



**Pan American Energy LLC,
Argentine Branch
U.S.\$500,000,000
7.875% Notes due 2021, Series No. 1
under the U.S.\$1,200,000,000 Global Note Program
Guaranteed by Pan American Energy LLC**

This listing pricing supplement (the "Pricing Supplement") relates to the 7.875% Notes due 2021, Series No. 1 (the "Notes"), and is supplementary to, and should be read together with, the accompanying listing offering circular, dated April 23, 2010 (the "Offering Circular"), issued in connection with the U.S.\$1,200,000,000 global note program (the "Program") of Pan American Energy LLC, Argentine Branch (the "Issuer"), a branch of Pan American Energy LLC, a Delaware company (the "Guarantor"). To the extent that information contained in this Pricing Supplement is not consistent with the Offering Circular, this Pricing Supplement will be deemed to supersede the Offering Circular with respect to the Notes offered hereby.

The principal of the Notes will mature in three approximately equal annual installments on May 7, 2019, May 7, 2020 and May 7, 2021. The Notes will bear interest at a rate of 7.875% per year, payable semi-annually in arrears on May 7 and November 7 of each year, commencing on November 7, 2010.

The Issuer may redeem the Notes, in whole but not in part, at any time by paying the greater of the principal amount of the Notes and the "make-whole" amount, plus, in each case, accrued and unpaid interest. The Issuer may also redeem the Notes, in whole but not in part, at any time in the event of certain changes in tax laws at a price equal to the outstanding principal amount of the Notes plus accrued and unpaid interest and any additional amounts.

The Notes will constitute direct, unsecured, unsubordinated and unconditional obligations of the Issuer and will rank at least equally in priority of payment with all present and future unsecured and unsubordinated obligations of the Issuer (other than obligations given preferential treatment under applicable law). The Notes will be unconditionally guaranteed (the "Guarantee") by the Guarantor. The Guarantee will constitute an unsecured, unsubordinated and unconditional obligation of the Guarantor and will rank at least equally in priority of payment with all other present and future unsecured and unsubordinated obligations of the Guarantor (other than obligations given preferential treatment under applicable law).

Authorization has been received to list the Notes on the *Bolsa de Comercio de Buenos Aires* (the "Buenos Aires Stock Exchange") and an application has been made to trade the Notes on the *Mercado Abierto Electrónico S.A.* Application has also been made to list the Notes on the Luxembourg Stock Exchange for trading on the Euro MTF Market.

This Pricing Supplement may only be used for the purpose for which it was published.

See "Risk Factors" beginning on page 17 of the Offering Circular for a discussion of certain risks that you should consider in connection with an investment in the Notes.

Issue Price: 98.204%, plus accrued interest, if any, from May 7, 2010

The Notes will constitute *obligaciones negociables simples no convertibles en acciones* under, and will be issued pursuant to and in compliance with all the requirements of, the Argentine Negotiable Obligations Law No. 23,576, as amended (the "Negotiable Obligations Law"), and Joint Resolution No. 470-1738/2004, as amended by Joint Resolution No. 500-2222/07 (the "Joint Resolution"), issued by Argentina's *Comisión Nacional de Valores* (the "CNV") and *Administración Federal de Ingresos Públicos* (the "Argentine Tax Authority"), and will be entitled to the benefits set forth therein and subject to the procedural requirements of Decree No. 677/2001 issued by the National Executive Branch of Argentina (the "Argentine Executive Branch") and any other applicable Argentine laws and regulations.

The establishment of the Program has been authorized by Resolution No. 16,064 of the CNV dated February 6, 2009. Such authorization solely means that the information requirements of the CNV have been satisfied. The CNV has not rendered any opinion in respect of the information contained in this Pricing Supplement or the Offering Circular.

The Notes have not been, and upon issuance will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws. The Notes may be offered in the United States only in transactions that are exempt from, or not subject to, the registration requirements of the Securities Act. Accordingly, the Notes will only be offered and sold in transactions exempt from registration under the Securities Act to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act ("Rule 144A")) or outside the United States in reliance on Regulation S under the Securities Act ("Regulation S"). See "Transfer Restrictions" in the Offering Circular.

Any offer of sale of Notes in any Member State of the European Economic Area which has implemented Directive 2003/71/EC (the "Prospectus Directive") must be addressed to qualified investors (as defined in the Prospectus Directive).

The Notes have been delivered in book-entry form through The Depository Trust Company and its direct and indirect participants, including Euroclear S.A./N.V., as operator of the Euroclear System, and Clearstream Banking, société anonyme on May 7, 2010.

This Pricing Supplement together with the Offering Circular constitute a prospectus for purposes of Luxembourg law on Prospectuses for Securities, dated July 10, 2005.

Credit Agricole CIB

HSBC

J.P. Morgan

The date of this Pricing Supplement is May 13, 2010.

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IMPORTANT NOTICE

Unless otherwise defined herein, capitalized terms used in this Pricing Supplement have the meanings given to them in the Offering Circular; and terms defined herein will be deemed to have such meanings when used in the Offering Circular.

The issue of the Notes was authorized by a resolution of the Legal Representative (*representante legal*) of the Issuer dated April 5, 2010.

The accuracy of the accounting, financial, economic and all other information contained in this Pricing Supplement and the Offering Circular, under Argentine law, is the sole responsibility of the Legal Representative of the Issuer. The Legal Representative (on behalf of the Issuer) hereby represents and warrants that, as of the date hereof, this Pricing Supplement and the Offering Circular contain true and complete information regarding any material fact that may affect the economic and financial condition of the Issuer and the Guarantor as well as all other information that is required to be furnished to investors in respect of the Program in accordance with applicable Argentine laws and regulations.

In making an investment decision, you must rely on your own examination of the business of the Issuer and the Guarantor and the terms of the offering, including the merits and risks involved. The Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission (“SEC”), any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of an offering of Notes or the accuracy or the adequacy of this Offering Circular. Any representation to the contrary is a criminal offense in the United States.

This Pricing Supplement and the Offering Circular do not constitute, and may not be used for the purposes of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation, and no action is being taken to permit an offering of the Notes or the distribution of this Pricing Supplement and the Offering Circular in any jurisdiction where such action is required.

In this Pricing Supplement, references to “listing on the Euro MTF” or any similar wording are to be read as references to “admission to trading on the Euro MTF Market” and “listing on the Official List of the Luxembourg Stock Exchange.” **The Notes must not be offered or sold, directly or indirectly, to the public in the Grand Duchy of Luxembourg.**

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except pursuant to an exemption from registration under the Securities Act and the applicable securities laws of the states of the United States. See “Subscription and Sale” and “Transfer Restrictions” in the Offering Circular. No

representation can be made as to the availability of any exemption under the Securities Act or the securities laws of any other jurisdiction for resale of the Notes.

TO NEW HAMPSHIRE RESIDENTS: NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSONS, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

FOR PURCHASES MADE IN ARGENTINA: IN ACCORDANCE WITH THE TERMS OF THE JOINT RESOLUTION, NON-BINDING EXPRESSIONS OF INTEREST IN CONNECTION WITH THE PURCHASE OF THE NOTES MAY BE MADE TO THE ARGENTINE PLACEMENT AGENTS DURING THE FIVE (5) BUSINESS DAY PERIOD (THE “SOLICITATION PERIOD”) COMMENCING ON THE BUSINESS DAY FOLLOWING THE DATE OF PUBLICATION OF THIS PRICING SUPPLEMENT IN THE BUENOS AIRES STOCK EXCHANGE’S BULLETIN (UNLESS SUCH PERIOD IS EXTENDED BY THE ISSUER AND NOTICE OF SUCH EXTENSION IS PROVIDED THROUGH THE BUENOS AIRES STOCK EXCHANGE’S BULLETIN PRIOR TO THE EXPIRATION OF THE SOLICITATION PERIOD). IN ACCORDANCE WITH THE TERMS OF THE JOINT RESOLUTION, ONCE THE ISSUE PRICE AND THE INTEREST RATE FOR THE NOTES HAVE BEEN DETERMINED ON THE PRICING DATE (AS DEFINED BELOW), A NOTICE INCLUDING SUCH INFORMATION WILL BE PUBLISHED IN THE BUENOS AIRES STOCK EXCHANGE’S BULLETIN AND INVESTORS WILL BE ABLE TO CONFIRM, DURING THE BUSINESS DAY (IN BUENOS AIRES) FOLLOWING THE DAY OF PUBLICATION OF SUCH NOTICE, ANY NON-BINDING EXPRESSIONS OF INTEREST PLACED DURING THE SOLICITATION PERIOD. “PRICING DATE” MEANS THE LAST BUSINESS DAY (IN BUENOS AIRES) OF THE SOLICITATION PERIOD. BOTH THE ISSUE PRICE AND THE INTEREST RATE FOR THE NOTES WILL BE DETERMINED BY THE DEALERS TOGETHER WITH THE ISSUER.

PLACEMENT EFFORTS AND ALLOCATION PROCESS

Placement Efforts

The Issuer, the Dealers and, in Argentina, the Argentine Placement Agents, plan to make a series of marketing and placement efforts in connection with the public offering of the Notes under the Negotiable Obligations Law and Joint Resolution. The Notes will be offered to the public in Argentina and outside Argentina to a broad group of institutional investors, including in the United States to qualified institutional buyers in reliance on Rule 144A of the Securities Act, subject to applicable laws in each jurisdiction in which Notes are offered.

The Issuer's credit profile and history is expected to be an effective marketing tool to assist potential investors in familiarizing themselves with the Issuer's business, financial condition and strategy. In addition, the marketing and placement efforts will consist of a variety of marketing methods that have proven successful in past transactions, among them:

- an international and local road show in which potential institutional investors such as pension funds, insurance companies and brokerage firms will be invited to participate;
- a global conference call, for U.S. qualified institutional buyers, other institutional investors and those Argentine investors who may not have participated in the road show, where potential investors will have the opportunity to ask questions of the Issuer's management;
- the Issuer's management will be available to potential investors in Argentina and abroad via:
 - (i) one-on-one conference calls;
 - (ii) one-on-one meetings; and
 - (iii) group meetings;
- a "net roadshow", an audio visual presentation through the Internet which allows those unable to attend the road show and global conference call referred to above to have access to the Issuer's presentation;
- distribution of a Pricing Supplement and Offering Circular in Spanish to investors in Argentina and substantially similar preliminary and final Pricing Supplement and Offering Circular in English outside of Argentina (in hard copy and/or electronically);
- making available to potential investors at the address of the Issuer in Argentina (a) the Pricing Supplement and Offering Circular in Spanish, and (b) a designated contact person as detailed in the advertisement referred to below; and
- communications and advertisements published in an Argentine newspaper of general circulation and in the Buenos Aires Stock Exchange's bulletin.

Allocation Process

The criteria for allocating the Notes among investors who have placed orders with the Dealers and, in Argentina, the Argentine Placement Agents, with a yield indication that is below or equal to the final yield indicated by the Issuer, will be based on each investor's interest in understanding the Issuer's credit profile and its intention to maintain a long-term position in the Notes. The rationale behind such criteria is that the secondary market price of the Notes will benefit from a stable, credit-oriented base of long-term holders, thus creating an effective and valid benchmark for the Issuer and facilitating its future access to the international capital markets.

Consequently, in case there is an oversubscription, the Notes are expected to be placed principally among U.S. qualified institutional buyers, other institutional investors outside the United States and Argentine investors, as well as private and retail banking accounts in Argentina and, as permitted by applicable law, elsewhere outside Argentina. Among such investors, pension funds, insurance companies, brokerage firms, money managers, private banking, and retail accounts are expected to receive the largest portion of the Notes to be allocated. Investors who place orders with a yield indication below or equal to the final yield indicated by the Issuer are expected to receive a portion of the Notes offered, subject to compliance with all applicable laws and the criteria set forth above.

The criteria to be applied to allocate the Notes between investors with similar characteristics will be based on the size of the investor's order, the aggressiveness of its price indication during the book-building process, its interest in the Issuer's credit profile throughout the marketing period, and its history in supporting transactions from Latin American issuers.

Interested investors must furnish all the information and documentation to be filed by them, or which may be required by the Argentine placement agent, for compliance with criminal laws and regulations with respect to the laundering of assets, capital market rules for the prevention of the laundering of assets issued by the *Unidad de Información Financiera*, which was created by Argentine Law No. 25,246, and similar rules established by the CNV and/or the *Banco Central de la República Argentina* (the "Central Bank"). The Argentine Placement Agents will be able to reject orders if such laws, regulations and rules are not complied with to their satisfaction.

AVAILABLE INFORMATION

Copies of the Pricing Supplement and Offering Circular in Spanish will be available at the offices of the Issuer at Av. Leandro N. Alem 1180, Buenos Aires, Argentina and at the offices of the Representative of the Trustee in Argentina at Sarmiento 310, Buenos Aires, Argentina. Copies of the Offering Circular, this Pricing Supplement and the Indenture, dated as of February 17, 2009 (the "Indenture"), among the Issuer, the Guarantor, The Bank of New York Mellon, as Trustee, Co-Registrar, Paying Agent and Transfer Agent, and Banco de Valores S.A., as Registrar, Paying Agent, Transfer Agent and Representative of the Trustee in Argentina, will be available free of charge in Luxembourg at the offices of the Luxembourg Listing and Paying Agent at The Bank of New York Mellon (Luxembourg) S.A., Corporate Trust Services, Aerogolf Center, 1A, Heohenhof, L-1736, Senningerberg, Luxembourg.

PRICING SUPPLEMENT

Pricing Supplement Dated April 30, 2010

PAN AMERICAN ENERGY LLC, ARGENTINE BRANCH

Issue of U.S.\$500,000,000 7.875% Notes due 2021, Series No. 1

Guaranteed by Pan American Energy LLC
under the U.S.\$1,200,000,000 Global Note Program

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Unless otherwise defined herein, capitalized terms used in this Pricing Supplement have the meanings given to them in the Offering Circular; and terms defined herein will be deemed to have such meanings when used in the Offering Circular. To the extent that information contained in this Pricing Supplement is not consistent with the Offering Circular, this Pricing Supplement will be deemed to supersede the Offering Circular solely with respect to the Notes described herein.

1. (i) Issuer: Pan American Energy LLC, Argentine Branch
- (ii) Guarantor: Pan American Energy LLC
2. Series Number: 1
3. Specified Currency: U.S. Dollars
4. Aggregate Principal Amount of Series: U.S.\$500,000,000
5. Issue Price: 98.204% of the Aggregate Principal Amount
6. Specified Denominations: U.S.\$2,000 and integral multiples of U.S.\$1,000 in excess thereof
7. Issue Date: May 7, 2010
8. Maturity Date: The final maturity of the Notes will be May 7, 2021, with principal amortizing as set forth in Item 9(i) below.
9. (i) Principal Payment Dates: The principal of the Notes will mature in three equal annual installments on May 7, 2019, May 7, 2020 and May 7, 2021.
- (ii) Interest Payment Dates: May 7 and November 7 of each year, commencing on November 7, 2010
- (iii) Business Days: If the date for payment of any amount in respect of any Note is not a Business Day, the Holder thereof shall not be entitled to payment until the next following Business Day and shall not be entitled to further interest or other payment in respect of such delay.

“Business Day” means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in New York

City or the City of Buenos Aires.

The Record Dates will be the 15th calendar day immediately preceding the applicable Payment Date.

10. Interest Basis: Fixed Rate; 7.875%
11. Redemption/Payment Basis: Installment: see Item 9(i) above with respect to the amortization of principal
Redemption at the Option of the Issuer: see Item 33(i) "Redemption and Purchase" below
12. Change of Interest or Redemption/Payment Basis: Not Applicable
13. Put/Call Options: Put Option Applicable; see Item 33(i) "Redemption and Purchase" below
Call Option Applicable; see Item 33(i) "Redemption and Purchase" below
14. (i) Status of the Notes: Senior, unsecured
(ii) Status of the Guarantee: Senior, unsecured
15. Listing and Trading: Authorization has been received to list the Notes on the Buenos Aires Stock Exchange and an application has been made to trade the Notes on the *Mercado Abierto Electrónico S.A.*
Application has also been made to list the Notes on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market, subject to Item 33(iii) "Covenants of the Issuer and Guarantor" below.
16. Method of distribution: Non-syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17. Fixed Rate Note Provisions: Applicable
- (i) Rate of Interest: 7.875% per annum on the outstanding principal amount of the Notes, payable semi-annually in arrears
- (ii) Interest Payment Dates: May 7 and November 7 of each year, commencing on November 7, 2010
- (iii) Fixed Coupon Amount: See Item 17(i) above
- (iv) Broken Amount: Not Applicable
- (v) Day Count Fraction (Condition 5(g)): 30/360

(vi) Determination Date(s) (Condition 5(g)):	Not Applicable
(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	Not Applicable
18. Floating Rate Provisions:	Not Applicable
19. Zero Coupon Note Provisions:	Not Applicable
20. Index Linked Interest Note Provisions:	Not Applicable
21. Dual Currency Note Provisions:	Not Applicable

PROVISIONS RELATING TO REDEMPTION

22. Call Option:	As set forth in Item 33(i) "Redemption and Purchase" below
23. Put Option:	As set forth in Item 33(i) "Redemption and Purchase" below
24. Final Redemption Amount:	Outstanding principal amount of the Notes (subject to amortization of principal as set forth in Item 9(i) above), plus accrued and unpaid interest
25. Early Redemption Amount:	Make-Whole Redemption: as set forth in Item 33(i) "Redemption and Purchase" below Tax Redemption: as set forth in Item 33(i) "Redemption and Purchase" below Event of Default: outstanding principal amount of the Notes, plus accrued and unpaid interest; see Item 33(iv) "Events of Default" below

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26. Form of Notes:	Rule 144A Global Note and Restricted Regulation S Global Note available on Issue Date
27. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	Not Applicable
28. Additional Financial Center(s) (Condition 7) or other special provisions relating to payment dates:	New York City, New York; and City of Buenos Aires, Argentina
29. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	Not Applicable

30. Details relating to Installment Notes:	Applicable
(i) Installment Amounts:	Three approximately equal installments
(ii) Installment Dates:	Annually on May 7, 2019, May 7, 2020 and May 7, 2021
(iii) Minimum Installment Amount:	Not Applicable
(iv) Maximum Installment Amount:	Not Applicable
31. Redenomination, renominialization and reconventioning provisions:	Not Applicable
32. Consolidation provisions:	Not Applicable
33. Other terms or special conditions:	Applicable; see below

(i) **Condition 6: Redemption and Purchase**

Condition 6 “Redemption and Purchase” of the Terms and Conditions shall, with respect to the Notes, be replaced in its entirety by the following, other than clause (j) (Purchase of Notes by the Issuer) which shall be renumbered as clause (f) and shall apply with respect to the Notes:

The Notes shall not be subject to redemption by the Issuer or the Holder of a Note except as specified below.

(a) **Principal Amortization and Final Maturity.** The Notes will be redeemed by the Issuer on each Installment Date at the applicable Installment Amount and on the Maturity Date at the Final Redemption Amount.

(b) **Make-Whole Redemption.** The Issuer will have the right, at its option, to redeem the Notes, in whole but not in part, at any time prior to their maturity at a redemption price equal to the greater of (1) 100% of the principal amount of the Notes and (2) the sum of the present value of each remaining scheduled payment of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 50 basis points (the “Make-Whole Amount”), plus in each case any accrued and unpaid interest on the principal amount of the Notes to the date of redemption.

“Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“Comparable Treasury Issue” means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Notes.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by the Issuer.

“Comparable Treasury Price” means, with respect to any redemption date, (1) the average, as determined by an Independent Investment Broker, of the Reference Treasury Dealer Quotations for such redemption date, after

excluding the highest and lowest such Reference Treasury Dealer Quotation or (2) if fewer than four such Reference Treasury Dealer Quotations are obtained, the average, as determined by an Independent Investment Broker, of all such quotations.

“Reference Treasury Dealer” means Credit Agricole Securities (USA) Inc., HSBC Securities (USA) Inc. and J.P. Morgan Securities Inc. or their affiliates which are primary United States government securities dealers and not less than one other leading primary United States government securities dealer in New York City reasonably designated by the Issuer; *provided* that if any of the foregoing cease to be a primary United States government securities dealer in New York City (a “Primary Treasury Dealer”), the Issuer will substitute therefor another Primary Treasury Dealer.

“Reference Treasury Dealer Quotation” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by an Independent Investment Broker, of the bid and asked price for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to such Independent Investment Broker by such Reference Treasury Dealer at or about 3:30 p.m. New York City time on the third Business Day preceding such redemption date.

(c) ***Redemption for Tax Reasons.*** The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving irrevocable notice to the Trustee in accordance with clause (d) below at their outstanding principal amount, together with accrued interest to the date fixed for redemption, if:

(i) on the occasion of the next payment due under the Notes, the Issuer or the Guarantor has or will become obliged to pay Additional Amounts (as defined herein) as a result of any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction (as defined in Condition 8) or any change in the application, administration or official interpretation of such laws, regulations or rulings including the holding of a court of competent jurisdiction, or any change in official position regarding, or application of, any treaty affecting taxation to which a Relevant Taxing Jurisdiction is a party which change or amendment becomes effective on or after the Issue Date or, in the case of Additional Amounts payable in respect of Taxes imposed or established by or on behalf of a jurisdiction (other than Argentina or the United States) in which the Issuer or the Guarantor (or a Successor) is organized or is otherwise resident for tax purposes, on or after the date on which the Issuer or the Guarantor (or a Successor) first becomes so organized or resident; and

(ii) such obligation to pay Additional Amounts cannot be avoided by the Issuer taking reasonable measures available to it;

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay Additional Amounts were a payment in respect of the Notes then due.

