)	(135)	(3,882)	(41)	(4,281)
Acquisitions	–	–	(94,544)	–	(94,544)
Charge for the year	(56)	(140)	(13,641)	(2)	(13,839)
Foreign exchange movements	94	208	3,821	12	4,135
At 31 December 2015 and at 1 January 2016	**(185)**	**(67)**	**(108,246)**	**(31)**	**(108,529)**
Charge for the year	(121)	(119)	(14,500)	(3)	(14,743)
Impairment losses charged to income statement	–	–	(6,487)	–	(6,487)
Foreign exchange movements	41	83	2,588	4	2,716
At 31 December 2016	(265)	(103)	(126,645)	(30)	(127,043)
Net Book Value					
At 31 December 2016	**287**	**1,946**	**80,049**	**192**	**82,474**
At 31 December 2015	284	2,232	90,680	949	**94,145**

As part of management's impairment review, management has determined that the carrying amount of certain assets was higher than the value based on estimates of future discounted cash flows ("DCFs"). DCFs are based on the latest business forecasts regarding production volumes, costs of production, capital expenditure requirements, and oil. DCFs are discounted at a risk-adjusted discount rate. As a result of this review management have recognised an impairment provision of US$6.5 million in relation to those assets where the carrying amount exceeded the value based on DCFs.

14. AVAILABLE FOR SALE FINANCIAL ASSETS

	The Group		**The Company**	
	2016 US$'000	2015 US$'000	**2016 US$'000**	2015 US$'000
Non-current assets				
Long terms deposits	**5,655**	5,599	**–**	–
	5,655	5,599	**–**	–
Current assets				
Unlisted equity securities	**2,258**	1,387	**110**	114
Other investments	**58**	27	**–**	–
	2,316	1,414	**110**	114

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.

Other investments – Level 3
Other investments are carried at amortised cost, which is management's best estimate of their fair value.

15. INVESTMENTS IN SUBSIDIARIES

	2016 US$'000	2015 US$'000
Non-current assets		
As at 1 January	**275,898**	278,557
Additions	**5,289**	10,256
Foreign exchange movements	**(47,053)**	(12,915)
As at 31 December	**234,134**	275,898

Notes to the Financial Statements (continued)

15. INVESTMENTS IN SUBSIDIARIES (continued)

At 31 December 2016 the Company had the following subsidiary undertakings. They have the same year-end date as the Company and have been included in the consolidated financial statements. The Company's subsidiary undertakings all have share capital consisting solely of ordinary shares. All the interests are held partly directly and partly indirectly though intermediate subsidiaries, which are wholly owned.

	Country of incorporation	**Area of operation**	**Ownership Interest %**	**Activity**
AEN Energy Holdings S.P.C.	Cayman	Cayman	100	Dormant
AEN Energy Cayman Islands Ltd	Cayman	Cayman	100	Dormant
Andes Energy LLC	US	US	100	Dormant
AEN Netherlands Cooperatief U.A.	Netherlands	Netherlands	100	Holding/services
AEN Energy Latina. S.L.	Spain	Spain	100	Dormant
Andes Energia Argentina S.A.	Argentina	Argentina/ Colombia	100	Holding/services
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 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	100	Oil and gas
Kilwer S.A.	Argentina	Argentina	100	Oil and gas
Ketsal S.A.	Argentina	Argentina	100	Oil and gas
CHPPC Andes S.R.L.	Argentina	Argentina	100	Oil and gas
Andes Interoil Limited	UK	UK	51	Holding/services
Interoil Exploration & Production ASA	Norway	Norway	26	Holding/services
UP Colombia Holding AS	Norway	Norway	26	Holding/services
Interoil Colombia Exploration & Production Inc.	BVI	Colombia	26	Oil and gas
Interoil Peru Holding AS	Norway	Norway	26	Dormant

16. JOINT OPERATIONS

The Group has a 20% interest in a material joint operation with YPF which was set up to explore, develop and operate the Chachahuen block. At the date of the financial statements the legal proceedings necessary to create the formal structure under which the operation of the Chachahuen block will be governed (known in Argentina as a 'UTE') have not been completed. Therefore no summary financial information is disclosed.

The joint venture agreement in relation to the Chachahuen block requires unanimous consent from all parties to approve activities. The two partners have direct rights to the assets of the partnership and are jointly and severally liable for the liabilities incurred by the partnership. This entity is therefore classified as a joint operation and the Group recognises its direct right to the jointly held assets, liabilities, revenues and expenses as described in note 2.5 (ii).

17. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	31-Dec-16 US$'000	31-Dec-15 US$'000	**31-Dec-16 US$'000**	31-Dec-15 US$'000
Non-current				
Other taxes and social security	**1,068**	1,526	**–**	–
Other receivables	**7,877**	8,513	**–**	–
	8,945	10,039	**–**	–
Current				
Trade receivables	**5,736**	6,399	**2,696**	2,269
Less: provision for impairment	**(10)**	(12)	**–**	–
	5,726	6,387	**2,696**	2,269
Prepayments and accrued income	**272**	646	**30**	18
Loans to subsidiaries	**–**	–	**22,831**	23,474
Other taxes and social security	**5,848**	3,451	**–**	–
Other receivables	**4,991**	3,604	**1,368**	1,468
	16,837	14,088	**26,925**	27,229

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 loans to subsidiaries have no fixed repayment terms and do not incur interest.

	The Group		The Company	
	2016 US$'000	2015 US$'000	**2016 US$'000**	2015 US$'000
Provision for impairment of trade receivables				
As at 1 January	**12**	18	**–**	–
Foreign exchange movements	**(2)**	(6)	**–**	–
As at 31 December	**10**	12	**–**	–

As at 31 December 2016, US$ 0.01 million receivables were impaired (2015: US$ 0.01 million). As at 31 December 2016 trade receivables of US$ 2.7 million were past due but not impaired (2015: US$ 2.5 million). The ageing analysis of these trade receivables is as follows:

	The Group		The Company	
	2016 US$'000	2015 US$'000	**2016 US$'000**	2015 US$'000
Ageing of past due but not impaired				
Up to 3 months past due	**–**	209	**–**	–
3 to 6 months past due	**–**	–	**–**	–
Over 6 months past due	**2,696**	2,269	**2,696**	2,269
	2,696	2,478	**2,696**	2,269

Notes to the Financial Statements (continued)

18. DEFERRED TAX

Deferred income tax asset	Notional income tax US$'000	Provision charges US$'000	Other US$'000	Carry forward losses US$'000	Total US$'000
At 1 January 2015	13	343	82	26	464
Arising on acquisition	–	751	–	–	751
(Charged)/Credited to the income statement	(4)	114	209	380	699
Foreign exchange movement	(3)	(153)	(90)	(121)	(367)
At 31 December 2015 and at 1 January 2016	6	1,055	201	285	1,547
(Charged)/credited to the income statement	(5)	1,047	51	683	1,776
Foreign exchange movement	(1)	(112)	(39)	(99)	(251)
At 31 December 2016	**–**	**1,990**	**213**	**869**	**3,072**

Deferred income tax liability	Fair value of PP&E US$'000	Acquisitions US$'000	Total US$'000
At 1 January 2015	–	47,614	47,614
Arising on acquisition	4,388	–	4,388
Charged to the income statement	2,532	–	2,532
Foreign exchange movement	–	(16,529)	(16,529)
At 31 December 2015 and at 1 January 2016	**6,920**	**31,085**	**38,005**
Credited to the income statement	(2,641)	–	(2,641)
Recovery of deferred tax credited to income statement	–	(2,271)	(2,271)
Foreign exchange movement	–	(5,311)	(5,311)
At 31 December 2016	**4,279**	**23,503**	**27,782**
Net deferred income tax liability as at 31 December 2016			**(24,710)**
Net deferred income tax liability as at 31 December 2015			**(36,458)**

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.

The Group did not recognise deferred income tax assets of US$5.9 million (2015: US$2.6 million) in respect of losses amounting to US$16.9 million (2015: US$7.3 million) that can be carried forward against future taxable income. Losses amounting to US$ 0.5 million will expire between 2017 and 2022.

The Company did not recognise deferred income tax assets of US$13.1 million (2015: US$8.4 million) in respect of tax losses amounting to US$37.5 million (2015: US$23.9 million) as there is insufficient evidence that the potential asset will be recovered.

All deferred tax liabilities will be settled after a year.

In accordance with IAS 12, where an entity's tax return is prepared in a currency other than its functional currency, changes in the exchange rate between the two currencies generate temporary differences with the respect to the valuation of non-monetary assets and liabilities, which are recognised in the income statement.

19. INVENTORIES

	31-Dec-16 US$'000	31-Dec-15 US$'000
Crude oil	**945**	1,954
	945	1,954

No inventory was written off in the year.

20. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	31-Dec-16 US$'000	31-Dec-15 US$'000	31-Dec-16 US$'000	31-Dec-15 US$'000
Cash at bank and in hand	**12,630**	17,702	**1,438**	6,218
Restricted cash at bank and in hand	**9,070**	9,593	**5,442**	5,458
Total cash and cash equivalents	**21,700**	27,295	**6,880**	11,676

The directors consider that the carrying amount of cash and cash equivalents approximates to their fair value, US$9.1 million (2015: US$9.6 million) of restricted cash is a security for a 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-16 US$'000	31-Dec-15 US$'000	31-Dec-16 US$'000	31-Dec-15 US$'000
Current				
Trade payables	**21,842**	13,363	**850**	665
Social security and other taxes	**13,029**	7,471	**–**	–
Accrued expenses	**1,374**	1,046	**–**	–
Other payables	**1,512**	764	**570**	616
	37,757	22,644	**1,420**	1,281