Prior to the distribution of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Trustee a certificate signed by the Legal Representative of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognized standing to the effect that the Issuer has or will become obligated to pay such Additional Amounts as a result of such change or amendment.

(d) ***Notices for Early Redemptions.*** Any notice of the exercise of an optional redemption of the Notes, pursuant to clause (b) or (c) above, by the Issuer shall require the giving of irrevocable written notice to the Trustee sufficiently in advance to permit the Trustee to provide not less than 30 nor more than 60 days written notice to the Holders. Notices to redeem Notes shall be sent in accordance with the provisions of Condition 14 and shall specify the date fixed for redemption, the applicable redemption price, the place or places of payment, that payment will be made, in the case of Definitive Notes, upon presentation and surrender at the office of any Paying Agent of the Notes to be redeemed, and, in the case of any Global Notes, upon presentation for endorsement or surrender, and that on and after such date interest thereon will cease to accrue. If the redemption is pursuant to Condition 6(c) hereof, such notice shall also state that the Issuer has confirmed that the conditions precedent to such redemption

have occurred and state that the Issuer has elected to redeem all the Notes subject to the conditions of Condition 6(c).

(e) **Change of Control Put.** Upon the occurrence of a Change of Control, each Holder will have the right to require that the Issuer redeem all or a portion of such Holder's Notes at a redemption price equal to 101% of the outstanding principal amount thereof plus accrued and unpaid interest, if any, thereon to the date of redemption (the "Change of Control Payment").

"Change of Control" means the occurrence of one or more of the following events:

- (1) BP plc ceasing to own, directly or indirectly, more than 50% of the outstanding voting stock, total capital stock or economic ownership of the Guarantor or otherwise ceasing to control the Guarantor or the Issuer; or
- (2) there is consummated any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Guarantor and/or the Issuer to any Person or "group" (within the meaning of Section 13(d) or 14(d) of the U.S. Securities Exchange Act of 1934, as amended) (other than any Subsidiary of BP plc), together with any Affiliates thereof (whether or not otherwise in compliance with the provisions of the Indenture and Conditions of the Notes).

Within 15 days following the date upon which the Change of Control occurs, the Issuer shall give notice to the Trustee, for further distribution to each Holder, that a Change of Control has occurred and that each such Holder has the right to request the redemption of all or a portion of such Holder's Notes by payment of the Change of Control Payment.

Notwithstanding any provision to the contrary in the Indenture, upon the Holder of any Note giving to the Trustee, in accordance with the provisions of Condition 14, not more than 45 nor less than 30 days' irrevocable written notice, the Trustee shall promptly provide a copy of such notice to the Issuer, and the Issuer will, on the date falling 70 days after the occurrence of the Change of Control, redeem, by making the applicable Change of Control Payment with respect to all of the Notes specified in such notice from the Holder to the Trustee regarding such redemption. The Issuer shall deposit the Change of Control Payment with the Trustee at least one Business Day prior to the date on which such Change of Control Payment will be delivered to the Holders. The Issuer shall comply with all applicable laws relating to such redemption and the making of such Change of Control Payment.

(ii) Condition 8: Additional Amounts

Condition 8 "Additional Amounts" of the Terms and Conditions shall, with respect to the Notes, be replaced in its entirety by the following:

(a) All payments by or on behalf of the Issuer or the Guarantor (where there is a payment under the Guarantee) in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes, duties, levies, withholdings or other governmental charges of whatever nature ("Taxes") imposed or established by or on behalf of Argentina or the United States or any political subdivision or authority thereof or therein having power to tax, or any other jurisdiction in which the Issuer or the Guarantor (or a Successor) is organized or is otherwise resident for tax purposes, or any jurisdiction from and through which payment is made (each a "Relevant Taxing Jurisdiction", and any Taxes imposed by a Relevant Taxing Jurisdiction, "Covered Taxes"), unless such withholding or deduction is required by law. In such event, the Issuer or, as the case may be, the Guarantor (where there is a payment under the Guarantee) will pay such additional amounts ("Additional Amounts") as shall be necessary in order that the net amounts received by the Holders or beneficial owners of the Notes after such withholding or deduction, including any such withholding or deduction on payment of such Additional Amounts, shall equal the amounts which would otherwise have been receivable by them in respect of the payments described in the preceding sentence in the absence of such withholding or deduction, except that no such Additional Amounts shall be payable:

(i) to or on behalf of a Holder or beneficial owner of a Note that is liable for Covered Taxes in respect of such Note by reason of having some present or former connection with a Relevant Taxing Jurisdiction otherwise than by the mere holding or owning of such Note or by the receipt of income or any payments in respect thereof;

(ii) in respect of any estate, asset, excise, inheritance, gift, sales, use, value-added, turn-over, transfer, tax on business debt (*impuesto al endeudamiento empresario*) or any similar tax, assessment or governmental charges;

(iii) in respect of any taxes, duties, assessments or other governmental charges that are payable otherwise than by deduction or withholding from payments on the Notes;

(iv) if a Note is presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined herein), except to the extent that the Holder would have been entitled to an Additional Amount on presenting the same for payment on such 30th day;

(v) to or on behalf of a Holder or beneficial owner of a Note in respect of Covered Taxes, to the extent that such taxes would not have been imposed but for the failure of the Holder or beneficial owner of such Note to comply with any certification, identification, information, documentation or other reporting requirement if (A) such compliance is required by law, regulation, administrative practice or an applicable treaty as a precondition to exemption from, or reduction in the rate of, deduction or withholding of, Covered Taxes and (B) unless the Relevant Taxing Jurisdiction is the United States or a political subdivision thereof or therein, at least 30 days prior to (or such shorter period of time as may be reasonably practicable where the relevant change to tax law giving rise to the application of this Condition 8(a)(v) has been in effect for less than 30 days prior to the first applicable Interest Payment Date) the first Interest Payment Date with respect to which the Issuer shall apply this Condition 8(a)(v), the Issuer shall have notified the Holders that such Holders or beneficial owners of the Notes will be required to comply with such requirement (it being understood and agreed that no notice given by or on behalf of the Issuer or the Guarantor pursuant to this Condition 8(a)(v) shall be construed as constituting tax advice with respect to Covered Taxes);

(vi) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive;

(vii) to or on behalf of a Holder or beneficial owner of a Note in respect of Covered Taxes imposed because such person is a 10% shareholder of the Guarantor (within the meaning of Section 871(h)(3) of the Internal Revenue Code of 1986, as amended (the "Code")), or a controlled foreign corporation (within the meaning of Section 957(a) of the Code) that is related to the Guarantor (within the meaning of Section 864(d)(4) of the Code);

(viii) in respect of any Covered Taxes that would not have been so imposed if the Holder had presented such Note for payment (where presentation is required) to another Paying Agent; or

(ix) with respect to any payment to a Holder of a Note that is a fiduciary or partnership (including an entity treated as a partnership for purposes of the relevant Covered Taxes) or any person other than the sole beneficial owner of such payment or Note, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such partnership, or the beneficial owner of such payment or Note, as applicable, would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual Holder of the Note.

Notwithstanding the foregoing, the limitations on the Issuer's obligation to pay Additional Amounts set forth in Condition 8(a)(v) shall not apply if the Holders or beneficial owners affected thereby show that a certification, identification, information, documentation or other reporting requirement, or the provision of information or documentation, as the case may be, as required by this Condition 8, would be materially more onerous, in form, in procedure or in the substance of information disclosed, to such Holders or beneficial owners

than the information or other reporting requirements under U.S. tax law, regulation and administrative practice (such as IRS Forms W-8, W-9, 8802 or 6166, or any information reporting requirements described in Section 1471(c) of the Code or Section 1472(b) of the Code).

(b) As used herein, the “Relevant Date” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Holders in accordance with Condition 14.

(c) The Issuer has agreed to pay any present or future stamp, court or documentary taxes or any other excise or personal property taxes, charges or similar levies that arise in any jurisdiction from the execution, delivery or registration of the Notes or any other document or instrument referred to in the Indenture or the Notes, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside of Argentina or the United States.

(d) The Issuer or the Guarantor, as the case may be, will pay any Covered Taxes to the applicable Relevant Taxing Jurisdiction on a timely basis in accordance with applicable law.

(iii) Article 3: Covenants of the Issuer and the Guarantor

Article 3 of the Indenture shall apply and be amended or supplemented with respect to the Notes as follows: (1) Section 3.1 (Covenants), Section 3.2 (Payment of Principal and Interest), Section 3.4 (Maintenance of Existence), Section 3.5 (Compliance with Laws and Other Agreements), and Section 3.8 (Further Assurances) shall apply with respect to the Notes, without amendment or supplement; (2) Section 3.7 (Insurance) will not apply with respect to the Notes; (3) Section 3.3 (Reports to the Trustee) and Section 3.6 (Maintenance of Books and Records) will apply with respect to the Notes, *provided, however*, that all references to IFRS therein shall be omitted for the purposes of the Notes; (4) Section 3.9 (Negative Pledge) shall be replaced with clause (b) below and shall be renumbered as Section 3.10; (5) Section 3.10 (Suspension of Covenants) shall be replaced with clause (g) below and shall be renumbered as Section 3.15; and (6) clause (a) below (Limitation on Indebtedness) shall become Section 3.9, clause (c) below (Limitation on Restricted Payments) shall become Section 3.11, clause (d) below (Limitation on Transaction with Affiliates) shall become Section 3.12, clause (e) below (Limitation on Mergers and Consolidations) shall become Section 3.13, and clause (f) below (Listing) shall become Section 3.14.

(a) *Limitations on Indebtedness.*

(1) Each of the Issuer and the Guarantor shall not, and the Guarantor shall not permit any of the Guarantor’s Subsidiaries, to Incur any additional Indebtedness if (i) immediately after giving effect to the Incurrence of such additional Indebtedness (A) the ratio of Consolidated EBITDA to Consolidated Interest Expense of the Guarantor would be less than 2.00:1.00 or (B) the ratio of Consolidated Indebtedness to Consolidated Capitalization of the Guarantor would exceed 0.45:1.00 or (ii) an Event of Default would occur and be continuing as a result of the incurrence of such additional Indebtedness.

(2) Notwithstanding paragraph (1) above, the Issuer, the Guarantor or any of the Guarantor’s Subsidiaries may Incur the following Indebtedness:

(a) intercompany Indebtedness between or among the Issuer, the Guarantor and/or any of the Guarantor’s Subsidiaries or between or among the Guarantor’s Subsidiaries; *provided, however*, that any subsequent issuance or transfer of Capital Stock or any other event that results in any such Indebtedness being held by a Person other than the Issuer, the Guarantor or a Subsidiary of the Guarantor and any sale or other transfer of any such Indebtedness to a Person that is neither the Issuer, the Guarantor nor a Subsidiary of the Guarantor will be deemed, in each case, to constitute an Incurrence of such Indebtedness by the Issuer, the Guarantor or such Subsidiary of the Guarantor, as the case may be, on the date of such issuance or transfer that was not permitted by this clause (a);

(b) Indebtedness (i) represented by the Notes and the Guarantee; (ii) outstanding on the Issue Date; and (iii) consisting of refinancing Indebtedness Incurred in respect of any Indebtedness described in this clause (b) or the foregoing paragraph (1); *provided* that, in the case of clause (iii), (x) such refinanced Indebtedness is in an aggregate principal not in excess of the aggregate principal amount of the Indebtedness being refinanced and (y) the weighted average life to maturity of such refinanced Indebtedness is not shorter than the maturity of the Indebtedness being refinanced;

(c) Indebtedness in respect of self-insurance obligations, performance, surety, appeal or similar bonds and guarantees of, or represented by deposits, bankers' acceptances or letters of credit Incurred in respect of the foregoing for the account of, the Issuer, the Guarantor or any of the Guarantor's Subsidiaries in the ordinary course of business;

(d) Hedging Agreements of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries in the ordinary course of business and not for speculative purposes;

(e) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, in each case Incurred in connection with the disposition of a business, assets or Capital Stock of a Subsidiary of the Guarantor; *provided* that the maximum aggregate liability in respect of such Indebtedness will at no time exceed the gross proceeds actually received by the Issuer, the Guarantor or the Subsidiaries of the Guarantor in connection with such disposition;

(f) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided, however*, that such Indebtedness is extinguished within five Business Days of its Incurrence;

(g) customer deposits and advance payments received from customers for the sale, lease or license of goods and services in the ordinary course of business;

(h) the guarantees of any Indebtedness permitted to be incurred by any of the foregoing provisions of this covenant; and

(i) Non-Recourse Debt of a Subsidiary of the Guarantor that is engaged exclusively in the exploration, development and production of the Caipipendi block in the Province of Tarija (Southeast Bolivia).

(3) For purposes of determining compliance with this covenant:

(a) in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including clause (1) above, the Issuer, in its sole discretion, may classify, and from time to time may reclassify, such item of Indebtedness in one of the above clauses; and

(b) the Issuer will be entitled to divide and classify, and from time to time may reclassify, an item of Indebtedness in more than one of the types of Indebtedness described above, including clause (1) above.

Accrual of interest, accrual of dividends, the accretion or amortization of accreted value or original issue discount, the payment of interest in the form of additional Indebtedness and the payment of dividends in the form of additional shares of Disqualified Stock, as the case may be, will not be deemed to be an Incurrence of Indebtedness for purposes of this covenant.

Notwithstanding any other provision of this covenant, neither the Issuer, the Guarantor or any of the Guarantor's Subsidiaries shall, with respect to any outstanding Indebtedness Incurred, be deemed to be in violation of this covenant solely as a result of fluctuations in the exchange rates of currencies.

For purposes of determining compliance with any U.S. Dollar denominated restriction on the Incurrence of Indebtedness, the U.S. Dollar equivalent principal amount of Indebtedness denominated in a foreign currency shall

be calculated based on the relevant currency exchange rate determined as the average daily observed currency exchange rates reported by *Banco de la Nación Argentina* for the trailing 30 calendar day period, including the date of Incurrence, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness. The principal amount of any Indebtedness Incurred to refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such refinancing Indebtedness is denominated calculated based on the relevant currency exchange rates as calculated in the first sentence of this paragraph.

(b) **Negative Pledge.** Each of the Issuer and the Guarantor shall not, and shall not permit any of the Guarantor's Subsidiaries to, create, assume or suffer to exist any Lien, other than a Permitted Lien, over the whole or any part of its present or future Property, without, at the same time or prior thereto, securing the Notes equally and ratably therewith.

(c) **Limitation on Restricted Payments.** Upon the occurrence of an Event of Default, the Guarantor shall not (i) during the period beginning immediately following such Event of Default until 90 days after notice of such Event of Default has been provided to the Holders in accordance with Condition 14, and for so long as such Event of Default is continuing; or (ii) at any time after the Notes have been accelerated pursuant to Article 24 of the Indenture, and for so long as such acceleration has not been rescinded or annulled pursuant to Article 24 of the Indenture or cured pursuant to Article 26 of the Indenture:

(A) make any dividend or other distribution on any of its ownership interests other than any payments made under, and in accordance with the terms of, the VAT Agreement, as such agreement is in effect as of the Issue Date;

(B) make any payments on account of the purchase, redemption, prepayment, repayment, retirement or acquisition of (x) any of its ownership interests or the ownership interests of any direct or indirect parent company of the Guarantor, or (y) any option, warrant or other rights to acquire any of such ownership interests; or

(C) make any payments or prepayment of principal of, or make any payments of interest on, any of its or the Issuer's Subordinated Debt, or make any repurchases, redemptions or other acquisitions thereof.

In addition, the Guarantor shall not (x) take any of the actions set forth in clauses (A), (B) and (C) above if any such actions would result in an Event of Default or (y) make any deposit for any of the purposes set forth in clauses (A), (B) and (C) above.

(d) **Limitation on Transactions with Affiliates.** Neither the Issuer nor the Guarantor nor any of the Guarantor's Subsidiaries will, directly or indirectly, enter into any transaction, including, without limitation, any conveyance, sale, lease or other disposition of Property, with an Affiliate of the Guarantor, unless (i) the terms of such transaction are on commercially reasonable terms that are no less favorable to the Guarantor than those which might be obtained in a comparable arm's length transaction at the time from a Person which is not such an Affiliate of the Guarantor and (ii) no Event of Default shall occur and be continuing as a result of such transaction.

(e) **Limitation on Mergers and Consolidations.** The Guarantor and the Issuer (collectively or individually) will not (i) in one or more related transactions, consolidate with or merge into or reorganize with or into, or directly or indirectly, transfer, convey, sell, lease or otherwise dispose of all or substantially all of its Property to, any other Person or (ii) permit any of its Material Subsidiaries to, in one or more related transactions, consolidate with or merge into or reorganize with or into, or directly or indirectly, transfer, convey, sell, lease or otherwise dispose of all or substantially all of its Property to, any other Person in each case unless: (A) in the case any of such transaction involving the Guarantor or the Issuer, the Person formed by the consolidation, merger or reorganization, if it is not the Guarantor or the Issuer, or that acquired by transfer, conveyance, sale, lease or other disposition of the Guarantor's or the Issuer's Property (any such Person, a "Successor"), shall expressly assume, pursuant to a supplemental indenture, all the obligations of the Issuer under the Notes and Indenture or of the Guarantor under the Guarantee and the Indenture, and, if such Successor shall so assume the obligations of the Issuer, the Guarantor shall

confirm, pursuant to a supplemental indenture, that its Guarantee applies in respect of the Successor's obligations under the Notes and the Indenture; (B) in the case of any such transaction involving any Material Subsidiary, the Person formed by the consolidation, merger or reorganization continues to be a Material Subsidiary, or the Person that acquired by transfer, conveyance, sale or lease or other disposition all of such Material Subsidiary's Property is a Material Subsidiary; (C) if immediately after giving effect to such transaction in accordance with the Conditions of the Notes (including giving effect to any Indebtedness incurred or anticipated to be incurred in connection with or in respect of such transaction (to the extent permitted)), the Guarantor or such Successor, as the case may be, would be permitted to incur at least U.S.\$1.00 of additional Indebtedness pursuant to the first paragraph of the covenant described under "Limitation on Indebtedness"; (D) if immediately after giving effect to such transaction in accordance with the Conditions of the Notes and the Indenture (including the substitution thereunder of any Successor for the Guarantor or the Issuer, as the case may be) and treating any Indebtedness incurred by the Guarantor, the Issuer or any Successor or any Material Subsidiary as a result of such transaction as having been incurred at the time of such transaction, no Event of Default with respect to the Notes shall have occurred and be continuing; (E) after giving effect to such transaction, the Guarantor or the Successor, as the case may be, must have Consolidated Net Worth that is equal to or greater than the Consolidated Net Worth of the Guarantor immediately prior to giving effect to such transaction; and (F) the Guarantor or the Issuer, as applicable, has delivered to the Trustee an Officer's Certificate (attaching the computations to demonstrate compliance with this paragraph) and an opinion of Argentine counsel (to the extent it is the Issuer) and an opinion of U.S. counsel (for either the Issuer or the Guarantor), each stating that such consolidation, merger or reorganization and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with the provisions of the Conditions of the Notes and the Indenture and that the conditions precedent in the Indenture and the Conditions of the Notes relating to such transaction have been complied with.

For purposes of the foregoing, the transfer (by lease, assignment, sale or otherwise, in a single transaction or series of transactions) of all or substantially all of the Property of one or more Subsidiaries, the Capital Stock of which constitutes all or substantially all of the Property of the Guarantor or the Issuer, shall be deemed to be the transfer of all or substantially all of the Property of the Guarantor or the Issuer, as applicable.

Upon any consolidation, combination or merger or any transfer of all or substantially all of the assets of the Guarantor or the Issuer in accordance with the foregoing in which the Guarantor or the Issuer is not the continuing entity, the Successor formed by such consolidation or into which the Guarantor or the Issuer is merged or to which such conveyance, lease or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Guarantor or the Issuer, as applicable, under the Indenture and the Notes with the same effect as if such Successor had been named as such.

(f) **Listing.** In the event that the Notes are listed as anticipated on the Luxembourg Stock Exchange for trading on the Euro MTF Market, the Issuer will use its commercially reasonable efforts to maintain such listing; *provided* that if, as a result of the European Union regulated market amended Directive 2001/34/EC (the "Transparency Directive") or any legislation implementing the Transparency Directive or other directives or legislation, the Issuer or the Guarantor could be required to publish financial information either more regularly than they otherwise would be required to or according to accounting principles which are materially different from the accounting principles which the Issuer or the Guarantor would otherwise use to prepare its published financial information, the Issuer may delist the Notes from the Luxembourg Stock Exchange in accordance with the rules of the exchange and seek an alternative admission to listing, trading and/or quotation for the Notes on a different section of the Luxembourg Stock Exchange or by such other listing authority, stock exchange and/or quotation system inside or outside the European Union as the Legal Representative may decide.

(g) **Suspension of Covenants.** If on any date following the Issue Date:

- (x) the Notes have been assigned Investment Grade Ratings by at least two Rating Agencies; and
- (y) no Default or Event of Default shall have occurred and be continuing,

then, beginning on that date and subject to the provisions of the following paragraph, the covenants listed in the following sentence (the “Suspended Covenants”) will automatically, without any notice of any kind, be suspended and the Issuer, the Guarantor and its Subsidiaries shall, subject to the following paragraph, have no obligation or liability whatsoever with respect to such covenants. The Suspended Covenants are: (i) “Limitation on Indebtedness,” (ii) “Limitation on Restricted Payments,” (iii) “Limitation on Transactions with Affiliates” and (iv) clauses (C) and (E) of the “Limitation on Mergers and Consolidations.”

If, during any period in which the Suspended Covenants are suspended, one of the two Rating Agencies (or more Rating Agencies in the event that the Notes have Investment Grade Ratings from more than two Rating Agencies) withdraws its Investment Grade Rating or downgrades its rating assigned to the Notes below an Investment Grade Rating, the Suspended Covenants shall thereafter be reinstated and be applicable pursuant to their terms (including in connection with performing any calculation or assessment to determine compliance with the terms of this Indenture), unless and until the Notes subsequently attain Investment Grade Ratings in accordance with the preceding paragraph (in which event the Suspended Covenants will again be suspended for such time that the Notes maintain such ratings); *provided, however*, that no Default, Event of Default or breach or violation of any kind will be deemed to exist under the Indenture or the Notes with respect to the Suspended Covenants (whether during the period when the Suspended Covenants were suspended or thereafter) based on, and neither the Issuer, the Guarantor nor any of its Subsidiaries will bear any liability (whether during the period when the Suspended Covenants were suspended or thereafter) for, any actions taken or events occurring after the Notes attain Investment Grade Ratings and before any reinstatement of the Suspended Covenants as provided above, or any actions taken at any time (whether during the period when the Suspended Covenants were suspended or thereafter) pursuant to any legal or contractual obligation arising prior to the reinstatement, regardless of whether those actions or events would have been permitted if the applicable Suspended Covenant had remained in effect during such period.

The Issuer shall deliver an Officers’ Certificate to the Trustee in the event that the Suspended Covenants are either suspended or reinstated. The Trustee will have no liability or responsibility with respect to the determination of whether any event or circumstances have or will result in the suspension or reinstatement of the Suspended Covenants.

(iv) Article 4: Events of Default

Article 4 of the Indenture shall, with respect to the Notes, be replaced with the following:

Each of the following shall constitute an Event of Default with respect to the Notes (“Event of Default”):

- (i) default in the payment of any interest or Additional Amounts on the Notes when it becomes due and payable, and continuance of any such default for a period of 5 calendar days;
- (ii) default in the payment of the principal of, or premium, if any, on the Notes, when due, at maturity, upon redemption, pursuant to repurchase required under the Indenture, by acceleration or otherwise and such default continues for a period of 3 calendar days;
- (iii) or default in the performance, or breach, of any covenant of the Issuer or the Guarantor contained in the Notes, the Guarantee or the Indenture (other than defaults specified in clause (i) or (ii) above), and continuation of such default or breach for a period of 60 calendar days after written notice to the Issuer and the Guarantor by the Trustee or to the Issuer and the Trustee by the Holders of at least 25% in aggregate principal amount of the outstanding Notes;
- (iv) failure by the Issuer, the Guarantor or any of the Guarantor’s Subsidiaries (a) to make any payment or payments, in an aggregate amount equal to or in excess of U.S.\$40 million (or its equivalent in any other currency or currencies), when due (including, with respect to any interest payment only, after the giving effect to any applicable grace period) with respect to one or more classes or issues of Indebtedness (other than the Notes); or (b) to perform any term, covenant, condition, or provision of one or more other Indebtedness (other than the Notes), which failure, in the case of this clause (b), results in an acceleration of

the maturity thereof of an aggregate amount equal to or in excess of U.S.\$40 million (or its equivalent in any other currency or currencies);

(v) one or more judgments, orders or decrees for the payment of money equal to or in excess of U.S.\$40 million (or its equivalent in any other currency or currencies) (to the extent not covered by insurance), either individually or in an aggregate amount, shall be entered against the Issuer or the Guarantor or any of its Subsidiaries or any of their respective properties and (a) shall not be discharged or fully bonded within 60 calendar days from the date of entry thereof or (b) there shall be a period of 60 calendar days during which a stay of enforcement of such judgment or order, by reason of pending appeal or otherwise, shall not be in effect;

(vi) the Issuer or the Guarantor shall (a) apply for or consent to the appointment of a receiver, trustee, liquidator or the like for itself or of its property, (b) be unable or admit in writing its inability to pay its debts as they mature, (c) make a general assignment for the benefit of its creditors, (d) be adjudicated bankrupt or insolvent, (e) file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or a judicial or extrajudicial *concurso preventivo de acreedores* or seeking to take advantage of any applicable insolvency law, (f) file any answer admitting the material allegation of a petition filed against it in any bankruptcy, reorganization or insolvency proceeding or (g) take any corporate action for the purpose of effecting any of the foregoing or the equivalent thereof under the laws of Argentina;

(vii) without its application, approval or consent, a proceeding shall be instituted in any court of competent jurisdiction seeking in respect of the Issuer or the Guarantor: adjudication in bankruptcy, reorganization, dissolution, winding-up, liquidation, a composition or arrangement with creditors, a re-adjustment of debt, the appointment of a trustee, receiver, liquidator or the like of the Issuer or the Guarantor or all or any of the assets thereof or other like relief in respect of the Issuer or the Guarantor under any applicable bankruptcy or insolvency law; and either (a) such proceeding shall not be actively contested by the Issuer or the Guarantor in good faith, or (b) such proceeding shall continue undismissed for any period of 60 consecutive calendar days, or (c) any order, judgment or decree shall be entered by any court of competent jurisdiction to effect any of the foregoing;

(viii) any authorization, consent, approval, license, filing or registration now or hereafter necessary to enable the Issuer or the Guarantor to perform its obligations under this Indenture, the Guarantee or a Note, or any law, rule or regulation necessary for a Holder to enforce the Issuer's or the Guarantor's obligations under the Indenture, the Guarantee or a Note in accordance with the terms of the Indenture, the Guarantee or such Note, shall be revoked, withdrawn, withheld or modified or shall cease to remain in full force and effect, or it shall become unlawful for the Issuer or the Guarantor to perform its obligations hereunder or thereunder or any Governmental Agency shall contest the legality or validity of any of the Notes or the Guarantee in a formal administrative, legislative or judicial proceeding;

(ix) any condemnation, seizure, compulsory purchase or expropriation by any Governmental Agency of assets of the Issuer or the Guarantor or its Subsidiaries (each an "Expropriation") which, in the aggregate, would be reasonably likely to have a material adverse effect upon the ability of the Issuer or the Guarantor, as the case may be to perform its obligations under the Indenture, the Notes or the Guarantee; *provided* that:

(a) non-discriminatory measures of general application adopted in good faith by any Argentine Governmental Agency and of the type which governmental authorities normally take in the public interest for requirements such as public safety, the collection of tax revenues, protection of the environment or regulation of economic activity shall not be regarded as constituting Expropriation;

(b) non-fulfillment by the Argentine Governmental Agencies of an obligation of a contractual nature towards the Issuer or the Guarantor shall not in itself or by itself constitute Expropriation; and

(c) any condemnation, seizure, compulsory purchase or expropriation of any property, rights or assets of the Issuer or the Guarantor or its Subsidiaries located, or revenues of the Issuer or the Guarantor derived from its operations, in the Republic of Bolivia shall not be regarded as constituting an Expropriation;

(x) a general moratorium shall be agreed or declared in respect of the payment or performance of the obligations of the Issuer and the Guarantor; and

(xi) the Guarantee shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect, if such Guarantee is not replaced by a substitute Guarantee or other security to the satisfaction of the Trustee and approved by the Holders of 66 2/3% in aggregate outstanding principal amount of the Notes present or represented at a duly convened meeting of such Holders at which a quorum is present within 45 calendar days after written notice to the Issuer and the Guarantor by the Trustee, or the Guarantor, or any Person acting on behalf of the Guarantor, shall deny or disaffirm its obligations under such Guarantee.

(v) Article 27: Defeasance and Covenant Defeasance.

Article 27 of the Indenture shall, with respect to the Notes, be amended such that clauses (ii) and (iii) of Section 27.4 shall be replaced with the following:

In the event that the Issuer elects to exercise its option pursuant to Article 27 of the Indenture in respect of the Notes in connection with defeasance or covenant defeasance, it shall be an additional condition to defeasance or covenant defeasance that the Issuer deliver to the Trustee (i) an Opinion of Counsel to the effect that the Holders of the Notes will not recognize income, gain or loss for Argentine income tax purposes as a result of such defeasance or covenant defeasance and will be subject to Argentine income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance or covenant defeasance had not occurred, and (ii) an Opinion of Counsel to the effect that the Holders of the Notes will not recognize income, gain or loss for United States federal income tax purposes as a result of such defeasance or covenant defeasance and will be subject to United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance or covenant defeasance had not occurred (in the case of defeasance, such opinion must refer to and be based upon a ruling of the United States Internal Revenue Service or a change in the United States federal income tax laws).

(vi) Definitions

For the purpose of the Notes, the following terms shall have the following meanings:

“Affiliate” of a specific Person means a Person that, directly or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with that specific Person.

“Argentine GAAP” means generally accepted accounting principles in Argentina, as in effect from time to time.

“Consolidated Capitalization” means, on any date of determination, the sum of Consolidated Indebtedness and Consolidated Net Worth.

“Consolidated EBITDA” means, on any date of determination, for the Guarantor and its Subsidiaries on a consolidated basis, the sales and other operating revenues less (i) operating expenses, (ii) transportation expenses, (iii) gross production assessments, (iv) hydrocarbon exploration expenses (excluding exploratory dry holes), (v)

general and administrative expenses and (vi) taxes other than income taxes, including export tariffs, for the four quarters ending on the fiscal quarter immediately preceding such date of determination and determined in accordance with U.S. GAAP.

“Consolidated Indebtedness” means, on any date of determination, all Indebtedness of the Guarantor and its Subsidiaries, determined on a consolidated basis in accordance with U.S. GAAP.

“Consolidated Interest Expense” means, on any date of determination, (i) all interest, whether cash or non-cash, expensed or capitalized (including the net effect attributable under any interest rate Hedging Agreements), (ii) amortization of debt discount and debt issuance costs, (iii) commissions and other fees owed with respect to letters of credit, acceptances and similar obligations, (iv) the interest component of any capitalized lease obligations, (v) the interest portion of any deferred payment obligation and (vi) all dividends paid or payable or accrued on any Disqualified Stock times a fraction, the numerator of which is one and the denominator of which is one minus the then current combined applicable statutory tax rate, in each case of the Guarantor and its Subsidiaries for the four quarters ending on the fiscal quarter immediately preceding such date of determination, determined on a consolidated basis in accordance with U.S. GAAP.

“Consolidated Net Worth” means, on any date of determination, all items which, in conformity with U.S. GAAP, are included under shareholders’ or members’ equity on a consolidated balance sheet.

“Consolidated Tangible Assets” means the total consolidated assets of the Guarantor as set forth on its balance sheet, less all amounts attributable to intangible capitalized items such as unamortized debt discount and expense, unamortized deferred charges, goodwill, patents, trademarks, service marks, trade names, copyrights and all other items which would be treated as intangible assets (excluding intangible drilling and development costs) on the consolidated balance sheet of the Guarantor prepared in accordance with U.S. GAAP.

“Disqualified Stock” means that portion of any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the sole option of the holder thereof, in any case, prior to or on the 91st day after the Maturity Date of the Notes.

“guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and any obligation, direct or indirect, contingent or otherwise, of any Person: (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keepwell, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise); or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part), *provided, however*, that the term “guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a correlative meaning. The term “guarantor” shall mean any Person guaranteeing any obligation.

“Hedging Agreements” means any swap agreement, cap agreement, collar agreement, futures contract, forward contract or similar arrangement with respect to interest rates, currencies or commodity prices.

“Incur” means issue, assume, guarantee, incur or otherwise become liable for; *provided, however*, that any Indebtedness or Capital Stock of a Person existing at the time such Person is merged or consolidated with the Issuer, the Guarantor or becomes a Subsidiary of the Guarantor (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time of such merger or consolidation or at the time it becomes a Subsidiary of the Guarantor. The term “Incurrence” when used as a noun shall have a correlative meaning. Neither the accretion of principal of a non-interest bearing or other discount security nor the capitalization of interest on Indebtedness shall be deemed the Incurrence of Indebtedness.

“Indebtedness” means, without duplication, in respect of any Person, (a) all such Person’s indebtedness for borrowed money or for the deferred purchase price of property or services (other than current trade liabilities incurred in the ordinary course of business and payable in accordance with customary practices), (b) any other indebtedness of such Person which is evidenced by a note, bond, debenture or similar instrument, (c) any obligation of such Person to pay rent and other amounts under any lease of (or other arrangement conveying the right to use) Property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on such Person’s balance sheet under U.S. GAAP, (d) all obligations of such Person in respect of outstanding letters of credit, acceptances and similar obligations created for the account of such Person, (e) all obligations of such Person created or arising under any conditional sale or other title retention agreement with respect to Property acquired by such Person, (f) net obligations of such Person under Hedging Agreements which are required to be marked to market under U.S. GAAP (*provided, however*, that for purposes of Article 4(iv) of the Indenture, “Indebtedness” shall include all obligations under Hedging Agreements), with the amount of such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time, (g) the principal component or liquidation preference of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock (excluding any accrued dividends), (h) any monetary obligation associated with Production Payments, (i) all Indebtedness guaranteed by such Person, and (j) all Indebtedness of others secured by a Lien on any Property owned by such Person even though such Person has not assumed or otherwise become liable for the payment thereof. For all purposes of this definition, the Indebtedness of any Person shall include its share of the Indebtedness of any partnership or joint venture in which such Person is a general partner or a joint venture.

“Investment Grade Rating” means a rating equal to or higher than Baa3 (or the equivalent) by Moody’s, BBB- (or the equivalent) by S&P and BBB- (or the equivalent) by Fitch, in each case with a stable or better outlook.

“Lien” means any mortgage, pledge, lien (including a *cesión fiduciaria* or other transfer as security for any Indebtedness or with recourse to the Issuer, the Guarantor or any Subsidiary of the Guarantor), or other similar encumbrance or security interest (including any conditional sale or other title retention agreement and the interest of a lessor under a capital lease); *provided, however*, that “Lien” shall not include any right or interest arising out of the sale (including through a *cesión fiduciaria* without recourse to the Issuer, the Guarantor or any Subsidiary of the Guarantor) by the Issuer, the Guarantor or any Subsidiary of Guarantor of accounts receivable relating to any receivables’ securitization or similar transaction.

“Permitted Liens” means:

- (1) Liens in existence as of the Issue Date;
- (2) Liens on any Property securing Indebtedness incurred or assumed for the purpose of financing all or any part of the acquisition, lease, development, construction, repair or improvement cost of any present or future Property of the Issuer, the Guarantor or any Subsidiary of the Guarantor *provided, however*, that (i) any such Lien does not extend to any other Property, (ii) such Lien created (whether or not perfected) in connection with the acquisition, lease, development, construction, repair or improvement of such Property within 90 days of completion thereof, and (iii) the Indebtedness secured by such Lien does not exceed 100% of the fair market value of such Property at the time such Indebtedness was Incurred;
- (3) Liens created on (i) the Property of the Subsidiary of the Guarantor engaged in the exploration, development and production of the Caipipendi block in the Province of Tarija (Southeast Bolivia) (such activities referred to herein as the “Caipipendi Project”) and (ii) the equity interests of the Subsidiaries referred to in clause (i) above for the sole purpose of the financing of the Caipipendi Project;
- (4) Liens incurred in connection with any Hedging Agreements entered into in the ordinary course of business for hedging and not speculative purposes;

(5) Liens in connection with worker's compensation, unemployment insurance or other social security, old age pension or public liability or statutory obligations, Liens securing any obligations to landlords, vendors, carriers, warehousemen, mechanics, workmen, materialmen or other like obligations;

(6) Liens arising by operation of law for which adequate reserves under U.S. GAAP or Argentine GAAP, as applicable, are, to the extent required thereunder, maintained;

(7) legal or equitable Liens deemed to exist by reason of the existence of any litigation or other legal proceeding or arising out of a judgment or award with respect to which an appeal is being or will timely and diligently be prosecuted in good faith and for which reserves adequate under U.S. GAAP or Argentine GAAP, as applicable, are maintained;

(8) Liens in connection with rights reserved to or vested in any Governmental Agency in connection with any Property of the Issuer or the Guarantor or any Subsidiary of the Guarantor;

(9) Liens for taxes, assessments or other governmental charges or levies that are not subject to penalty for non-payment or which are being diligently contested in good faith by appropriate proceedings and for which adequate reserves in accordance with U.S. GAAP or Argentine GAAP, as applicable, are, to the extent required thereunder, maintained;

(10) Liens on any Property acquired from a Person that is merged with or into the Issuer, the Guarantor or one or more of the Guarantor's Subsidiaries, or any Lien on the Property of any Person, existing at the time such Person becomes a Subsidiary of the Guarantor and, in either such case, is not created as a result of or in connection with or in anticipation of any such transaction; *provided, however*, that such Liens shall not extend to any other Property;

(11) Liens securing Indebtedness incurred to defease the Notes permitted hereunder to the extent the proceeds therefrom are applied concurrently to defease the Notes;

(12) Liens to secure Indebtedness incurred or assumed in connection with any extension, renewal, refinancing, refunding or exchange (or successive extensions, renewals, refinancings, refundings or exchanges), in whole or in part, of or for any Indebtedness secured by Liens referred in paragraphs (1) to (4) and (10) and (11) above; *provided, however*, that (i) such Liens do not extend to any Property other than the Property to which Liens securing the Indebtedness being renewed, extended, refinanced, refunded or exchanged attach, (ii) such Indebtedness is in an aggregate principal amount not in excess of the aggregate principal amount of the Indebtedness being renewed, extended, refinanced, refunded or exchanged and (iii) the maturity of such Indebtedness is not shorter than the maturity of the Indebtedness being renewed, extended, refinanced, refunded or exchanged; or

(13) any Liens not contemplated by paragraphs (1) to (12) above over the whole or any part of any present or future Property of the Issuer, the Guarantor or any Subsidiary of the Guarantor to secure Indebtedness that, in the aggregate, does not exceed at any time 5% of the Consolidated Tangible Assets of the Guarantor as reflected in its most recent consolidated financial statements.

"Non-Recourse Debt" means Indebtedness of a Person: (1) as to which none of the Issuer, the Guarantor or any Subsidiary of the Guarantor (a) provides any guarantee or credit support of any kind (including any undertaking, guarantee, indemnity, agreement or instrument that would constitute Indebtedness) or (b) is directly or indirectly liable (as a guarantor or otherwise); (2) no default with respect to which would permit (upon notice, lapse of time or both) any holder of any other Indebtedness of the Issuer, the Guarantor or any Subsidiary of the Guarantor to declare a default under such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity; and (3) the explicit terms of which provide there is no recourse against any of the assets of the Issuer, the Guarantor or any Subsidiary of the Guarantor.

“Production Payment” means production payment obligations recorded as liabilities or deferred revenues in accordance with U.S. GAAP, together with all undertakings and obligations in connection therewith.

“Property” means any asset, revenue or any other property, whether tangible or intangible, real or personal, including, without limitation, any oil and/or gas exploration, development and/or production permit or contract, any concession, any lease, any license, any right to receive income, any cash, any securities, any accounts and any other contract rights or interests.

“Rating Agencies” means Moody’s Investors Service, Inc., or any successor thereto (“Moody’s”), Standard & Poor’s Rating Service or any successor thereto (“S&P”), and Fitch, Inc., or any successor thereto (“Fitch”); or, if Moody’s, S&P or Fitch are not making a rating on the Notes publicly available, a U.S. nationally recognized statistical rating agency or agencies, as the case may be, selected by the Issuer which shall be substituted for Moody’s, S&P or Fitch, as the case may be.

“Subordinated Debt” means all unsecured Indebtedness of a Person for money borrowed which is subordinated in right of payment to the payment in full in cash of all Indebtedness evidenced by the Notes and the Guarantee, as applicable.

“Subsidiary” means, with respect to any Person, any entity of which more than 50% of the outstanding ownership interest having ordinary voting power to elect a majority of the governing body of such entity (irrespective of whether at the time ownership interests of any other class or classes of such entity shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned by such Person, by such Person and one or more other Subsidiaries of such Person or by one or more other Subsidiaries of such Person. When used in this definition, the term “Subsidiary” shall include any branches of the Guarantor or any of its Subsidiaries.

“U.S. GAAP” means generally accepted accounting principles in the United States, as in effect on the Issue Date.

“VAT Agreement” means that certain agreement dated July 31, 2000, among BP Argentina Exploration Company, Bidas Corporation and the Guarantor.

DISTRIBUTION

- | | |
|--|--|
| 34. (i) If syndicated, names of Managers: | Not Applicable |
| (ii) Stabilizing Manager (if any): | Not Applicable |
| (iii) Dealer’s Commission: | Not Applicable |
| 35. If non-syndicated, name of Dealers and Argentine Placement Agents: | Dealers: Credit Agricole Securities (USA) Inc., HSBC Securities (USA) Inc. and J.P. Morgan Securities Inc.