	The Group		The Company	
	31-Dec-16 US$'000	31-Dec-15 US$'000	31-Dec-16 US$'000	31-Dec-15 US$'000
Non-current				
Social security and other taxes	**12,372**	13,005	**37**	44
Other payables	**3,720**	5,164	**1,370**	1,370
Loans from subsidiaries	**–**	–	**21,863**	17,115
	16,092	18,169	**23,270**	18,529
Total trade and other payables	**53,849**	40,813	**24,690**	19,810

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

In 2016 loans from subsidiaries include; a US$2.6 million loan that carries interest at a rate of 9%; a US$4.4 million Euros denominated loan that carries interest at a rate of 12%; a US$0.9 million ARG denominated loan that carries interest at a rate of 18%; and US$14.0 million loan with no interest. This debt is classified as non current since it has no fixed repayment term.

In 2015 loans from subsidiaries include; a US$2.0 million loan that carries interest at a rate of 9%; a US$4.0 million Euros denominated loan that carries interest at a rate of 12%; a US$0.7 million ARG denominated loan that carries interest at a rate of 18%; and a US$10.4 million loan with no interest. This debt is classified as non current since it has no fixed repayment term.

Notes to the Financial Statements (continued)

22. FINANCIAL LIABILITIES

	The Group		The Company	
	31-Dec-16 US$'000	31-Dec-15 US$'000	**31-Dec-16 US$'000**	31-Dec-15 US$'000
Current				
Bank borrowings	**5,264**	7,235	**–**	–
Other borrowings	**20,315**	13,513	**9,158**	11,562
Financial leasing	**–**	25	**–**	–
Accrued financial interest	**1,578**	1,486	**906**	1,219
	27,157	22,259	**10,064**	12,781

	The Group		The Company	
	31-Dec-16 US$'000	31-Dec-15 US$'000	**31-Dec-16 US$'000**	31-Dec-15 US$'000
Non-current				
Bonds	**34,719**	33,522	**–**	–
Bank borrowings	**–**	3,150	**–**	–
Other borrowings	**33,345**	35,094	**31,697**	31,696
Accrued financial interest	**10,776**	5,001	**9,007**	4,406
	78,840	76,767	**40,704**	36,102
Total financial liabilities	**105,997**	99,026	**50,768**	48,883

In 2016 financial liabilities include a US$14.7 million unsecured convertible loan that carries interest at a rate of 11% repayable in May 2018; a US$26.0 million unsecured convertible loan that carries interest at a rate of 11% repayable in March 2023; a US$0.2 million unsecured loan that carries interest at a rate of 10% repayable within 5 years from the date of drawdown; a US$ 1.6 million unsecured loan that carries interest at 13% with repayment terms to be agreed; a US$7.0 million secured loan that carries interest at 9.5% + LIBOR repayable in August 2017; a US$36.0 million bond that carries interest at a rate of 6% per annum repayable in January 2020; a US$3.2 million loan that carries interest at a rate of 5.5% + LIBOR repaid in April 2017; a US$2.1 million secured loan that carries interest at a rate of 3.5% + DTF repayable in installments by July 2017; a US$5.5 million unsecured loan that carries interest at 9.5% + LIBOR with repayment terms to be agreed; a US$2.8 million unsecured loan that carries interest at 14% repayable in July 2017; US$0.4 unsecured loan that carries interest between 0% and 4% repayable in June 2017 and US$6.4 million AR$ denominated loans that carry interest at rates between 18% to 36% repayable within 3 years some portion of which are classified as current.

In 2015 financial liabilities include a US$13.2 million unsecured convertible loan that carries interest at a rate of 11% repayable in June 2018; a US$22.9 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$1.6 million unsecured loan that carries interest at 10% repaid in January 2016; a US$5.5 million unsecured loan that carries interest at 9.5% + LIBOR repaid in February 2016; a US$33.5 million bond that carries interest at a rate of 6% per annum repayable in January 2020; a US$8.7 million loan that carries interest at a rate of 5.5% + LIBOR repayable in installments by April 2017; a US$1.7 million loan that carries interest at a rate of 3.5% + DTF repayable in installments by July 2016; a US$5.5 million unsecured loan that carries interest at 9.5% + LIBOR repaid in February 2016; and US$6.2 million AR$ denominated loans that carry interest at rates between 18% to 27% repayable within 3 years some portion of which are classified as current.

22. FINANCIAL LIABILITIES (continued)

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

	The Group		**The Company**	
	31-Dec-16 US$'000	31-Dec-15 US$'000	**31-Dec-16 US$'000**	31-Dec-15 US$'000
Maturity profile				
Within 1 year	**27,597**	22,259	**10,247**	12,781
Between 1 and 5 years	**63,668**	58,126	**17,374**	17,463
After 5 years	**68,696**	48,561	**68,696**	48,561
	159,961	128,946	**96,317**	78,805
Interest payments	**(53,964)**	(29,920)	**(45,550)**	(29,922)
	105,997	99,026	**50,767**	48,883

23. PROVISIONS

	Restoration US$'000	**Legal claims US$'000**	**Total US$'000**
Current			
At 1 January 2015	–	–	–
Acquisitions	–	691	691
At 31 December 2015	–	691	691
Used during the year	–	(282)	(282)
At 31 December 2016	**–**	**409**	**409**
Non-current			
At 1 January 2015	864	863	1,727
Additional provisions	834	12	846
Used during the year	–	(509)	(509)
Acquisitions	766	2,116	2,882
Foreign exchange movements	(840)	(510)	(1,350)
At 31 December 2015	1,624	1,972	3,596
Additional provisions	69	4,216	4,285
Used during the year	–	(4,241)	(4,241)
Acquisitions	359	430	789
Foreign exchange movements	(246)	(107)	(353)
At 31 December 2016	**1,806**	**2,270**	**4,076**

The Group makes full provision for the future cost of its asset retirement obligations 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.

In September 2016 the Company entered into an advisory agreement for the provision of services to assist the Company in its negotiations to formalise new terms for the Corralera, Mata Mora, Guemes, Cobres and Valles Calchaquies licences. Under this agreement fees are payable subject to certain objectives relating to licence term, working interest and level of commitments, being achieved. No provision for the fees that may become due under this agreement has been recognised in the financial statements, since it is not possible to measure reliably at this stage the likely outcome of these discussions.

Notes to the Financial Statements (continued)

24. CALLED UP SHARE CAPITAL

	31-Dec-2016 No. '000	31-Dec-2016 US$'000	31-Dec-2015 No.'000	31-Dec-2015 US$'000
Allotted, called up and fully paid				
Ordinary shares of 10 pence	**605,505**	**98,414**	605,505	98,414

The issued share capital is reconciled as follows:

	2016 No.'000	2016 US$'000	2015 No.'000	2015 US$'000
Balance at beginning of year	**605,505**	**98,414**	551,583	90,164
Transaction fee	–	–	400	61
Placing	–	–	23,048	3,526
Debt conversion	–	–	25,608	3,918
Placing	–	–	4,866	745
Balance at end of year	**605,505**	**98,414**	605,505	98,414

All shares carry the same rights.

25. WARRANTS

Details of warrants granted that fall outside the scope of IFRS 2 are detailed as follows:

Exercise period	At start of year 2016 No.	Granted during year 2016 No.	Lapsed/ exercised during year 2016 No.	At end of year 2016 No.	Exercise price
June 2012 to September 2017	1,011,000	–	–	1,011,000	45 pence
June 2012 to September 2017	1,011,000	–	–	1,011,000	54 pence
June 2012 to September 2017	2,696,000	–	–	2,696,000	70 pence
January 2013 to January 2018	16,175,998	–	–	16,175,998	54 pence
August 2013 to August 2020	2,300,000	–	–	2,300,000	40 pence
December 2014 to December 2017	7,500,000	–	–	7,500,000	43 pence
February 2015 to February 2018	3,000,000	–	–	3,000,000	* 0 pence
February 2015 to February 2018	4,000,000	–	–	4,000,000	34 pence
August 2015 to August 2019	6,584,960	–	–	6,584,960	26 pence
December 2015 to December 2017	7,000,000	–	–	7,000,000	60 pence
	51,278,958	–	–	51,278,958	

* Linked to Interoil share price

25. WARRANTS (continued)

The weighted average remaining contractual life of the warrants is 2.3 years. All the above warrants are outside the scope of IFRS 2 Share-Based Payments. The table below summarises the number of above warrants and the associated weighted average exercise price ("WAEP") outstanding during the year.

	2016 No.	**2016 WAEP**	2015 No.	2015 WAEP
Outstanding at 1 January	**51,278,958**	**44.9 pence**	30,693,998	51.4 pence
Granted during the year	**–**		20,584,960	30.9 pence
Outstanding at 31 December	**51,278,958**		51,278,958	
Exercisable at 31 December	**51,278,958**		51,278,958	

Details of warrants granted that fall within the scope of IFRS 2 are detailed as follows:

Exercise period	**At start of year 2016 No.**	**Granted during year 2016 No.**	**Lapsed/ exercised during year 2016 No.**	**At end of year 2016 No.**	**Exercise price**
June 2012 to June 2019	4,461,880	–	–	4,461,880	54 pence
July 2012 to July 2017	1,500,000	–	–	1,500,000	54 pence
November 2013 to November 2020	2,000,000	–	–	2,000,000	40 pence
	7,961,880	–	–	7,961,880	

The weighted average remaining contractual life of the warrants is 3.4 years. The table below summarises the number of above warrants and the associated WAEP outstanding during the year.