Argentine Placement Agents: HSBC Bank Argentina S.A. and J.P. Morgan Chase Bank, N.A., Sucursal Buenos Aires |
| 36. Additional selling restrictions: | See “Plan of Distribution” |

OPERATIONAL INFORMATION

37. (i) ISIN: Rule 144A: US69783TAA25
Regulation S: US69783UAA97
- (ii) CUSIP: Rule 144A: 69783T AA2
Regulation S: 69783U AA9
- (iii) CINS: Not Applicable
- (iv) Other: Not Applicable
38. Common Code: Rule 144A: 050804623
Regulation S: 050804909
39. Any clearing system(s) other than DTC and Euroclear and Clearstream, Luxembourg and the relevant identification number(s): Not Applicable
40. Delivery: Delivery against payment
41. The Agents appointed in respect of the Notes are: (i) The Bank of New York Mellon, as Trustee, Co-Registrar, Paying Agent and Transfer Agent. The address of the Trustee, Co-Registrar, Paying Agent and Transfer Agent is 101 Barclay Street, Floor 4 East, New York, New York 10286; and

(ii) Banco de Valores S.A., as Registrar, Paying Agent, Transfer Agent and Representative of the Trustee in Argentina. The address of the Registrar, Paying Agent, Transfer Agent and Representative of the Trustee in Argentina is Sarmiento 310 C1041AAH, Ciudad Autónoma de Buenos Aires, República Argentina.
42. Luxembourg Paying Agent, Transfer Agent and Listing Agent: The Bank of New York Mellon (Luxembourg) S.A. will be the Luxembourg Paying Agent and Transfer Agent in respect of the Notes. The address of the Luxembourg Paying Agent and Transfer Agent is Corporate Trust Services, Aerogolf Center, 1A, Hoehenhof, L-1376, Senningerberg, Luxembourg.

GENERAL

43. The aggregate principal amount of Notes issued has been translated into U.S. Dollars at the rate of [], producing a sum of (for Notes not denominated in U.S. Dollars): Not Applicable

44. Use of proceeds:

See “Use of Proceeds” in this Pricing Supplement.

LISTING APPLICATION

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the listing requirements of the Buenos Aires Stock Exchange and for the trading of the Notes on the *Mercado Abierto Electrónico S.A.* In addition, this Pricing Supplement and the Offering Circular comprise the details required to list the issue of Notes described herein pursuant to the listing requirements of the Luxembourg Stock Exchange for trading on the Euro MTF Market.

So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, the Issuer will also give notices to the Holders of the Notes by publication on the website of the Luxembourg Stock Exchange (www.bourse.lu). Notices to the Holders of the Notes may also be published in a newspaper with general circulation in Luxembourg (which is expected to be the Luxemburger Wort).

PAYING AGENTS; TRANSFER AGENTS; REGISTRAR

The Issuer has initially appointed the Registrar, Co-Registrar, Paying Agents, Transfer Agents and the Representative of the Trustee in Argentina named in the Offering Circular. The Issuer may at any time appoint additional or other Registrars, Co-Registrars, Paying Agents and Transfer Agents and terminate the appointment thereof; *provided, however*, that (i) while any Notes are outstanding, the Issuer will maintain a Co-Registrar, a Paying Agent and a Transfer Agent in New York City and (ii) as long as it is required by Argentine law or by the CNV, the Issuer will maintain a Registrar, a Paying Agent, a Transfer Agent and a Representative of the Trustee in Argentina. In the event required by the Indenture, notice of any resignation, termination or appointment of any Registrar, Co-Registrar, Paying Agent or Transfer Agent for the Notes, and of any change in the office through which any Registrar, Co-Registrar, Paying Agent or Transfer Agent will act, will be promptly given to the Holders of such the Notes in the manner described under “Description of the Notes—Notices” in the Offering Circular and to the CNV.

So long as any Notes are listed on the Luxembourg Stock Exchange, the Issuer will maintain a Paying Agent and Transfer Agent in Luxembourg. The Bank of New York Mellon (Luxembourg) S.A. will initially act as Paying Agent and Transfer Agent in Luxembourg. Upon any change in a Paying Agent or Transfer Agent, the Issuer will publish a notice in a leading daily newspaper of general circulation in Luxembourg (which is expected to be the Luxemburger Wort).

STABILIZING

In connection with the issue of the Notes, HSBC Securities (USA) Inc. (the “Stabilizing Manager”) (or persons acting on behalf of the Stabilizing Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager (or persons acting on behalf of a Stabilizing Manager) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilization action or over-allotment shall be conducted in accordance with all applicable laws and rules.

DEPOSIT OF FUNDS BY INVESTORS DOMICILED OUTSIDE OF ARGENTINA

The funds received by the Dealers from the sale of the Notes to investors domiciled outside of Argentina will be transferred (after giving effect to the payment of certain fees) by the Dealers to the account of the Issuer held at Citibank, N.A., New York, New York.

RATINGS

The Notes have received a local rating of AAA(arg) from Fitch and international ratings of Ba2 from Moody's and BB- from Fitch. A credit rating is not a recommendation to buy, sell or hold the securities and may be subject to revision, suspension or withdrawal at any time.

THIS PRICING SUPPLEMENT WILL BE INCORPORATED IN ITS ENTIRETY INTO, AND WILL BECOME PART, OF THE NOTES. IN THE EVENT OF ANY CONFLICT BETWEEN THE PROVISIONS OF THIS PRICING SUPPLEMENT AND THE TERMS AND CONDITIONS OF THE NOTES OR THE INDENTURE, THE PROVISIONS OF THIS PRICING SUPPLEMENT WILL PREVAIL WITH RESPECT TO THE NOTES.

USE OF PROCEEDS

The net proceeds from the offering of the Notes will be used by the Issuer in accordance with Section 36 under the Negotiable Obligations Law, for (i) investments in tangible assets in the blocks of the Issuer located in Argentina, (ii) for working capital in Argentina and (iii) to refinance debt of the Issuer, including, without limitation, approximately the following:

	<i>(in millions of U.S.\$)</i>
Short term debt in Pesos(1)	100.0
Short term debt in U.S. Dollars(1)	20.0
Current portion of long term debt.....	56.0
	<hr/> 176.0

(1) The actual amount of short term debt in Pesos may vary at the time of repayment. Short term debt in U.S. Dollars consists of, and short term debt in pesos may include, indebtedness held by affiliates of HSBC Securities (USA) Inc.

The investment program of working capital of the Issuer for the year 2010 is approximately US\$1 billion and includes mainly the drilling of 220 wells in the Golfo San Jorge basin, a deep well in the Acambuco area, and exploration well in the off-shore area CAA-40/CAA-46 and the expansion of waterflooding projects, increase of treatment capacity and compression and investments in infrastructure and maintenance.

For a description of the Issuer's indebtedness, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financing Activities" in the Offering Circular. For a description of potential conflicts of interests with the Dealers, see "Plan of Distribution" in this Pricing Supplement.

CAPITALIZATION

The following tables set forth the capitalization (including cash and cash equivalents) of each of the Issuer and the Guarantor as of December 31, 2009 (i) on an actual basis and (ii) as adjusted to give effect to the issuance and sale of the Notes in this offering and the use of the proceeds therefrom. Except as disclosed herein or in the Offering Circular, there has been no material change in the capitalization of the Issuer or the Guarantor since December 31, 2009. These tables should be read in conjunction with “Presentation of Financial Information and Other Matters” contained in the Offering Circular.

Capitalization of the Issuer

The following table sets forth the capitalization (which includes cash and cash equivalents) of the Issuer as of December 31, 2009 (i) on an actual basis and (ii) as adjusted to give effect to the issuance and sale of the Notes in this offering and the use of the proceeds therefrom and is derived from, and qualified in its entirety by reference to, the Issuer’s financial statements, which have been prepared in accordance with Argentine GAAP. This table should be read in conjunction with the Issuer’s financial statements included in the Offering Circular.

	As of December 31, 2009	
	Actual	As Adjusted
	<i>(in millions of pesos)</i>	
Cash and Cash Equivalents	766.1	1,963.1
Short-Term Debt:		
Short-term debt (including accrued interest)	802.2	346.2
Current portion of long-term debt.....	514.6	301.8
Current portion of financial bonds.....	—	—
Accrued interest on long-term financings.....	88.5	88.5
Total short-term debt.....	1,405.3	736.5
Long-Term Debt:		
Long-term debt	3,324.8	3,324.8
Financial bonds.....	950.0	2,850.0
Total long-term debt.....	4,274.8	6,174.8
Account with Pan American	5,438.5	5,438.5
Capital allocated to the Branch.....	221.8	221.8
Capital Adjustment	239.5	239.5
Total Capitalization of the Branch:	11,579.9	12,811.1

Capitalization of the Guarantor

The following table sets forth the consolidated capitalization (which includes cash and cash equivalents) the Guarantor as of December 31, 2009 (i) on an actual basis and (ii) as adjusted to give effect to the issuance and sale of the Notes in this offering and the use of the proceeds therefrom and is derived from the Guarantor's financial statements, which have been prepared in accordance with U.S. GAAP. The table should be read in conjunction with the Guarantor's financial statements included in the Offering Circular.

	As of December 31, 2009	
	Actual	As Adjusted
	<i>(in millions of U.S.\$)</i>	
Cash and Cash Equivalents	221.3	536.3
Short-Term Debt:		
Short-term debt (including accrued interest)	211.7	91.7
Current portion of long-term debt	149.6	93.6
Current portion of financial bonds	—	—
Accrued interest on long-term financings	22.7	22.7
Total short-term debt	<u>384.0</u>	<u>208.0</u>
Long-Term Debt:		
Long-term debt	919.4	919.4
Financial bonds	250.0	750.0
Total long-term debt	<u>1,169.4</u>	<u>1,669.4</u>
Members' Equity:		
Total Members' equity	4,610.1	4,610.1
Total Capitalization:	<u>6,163.5</u>	<u>6,487.5</u>

PLAN OF DISTRIBUTION

Subject to the terms and conditions contained in a purchase agreement among the Issuer, the Guarantor and the Dealers named below, the Issuer has agreed to sell to the Dealers, and each of the Dealers has, severally and not jointly, agreed to purchase from the Issuer, the principal amount of the Notes that appears opposite its name in the table below:

Dealers	Principal Amount
Credit Agricole Securities (USA) Inc.	U.S.\$166,666,000
HSBC Securities (USA) Inc.....	166,667,000
J.P. Morgan Securities Inc.	166,667,000
Total.....	<u>U.S.\$500,000,000</u>

The purchase agreement provides that the obligation of the Dealers to purchase the Notes is subject to certain conditions precedent and that the Dealers will purchase all of the Notes if any of the Notes are purchased.

The Issuer and the Guarantor have agreed to indemnify the Dealers against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the Dealers may be required to make in respect of any of these liabilities.

The Notes have not been registered under the Securities Act. The Dealers have agreed that they will offer or sell the Notes in the United States only to qualified institutional buyers pursuant to Rule 144A under the Securities Act and outside the United States pursuant to Regulation S under the Securities Act. See “Transfer Restrictions” in the Offering Circular.

New Issue of Securities

The Notes are a new issue of securities with no established trading market. Authorization has been received to list the Notes on the Buenos Aires Stock Exchange and an application has been made to trade the Notes on the *Mercado Abierto Electrónico S.A.* Application has also been made to list the Notes on the Luxembourg Stock Exchange for trading on the Euro MTF Market. However, no assurance can be given that the listing applications will be approved. The Dealers may make a market in the Notes after completion of the offering, but will not be obligated to do so, and may discontinue any market-making activities at any time without notice. Neither the Issuer nor the Dealers can provide any assurance as to the liquidity of the trading market for the Notes or that an active public market for the Notes will develop. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected.

Stabilization Transactions

In connection with the offering of the Notes, HSBC Securities (USA) Inc. may engage in over-allotment and stabilizing transactions. Over-allotment involves sales in excess of the offering size, which creates a short position for the Dealers. Stabilizing transactions involve bids to purchase the Notes in the open market for the purpose of pegging, fixing or maintaining the price of the Notes. Stabilizing transactions may cause the price of the Notes to be higher than it would otherwise be in the absence of those transactions. If HSBC Securities (USA) Inc. engages in stabilizing covering transactions, they may discontinue them at any time. Any over-allotment or stabilization action will be conducted in accordance with all applicable laws and regulations. See “Pricing Supplement—Stabilizing.”

Sales Outside the United States

Neither the Issuer nor the Dealers are making an offer to sell, or seeking offers to buy, the Notes in any jurisdiction where the offer and sale is not permitted.

Republic of Argentina

The Notes will be offered directly to the public in Argentina only through HSBC Bank Argentina S.A. and J.P. Morgan Chase Bank, N.A., Sucursal Buenos Aires (the “Argentine Placement Agents”), which are authorized under the laws and regulations of Argentina to offer and sell securities to the public in Argentina. The offering of the Notes in Argentina will be made by a substantially similar Pricing Supplement and Offering Circular in the Spanish language and in accordance with CNV regulations and the Joint Resolution. The Issuer and the Argentine Placement Agents will enter into a separate placement agreement governed by Argentine law.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), the Dealers have represented and agreed that, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”), they have not made and will not make an offer of the Notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that they may, with effect from and including the Relevant Implementation Date, make an offer of the Notes to the public in that Relevant Member State at any time:

- (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year, (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (c) in any other circumstances which do not require the publication by the issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of the Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State; and the expression “Prospectus Directive” includes any relevant implementing measure in each Relevant Member State.

United Kingdom

The Dealers have represented, warranted and agreed that:

- (a) they have only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the United Kingdom Financial Services and Markets Act of 2000 (“FSMA”)) received by them in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not, or would not, apply to the Issuer; and
- (b) they have complied and will comply with all applicable provisions of the FSMA with respect to anything done by them in relation to any Notes in, from or otherwise involving the United Kingdom.

Switzerland

The Notes will not be listed on the SWX Swiss Exchange and, accordingly, neither this Pricing Supplement nor the Offering Circular constitute a prospectus within the meaning of Article 652a or 1156 of the Swiss Code of Obligations or in accordance with the Listing Rules of the SWX Swiss Exchange.

Grand Duchy of Luxembourg

The Notes may not be offered or sold to the public in the Grand Duchy of Luxembourg, directly or indirectly, and neither this Pricing Supplement or the Offering Circular nor any circular, prospectus, form of application, advertisement, communication or other material may be distributed, or otherwise made available in, or from or published in, the Grand Duchy of Luxembourg, except for the sole purpose of the admission to trading and listing of the Notes on the Luxembourg Stock Exchange and except in circumstances which do not constitute a public offer of securities to the public.

Singapore

This Pricing Supplement and the Offering Circular have not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Pricing Supplement and the Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Notes under Section 275 except (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA, (2) where no consideration is given for the transfer or (3) by operation of law.

Other Jurisdictions

Pursuant to the Argentine Federal Tax Procedure Law (Law No. 11,683, as amended by Law No. 25,795 published in the Official Gazette on November 17, 2003), any local entity receiving funds of whatsoever nature (i.e., loans, capital contributions, etc.) from foreign entities located in low or non-tax jurisdictions are subject to income tax and value added tax, which taxes are calculated by reference to 110.0% of the funds so received, with no direct consequences to the investor in the Notes. This is as a consequence of a presumption that such amounts are profits for the local party who receives them. Certain limited restrictions apply, *provided* the Argentine party can irrefutably show that the funds so received are the result of activities performed in the low or non-tax jurisdiction by the foreign party from whom the funds were received. Although this amendment does not appear to apply *obligaciones negociables* placed by public offering under Argentine law, no assurance can be provided that this is the case.

Accordingly, the Issuer may restrict the funding from low or non-tax jurisdictions, in respect of the placement of Notes, as it could impose on the Issuer the consequences described in the preceding paragraph. Low or non-tax jurisdictions under Argentine legislation are listed in Section 21.7 of Decree No. 1,344/98.

Relationships with the Dealers

In the ordinary course of business, the Dealers and their affiliates have provided, and may in the future provide, investment banking, commercial banking, cash management, foreign exchange or other financial services to the Issuer and its affiliates for which they have received customary compensation and may receive compensation in the future. A portion of the net proceeds from this offering will be used by the Issuer to repay indebtedness held by affiliates of HSBC Securities (USA) Inc., which is one of the Dealers in this offering. See “Use of Proceeds.”

Settlement

The Notes have been delivered on May 7, 2010.

LISTING AND GENERAL INFORMATION

The Issuer and the Guarantor, having made all reasonable inquiries, confirm that the information contained in this Pricing Supplement and the Offering Circular which is material in the context of the offering of the Notes is true and accurate in all material respects and does not contain any untrue statement of material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading. The Issuer and the Guarantor accept responsibility accordingly.

Since December 31, 2009, the date of the latest audited financial statements of the Issuer and latest consolidated audited financial statements of the Guarantor included in the Offering Circular, there has been no material adverse change, or any development involving a prospective material adverse change, in or affecting the Issuer and the Guarantor's condition, financial position, management, properties, shareholders' equity, earnings, business affairs, business prospects or results of operations which is not otherwise disclosed herein or in the Offering Circular.

The Guarantor was formed under the laws of Delaware on September 29, 1997. The Issuer is registered in Argentina with the *Inspección General de Justicia*, under numbers 1868 and 1869 Book No. 54, Volume B of Foreign Bylaws since October 17, 1997. The establishment of the Program and the issuance of the Notes were authorized by the Legal Representative of the Issuer. The CNV authorized the establishment of the Program in Argentina by Resolution No. 16,064 dated February 6, 2009. Such CNV authorizations mean only that the information requirements of the CNV have been satisfied. The CNV has not rendered any opinion in respect of the information contained in the Offering Circular. The issuance and offering of the Notes were duly authorized by the Legal Representative of the Issuer dated as of April 5, 2010.

The Notes sold in offshore transactions in reliance on Regulation S under the Securities Act and represented by the Regulation S Global Note have been accepted for clearance through Clearstream, Luxembourg and Euroclear under Common Code 050804909 and ISIN No. US69783UAA97. The CUSIP No. and ISIN No. for the Rule 144A Global Note sold to qualified institutional buyers are 69783T AA2 and US69783TAA25.

The Issuer has filed an application to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF Market. The Issuer has also received authorization to list the Notes on the Buenos Aires Stock Exchange and has filed an application to trade the Notes on the *Mercado Abierto Electrónico S.A.*

Except as disclosed in the Offering Circular, on the date of this Pricing Supplement neither the Issuer or the Guarantor nor the Guarantor's subsidiaries are involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of this offering, nor, so far as the Issuer or the Guarantor are aware, is any such litigation or arbitration pending or threatened.

For so long as the Notes will be listed on the Luxembourg Stock Exchange, the following documents will be available at the offices of the Luxembourg Listing Agent, to the extent required by the listing rules of such exchange:

(i) the latest audited annual financial statements of the Issuer and the latest audited consolidated annual financial statements of the Guarantor, together with the independent auditors' report and the future unaudited quarterly financial statements of the Issuer and the future unaudited consolidated quarterly financial statements of the Guarantor;

(ii) the Guarantor's certificate of formation;

(iii) the Indenture;

(iv) the "Notes" in unexecuted, unauthenticated form; and

(v) the Offering Circular and this Pricing Supplement.



**Pan American Energy LLC,
Argentine Branch
U.S.\$1,200,000,000
Global Note Program
Guaranteed by Pan American Energy LLC**

Under the U.S.\$1,200,000,000 (or its equivalent in other currencies) global note program described herein (the "Program"), Pan American Energy LLC, Argentine Branch (the "Issuer" or the "Branch"), a branch of Pan American Energy LLC, a Delaware company ("Pan American," the "Company" or the "Guarantor") may from time to time issue in one or more tranches (each, a "Tranche") and/or one or more series (each, a "Series") of non-convertible Notes (the "Notes"). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Program will not exceed U.S.\$1,200,000,000 (or its equivalent in other currencies). Pan American will provide an unconditional guarantee (the "Guarantee") in respect of the Notes issued under the Program as and to the extent described in this listing offering circular (this "Offering Circular").

The principal amount, denomination, currency, issue price, maturity and interest and the other terms and conditions of each Series or Tranche of Notes will be described in a separate pricing supplement relating to each such Series or Tranche of Notes (each, a "Pricing Supplement"), which will supplement, modify or replace the general terms of the Program with respect to such Series or Tranche and the terms and conditions of the Notes described herein under "Description of the Notes" in this Offering Circular.

Except as further described herein, Notes issued under the Program may (i) be denominated in such currency or currencies as may be agreed, (ii) have maturities of not less than seven (7) days from the date of issue, (iii) be issued at par or at a premium or discount to par, (iv) bear interest at a fixed or floating rate or on an index- or formula-linked basis or be issued on a non-interest bearing fully-discounted basis, (v) provide that the amount payable upon redemption is fixed or index- or formula-linked and/or (vi) provide that payments of principal and/or interest should be made in a currency or currencies other than the original currency of issue, in each case, in accordance with the terms specified in the applicable Pricing Supplement.

The Notes will constitute direct, unsecured and unconditional obligations of the Issuer and will rank *pari passu* without any preference among them. The Notes will at all times rank at least equally in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer other than obligations given preferential treatment under applicable law. The Guarantee will constitute an unsecured and unconditional obligation of the Guarantor. The Guarantee will at all times rank at least equally in right of payment with all other present and future unsecured and unsubordinated obligations of Pan American, other than obligations given preferential treatment under applicable law.

The Notes may be issued from time to time through one or more dealers appointed in connection with such issuance (each a "Dealer" and, together, the "Dealers," which expression will include any additional Dealer appointed under the Program from time to time). Notes may also be issued directly by the Issuer to third parties other than Dealers. The offer, sale and subscription of the Notes may be subject to certain restrictions, described in this Offering Circular and in the applicable Pricing Supplement. The Issuer reserves the right to withdraw, cancel or modify any offering of Notes contemplated by this Offering Circular or any applicable Pricing Supplement. This Offering Circular may only be used for the purpose for which it was published. See "Subscription and Sale" and "Transfer Restrictions" in this Offering Circular.

See "Risk Factors" beginning on page 17 of this Offering Circular for a discussion of certain factors that prospective investors should consider in connection with making an investment in the Notes.