	2016 No.	**2016 WAEP**	2015 No.	2015 WAEP
Outstanding at 1 January	**7,961,880**	**50.5 pence**	7,961,880	54.0 pence
Lapsed during the year	**–**		–	
Outstanding at 31 December	**7,961,880**		7,961,880	
Exercisable at 31 December	**7,961,880**		7,961,880	

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%

Notes to the Financial Statements (continued)

25. WARRANTS (continued)

The Group recognised an expense of US$295,359 related to equity settled share-based payment transactions during the year (2015: US$332,279). Warrants granted to and held by directors and senior management during the year are detailed below:

	1-Jan-16 No.	Granted in the year No.	Lapsed/ exercised during the year No.	31-Dec-16 No.	Exercise price	Exercise dates
Nicolas Mallo Huergo	606,600	–	–	606,600	54 pence	2019
German Ranftl	606,600	–	–	606,600	54 pence	2019
Juan Carlos Esteban	674,000	–	–	674,000	54 pence	2019
Nigel Duxbury	269,600	–	–	269,600	54 pence	2019
David Jackson	1,500,000	–	–	1,500,000	54 pence	2017
Carolina Landi	134,800	–	–	134,800	54 pence	2019
Senior Management	552,680	–	–	552,680	54 pence	2019
Alejandro Jotayan	2,000,000	–	–	2,000,000	40 pence	2020
	6,344,280	–	–	6,344,280		

Directors	5,791,600
Senior Management	552,680
Total	6,344,280

26. OTHER 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 year.

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.

27. CAPITAL COMMITMENTS

Over the next 2 to 6 years, the Group has licence commitments to fulfill seismic acquisition programs and the drilling of exploration wells. The Group has farm-in agreements with third parties to fund these commitments on a number of its licences and will look to secure further farm-in agreements or fund directly the commitments under the other licences primarily 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 2 workovers and 3 exploratory wells between 2017 and 2019. The commitment for the 2 workovers was fulfilled in 2016. Future development activities in the northern part of Chachahuen are under discussion with the regulator.

In Colombia in respect of the licences held by Andes, on 5 licences there are commitments to complete geoquimic and 5 exploratory wells by the end of 2018 and 2019. On 3 licences Phase I has been delayed due to security and environmental issues.

Interoil has combined phases 1 and 2 under the Altair licence agreement, and is obligated to drill two wells in the Altair licence by January 2019. The first of these two wells was drilled in March/April 2017. Interoil has completed its obligation to acquire 350 km^2 of 3D seismic on LLA-47 and has combined phases 1 and 2 in the licence agreement and is obligated to drill ten exploration wells before 10 February 2020. LLA-47 is located in the prolific Llanos basin and covers an area of 447 km^2.

Cor-6 is located in the Upper Magdalena Valley. The Branch is committed to acquire 150 km^2 of 3D seismic and to drill two exploration wells during the initial exploration phase of 36 months. Assigned value is US$10 million and US$12 million respectively. Additionally, the Colombian branch is obligated to have in place a US$16.6 million bank guarantee for the investment commitments. The company currently has a US$600,000 bank guarantee in place for these commitments. According to the licence contract, the seismic and wells should have been finalised by November 2014. However, due to environmental and in particular community issues, it has not been possible for the Group to commence work on the licence. In April 2016, the ANH issued a new resolution pursuant to which it reiterates the decision taken under the 2014 resolution that Interoil is in breach of the licence contract, claiming it is entitled to recover from Interoil, in the form of damages, the amount committed by Interoil under the contract. Interoil offered to transfer its commitments to another licence, and ANH and the Attorney General's office agreed. The obligations include high density geochemical sampling of 10,000 surface points to be taken on Altair and 20,000 on LLA-47 in addition to drilling 1 stratigraphic well on the Altair licence and 2 exploratory wells on the Altair licence; all wells to be completed by April 2018. The company will be required to have in place standby letters of credit for an amount equal to 20% of the remaining commitments. The company was, however, advised that the Court did not ratify the agreement and the Company filed a motion for reconsideration. The Court subsequently rejected the reconsideration motion in February 2017, and in March 2017, ANH sent a letter inviting the company to pay US$22 million pursuant to a claim for damages for breach of contract. This is not a mandatory payment order and the company has responded to the ANH reiterating its position and its continuing willingness to formalise the agreement reached with the ANH to transfer the COR-6 licence commitments to the Altair and LLA-47 licences. The company is still optimistic that a mutually agreeable solution can be reached with the ANH and will continue to pursue all legal alternatives. Any penalties are without recourse to the Company.