The Notes upon issuance will constitute *obligaciones negociables simples no convertibles en acciones* under, and will be issued and placed pursuant to and in compliance with all the requirements of, the Argentine Negotiable Obligations Law No. 23,576, as amended (the "Negotiable Obligations Law"), Joint Resolution No. 470-1738/2004, as amended by Joint Resolution No. 500-2222/07 (the "Joint Resolution"), issued by the Argentine *Comisión Nacional de Valores* (the "CNV") and the Argentine *Administración Federal de Ingresos Públicos* (the "Argentine Tax Authority"), and are entitled to the benefits set forth therein and subject to the procedural requirements under Decree No. 677/2007 issued by the National Executive Branch of Argentina (the "Argentine Executive Branch") and to any other applicable Argentine laws and regulations.

The Notes and the Guarantee have not been, and upon issuance will not be, registered under the U.S. Securities Act of 1933, as amended, (the "Securities Act") or any state securities laws. Unless the Notes are registered under the Securities Act, the Notes may be offered in the United States only in transactions that are exempt from, or not subject to, the registration requirements of the Securities Act and the securities laws of other jurisdictions. Accordingly, the Issuer will only offer and sell Notes in transactions exempt from registration under the Securities Act to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act ("Rule 144A")) or outside the United States in reliance on Regulation S under the Securities Act ("Regulation S"). See "Subscription and Sale" and "Transfer Restrictions" in this Offering Circular.

Application may be made to list the Notes on the *Bolsa de Comercio de Buenos Aires* (the "Buenos Aires Stock Exchange"). Notes may also be listed on other or additional stock exchange(s) or self-regulated markets within or outside Argentina or may not be listed on any stock exchange or self-regulated market. The applicable Pricing Supplement will specify whether the Notes will be listed on the Buenos Aires Stock Exchange or any other stock exchange or whether the Notes will not be listed on any stock exchange.

The establishment of the Program has been authorized by Resolution No. 16,064 of the CNV dated February 6, 2009. Such authorization solely means that the information requirements of the CNV have been satisfied. The CNV has not rendered any opinion in respect of the information contained in this Offering Circular. The accuracy of the accounting, financial, economic and all other information contained in this Offering Circular is the sole responsibility of the legal representative (*representante legal*) of the Issuer, as determined in accordance with Argentine law (the "Legal Representative"). The Legal Representative (on behalf of the Issuer) hereby represents and warrants that, as of the date hereof, this Offering Circular contains true and complete information regarding any material fact that may affect the economic and financial condition of the Issuer and the Guarantor as well as all other information that is required to be furnished to investors in respect of the Program in accordance with applicable Argentine laws and regulations.

Offers of the Notes to the public in the Republic of Argentina will be made using a pricing supplement in the Spanish language (the "Argentine Pricing Supplement") along with a Spanish language prospectus describing the Program (the "Argentine Program Circular"), which together will contain substantially similar information as contained or incorporated by reference in this Offering Circular, but in a different format.

THE ISSUER HAS ELECTED NOT TO RATE THE PROGRAM. THE DECISION TO RATE A SERIES OF NOTES WILL BE MADE ON A SERIES-BY-SERIES BASIS, AS SET FORTH IN THE APPLICABLE PRICING SUPPLEMENT. SEE "RATINGS" IN THIS OFFERING CIRCULAR.

This Offering Circular together with the applicable Pricing Supplement constitute a prospectus for purposes of Luxembourg law on Prospectuses for Securities, dated July 10, 2005.

The date of this Offering Circular is April 23, 2010.

Unless the context otherwise requires, references in this Offering Circular and any applicable Pricing Supplement to “Pan American,” the “Company” or the “Guarantor” mean Pan American Energy LLC, a Delaware company, together with its Argentine branch and subsidiaries (both in Argentina and outside of Argentina). References to the “Branch” or the “Issuer” are to Pan American’s operating branch in Argentina, which carries out a significant part of Pan American’s exploration and production activities in Argentina. References to “subsidiaries” are to Pan American’s direct and indirect subsidiaries, including its principal subsidiaries which are as follows: Pan American Sur S.A. (“Pan American Sur”); Pan American Fuegoína S.A. (“Pan American Fuegoína”); PAE E&P Bolivia Ltd (“Pan American E&P Bolivia”); PAE Oil & Gas Bolivia Ltda. (“Pan American Oil & Gas Bolivia”); Pan American Energy Chile Limitada (“Pan American Chile”) and Pan American Energy Holdings Ltd. (“Pan American Holdings”). References to “related companies” are to those companies in which Pan American has a direct or indirect equity participation of less than 50%, including its principal related companies, which are as follows: Oleoductos del Valle S.A. (“Oldeval”); Terminales Marítimas Patagónicas S.A. (“Termap”); Distribuidora de Gas de Montevideo S.A. (“DGM”); Central Dock Sud S.A. (“CDS”); Gasoducto Cruz del Sur S.A. (“GCdS”) and Gas Link S.A. (“Gas Link”).

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IMPORTANT NOTICE

THIS OFFERING CIRCULAR CONTAINS IMPORTANT INFORMATION ABOUT THE COMPANY AND SIGNIFICANT RECENT DEVELOPMENTS IN ARGENTINA AND BOLIVIA. POTENTIAL PURCHASERS OF NOTES SHOULD ENSURE THAT THEY UNDERSTAND ALL OF THE RISKS INVOLVED AND THAT THEY CONSIDER THE SUITABILITY OF THE NOTES AS AN INVESTMENT IN LIGHT OF THEIR OWN FINANCIAL AND OTHER CIRCUMSTANCES. SEE “RISK FACTORS” FOR A DISCUSSION OF CERTAIN FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE NOTES.

The Notes have not been and, upon issuance, will not be registered under the Securities Act or any state securities laws. Unless the Notes are registered under the Securities Act, the Notes may be offered only in transactions that are exempt from registration under the Securities Act and the securities laws of other jurisdictions. This Offering Circular does not constitute an offer to sell, or a solicitation or an offer to buy, any Note offered hereby or under the applicable Pricing Supplement by any person in any jurisdiction in which it is unlawful for that person to make an offer or solicitation.

It is the intention of the Issuer to qualify all Notes issued under the Program (including those placed pursuant to Rule 144A and Regulation S) as publicly placed Notes in accordance with Argentine Law No. 17,811, the Negotiable Obligations Law and other applicable Argentine laws and regulations.

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except pursuant to an exemption from registration under the Securities Act and the applicable securities laws of the states of the United States. See “Subscription and Sale” and “Transfer Restrictions” in this Offering Circular. No representation can be made as to the availability of any exemption under the Securities Act or the securities laws of any other jurisdiction for resale of the Notes.

Each person receiving this Offering Circular and any applicable Pricing Supplement acknowledges and agrees that (i) such person is (A) purchasing or otherwise receiving the Notes for its own account or for the benefit of an account with respect to which it exercises sole investment discretion and that it or such account is a qualified institutional buyer as defined in Rule 144A (a “QIB”) and that such person is aware that the sale to it of Notes is being made in reliance on Rule 144A or (B) not a U.S. person within the meaning of Regulation S under the Securities Act and has not received delivery of this Offering Circular in the United States, its territories and possessions, any state of the United States or the District of Columbia and (ii) the Notes have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged or otherwise transferred except (a) in reliance on Rule 144A to a person whom the seller reasonably believes is a QIB, (b) outside the United States in reliance on Regulation S or (c) pursuant to another exemption from registration under the Securities Act (if available), and in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction, (iii) such person has been afforded an opportunity to request from the Issuer and the Guarantor (directly or through the Issuer) and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained therein, (iv) such person has not relied on the Dealers or any person affiliated with the Dealers in connection with its investigation of the accuracy of such information or its investment decision, and (v) no person has been authorized to give any information or to make any representation not contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer or the Guarantor or the Dealers.

Except as required by applicable law or regulation, no representation, warranty or undertaking, express or implied, is made, no separate verification has been made, and no responsibility is accepted by the Dealers, as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Issuer or the Guarantor in connection with the Notes. The Dealers accept no liability in relation to the information contained in this Offering Circular, any applicable Pricing Supplement or any other information provided by the Issuer or the Guarantor in connection with the Notes, except for any liability arising from or in respect of any applicable law or regulation.

Neither this Offering Circular, any applicable Pricing Supplement nor any other information supplied in connection with the issuance of Notes under the Program is intended to provide the basis of any credit evaluation

and should not be considered as a recommendation by the Issuer or the Guarantor or the Dealers that any recipient of this Offering Circular, any applicable Pricing Supplement or of any other information supplied in connection with the Notes should purchase any of the Notes. Each investor contemplating purchasing any of the Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Guarantor. Neither this Offering Circular nor any other information supplied in connection with the Notes constitutes an offer or invitation by or on behalf of the Issuer or the Guarantor or the Dealers to any person to purchase any Notes other than the Notes described in the relevant Pricing Supplement to this Offering Circular relating thereto.

The delivery of this Offering Circular does not at any time imply that the information contained herein concerning the Issuer or the Guarantor is correct at any time subsequent to the date hereof or that any other information included in any applicable Pricing Supplement supplied in connection with the issuance of Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer or the Guarantor or subsidiaries of the Issuer or the Guarantor during the effectiveness of the Program. Investors should review the most recent financial statements of the Issuer and the Guarantor when deciding whether or not to purchase any of the Notes.

The distribution of this Offering Circular and the applicable Pricing Supplement and the offer or sale of the Notes may be restricted by law in certain jurisdictions. Persons into whose possession this Offering Circular, any Pricing Supplement or any Notes come must inform themselves about, and observe, any such restrictions. In particular, there are restrictions on the distribution of this Offering Circular and any Pricing Supplement and the offer or sale of the Notes in the United States, the European Union, the United Kingdom and Argentina. See “Subscription and Sale” and “Transfer Restrictions” in this Offering Circular.

The Notes and the Guarantee have not been approved or disapproved by the U.S. Securities and Exchange Commission (“SEC”), any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of an offering of Notes or the accuracy or the adequacy of this Offering Circular. Any representation to the contrary is a criminal offense in the United States.

In connection with the issue of any Tranche or Series of Notes, the Dealer or Dealers, if any, named as the stabilizing manager (the “Stabilizing Manager”) (or persons acting on behalf of any Stabilizing Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager (or persons acting on behalf of a Stabilizing Manager) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche or Series of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche or Series of Notes and 60 days after the date of the allotment of the relevant Tranche or Series of Notes. Any stabilization action or over-allotment shall be conducted in accordance with all applicable laws and rules.

Pursuant to Argentine Decree No. 677/2001 issued by the Argentine Executive Branch, the issuers of securities, together with the members of their boards of directors and fiscal councils (the latter with respect to matters within their authority), the offerors of such securities with respect to the information about such securities, and the persons who signed the offering circular related to a public offering of securities, are liable for all the information included in the offering circular filed with the CNV. The entities and dealers who participate as arrangers or placement agents for the purchase or sale of securities by means of public offering shall carefully review the information contained in the offering circular, and experts or third parties who render an opinion on certain information contained therein will only be liable for the part of the information on which they rendered such opinion.

Pursuant to Argentine law No. 24,587 and Decree No. 259/1996 issued by the Argentine Executive Branch, Argentine companies cannot issue notes to the bearer or in fully registered and endorsable form; provided, however, that, in the case of debt securities or similar securities authorized for public offering, the form requirements of the Argentine Law will be deemed to be complied with if such securities are represented by a global or partial certificate registered or deposited with Argentine or non-Argentine clearing systems authorized by the CNV, to the effect they will be deemed definitive, negotiable and divisible. Pursuant to Resolution No. 368/2001 of the CNV, Euroclear

System (“Euroclear”), Clearstream Banking, *société anonyme* (“Clearstream”), The Depository Trust Company (“DTC”) and *Caja de Valores S.A.* are clearing systems authorized by the CNV. Thus, to the extent that such provisions are applicable, the Issuer may issue Notes that comply with such requirements.

TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSONS, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

SERVICE OF PROCESS AND ENFORCEABILITY OF CIVIL LIABILITIES

The Issuer is the Argentine branch of Pan American, a company formed in the State of Delaware, United States. Most of the members of Pan American’s management committee and executive officers named in this Offering Circular reside outside of the United States. In addition, all or a substantial portion of the assets of Pan American and of these persons are located outside of the United States. As a result, it may not be possible for investors to serve process upon such persons or to enforce against the Issuer or such persons, in U.S. courts, judgments obtained in such courts predicated solely upon civil liability provision of the laws of jurisdictions other than Argentina and the other jurisdictions where such assets are located or such persons reside, including any judgments predicated upon the civil liability provisions of the U.S. federal securities laws of the United States. Pan American, however, is subject to process in the United States. Pan American has been advised by its Argentine in-house counsel, Gonzalo Fratini, that there is doubt as to the enforceability, in original actions in Argentine courts, of liabilities predicated solely upon the U.S. federal securities laws and as to the enforceability in Argentine courts of judgments of U.S. courts obtained in actions against the Issuer or the Guarantor or such persons predicated upon the civil liability provisions of the U.S. federal securities laws. The Indenture (as defined in “Description of the Notes”), under which the Notes are to be issued, provides that the Issuer and the Guarantor will appoint Law Debenture Corporate Services, Inc. as agent for service of process in any suit, action or proceeding with respect to the Indenture or the Notes, and for actions brought under federal or state securities laws in the United States District Court for the Southern District of New York, the Supreme Court of the State of New York, New York County and any appellate court from either thereof, and that the Issuer and the Guarantor will submit to the jurisdiction of such courts in connection with such suits, actions or proceedings.

AVAILABLE INFORMATION

The Issuer and the Guarantor have agreed that, for so long as any Notes are “restricted securities” within the meaning of Rule 144A(a)(3) under the Securities Act, the Issuer and the Guarantor will, during any period in which they are neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner or to the Trustee (as defined in “Description of the Notes”) for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or Trustee, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

A copy of the Argentine Program Circular, any supplements thereto and any Pricing Supplement related to any Tranche and/or Series of Notes to be issued thereunder, may be obtained at the CNV’s website (www.cnv.gov.ar).

UNITED STATES TREASURY DEPARTMENT CIRCULAR 230 NOTICE

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, YOU ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS OFFERING CIRCULAR OR ANY DOCUMENT REFERRED TO OR INCORPORATED BY REFERENCE HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY YOU FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON YOU UNDER THE UNITED STATES INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS WRITTEN FOR USE IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) YOU SHOULD SEEK ADVICE BASED ON YOUR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Offering Circular may include statements which are forward-looking within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, principally in “Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business.” The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect” and similar words are intended to identify forward-looking statements. The Issuer and the Guarantor have based these forward-looking statements largely on their current expectations and projections about future events and trends affecting their business. These expectations and projections are subject to significant risks and uncertainties and might not prove accurate. Important factors that could cause actual results to differ materially from the forward-looking statements made in this Offering Circular include:

- general economic, political and business conditions in Argentina, Bolivia, Uruguay and Chile;
- inflation and changes in currency exchange rates;
- existing and future governmental policies and regulations in Argentina, Bolivia, Uruguay and Chile;
- the availability of financing at reasonable terms;
- changes in prices of hydrocarbons and oil products;
- changes to Pan American’s capital expenditure plans;
- increased costs;
- operational risks inherent in hydrocarbon exploration and production;
- risks inherent in hydrocarbon reserve estimations; and
- other factors described under “Risk Factors” herein.

All forward-looking statements contained in this Offering Circular are qualified in their entirety by these risks, uncertainties and other factors. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their respective dates. The Issuer and the Guarantor disclaim any obligation or undertaking to update publicly or revise any forward-looking statement contained in this Offering Circular, whether as a result of new information, future events or otherwise. Future events or circumstances could cause actual results to differ materially from historical results or those anticipated.

PRESENTATION OF FINANCIAL INFORMATION AND OTHER MATTERS

Branch as Issuer

The Branch is treated as a separate legal entity for Argentine tax and regulatory purposes. It is, therefore, required to comply with Argentine tax and regulatory requirements as if it were a separate legal entity. As a result, the Branch is designated as the issuer under the Program. To assure purchasers of Notes issued under the Program that all of the assets and revenues of Pan American are available to support the Issuer's payment obligations under the Notes, Pan American (which includes the Branch) is the guarantor of the Branch's obligations under the Notes.

Currency of Accounts and Accounting Principles

The Branch maintains its financial books and records its financial statements in Argentine pesos. The financial statements of the Branch are prepared in accordance with generally accepted accounting principles in Argentina ("Argentine GAAP") and the regulations of the CNV. The limited financial information contained herein that relates solely to the Branch, included under "Capitalization—Capitalization of the Branch" in this Offering Circular and the financial statements and notes thereto of the Branch included in this Offering Circular, are presented in the same form in which the Branch's books and records are maintained.

Pan American maintains its financial books and records its financial statements in U.S. dollars. The consolidated financial statements of Pan American included in this Offering Circular are prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). All financial information contained herein that relates to Pan American is presented in the same form in which Pan American's books and records are maintained.

Argentine GAAP and U.S. GAAP differ in certain material respects from one another and from generally accepted accounting principles in certain other countries. Potential investors should consult their own professional advisors for an understanding of the difference between Argentine GAAP and U.S. GAAP, or generally accepted accounting principles in other jurisdictions, and for an understanding of how those differences might affect the financial information contained herein. See "Annex A—Summary of Principal Differences Between Argentine GAAP and U.S. GAAP" for a description of the principal differences between Argentine GAAP and U.S. GAAP.

On January 23, 2009, the Bolivian government, through Supreme Decree No. 29,888, nationalized 8,049,660 shares of Empresa Petrolera Chaco S.A. ("Chaco"), owned by the Company, which represented 50% of the total shares of Chaco. Prior to such nationalization, Chaco's financial statements were prepared in accordance with generally accepted accounting principles in Bolivia ("Bolivian GAAP"). For the purpose of consolidating such financial statements into the financial statements of Pan American, a U.S. GAAP version of Chaco's financial statements was prepared. Accordingly, Pan American's consolidated financial statements for and as of the years ended December 31, 2008 and 2007, included in this Offering Circular, reflect the consolidation (line-by-line) of the assets, liabilities, shareholders' equity and results of operations of Chaco as of such dates and for the periods then ended. As a result of the nationalization of almost all of Pan American's shares in Chaco, Pan American's consolidated financial statements as of and for the year ended December 31, 2009 reflect the effect of the deconsolidation of Chaco's accounts from the consolidated financial statements of Pan American, which became effective as of January 1, 2009. Following the deconsolidation of Chaco, Pan American recorded the net balance of its investment in Chaco as other non-current accounts receivable. See notes 10 and 22 to Pan American's financial statements included in this Offering Circular.

As a result of the deconsolidation of Chaco, Pan American's consolidated financial statements as of and for the years ended December 31, 2008 and 2007 and Pan American's consolidated financial statements as of and for the year ended December 31, 2009 are not fully comparable. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Comparability of Financial Information—Comparability of Pan American's Financial Statements After Deconsolidation of Chaco."

As of December 31, 2008 and 2007 and for the years then ended, Chaco's assets represented approximately 13% of Pan American's total consolidated assets and Chaco's revenues represented 16% and 13%, respectively, of Pan American's consolidated revenues.

Financial Statements

This Offering Circular includes the annual audited financial statements and notes thereto of the Branch as of and for the year ended December 31, 2009 compared with the year ended December 31, 2008 and as of and for the year ended December 31, 2008 compared with the year ended December 31, 2007 (the "Branch's Financial Statements").

This Offering Circular also includes the annual audited consolidated financial statements and notes thereto of Pan American as of December 31, 2008 and 2009 and for the years ended December 31, 2007, 2008 and 2009 ("Pan American's Financial Statements").

The audits of both the Branch's Financial Statements and Pan American's Financial Statements were carried out by Sibille, a partnership established under Argentine law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG"), a Swiss entity, as stated in their report on the financial statements included in this Offering Circular.

Because the Branch's Financial Statements reflect only a portion of the consolidated assets, liabilities, members' equity and results of operations of Pan American that are reflected in Pan American's Financial Statements and because of the differences between Argentine GAAP and U.S. GAAP, the Branch's Financial Statements and Pan American's Financial Statements are not fully comparable. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Comparability of Financial Information—Comparability of Pan American's Financial Statements to the Branch's Financial Statements."

The independent auditors' report issued by KPMG regarding Pan American's Financial Statements and, only with respect to Pan American's financial statements as of and for the years ended December 31, 2008 and 2007, expressed a qualified opinion due to a scope limitation because the auditors were unable to obtain audited financial statements of Chaco as of and for the year ended December 31, 2008 and the update of such report for the year ended December 31, 2007. See "Risk Factors—Risk Factors Related to Bolivia and Other Emerging Market Countries—Political, Social and Economic Instability in Bolivia and Nationalization of Chaco" and "Business—History of Pan American—The Chaco Nationalization."

Basis of Consolidation of Financial Statements

In accordance with U.S. GAAP, Pan American consolidates the financial statements of all entities in which it owns more than a 50% voting equity interest. Receivables, payables and transactions among members of the consolidated group and companies under its control are eliminated in the consolidation process. The ownership interests of third-party shareholders in those companies are reflected in the non-controlling interest. Investments in oil and gas exploration and production joint ventures are proportionally consolidated by Pan American. See "Business—Subsidiaries and Affiliates" and notes 1 and 2.2 to Pan American's Financial Statements.

Currency Conversions

Unless otherwise specified, references herein to "U.S. dollars," "dollars" or "U.S.\$" are to United States dollars, references to "pesos" or "Ps." are to Argentine pesos, references to "sterling" and "£" are to the lawful currency of the United Kingdom and references to "euro" and "€" are to the single European currency adopted by certain participating member countries of the European Union. Unless otherwise indicated, U.S. dollar amounts that have been translated from pesos or from another currency or peso amounts that have been converted from U.S. dollars or from another currency have been so translated in accordance with translation principles applicable to U.S. GAAP translations. In the case of peso-denominated amounts related to assets and liabilities of Pan American, year-end exchange rates published by *Banco Central de la República Argentina* (the Central Bank of the Argentine Republic or the "Central Bank") were applied, which resulted in exchange rates of U.S.\$1.00 to Ps.3.15 (the exchange rates as

of December 31, 2007) for 2007, U.S.\$1.00 to Ps.3.45 (the exchange rate as of December 31, 2008) for 2008, and U.S.\$1.00 to Ps.3.80 (the exchange rate as of December 31, 2009) for 2009; in the case of peso-denominated amounts related to revenues, costs and capital expenditures, the exchange rate applied was that which prevailed on the date of each applicable transaction and in accordance with translation principles applicable to Argentine GAAP translations. In the case of U.S. dollar denominated amounts related to assets and liabilities of the Branch, year-end exchange rates were applied, which resulted in exchange rates of U.S.\$1.00 to Ps.3.11 (for assets) and Ps.3.15 (for liabilities) (the exchange rate as of December 31, 2007) for 2007, U.S.\$1.00 to Ps.3.41 (for assets) and Ps.3.45 (for liabilities) (the exchange rate as of December 31, 2008) for 2008, U.S.\$1.00 to Ps.3.76 (for assets) and Ps.3.80 (for liabilities) (the exchange rate as of December 31, 2009) for 2009; and, in the case of U.S. dollar denominated amounts related to revenues, costs and capital expenditures, the exchange rate applied was that which prevailed on the date of each applicable transaction, amounts which then were adjusted for inflation at year-end by means of the Argentine wholesale price index (“WPI”) for years 2001 and 2002. Adjustment for inflation was discontinued on March 1, 2003 by Decree No. 664/2003 in Argentina. See “Exchange Rates” for information regarding the rate of exchange between the peso and the U.S. dollar.

Consolidated EBITDA

Pan American’s consolidated earnings before interest, taxes, depreciation and amortization (“Consolidated EBITDA”) for a period consists of sales and other operating revenues less (i) operating expenses, (ii) transportation expenses, (iii) gross production assessments, (iv) hydrocarbon exploration expenses (excluding exploratory dry holes), (v) general and administrative expenses and (vi) taxes other than income taxes, including export tariffs, in each case for the relevant period, on a consolidated basis. Consolidated EBITDA is not a U.S. GAAP measure, does not represent cash flow for the relevant periods and should not be considered as an alternative to net income (which is determined in accordance with U.S. GAAP) as an indicator of Pan American’s operating performance or as an alternative to cash flow (which is determined in accordance with U.S. GAAP) as a source of liquidity.

Consolidated EBITDA has important limitations as an analytical tool, and investors should not consider it in isolation, as indicative of the cash available to the Issuer or Pan American to make payments under the Notes and the Guarantee, respectively. Consolidated EBITDA does not reflect (a) cash expenditures, or future requirements for capital expenditures or contractual commitments; and (b) changes in, or cash requirements for, working capital needs. Because of these limitations, Pan American primarily relies on its results as reported in accordance with U.S. GAAP and uses Consolidated EBITDA only supplementally. In addition, because other companies may calculate Consolidated EBITDA differently than Pan American, Consolidated EBITDA is not comparable to similarly titled measures reported or used by other companies. Investors are cautioned not to place undue reliance on Consolidated EBITDA.

The following table sets forth a reconciliation of Pan American's net income to Consolidated EBITDA for the years ended December 31, 2007, 2008 and 2009.

	As of and for the Year Ended December 31,		
	2007	2008	2009
	<i>(in thousands of U.S.\$)</i>		
Consolidated EBITDA	1,403,008	1,278,995	1,591,459
Interest income.....	20,348	10,838	4,390
Other income	21,240	20,792	9,454
Third parties' hydrocarbons sales (net).....	414	—	—
Hydrocarbon exploratory dry hole expenses.....	(11,770)	(43,312)	—
Depreciation, depletion and amortization	(396,773)	(423,122)	(429,526)
Interest expense	(78,636)	(106,807)	(110,214)
Other financial results.....	(8,290)	(10,866)	(18,924)
Other expenses.....	(35,071)	(45,581)	(104,583)
Income tax	(322,906)	(188,090)	(311,847)
Income attributable to noncontrolling interest	(27,865)	(51,754)	—
Net income	<u>563,699</u>	<u>441,093</u>	<u>630,209</u>

Rounding

Certain amounts which appear in this Offering Circular (including percentage amounts) have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables or different parts of this Offering Circular may vary slightly and figures shown as totals in certain tables may not be the arithmetic aggregation of the figures that precede them.

Reserve Estimates

The information concerning Pan American's oil and gas reserve estimates included in this Offering Circular was derived from reports issued by Ryder Scott Company L.P. ("Ryder Scott") and RPS Group plc ("RPS") at December 31, 2009, and by Ryder Scott and Gaffney, Cline & Associates Ltd. ("G&C") at December 31, 2008 and 2007, except for the reserve estimates for the Caipendi block at December 31, 2009 and for the Chaco blocks at December 31, 2008 and 2007, which were prepared by Pan American. These reserve estimates were prepared in accordance with the oil and gas reserve estimation and disclosure requirements issued by the SEC for proved reserves and the methodology published by the Society of Petroleum Engineers for unproved reserves.

Oil and gas reserve engineering is a subjective process of estimating accumulations of oil and gas that cannot be measured in an exact way, and estimates of other engineers might differ materially from those included in this Offering Circular. Numerous assumptions and uncertainties are inherent in estimating quantities of oil and gas reserves and in projecting future rates of production and timing of development expenditures, including many of which are beyond the control of Pan American. Results of drilling, testing and production after the date of the estimate may require revisions to be made. Accordingly, reserve estimates are often materially different from the quantities of oil and gas that are ultimately recovered. See "Risk Factors—Risks Factors Related to Oil and Gas Industry—Uncertainty of Estimates of Oil and Gas Reserves May Adversely Affect Pan American's Financial Condition," "Business—Exploration and Production Activities—Reserves" and the section titled "Supplemental Oil, Gas and LPG Information" in Pan American's Financial Statements.

In accordance with Resolution No. 541/2008 of the CNV, beginning with its financial statements as of December 31, 2008, the Branch discloses the reconciliation of proved reserves for each given year.

Sources for Certain Industry Information

The following sources have been used for market share and other statistical information relating to the oil and gas industry in Argentina as presented in this Offering Circular: the *Instituto Argentino de Petróleo y Gas* (the “Argentine Oil and Gas Institute”) and the Argentine Secretariat of Energy.

Definitions and Conversion Table

Definitions of certain hydrocarbon and other terms and a conversion table are contained in the sections entitled “Glossary of Certain Hydrocarbon and Other Terms” and “Conversion Table” in Annex B.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents will be deemed to be incorporated in, and to form part of, this Offering Circular:

- any amendments and supplements to this Offering Circular that the Branch and/or Pan American delivers to the Dealers for circulation in connection with the offer and sale of a particular Tranche or Series of Notes;
- with respect to a particular Tranche or Series of Notes, the Pricing Supplement prepared in respect thereof; and
- the most recently published annual financial statements, from time to time, subsequent to the date of this Offering Circular of Pan American and the Branch.

Any statement contained herein or incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Offering Circular to the extent that a statement contained in any such subsequently filed document which also is or is deemed incorporated by reference in this Offering Circular modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed to constitute a part of this Offering Circular, except as so modified or superseded.

Copies of the indenture relating to the Program and all documents deemed incorporated by reference herein (other than exhibits to such documents unless such exhibits are specifically incorporated by reference in such documents) will be provided without charge at the offices of the Trustee and any agent set forth on the back cover page hereof. Copies of the financial statements of the Branch may also be obtained from the CNV's website (<http://www.cnv.gov.ar>) and the AIF (*Autopista de la Informacion Financiera*). Except as specifically provided above, none of the financial or any other information obtained from or through such website shall be incorporated by reference herein.

**NOTICE TO INVESTORS REGARDING
ARGENTINE MONEY LAUNDERING REGULATIONS**

INVESTORS ARE HEREBY ADVISED THAT UNDER ARGENTINE LAW NO. 25246 (AS SUBSEQUENTLY AMENDED BY LAW NO. 26087, LAW NO. 26119 AND LAW NO. 26268) ENACTED BY THE ARGENTINE FEDERAL CONGRESS (THE "ARGENTINE CONGRESS"), MONEY LAUNDERING IS NOW A LEGALLY DEFINED CRIME UNDER THE ARGENTINE PENAL CODE. ALSO, THE FINANCIAL INTELLIGENCE UNIT ("UIF," BY ITS SPANISH INITIALS) HAS BEEN CREATED, SUBJECT TO THE JURISDICTION OF THE ARGENTINE MINISTRY OF JUSTICE AND HUMAN RIGHTS, FOR THE PURPOSE OF PREVENTING AND COMBATING MONEY LAUNDERING. SECTION 14 OF LAW NO. 25246 (WHICH AMENDED LAW NO. 25243) PROVIDES THAT THE UIF SHALL HAVE POWERS TO (I) REQUEST REPORTS, DOCUMENTS, BACKGROUND RECORDS AND ANY OTHER ITEMS DEEMED USEFUL FOR THE FULFILLMENT OF ITS DUTIES FROM ANY PUBLIC, NATIONAL, PROVINCIAL OR MUNICIPAL AGENCY, AND FROM ANY INDIVIDUALS AND/OR ENTITIES, WHICH SHALL BE REQUIRED TO PROVIDE ANY ITEMS SO REQUESTED WITHIN THE REQUIRED PERIOD UNDER PENALTY OF LAW; (II) RECEIVE VOLUNTARY STATEMENTS OR REPORTS; (III) DEMAND COOPERATION FROM ANY GOVERNMENT INFORMATION SERVICES; (IV) ACT IN ANY PLACE WITHIN THE ARGENTINE TERRITORY IN ORDER TO PERFORM ITS DUTIES UNDER THIS LAW; (V) REQUEST THAT THE ATTORNEY GENERAL'S OFFICE REQUIRE FROM A COMPETENT COURT AN ORDER TO SUSPEND THE EXECUTION OF ANY OPERATIONS OR ACTS IN THE EVENT OF AN INVESTIGATION OF SUSPICIOUS ACTIVITIES WHERE THERE IS SERIOUS AND COMPELLING CIRCUMSTANTIAL EVIDENCE THAT THEY MAY INVOLVE A LAUNDERING OF ASSETS; (VI) REQUEST THAT THE ATTORNEY GENERAL'S OFFICE REQUIRE FROM A COMPETENT COURT A WARRANT FOR THE SEARCH OF PUBLIC AND PRIVATE PREMISES OR OF INDIVIDUAL PERSONS AND THE SEIZURE OF DOCUMENTS OR OTHER ITEMS THAT MAY BE USEFUL FOR THE INVESTIGATION; (VII) PROVIDE FOR THE IMPLEMENTATION OF INTERNAL CONTROL SYSTEMS AS AND WHEN PRESCRIBED BY APPLICABLE REGULATIONS; (VIII) IMPOSE ANY PENALTIES PRESCRIBED BY LAW, ENSURING OBSERVANCE OF THE DUE PROCESS OF LAW; (IX) ORGANIZE AND MANAGE FILES AND RECORDS RELATING TO UIF'S OWN ACTIVITIES OR DATA OBTAINED IN THE PERFORMANCE OF UIF DUTIES, AND THE UIF WILL BE AUTHORIZED TO ENTER INTO AGREEMENTS AND CONTRACTS WITH NATIONAL, INTERNATIONAL AND FOREIGN AGENCIES IN ORDER TO BECOME PART OF NATIONAL, INTERNATIONAL AND FOREIGN INFORMATION NETWORKS; (X) ISSUE ORDERS AND INSTRUCTIONS TO BE COMPLIED WITH AND IMPLEMENTED BY THE PARTIES SUBJECT TO THE LAW, UPON PRIOR CONSULTATION WITH ANY APPLICABLE REGULATORY AGENCIES.

CONSEQUENTLY:

(i) A PENALTY OF TWO TO TEN YEARS IMPRISONMENT AND A FINE OF TWICE TO TEN TIMES THE AMOUNT OF THE TRANSACTION INVOLVED WILL BE IMPOSED ON ANYBODY WHO CONVERTS, TRANSFERS, MANAGES, SELLS, ENCUMBERS OR OTHERWISE USES MONEYS OR ANY OTHER ASSETS DERIVED FROM THE COMMISSION OF A CRIME IN WHICH SUCH PERSON DID NOT TAKE PART, WITH THE POSSIBLE RESULT THAT THE SUBSTITUTED ORIGINAL ASSET MAY BE GIVEN THE APPEARANCE OF HAVING A LEGITIMATE SOURCE, PROVIDED THE AMOUNT OF SUCH ASSET EXCEEDS PS.50,000, WHETHER FROM ONE OR MORE TRANSACTIONS.

(ii) ALSO, A PENALTY OF SIX MONTHS TO THREE YEARS IMPRISONMENT WILL BE IMPOSED ON ANYBODY WHO, AFTER THE COMMISSION OF A CRIME BY ANOTHER PERSON (WITHOUT THE FIRST PERSON HAVING TAKEN PART THEREIN), (A) HELPS THE OFFENDER TO EVADE INVESTIGATION OR ESCAPE ACTION BY AUTHORITIES, (B) CONCEALS, ALTERS OR SUPPRESSES OR HELPS AN OFFENDER OR ACCESSORY TO THE CRIME TO CONCEAL, ALTER OR SUPPRESS, ANY VESTIGES, EVIDENCES OR INSTRUMENTS OF THE CRIME, (C) ACQUIRES, RECEIVES OR HIDES MONEY, THINGS OR ITEMS OBTAINED FROM A CRIME, (D) FAILS TO REPORT THE COMMISSION OF A CRIME OR TO IDENTIFY THE PERPETRATOR OF OR ACCESSORY TO A PREVIOUSLY REPORTED CRIME WHEN SUCH PERSON IS UNDER THE DUTY TO PROMOTE THE PROSECUTION THEREOF; (E) SECURES OR HELPS THE PERPETRATOR OF OR ACCESSORY TO THE CRIME TO SECURE THE

PRODUCT OR PROFIT DERIVED FROM SUCH CRIME. MINIMUM AND MAXIMUM PENALTIES SHALL BE DUPLICATED WHERE (A) THE ORIGINAL CRIME IS A PARTICULARLY SERIOUS OFFENSE; (B) THE OFFENDER ACTED IN PURSUIT OF PROFIT; (C) THE OFFENDER ENGAGES USUALLY IN THE COMMISSION OF ACTS OF CONCEALMENT; (D) THE OFFENDER IS A PUBLIC OFFICER.

ALSO, LAW NO. 26087 PROVIDES THAT (A) ANY PARTIES SUBJECT TO INFORMATION REPORTING DUTIES MAY NOT, IN THE EVENT OF ANY UIF REQUIREMENTS RELATING TO THE CONDUCT OF AN EXAMINATION OF SUSPICIOUS TRANSACTIONS, REFUSE TO COMPLY THEREWITH IN RELIANCE ON ANY BANKING SECRECY REQUIREMENTS, THE CONFIDENTIALITY OF STOCK EXCHANGE TRANSACTIONS OR PROFESSIONAL PRIVILEGE, OR ANY LEGAL OR CONTRACTUAL DUTIES OF CONFIDENTIALITY; (B) THE UIF SHALL REPORT ANY SUSPICIOUS TRANSACTIONS TO THE ATTORNEY GENERAL'S OFFICE, WHICH SHALL DETERMINE WHETHER CRIMINAL PROCEEDINGS SHOULD BE INSTITUTED AFTER UIF HAS COMPLETED ITS EXAMINATION OF THE REPORTED TRANSACTION AND FOUND SUFFICIENT ELEMENTS OF CONVICTION WHICH CONFIRM A SUSPECTED LAUNDERING OF ASSETS THROUGH THE TRANSACTION IN QUESTION; AND (C) THE EXEMPTION OF CRIMINAL LIABILITY APPLICABLE TO PARTIES ACTING FOR THE BENEFIT OF THEIR SPOUSES, RELATIVES (BY BLOOD WITHIN THE FOURTH DEGREE AND BY MARRIAGE WITHIN THE SECOND DEGREE), CLOSE FRIENDS OR PERSONS TO WHOM THEY OWE SPECIAL GRATITUDE SHALL NOT APPLY (I) IN THE EVENTS CONTEMPLATED BY SECTION 278 OF THE ARGENTINE PENAL CODE (A PENALTY OF 2 TO 10 YEARS IMPRISONMENT AND A FINE OF 2 TO 10 TIMES THE AMOUNT OF THE TRANSACTION TO BE IMPOSED ON ANYBODY WHO CONVERTS, TRANSFERS, MANAGES, SELLS, ENCUMBERS OR OTHERWISE USES MONEYS OR ANY OTHER ASSETS DERIVED FROM THE COMMISSION OF A CRIME IN WHICH SUCH PERSON DID NOT TAKE PART, WITH THE POSSIBLE RESULT THAT THE SUBSTITUTED ORIGINAL ASSET MAY BE GIVEN THE APPEARANCE OF HAVING A LEGITIMATE SOURCE, PROVIDED THE AMOUNT OF SUCH ASSET EXCEEDS PS.50,000, WHETHER FROM ONE OR MORE TRANSACTIONS), AND (II) IN THE EVENTS CONTEMPLATED IN SECTION 277 PARAGRAPH 1(E) (SIX MONTHS TO THREE YEARS IMPRISONMENT TO BE IMPOSED ON ANYBODY WHO SECURES OR AIDS AN OFFENDER OR ACCESSORY TO SECURE THE PRODUCT OF OR PROFIT FROM A CRIME); PARAGRAPH 3 (B) AND (C) 12 MONTHS TO 6 YEARS IMPRISONMENT TO BE IMPOSED IF THE OFFENDER ACTS IN PURSUIT OF PROFIT OR ENGAGES USUALLY IN THE COMMISSION OF ACTS OF CONCEALMENT).

THE ABOVE LAW IS PRIMARILY INTENDED TO PREVENT MONEY LAUNDERING. CONSEQUENTLY, THE RESPONSIBILITY OF CONTROL OVER SUCH CRIMINAL TRANSACTIONS IS NOT ASSIGNED SOLELY TO ARGENTINE GOVERNMENT AGENCIES, BUT CERTAIN DUTIES ARE ALSO IMPOSED ON VARIOUS PRIVATE ENTITIES SUCH AS BANKS, BROKERS, BROKERAGE HOUSES AND INSURANCE COMPANIES. THESE DUTIES BASICALLY CONSIST IN OBTAINING INFORMATION, TO BE SUBSEQUENTLY REPORTED TO THE UIF. THE "UNUSUAL OR SUSPICIOUS FINANCIAL AND EXCHANGE TRANSACTIONS GUIDE" (AS APPROVED BY UIF RESOLUTION NO. 2/2002) ESTABLISHES THE DUTY TO REPORT THE FOLLOWING TRANSACTIONS IN RELATION TO INVESTMENTS: (A) INVESTMENTS FOR THE PURCHASE OF GOVERNMENT OR CORPORATE SECURITIES SUBSEQUENTLY GIVEN IN CUSTODY TO THE FINANCIAL ENTITY FOR A SEEMINGLY INAPPROPRIATE AMOUNT, GIVEN THE NATURE OF THE CUSTOMER'S BUSINESS; (B) DEPOSITS OR "BACK TO BACK" LOAN TRANSACTIONS WITH BRANCHES, SUBSIDIARIES OR AFFILIATES OF THE BANK IN AREAS KNOWN TO BE TAX HAVENS OR IN COUNTRIES OR TERRITORIES CONSIDERED NON COOPERATIVE BY THE FATF; (C) INVESTMENT MANAGEMENT SERVICES REQUESTED BY CUSTOMERS (WHETHER IN FOREIGN CURRENCIES, SHARES OF STOCK OR TRUSTS) IN RELATION TO FUNDS THE SOURCE OF WHICH IS NOT CLEARLY IDENTIFIED OR IS NOT CONSISTENT WITH THE CUSTOMER'S KNOWN BUSINESS; (D) SIGNIFICANT AND UNUSUAL TRANSACTIONS IN SECURITIES CUSTODY ACCOUNTS; (E) FREQUENT USE BY NON USUAL CUSTOMERS OF SPECIAL INVESTMENT ACCOUNTS WHOSE OWNER IS THE FINANCIAL ENTITY ITSELF; (F) USUAL TRANSACTIONS WITH MARKETABLE SECURITIES THROUGH THE USE OF OVERNIGHT PURCHASES/SALES OF SECURITIES FOR THE SAME AMOUNTS AND NOMINAL VALUES IN ORDER TO PROFIT FROM PRICE DIFFERENCES, WHEN SUCH TRANSACTIONS ARE NOT CONSISTENT WITH THE CUSTOMER'S STATED BUSINESS AND PROFILE.