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

Notes to the Financial Statements (continued)

28. CASH GENERATED FROM/(USED IN) OPERATIONS

	The Group 2016 US$'000	2015 US$'000	The Company 2016 US$'000	2015 US$'000
Loss for the year before taxation	**(28,416)**	(12,447)	**(13,609)**	(6,741)
Adjustments from operating activities				
Depreciation and amortisation	**15,002**	13,909	**–**	–
Exchange movements	**78**	(3,555)	**1,336**	(295)
Revaluation of investments	**–**	56	**–**	56
Decrease/(increase) in inventories	**920**	(1,032)	**–**	–
Increase in trade and other receivables	**(6,121)**	(6,196)	**(622)**	(283)
Increase/(decrease) in creditors and other payables	**15,702**	15,513	**394**	(60)
Finance costs	**27,803**	24,627	**19,711**	10,220
Finance income	**(6,887)**	(9,343)	**(7,499)**	(4,852)
Impairment charges	**7,065**	–	**–**	–
Movement in provisions	**(1,398)**	(2,735)	**–**	–
Exploration costs written off	**1,718**	(378)	**–**	(378)
Share based payments	**295**	332	**295**	332
Net cash generated from/(used in) operation	**25,761**	18,751	**6**	(2,001)

29. NON CONTROLLING INTERESTS

	2016 US$'000	2015 US$'000
At 1 January	**2,667**	–
Acquisition	**–**	4,653
Losses attributable to non-controlling interests	**(3,510)**	(3,159)
Disposal	**–**	1,173
At December	**(843)**	2,667

This represents the non controlling interest in Interoil.

30. ADMINISTRATIVE EXPENSES

	31-Dec-16 US$'000	31-Dec-15 US$'000
Wages and social securities	**2,845**	6,031
General and administration expenses	**9,684**	10,768
Depreciation	**432**	250
	12,961	17,049

31. 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 2016.

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.

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	
	2016	2015
	US$'000	US$'000
Borrowings, excluding finance lease liabilities	**105,997**	99,001
Less: Cash and cash equivalents	**(21,700)**	(27,295)
Net debt	**84,297**	71,706
Equity	**44,660**	83,208
Net debt ratio	**189%**	86%

Notwithstanding the movement in the net debt ratio, the directors consider the net debt ratio of 189% to be in an acceptable range as this falls to 96% when the debt of Interoil is excluded. The Company has no cross guarantees with Interoil.

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 (b) interest bearing liabilities and (c) 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.

Notes to the Financial Statements (continued)

31. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

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, foreign currency rates and oil and gas prices.

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. The current administration will focus on controlling inflation, the stability and competitiveness of the Argentine Peso, levels of consumption and foreign and domestic investment and financing. The agreement reached by Argentina with the bond “holdouts” will allow Argentina to access international capital markets for the first time since 2001.

The Group is mainly exposed to currency risks on certain bank deposits, debtors and creditors denominated in Pounds Sterling (£), Argentine Peso (AR$) and Colombian Peso (COP).

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	**AR$’000**	**COP’000**
Trade and other receivables	2,412	312,692	6,984,159
Cash and cash equivalents	(7)	53,131	33,417,752
Trade and other payables	(2,299)	(745,336)	(11,323,804)
Net exposure	106	(379,513)	29,078,107

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-16 US$’000
AR$ strengthening by 20%	**(4,774)**
AR$ weakening by 20%	**4,774**

	31-Dec-16 US$’000
COP strengthening by 20%	**1,996**
COP weakening by 20%	**(1,996)**

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 other than LIBOR linked 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.

31. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Market operational risks

The Group operates predominantly in Argentina and Colombia. 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. Market price risk is affected by trends in the international oil industry, including possible actions by governments and other regulatory authorities in the jurisdictions in which we operate, or possible or continued actions by members of the Organization of Petroleum Exporting Countries ("OPEC") and other major oil producing countries that affect price levels and volumes; increasing cost of oilfield services, supplies and equipment; increasing competition for exploration opportunities and operatorship's, and deregulation of the markets, which may cause substantial changes to the existing market structures and to the overall level and volatility of prices. Domestic oil prices in Argentina are converging towards international price levels but the correlation is uncertain and unclear.

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.

If the net oil price of the oil sold had been US$ 10 per barrel lower than the net realised price received, the net operating income effect would be US$10.7 million. The net income effect of an increased oil price of US$10 per barrel would have been the same, US$10.7 million. The impact on the Group equity would have been the same as for net income. The estimated sensitivity of each of the factors on the financial results has been estimated based on the assumption that all other factors would remain unchanged. The estimated effects on the financial results would differ from those that would actually appear in the Group's consolidated financial statements because the consolidated financial statements would also reflect the effect on depreciation, trading margins, exploration expenses, inflations and potential tax system changes.

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. One of the main customers is YPF, one of the largest players in the sector in Argentina. In Colombia the Group sells 94% of its oil to Ecopetrol, the state owned oil company and Hocol, a subsidiary of Ecopetrol. The credit risk is considered to be low due to the credit worthiness of these customers.

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.