BY RESOLUTION NO. 152/08, UIF APPROVED A DIRECTIVE SETTING FORTH REGULATIONS UNDER SECTION 21, PARAGRAPHS (A) AND (B), OF ARGENTINE LAW NO. 25246 IN CONNECTION WITH THE ENFORCEMENT OF SUCH PROVISIONS IN CASE OF SUSPICIOUS TRANSACTIONS, AND THE MANNER AND TIMING OF COMPLIANCE WITH AND LIMITS TO THE DUTY TO REPORT SUCH TRANSACTIONS WITHIN THE SCOPE OF THE CAPITAL MARKET. SUCH DUTY MUST BE COMPLIED WITH BOTH BY INDIVIDUALS AND/OR LEGAL ENTITIES WHICH ARE AUTHORIZED TO OPERATE AS BROKERS AND BROKERAGE HOUSES, AGENTS IN *MERCADO ABIERTO ELECTRÓNICO*, REGISTERED BROKERS IN FUTURES AND OPTIONS MARKETS, WHICHEVER THE PURPOSE THEREOF, MUTUAL FUND MANAGERS AND ANY BROKERS ACTING IN CONNECTION WITH PURCHASES, LEASES OR LENDING OF SECURITIES AND TRADING ON ANY STOCK EXCHANGES, WITH OR WITHOUT ADHERED MARKETS, UNDER SECTION 20, PARAGRAPHS (4) AND (5) OF SUCH LAW. ALSO, BY RESOLUTION NO. 152/08 THE UNUSUAL OR SUSPICIOUS CAPITAL MARKET TRANSACTIONS GUIDE (LAUNDERING OF ASSETS AND TERRORIST FINANCING) WAS APPROVED. THIS GUIDE DESCRIBES CERTAIN TRANSACTIONS WHICH, WHILE NOT SUSPICIOUS IN AND BY THEMSELVES OR BY THEIR MERE CONSUMMATION OR ATTEMPTED CONSUMMATION, PROVIDE AN ILLUSTRATION OF TRANSACTIONS THAT MIGHT BE USED FOR PURPOSES OF LAUNDERING ASSETS DERIVED FROM CRIMINAL ACTIVITIES AND TERRORIST FINANCING.

FOR A MORE DETAILED ANALYSIS OF MONEY LAUNDERING REGULATIONS CURRENTLY IN FORCE IN ARGENTINA, INVESTORS SHOULD CONSULT THEIR OWN LEGAL ADVISORS AND READ CHAPTER XII, ARTICLE XI, BOOK TWO, OF THE ARGENTINE PENAL CODE, IN ITS ENTIRETY. THIS MATERIAL MAY BE FOUND AT THE MINISTRY OF ECONOMY'S WEBSITE [HTTP://WWW.MECON.GOV.AR](http://www.mecon.gov.ar), OR AT [HTTP://WWW.INFOLEG.GOV.AR](http://www.infoleg.gov.ar).

SUMMARY

The following summary is qualified in its entirety by the more detailed information included in this Offering Circular and, in the case of the terms and conditions of any particular Tranche and/or Series of Notes, the applicable Pricing Supplement. Prospective investors should carefully read this entire Offering Circular and any applicable Pricing Supplement. Certain terms used in this Offering Circular are defined in the “Glossary of Certain Hydrocarbon and Other Terms” included herein as Annex B.

Investors in the Notes should carefully review the information under “Risk Factors” in this Offering Circular, and should understand that an investment in the Notes involves a high degree of risk.

Overview of Pan American

Pan American is a company organized in the State of Delaware, United States, on September 29, 1997 to effect the strategic alliance formed by Amoco Corporation (“Amoco Corp.”) and Bidas Corporation (“Bidas”) for specific oil and gas activities in Argentina, Bolivia, southern Brazil, Chile, Paraguay, Peru and Uruguay (the “Southern Cone”). Amoco Corp. was merged with and into BP plc (“BP”) in 1999. Currently, Pan American has operations in Argentina, Bolivia, Uruguay and Chile.

Pan American is a holding company which conducts its operations through its branch in Argentina and its subsidiaries and related companies in Argentina, Bolivia, Chile and Uruguay. Through its subsidiaries and related companies, Pan American is engaged mainly in the exploration, development and production of oil and gas. In 2009, Pan American was the largest exporter of oil from Argentina and the second largest oil and gas producer in the country, in each case by volume of oil and gas owned and produced in Argentina, according to information published by the Argentine Oil and Gas Institute.

A significant part of Pan American’s operations and reserves are located in Argentina. As a result, fluctuations in the Argentine economy and measures adopted by the Argentine government have had and will continue to have a significant effect on Pan American. See “Risk Factors—Risk Factors Related to Operations in Argentina.”

The following table contains a brief summary of operational and financial information for Pan American as of and for the years ended December 31, 2007, 2008 and 2009.

	<u>2007</u>	<u>2008⁽⁴⁾</u>	<u>2009</u>
Total certified reserves (mmboe) ^{(1) (2)}	2,630.7	2,507.6	2,354.8
Total proved reserves (mmboe) ^{(1) (2)}	1,541.5	1,562.9	1,539.1
Average daily production (mboe) ⁽¹⁾	243.3	250.0	237.3
Sales and operating revenues (in millions of U.S.\$).....	2,611.2	3,290.3	2,775.8
Net Income attributable to Pan American (in millions of U.S.\$).....	563.7	441.1	630.2
Consolidated EBITDA (in millions of U.S.\$) ⁽³⁾	1,403.0	1,279.0	1,591.5

(1) Years 2008 and 2007 include 50.001% of Chaco’s total certified reserves, proved reserves and average daily production, which corresponds to Pan American’s proportional ownership interests in Chaco as of such date. As a result of the nationalization of almost all the shares of Chaco held by Pan American, 2009 figures do not include any reserve or production data related to such company.

(2) In compliance with Article 357 of the Political Constitution of Bolivia, in force since February 7, 2009, the Caipipendi block reserves included in the above table have not been registered on any stock exchange as property of the Company nor used as a collateral to secure financing transactions. Such registration or collateralization may only be carried out by the Bolivian government. For a discussion regarding Pan American’s reserves in Bolivia and recent significant regulatory changes in the Bolivian oil and gas sector, see “Risk Factors—Risk Factors Related to Bolivia and Other Emerging Market Countries” and “Business—Contractual Matters and Regulations—Bolivia.”

(3) Consolidated EBITDA for a period consists of sales and other operating revenues less (i) operating expenses, (ii) transportation expenses, (iii) gross production assessments, (iv) hydrocarbon exploration expenses (excluding exploratory dry holes), (v) general and administrative expenses and (vi) taxes other than income taxes, including export tariffs, in each case for the relevant period, on a consolidated basis. Consolidated EBITDA is not a U.S. GAAP measure, does not represent cash flow for the periods indicated and should not be considered as

an alternative to net income (which is determined in accordance with U.S. GAAP), as an indicator of Pan American's operating performance or as an alternative to cash flow (which is determined in accordance with U.S. GAAP) as a source of liquidity.

- (4) In 2008, Pan American's interest in Chaco accounted for 10.7% of its total certified reserves, 8.6% of its total proved reserves, 8.3% of its average daily production, 16.0% of its sales and operating revenues, 11.7% of the net income attributable to Pan American and 15.8% of Consolidated EBITDA.

Pan American is one of the few companies operating in Argentina with an international corporate rating from Moody's Investors Services, Inc. ("Moody's"), Standard and Poor's, a division of The McGraw Hill Companies, Inc. ("S&P") and Fitch Ratings Ltd. ("Fitch") above the Argentine sovereign rating, reflecting its large long-life reserve base, track record of maintaining low financial leverage while growing production at competitive extraction and development costs and the ability to service U.S. dollar-denominated debt. As of the date of this Offering Circular, Pan American's international foreign currency credit rating was Ba2 from Moody's, B+ from S&P and BB- from Fitch. In addition, during the 2001-2002 Argentine financial crisis, Pan American continued making all payments on its indebtedness as they became due and, unlike many other Argentine companies, did not default on or restructure its debt.

History of Pan American

Pan American was formed as a successor in business to the Argentine branch of Amoco Argentina Oil Company ("AAOC"), following the announcement of a strategic alliance between Bidas and Amoco Corp. on September 7, 1997. As a result of the alliance, Bidas contributed to Pan American certain of its assets and liabilities in the Southern Cone, creating the second largest oil and gas producer in Argentina. As part of the transaction, Bidas also acquired a minority interest in Amoco Corp.'s operations in Bolivia (which operations were conducted through Chaco, one of the two companies into which the upstream operations of Yacimientos Petrolíferos Fiscales Bolivianos ("YPFB") were divided as part of the privatization of the industry in Bolivia). At its commencement of operations, Pan American had approximately 1.1 billion boe in certified reserves and a production of approximately 115,000 boepd.

Amoco Corp. and Bidas entered into the strategic alliance to enhance the businesses of both companies by combining the strengths and resources of two successful energy companies in the region to create an entity that could compete for additional growth opportunities in the Southern Cone. All of the assets contributed by AAOC were related to oil production and had a strong short- and medium-term cash generation capability, while the assets contributed by Bidas provided for a substantial amount of undeveloped gas reserves to take advantage of domestic and regional growth opportunities. The alliance also benefited from Bidas' local and regional business expertise and from Amoco Corp.'s financial strength and well known technical capabilities.

In 1999, Amoco Corp. was merged with and into BP. As of the date hereof, BP owns 60.0% and Bidas owns 40.0% of the equity interests of Pan American. See "Principal Members" for a further description of BP and Bidas.

Since the formation of the alliance in 1997, Bidas and AAOC agreed not to compete with Pan American in an "area of mutual interest," which includes Argentina, Bolivia, southern Brazil, Chile, Paraguay, Peru and Uruguay, subject to certain exceptions. The establishment of this "area of mutual interest" for Pan American makes it the vehicle for growth in the Southern Cone for Bidas and BP in respect of upstream oil and gas and mid- and downstream gas activities, including thermal power generation.

Recent Developments

Nationalization of Chaco

On January 23, 2009, the Bolivian government, through Supreme Decree No. 29,888, nationalized 8,049,660 shares of Chaco owned by Pan American, which represented almost all of the total shares of Chaco owned by Pan American. On March 12, 2010, Pan American submitted a claim before the International Centre for Settlement of Investment Disputes ("ICSID") against Bolivia pursuant to the Treaty between the Government of the United States of America and the Government of Bolivia concerning the encouragement and reciprocal protection of investments.

For more information, see “Risk Factors—Risk Factors Related to Bolivia and Other Emerging Market Countries—Political, Social and Economic Instability in Bolivia and Nationalization of Chaco.”

Bridas Energy Holdings’ Joint Venture with CNOOC Ltd.

Bridas Energy Holdings Ltd., Bridas’ parent company, announced that on March 13, 2010 it entered into a joint venture agreement with CNOOC Ltd. to transfer a partial interest in Bridas to CNOOC International Ltd., a wholly owned subsidiary of CNOOC Ltd. According to this transaction, each of Bridas Energy Holdings Ltd. and CNOOC International Ltd. will hold 50% of the interests in Bridas. For more information, see “Business—History of Pan American” and “Principal Members.”

Production

Pan American holds interests in ten oil and gas production blocks in Argentina and interests in one active oil and gas production and development block in Bolivia. Pan American’s blocks in Argentina are located in the four major hydrocarbon basins of the country. The most significant blocks in terms of average net daily production in 2009 were: Cerro Dragón (which accounts for 85% of total oil production and 35% of total gas production) in the Golfo San Jorge basin; Acambuco (which accounts for 3% of total oil production and 22% of total gas production) in the Northwest basin; Cuenca Austral (which accounts for 3% of total oil production and 16% of total gas production) in the Austral basin; and San Roque and Aguada Pichana (which together account for 1% of total oil production and 20% of total gas production) in the Neuquina basin.

Pan American’s production and development activities in Argentina are conducted pursuant to exploration permits and exploitation concessions granted by the Argentine federal and provincial governments and association agreements with third parties. The activities are conducted solely by Pan American or pursuant to operating agreements with other co-venturers according to standard international industry practice. Since 2007, Pan American has extended the term of all of its concessions which were scheduled to expire on or before 2017, including the concessions for its main production block, Cerro Dragón, which were extended until 2047. See “Business—Contractual Matters and Regulations—Argentina.”

Pan American’s production and development activities for the Caipipendi block in Bolivia are conducted pursuant to a long-term operating contract with YPFB and a joint operating agreement with other co-venturers. See “Business—Contractual Matters and Regulations—Bolivia” for a more detailed description of these agreements.

For the year ended December 31, 2009, Pan American’s average combined net daily production of oil, gas and LPG was 237.3 mboe, of which 49% was oil, 47% was gas and 4% was LPG. For the year ended December 31, 2009, Pan American was the second largest producer of oil and gas in Argentina by volume and accounted for approximately 18.6% of total domestic oil production, approximately 15.2% of total domestic gas production and approximately 16.7% of total domestic oil and gas production (as measured on a combined boe basis) during that period, according to information published by the Argentine Oil and Gas Institute.

Exploration

Pan American holds interests in eight exploration blocks in Argentina and one exploration block in Chile. The net exploration acreage of Pan American amounts to approximately 7.7 million acres, of which 94% is located in Argentina and 6% is located in Chile. Pan American has significantly increased its exploration acreage in recent years. During 2009, Pan American began offshore exploration activities in the Golfo San Jorge basin in Argentina and the Coirón block in Chile. See “Business—Exploration and Production Activities.”

Reserves

As of December 31, 2009, Pan American’s net proved, probable and possible reserves, as estimated by Ryder Scott, RPS and by Pan American (only for the Caipipendi block), were 2,354.8 mmboe and comprised 1,442.9 mmbbls of oil and condensate, 5,166.9 bcf of natural gas and 20.9 mmbbls of LPG. From these reserves, 1,539.1 mmboe are proved, of which oil represented approximately 62%, gas represented approximately 37% and LPG

represented approximately 1%. Based on net production for 2009, Pan American's estimated net proved reserves as of December 31, 2009 represented a reserve life of approximately 22 years for oil and 12 years for gas, or a combined proved reserve life of approximately 17 years.

For a discussion regarding Pan American's reserves in Bolivia and recent significant regulatory changes in the Bolivian oil and gas sector, see "Risk Factors—Risk Factors Related to Bolivia and Other Emerging Market Countries."

Competitive Strengths

Pan American believes that its business benefits from the following competitive strengths:

- *Significant Investments in Exploration, Development and Production Activities.* Over the past five years, Pan American invested approximately U.S.\$4.5 billion in its exploration, development and production activities and in the expansion and upgrading of its production facilities. Investments are allocated to achieve a balanced short-term/long-term distribution to support production growth and the development and replacement of its hydrocarbon reserve base, in contrast to the trends of production and reserve declines in Argentina in recent years. Pan American is BP's and Bidas's vehicle for growth in upstream oil and gas and mid- and downstream gas activities in the Southern Cone.
- *Strong Track Record of Production Growth.* Pan American's oil production in Argentina increased from 103.0 mboepd in 2004 to 116.2 mboepd in 2009, which represented a cumulative average yearly growth rate of 2.4% during that period. Pan American's gas production also increased from 526.3 mmcfpd in 2004 to 630.4 mmcfpd in 2009, which represented a cumulative average yearly growth rate of 3.7% during that period. This growth has enabled Pan American, during the same period, to increase its market share in oil and gas production in Argentina from 13.0% in 2004 to 16.7% in 2009, and consolidate its position as the second-largest oil and gas producer. In addition, in 2009 Pan American was the largest exporter of crude oil in Argentina. Pan American's main crude oil production is Escalante, a 24 degrees API sweet crude oil blend, which is produced in excess of current local demand for such blend from domestic refiners.
- *Significant Oil and Gas Reserves.* Pan American has grown its proved reserves in Argentina from 981.2 mmmboe in 2004 to 1,430.2 mmmboe in 2009 with an implied average reserve replacement ratio of 209% during the period. Based on production for 2009, Pan American's estimated net proved reserves as of December 31, 2009 represented a reserve life of approximately 22 years for oil and 12 years for gas, or a combined proved reserve life of approximately 17 years. Since 2007, Pan American has extended the term of all of its concessions which were scheduled to expire on or before 2017, including the concessions for its main production block, Cerro Dragón, which were extended until 2047. Consistent with its development strategy, Pan American has been able to move unproved reserves to proved developed status and, at the same time, sustain high reserve replacement ratios despite its increase in production levels during that period. As of December 31, 2009, Pan American ranked first in Argentina in terms of proved reserves. Pan American has also increased its exploration acreage from 1.3 million net acres as of December 31, 2005 to 7.7 million net acres as of December 31, 2009.
- *World Class Operational Efficiency.* Pan American has developed a performance-based culture that has allowed it to achieve high operational efficiency and strong financial results. This culture is founded on solid managerial concepts, and a deep respect for the environment and the communities in which it operates. Substantially all of Pan American's facilities and operations in the Cerro Dragón block are automated, powered by electricity generated by the Company's own gas fired power plants and monitored through a computerized well surveillance system. These features make Pan American operations at Cerro Dragón one of the most technologically advanced and operationally efficient in Latin America. Pan American's production costs for the year ended December 31, 2009 were U.S.\$5.70 per boe.
- *Conservative Capital Structure and Prudent Financial Management.* Pan American has maintained a conservative capital structure and prudent financial management policy, consistent with the industry and environment in which it operates. As of December 31, 2009, Pan American's net leverage was 21.6% (net

financial debt to total capitalization), with its total financial debt representing 1.0x Consolidated EBITDA, and a Consolidated EBITDA to interest expense ratio of 14.4x. Pan American maintains one of the highest international corporate credit ratings in Argentina, as rated by Moody's (Ba2), S&P (B+) and Fitch (BB-). In addition, during the 2001-2002 Argentine financial crisis, Pan American continued making all payments on its debt as they became due and, unlike many other Argentine companies, did not default on or restructure its debt.

- *Experienced Management.* At its inception, Pan American retained the most skilled and experienced members of the management team from its predecessor companies to manage its operations. Pan American's management has an average of over 20 years experience in the industry. This has allowed Pan American to achieve sound operating results, even during difficult industry years, and develop a strong and collaborative relationship with its industry partners and regulators, which, in turn, have allowed it to actively participate in the development of the oil and gas sector in Argentina.
- *Experienced and Committed Controlling Members.* Pan American's controlling members, BP and Bidas, have contributed to Pan American's strong performance, by combining BP's technological and operational experience with Bidas' country and regional expertise. Pan American's management believes that the continued support and breadth of experience and technical expertise of the Company's controlling members will be a significant competitive advantage for Pan American's business.
- *Environmentally and Socially Responsible Practices.* Pan American is strongly committed to contributing to the economic, social, and cultural development, as well as environmental preservation efforts, of the areas in which it operates. Pan American has developed and implemented effective management processes to deliver improvements in its health, safety and environmental performance. Pan American has also developed a strong positive relationship with the local communities in its areas of operation. Its commitment to sustainable community development is exemplified by its support for numerous social development activities focused on key areas such as education, health, employment and the environment. Pan American has also teamed up with a number of non-governmental organizations to identify opportunities for additional social investment.

Business Strategy

Pan American's long term strategy is to continue delivering value to its members by increasing both oil and gas production, further developing its strong and diversified hydrocarbon resource base, consolidating its position as the second largest oil and gas producer in Argentina and increasing its participation in the Southern Cone's energy markets in an environmentally and socially responsible manner. To achieve these objectives, Pan American will focus on the following key components of its business:

- *Commitment to Health, Safety, the Environment and Social Responsibility.* Pan American intends to maintain its commitment to the health and safety of its employees, contractors and social communities in the areas in which it operates as well as to apply advanced technological solutions to protect the environment.
- *Balanced Short-Long-Term Investment Allocation.* Pan American has a balanced short-/long-term investment allocation designed to support production growth and the development and replacement of its large hydrocarbon reserve base. Pan American believes that developing a growing and balanced portfolio of proved reserves and unproved resources of both oil and gas are essential to its long term success. Pan American plans to continue investing in the Cerro Dragón block, where the majority of its reserves and production are currently located, by drilling additional production and step out wells and workovers in well delineated hydrocarbon formations as well as developing new waterfloods and extensions throughout the area in order to increase reserves. In addition, Pan American intends to continue investing in improving production efficiency through further increasing electrification and automation of the fields and remote well surveillance. Pan American also intends to pursue opportunities to further expand its resources through exploration in the Golfo San Jorge offshore area and in the CAA-40 and CAA-46 offshore blocks in Argentina and in the Coirón block in Chile.

- *Conservative Capital Structure and Prudent Financial Management.* Pan American intends to maintain a conservative capital structure and prudent financial management policy, consistent with the industry and environment in which it operates. Pan American believes that well-managed leverage and liquidity levels are essential to providing sufficient flexibility to obtain financing from diverse sources and implement capital expenditure plans on a timely basis.
- *Maintain and Improve Operational Efficiency.* Pan American has developed a performance based culture which is embedded in its entire organization. Management processes are in place for target setting and monitoring, thereby ensuring that targets are met in a cost effective and safe manner. With respect to both oil and gas activities, Pan American will continue to apply advanced technological and operational cost solutions to increase its production and reserves, and will draw on resources and expertise available to it from both of its members, BP and Bridas. Pan American's access to BP's technical and process expertise and worldwide operational experience assist Pan American in areas such as reservoir and production management, risk management, assurance processes and health safety and environment controls.

SUMMARY FINANCIAL AND OTHER INFORMATION

The following table presents a summary of Pan American's consolidated financial and other information as of and for each of the periods indicated. This information should be read in conjunction with and qualified in its entirety by reference to the more detailed discussion and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Pan American's Financial Statements included in this Offering Circular.

The summary consolidated financial information for the years ended December 31, 2007, 2008 and 2009 has been derived from Pan American's Financial Statements, which have been audited by KPMG, whose independent auditors' report is included in this Offering Circular.

The independent auditors' report issued by KPMG regarding Pan American's Financial Statements and, only with respect to Pan American's financial statements as of and for the years ended December 31, 2008 and 2007, expressed a qualified opinion due to a scope limitation, because the auditors were unable to obtain audited financial statements of Chaco as of and for the year ended December 31, 2008 and the update of such report for the year ended December 31, 2007. See "Risk Factors—Risk Factors Related to Bolivia and Other Emerging Market Countries—Political, Social and Economic Instability in Bolivia and Nationalization of Chaco" and "Business—History of Pan American—The Chaco Nationalization."