Notes to the Financial Statements (continued)

31. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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

	The Group		The Company	
	31-Dec-16 US$'000	31-Dec-15 US$'000	**31-Dec-16 US$'000**	31-Dec-15 US$'000
Financial assets within trade and other receivables	**25,510**	23,481	**26,925**	27,229
Cash and cash equivalents	**21,700**	27,295	**6,880**	11,676
	47,210	50,776	**33,805**	38,905

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 2016 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.

Group	**Less than 1 year US$'000**	**From 1 to 5 years US$'000**	**More than 5 years US$'000**	**Total future payments US$'000**
Borrowings	27,597	63,668	68,696	159,961
Other provisions	409	–	4,076	4,485
Creditors	24,728	3,720	–	28,448
	52,734	67,388	72,772	192,894

Company	**Less than 1 year US$'000**	**From 1 to 5 years US$'000**	**More than 5 years US$'000**	**Total future payments US$'000**
Borrowings	10,247	17,374	68,696	96,317
Creditors	1,420	1,370	21,863	24,653
	11,667	18,744	90,559	120,970

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.

32. 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. There are no other related party transactions.

Key Management Compensation

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

	The Group		**The Company**	
	2016 US$'000	2015 US$'000	**2016 US$'000**	2015 US$'000
Short term employee benefits	**1,763**	2,061	**222**	–
Share based payments	**125**	141	**125**	141
	1,888	2,202	**347**	141
Emoluments of the highest paid director	**856**	986		

The directors do not receive any short term or long term benefits.

There are no other related party transactions.

33. EBITDA

EBITDA is calculated as follows:

	31-Dec-16 US$'000	31-Dec-15 US$'000
Loss for the year from continuing operations	**(26,276)**	(18,385)
Add: Depreciation and amortisation	**15,002**	13,909
Add: Impairment charge	**7,065**	–
Less: Finance income	**(6,887)**	(9,343)
Add: Finance costs	**27,803**	24,627
Add: Tax	**(2,140)**	5,938
EBITDA	**14,567**	16,746

Notes to the Financial Statements (continued)

34. ANDES AND INTEROIL

	Andes 31-Dec-16 US$'000	Interoil 31-Dec-16 US$'000	Group 31-Dec-16 US$'000	Andes 31-Dec-15 US$'000	Interoil 31-Dec-15 US$'000	Group 31-Dec-15 US$'000
Revenue	52,685	15,083	67,768	49,052	17,763	66,815
Production cost	(40,443)	(10,502)	(50,945)	(36,825)	(8,880)	(45,705)
Gross profit	12,242	4,581	16,823	12,227	8,883	21,110
Exploration costs	(1,717)	(600)	(2,317)	(577)	–	(577)
Other operating income/ (expense)	1,516	(25)	1,491	3,005	1,005	4,010
Impairment charge	(7,065)	–	(7,065)	–	–	–
Distribution costs	(2,012)	(1,459)	(3,471)	(2,592)	(2,065)	(4,657)
Administrative expenses	(8,099)	(4,862)	(12,961)	(9,909)	(7,140)	(17,049)
Operating (loss)/profit	(5,135)	(2,365)	(7,500)	2,154	683	2,837
Finance income	4,981	1,906	6,887	5,481	3,862	9,343
Finance costs	(22,733)	(5,070)	(27,803)	(18,466)	(6,161)	(24,627)
Loss before taxation	(22,887)	(5,529)	(28,416)	(10,831)	(1,616)	(12,447)
Taxation	1,353	787	2,140	(1,661)	(4,277)	(5,937)
Loss for the year from continuing operations	(21,534)	(4,742)	(26,276)	(12,492)	(5,893)	(18,385)

	Andes 31-Dec-16 US$'000	Interoil 31-Dec-16 US$'000	Group 31-Dec-16 US$'000	Andes 31-Dec-15 US$'000	Interoil 31-Dec-15 US$'000	Group 31-Dec-15 US$'000
Non-current assets						
Intangible assets	94,829	–	94,829	109,258	–	109,258
Property, plant and equipment	48,215	34,259	82,474	54,601	39,544	94,145
Available for sale financial assets	5,655	–	5,655	5,599	–	5,599
Trade and other receivables	6,154	2,791	8,945	10,039	–	10,039
Deferred income tax assets	2,085	987	3,072	796	751	1,547
Total non-current assets	156,938	38,037	194,975	180,293	40,295	220,588
Current assets						
Inventories	399	546	945	519	1,435	1,954
Available for sale financial assets	2,316	–	2,316	1,414	–	1,414
Trade and other receivables	16,837	–	16,837	10,497	3,591	14,088
Restricted cash	4,415	4,655	9,070	5,459	4,134	9,593
Cash and cash equivalents	5,817	6,813	12,630	6,278	11,424	17,702
Total current assets	29,784	12,014	41,798	24,167	20,584	44,751
Current liabilities						
Trade and other payables	34,577	3,180	37,757	18,865	3,779	22,644
Financial liabilities	21,896	5,261	27,157	15,039	7,220	22,259
Provisions	–	409	409	–	691	691
Total current liabilities	56,473	8,850	65,323	33,904	11,690	45,594
Non-current liabilities						
Trade and other payables	15,386	706	16,092	17,525	644	18,169
Financial liabilities	42,825	36,015	78,840	40,095	36,672	76,767
Deferred income tax liabilities	23,503	4,279	27,782	31,431	6,574	38,005
Provisions	2,425	1,651	4,076	2,053	1,543	3,596
Total non-current liabilities	84,139	42,651	126,790	91,104	45,433	136,537
Net assets	46,110	(1,450)	44,660	79,452	3,756	83,208

34. ANDES AND INTEROIL (continued)

	Andes 31-Dec-16 US$'000	Interoil 31-Dec-16 US$'000	Group 31-Dec-16 US$'000	Andes 31-Dec-15 US$'000	Interoil 31-Dec-15 US$'000	Group 31-Dec-15 US$'000
Loss for the period from continuing operations	**(21,534)**	**(4,742)**	**(26,276)**	(12,492)	(5,893)	(18,385)
Add: Depreciation and amortisation	**8,464**	**6,538**	**15,002**	9,018	4,891	13,909
Add: Impairment charge	**7,065**	**–**	**7,065**	–	–	–
Less: Finance income	**(4,981)**	**(1,906)**	**(6,887)**	(5,481)	(3,862)	(9,343)
Add: Finance costs	**22,733**	**5,070**	**27,803**	18,466	6,161	24,627
Add: Tax	**(1,353)**	**(787)**	**(2,140)**	1,661	4,277	5,937
EBITDA	**10,394**	**4,173**	**14,567**	11,172	5,574	16,746

35. EVENTS AFTER THE BALANCE SHEET

On 29 March 2017, the Company entered into two new credit facilities with Mercuria Energy Trading SA. The first, a US$20,000,000 facility to finance the drilling activities in Chachahuen (the Company´s producing field in partnership with YPF) and other working capital requirements. The second, a US$40,000,000 facility to finance other drilling activities of the Company, including activity in the Vaca Muerta, where the Company has 250,000 net acres.

In respect of Interoil's licences, the company elected to combine the phase 1 and 2 commitments under the LLA-47 licence agreement, which was approved by the ANH. Interoil now has a commitment to drill 10 wells before 10 February 2020 and expects to have completed the drilling of the first three wells in May 2017. Interoil also elected to combine the phase 1 and 2 commitments under the Altair licence agreement, which was also approved by the ANH. On Altair, Interoil now has a commitment to drill 2 wells before January 2019.

In March 2017, the ANH sent a letter inviting Interoil to pay US$ 22 million pursuant to the ANH's claim for damages for breach of the COR-6 licence contract. This is not a mandatory payment order and the company has responded to the ANH reiterating its position and its continuing willingness to formalise the agreement reached with the ANH to transfer the COR-6 licence commitments to the Altair and LLA-47 licences. The company is still optimistic that a mutually agreeable solution can be reached with the ANH and will continue to pursue all legal alternatives.

In March 2017, Interoil announced that drilling operations has begun in Altair. The well was drilled to a total depth of 6,800 feet and tested for oil in the upper section of C7 formation. The testing will continue to determine the size of the oil accumulation for its commercial evaluation for production and further development. The rig was then moved to LLA-47 for the drilling program planned in this licence.

At the end of March, the Company announced that Alejandro Jotayan had stepped down from the board and is position as Chief Executive Officer with Anuj Sharma appointed as non board level Chief Executive Officer and with Nicolas Mallo Huergo assuming the role of Executive Chairman on an interim basis.

In May, the Company announced a restructure of its holding in Andes Interoil Limited ("AIL"), which holds a 51% interest in Interoil. The Company has a 51% interest in AIL and Canacol Energy Ltd "Canacol") the remaining 49%. Further to an agreement with Canacol, Canacol transferred all its shares in AIL to the Company in exchange for the Company transferring to Canacol 16,172,052 shares in Interoil currently held through AIL. Following these transactions, the Company's economic interest in Interoil will remain unchanged at 26% of the total share capital and votes of Interoil held through its wholly owned subsidiary AIL. Furthermore, following proposed changes to the composition of the board and senior management of Interoil, it has been determined that, subject to these changes being implemented, the Company will no longer be deemed to control Interoil. Therefore Interoil will no longer be fully consolidated and going forward Andes's 26% share of the results and net assets of Interoil will be equity accounted, in the consolidated results of the Group.

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

Shareholder notes

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Nicolás Mallo Huergo (Chairman and CEO JV Operations)
German Ranftl (CFO)
Juan Carlos Esteban (VP E&P)
Nigel Duxbury (Non-Executive)
David Jackson (Non-Executive)
Javier Alvarez (Non-Executive)
Carolina Landi (Non-Executive)
Matthieu Milandri (Non-Executive)
Sir Michael Rake (Non-Executive)

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