Pan American's Financial Statements and the Branch's Financial Statements have been prepared in accordance with U.S. GAAP and Argentine GAAP, respectively. Because the Branch's Financial Statements reflect only a portion of the consolidated assets, liabilities, members' equity and results of operations of Pan American that are reflected in Pan American's Financial Statements and because of the differences between Argentine GAAP and U.S. GAAP, the Branch's Financial Statements and Pan American's Financial Statements are not fully comparable. See "Annex A—Summary of Principal Differences between Argentine GAAP and U.S. GAAP" for a description of significant differences between Argentine GAAP and U.S. GAAP.

	As of and for the Year Ended December 31,		
	2007	2008	2009 ⁽¹⁾
	<i>(in thousands of U.S.\$)</i>		
Consolidated Statement of Income Data (U.S. GAAP):			
Revenues			
Sales and other operating revenues	2,611,155	3,290,295	2,775,826
Interest income	20,348	10,838	4,390
Other income	21,240	20,792	9,454
Third parties' hydrocarbon sales	2,262	—	—
Total revenues and gains	<u>2,655,005</u>	<u>3,321,925</u>	<u>2,789,670</u>
Cost and Expenses			
Operating expenses	(327,689)	(450,901)	(515,748)
Transportation expenses	(28,962)	(27,387)	(26,734)
Gross production assessment	(465,380)	(656,457)	(381,686)
Hydrocarbon exploration expenses, including exploratory dry holes	(14,314)	(51,377)	(35,129)
General and administrative expenses	(4,594)	(6,299)	(6,909)
Taxes other than income taxes, including export tariffs	(378,978)	(862,191)	(218,161)
Depreciation, depletion, amortization and retirements and abandonments	(396,773)	(423,122)	(429,526)
Interest expense	(78,636)	(106,807)	(110,214)
Other financial results	(8,290)	(10,866)	(18,924)
Other expenses	(35,071)	(45,581)	(104,583)
Cost of third parties' hydrocarbons purchase cost	(1,848)	—	—
Total costs and expenses	<u>(1,740,535)</u>	<u>(2,640,988)</u>	<u>(1,847,614)</u>
Income before income tax and noncontrolling interest	914,470	680,937	942,056
Income tax	(322,906)	(188,090)	(311,847)
Net income	591,564	492,847	630,209
Less income attributable to noncontrolling interest	(27,865)	(51,754)	—
Net income attributable to Pan American Energy LLC	<u>563,699</u>	<u>441,093</u>	<u>630,209</u>
Consolidated Balance Sheet Data (U.S. GAAP):			
Current Assets			
Cash and cash equivalents	235,137	283,267	221,262
Short-term investments	—	14,899	10,385
Trade accounts receivable	255,559	260,841	336,657
Other accounts receivable	86,617	180,673	64,172
Due from officers and employees	3,373	4,330	5,049
Inventories	169,303	124,854	119,765
Deferred income taxes	1,785	—	—
Other current assets	12,258	9,990	9,716
Total current assets	<u>764,032</u>	<u>878,854</u>	<u>767,006</u>
Non-Current Assets			
Other accounts receivable	44,666	52,855	392,529
Investments in affiliated companies	73,626	68,415	68,217
Property, plant and equipment	5,500,378	6,289,326	5,999,847
Deferred income taxes	—	—	943
Other non-current assets	13,104	11,309	13,240
Total non-current assets	<u>5,631,774</u>	<u>6,421,905</u>	<u>6,474,776</u>
Total assets	<u>6,395,806</u>	<u>7,300,759</u>	<u>7,241,782</u>
Liabilities and Members' Equity			
Current Liabilities			
Trade payables and accrued expenses	291,002	330,719	316,839

	As of and for the Year Ended December 31,		
	2007	2008	2009 ⁽¹⁾
	<i>(in thousands of U.S.\$)</i>		
Short-term debt.....	179,570	336,116	211,748
Current portion of long-term debt	79,721	157,720	149,610
Current portion of financial bonds	—	100,000	—
Accrued interest on long-term financing.....	24,923	25,907	22,735
Accrued taxes and other	110,458	136,291	316,168
Deferred income taxes.....	22,730	8,221	10,837
Total current liabilities.....	<u>708,404</u>	<u>1,094,974</u>	<u>1,027,937</u>
Non-current liabilities			
Long-term debt.....	705,307	920,679	919,436
Financial bonds	350,000	250,000	250,000
Other creditors.....	251,996	289,109	231,247
Total non-current liabilities	<u>1,307,303</u>	<u>1,459,788</u>	<u>1,400,683</u>
Deferred income taxes	<u>361,524</u>	<u>345,940</u>	<u>203,078</u>
Total liabilities and deferred income taxes	<u>2,377,231</u>	<u>2,900,702</u>	<u>2,631,698</u>
Members' equity			
Capital and additional paid-in capital.....	2,097,201	2,097,201	2,097,201
Accumulated other comprehensive income.....	(12,357)	(16,636)	—
Retained earnings	1,628,951	1,990,166	2,512,883
Total members' equity	<u>3,713,795</u>	<u>4,070,731</u>	<u>4,610,084</u>
Noncontrolling interest	<u>304,780</u>	<u>329,326</u>	<u>—</u>
Total equity	<u>4,018,575</u>	<u>4,400,057</u>	<u>4,610,084</u>
Total liabilities and equity	<u>6,395,806</u>	<u>7,300,759</u>	<u>7,241,782</u>
Non-GAAP Data:			
Net Financial Debt / Total Capitalization ⁽²⁾	21.9%	25.7%	21.6%
Consolidated EBITDA / Interest Expense ⁽³⁾	17.8x	12.0x	14.4x
Total Financial Debt / Consolidated EBITDA ⁽⁴⁾	1.0x	1.4x	1.0x
Reconciliation of Net Income to Consolidated EBITDA:			
Consolidated EBITDA ⁽⁵⁾	<u>1,403,008</u>	<u>1,278,995</u>	<u>1,591,459</u>
Interest income	20,348	10,838	4,390
Other income.....	21,240	20,792	9,454
Third parties' hydrocarbons sales (net)	414	—	—
Hydrocarbon exploratory dry hole expenses	(11,770)	(43,312)	—
Depreciation, depletion and amortization.....	(396,773)	(423,122)	(429,526)
Interest expenses	(78,636)	(106,807)	(110,214)
Other financial results	(8,290)	(10,866)	(18,924)
Other expenses	(35,071)	(45,581)	(104,583)
Income tax.....	(322,906)	(188,090)	(311,847)
Income attributable to noncontrolling interest	(27,865)	(51,754)	—
Net income	<u>563,699</u>	<u>441,093</u>	<u>630,209</u>
Other Information:			
Capital Expenditures			
Exploration.....	72,961	72,081	7,466
Development	868,259	1,162,282	863,133
Other	82,204	4,322	3,012
Total capital expenditures.....	<u>1,023,424</u>	<u>1,238,685</u>	<u>873,611</u>

	As of and for the Year Ended December 31,		
	2007	2008	2009⁽¹⁾
	<i>(in thousands of U.S.\$)</i>		
Production			
Oil (mmbbl/d)	113.6	112.2	116.9
Gas (mmcf/d) ⁽⁶⁾	714.2	746.5	644.1
LPG (mmbbl/d)	6.5	9.2	9.4
Total (mboe/d) ⁽⁷⁾	<u>243.3</u>	<u>250.0</u>	<u>237.3</u>
Proved Reserves			
Oil (mmbbl)	883.4	944.5	961.4
Gas (bcf)	3,669.7	3,444.5	3,278.3
LPG (mmbbl)	25.4	24.5	12.5
Total (mmbbl)	<u>1,541.5</u>	<u>1,562.9</u>	<u>1,539.1</u>

- (1) On January 23, 2009, the Bolivian government issued Supreme Decree No. 29,888 which, among other things, nationalized almost all of Pan American's shares in Chaco, which represented 50% of the total shares of Chaco. As a consequence of Chaco's nationalization, Pan American has deconsolidated (as of January 1, 2009) the assets and liabilities of Chaco and allocated the net balance to "Other accounts receivable" included in non-current assets. See note 22 to Pan American's Financial Statements.
- (2) Net financial debt comprises principal and accrued and unpaid interest as of the relevant date in respect of short and long-term financial indebtedness less cash and cash equivalents. Total capitalization comprises short- and long-term financial indebtedness and members' equity.
- (3) Interest expense comprises interest expense for the relevant period in respect of short- and long-term financial indebtedness.
- (4) Total financial debt comprises principal and accrued and unpaid interest as of the relevant date in respect of short- and long-term financial indebtedness.
- (5) Consolidated EBITDA for a period consists of sales and other operating revenues less (i) operating expenses, (ii) transportation expenses, (iii) gross production assessments, (iv) hydrocarbon exploration expenses (excluding exploratory dry holes), (v) general and administrative expenses and (vi) taxes other than income taxes, including export tariffs, in each case for the relevant period, on a consolidated basis. Consolidated EBITDA is not a U.S. GAAP measure, does not represent cash flow for the periods indicated and should not be considered as an alternative to net income (which is determined in accordance with U.S. GAAP), as an indicator of Pan American's operating performance or as an alternative to cash flow (which is determined in accordance with U.S. GAAP) as a source of liquidity.
- (6) The average net daily production of gas does not include gas produced but reinjected into the reservoirs and used as fuel in connection with the operations and processing facilities.
- (7) Based on a conversion rate of one barrel of oil to 5,800 cf of gas or one barrel of LPG.

PROGRAM SUMMARY

The following summary is qualified in its entirety by, and is subject to, the detailed information included elsewhere in this Offering Circular. The particular terms and conditions of any Tranche or Series of Notes will be set forth in the applicable Pricing Supplement. You should read the following summary together with the applicable Pricing Supplement. Terms used but not defined in this summary shall have the meanings afforded to them under “Description of the Notes.”

Issuer	Pan American Energy LLC, Argentine Branch, a branch of Pan American Energy LLC, registered in Argentina.
Guarantor	Pan American Energy LLC, a Delaware company.
Guarantee	Payments of principal and interest and any additional amounts and premium, (if any) on the Notes will be irrevocably and unconditionally guaranteed by the Guarantor.
Dealers	Such financial institution or institutions as the Issuer may from time to time appoint as Dealers.
Trustee	The Bank of New York Mellon.
Program Size	Notes not in excess of, at any time outstanding, U.S.\$1,200,000,000 (or the equivalent thereof in other currencies) or such other amounts as may be agreed upon by the Issuer and the Dealer(s) and approved by the CNV.
Distribution	The Program has been authorized by Resolution No. 16,064 of the CNV dated February 6, 2009. Notes will be offered (i) to QIBs in reliance on Rule 144A, and (ii) outside the United States in reliance on Regulation S. The Notes will not be registered under the Securities Act. See “Subscription and Sale” and “Transfer Restrictions.”
Form	Notes of each Tranche or Series sold in reliance on Rule 144A will be represented by a Rule 144A Global Note, and Notes of each Tranche or Series sold outside the United States in reliance on Regulation S will initially be represented by a Restricted Regulation S Global Note. Owners of beneficial interests in a Restricted Regulation S Global Note may, subject to compliance with certain requirements described in the indenture governing such notes, exchange their beneficial interests governing such notes for a beneficial interest in an Unrestricted Regulation S Global Note. Global Notes sold in reliance of Rule 144A or Regulation S will be deposited with the Trustee as custodian for, and registered in the name of Cede & Co., as nominee of DTC, for the account of its direct and indirect participants, including Euroclear and Clearstream. Beneficial interests therein will be shown on, and transfers thereof will be effected only through, the book-entry records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream. See “Description of the Notes—Form, Denomination and Title.”

Currencies	Notes may be denominated in any currency as may be agreed between the Issuer, the Guarantor and the relevant Dealer(s), subject to compliance with all applicable legal and regulatory requirements (each, a “Specified Currency”).
Maturities	The Notes will be issued with a term to maturity of not less than seven (7) days.
Program Duration	Five (5) years from February 6, 2009.
Status	The Notes will constitute <i>obligaciones negociables simples no convertibles en acciones</i> (non-convertible negotiable obligations) under, and will be offered, issued and placed pursuant to and in compliance with, all of the requirements of the Negotiable Obligations Law, Joint Resolution and any other applicable Argentine laws and regulations. The Notes will at all times rank at least <i>pari passu</i> in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer. According to Article 29 of the Negotiable Obligations Law, Notes constituting negotiable obligations grant their holders access to summary executive proceedings, any depositary will be able to deliver, in accordance with the Argentine Decree No. 677/2001, certificates in respect of the Notes represented by any global note in favor of any beneficial owner subject to certain limitations set out in the indenture governing the notes. These certificates enable beneficial owners to institute suit before any competent court in Argentina, including summary executive proceedings, to obtain any overdue amount under the Notes.
Status of the Guarantee	The Guarantee will constitute an irrevocable, unconditional, unsubordinated and unsecured obligation of the Guarantor and will rank at least <i>pari passu</i> in right of payment with all other present and future unsubordinated and unsecured obligations of the Guarantor (other than the obligations preferred by mandatory provisions of law).
Issuance in Series	Notes will be issued in Series, with all Notes of each Series having the same maturity date, bearing interest on the same basis and at the same rate, and on terms otherwise identical (except for their respective issue dates, interest commencement dates and/or issue prices).
Issue Price	Notes may be issued at par or at a discount or at a premium to par. The Issue Price of the Notes will be agreed between the Issuer, the Guarantor and the relevant Dealer(s) at the time of issuance, as specified in the applicable Pricing Supplement.
Partly Paid Notes	Partly Paid Notes may be issued, the Issue Price of which will be payable in two or more installments as specified in the applicable Pricing Supplement.
Fixed Rate Notes	Fixed interest will be payable in arrears on the date or dates indicated in the applicable Pricing Supplement.

Floating Rate Notes

Floating Rate Notes will bear interest at a rate determined:

(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency (as defined herein) governed by an agreement incorporating the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc.); or

(ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin.

Interest periods will be specified in the applicable Pricing Supplement.

Indexed Linked Notes

Payments of principal in respect of Indexed Linked Redemption Notes or of interest in respect of Indexed Linked Interest Notes will be computed by reference to such index and/or formula as may be specified in the applicable Pricing Supplement. Notes issued in pesos will not be indexed to price inflation in Argentina, as long as such indexation is prohibited by Argentine law. Currently, Argentine law prohibits such indexation. Indexed Linked Interest Notes, Indexed Linked Redemption Notes and other formula-based Notes will be subject to all other applicable legal and regulatory requirements, including requirements applicable to Notes denominated in a particular Specified Currency.

Zero Coupon Notes

Zero Coupon Notes may be offered and sold at their nominal amount or a discount and will not bear interest (*provided* that any outstanding nominal amount of such Zero Coupon Note not paid when due shall bear interest from the Maturity Date at a rate per annum equal to the Accrual Yield set forth in the relevant Pricing Supplement).

Dual Currency Notes

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as may be specified in the applicable Pricing Supplement.

Interest Periods and Interest Rates

The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be specified in the relevant Pricing Supplement.

Redemption

The Notes will not be subject to redemption by the Issuer or any holder of a Note prior to their stated maturity (other than for taxation reasons or following an Event of Default), except as specified in the applicable Pricing Supplement and subject to compliance with all applicable laws and regulations.

Redemption by Installments

The Pricing Supplement issued in respect of each issue of Notes that are redeemable in two or more installments will set forth the dates on which, and the amounts in which, such Notes may be redeemed.

Covenants

The indenture dated as of February 17, 2009, as amended or supplemented from time to time (the “Indenture”), among the Issuer, the Guarantor, The Bank of New York Mellon, as Trustee, Co-Registrar, Principal Paying Agent and Transfer Agent, and Banco de Valores S.A., as Registrar, Paying Agent, Transfer Agent and Representative of the Trustee in Argentina, contains certain covenants that limit the Issuer’s and the Guarantor’s (including certain of its subsidiaries) ability to incur liens, merge, consolidate, amalgamate or sell all or substantially all of their assets. See “Description of the Notes—Covenants.” The Notes of a particular Series may contain additional or different restrictive covenants as described in the applicable Pricing Supplement.

Suspension of Covenants

Unless otherwise specified in the applicable Pricing Supplement, if on any date following the issuance of any Series of Notes under the Program, such Series of Notes has been assigned an Investment Grade Rating by any one Nationally Recognized Statistical Rating Organization and no Event of Default or event which, with the giving of notice or the lapse of time, or both, will become an Event of Default, shall have occurred and be continuing with respect to such Series, then, beginning on that date and subject to certain conditions, certain of the covenants designated in the applicable Terms and Conditions (including the applicable Pricing Supplement, collectively, the “Suspended Covenants”) will automatically, without any notice of any kind, be suspended. If, during any period in which the Suspended Covenants are suspended, the affected Series of Notes ceases to have an Investment Grade Rating by any one Nationally Recognized Statistical Rating Organization, the Suspended Covenants will thereafter be reinstated and be applicable pursuant to their terms, unless and until such Series of Notes subsequently attains an Investment Grade Rating by any one Nationally Recognized Statistical Rating Organization. See “Description of the Notes—Suspension of Covenants.”

Events of Default

The events of default are as set forth in the Indenture or as may otherwise be set forth in the applicable Pricing Supplement. See “Description of the Notes—Events of Default.”

Defeasance

The Issuer may, at its option and at any time, terminate its obligations with respect to the outstanding Notes of any Series (referred to herein as “defeasance”), so that the Issuer will be deemed to have paid and discharged the entire indebtedness represented by the outstanding Notes of such Series. Such defeasance is subject to the rights of Holders of outstanding Notes to receive payment in respect of principal and interest when such payments are due and certain other rights, powers and obligations of the Issuer and the Trustee. In addition, the Issuer may, at its option and at any time, elect to terminate its obligations with respect to certain covenants applicable to the Notes, and any omission to comply with such obligations will not thereafter

constitute a default or Event of Default with respect to the Notes (referred to herein as “covenant defeasance”). To exercise either its option with respect to defeasance or covenant defeasance, the Issuer must comply with all applicable terms and conditions and fulfill all relevant obligations to the Trustee and the holders of outstanding Notes. See “Description of the Notes—Defeasance or Covenant Defeasance of Indenture.”

Specified Denominations

Unless otherwise specified in the applicable Pricing Supplement (i) Notes resold pursuant to Rule 144A will be in denominations of U.S.\$10,000 and integral multiples of U.S.\$1,000 in excess thereof (or, in the case of Notes not denominated in U.S. dollars, the approximate equivalent thereof as set forth in the applicable Pricing Supplement), (ii) Notes sold pursuant to Regulation S will be in denominations of U.S.\$10,000 and integral multiples of U.S.\$1,000 in excess thereof (or, in the case of Notes not denominated in U.S. dollars, the approximate equivalent thereof as set forth in the applicable Pricing Supplement), and (iii) Notes (including Notes denominated in sterling pounds) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the United Kingdom Financial Services and Markets Act 2000 will have a minimum denomination of £2,000 (or its equivalent in other currencies) subject, in each case, to the fulfillment of all legal and regulatory requirements.

Taxation

Payments in respect of Notes will be made without withholding or deduction in respect of any taxes, duties, assessments or governmental charges in Argentina or, if such taxes are required by Argentina to be withheld or deducted, payments will be grossed-up, subject to certain exceptions, or as otherwise provided in the Pricing Supplement. See “Description of the Notes—Additional Amounts.”

ERISA Considerations

Generally, Plans (as defined in the “Certain Employee Benefit Plan Considerations” in this Offering Circular) and other employee benefit plans will be permitted to purchase the Notes subject to the restrictions described herein. However, any Plans or other employee benefit plans contemplating a purchase of the Notes should consult with their counsel before making such a purchase. See “Certain Employee Benefit Plan Considerations.”

Governing Law

The Negotiable Obligations Law will govern the requirements for the Notes to qualify as *obligaciones negociables simples no convertibles en acciones* (non convertible negotiable obligations) thereunder, together with Argentine Law No. 19,550, as amended, and other applicable Argentine laws and regulations will govern the capacity and corporate authorization of the Issuer to execute and deliver the Notes and certain matters in relation to the meetings of Holders and the authorization of the CNV for the establishment of the Program and the offering of the Notes in Argentina. All other matters in respect of the Notes will be governed by and construed in accordance with the law of the State of New York, United States.

Listing	Application may be made to the Buenos Aires Stock Exchange for the listing thereon of Notes of each Series issued under the Program. Notes of each Series may also be listed on such other or additional stock exchange(s), or not listed on any stock exchange, as specified in the applicable Pricing Supplement.
Clearing Systems	Euroclear, Clearstream and DTC (or such additional or alternative clearance system approved by the Issuer and the Trustee).
Further Issues of Notes	The Issuer may from time to time, without notice to or the consent of the holders of any outstanding Notes, create and issue further Notes of the same or a new Series.
Selling and Resale Restrictions	There are restrictions on the offer and sale of Notes in the United States, the European Union, the United Kingdom and Argentina as well as certain other jurisdictions. See “Subscription and Sale” and “Transfer Restrictions.”
Use of Proceeds	As required in Section 36 of the Negotiable Obligations Law, the net proceeds of any Tranche or Series of Notes will be used by the Issuer for one or more of the following purposes, as specified in the applicable Pricing Supplement: (i) investments in tangible assets in Argentina, (ii) working capital in Argentina, (iii) refinancing of debt, whether at its original maturity or prior to such maturity, and (iv) capital contributions to controlled or affiliated companies, provided that such companies use the proceeds of such contributions for the purposes set forth in (i), (ii) or (iii) above.
Risk Factors	See “Risk Factors” beginning on page 17 for a discussion of certain factors that prospective investors should consider in connection with making an investment in the Notes.
Placement of the Notes in Argentina	Notes to be issued under the Program will be offered to the public in Argentina in accordance with General Resolution 368/2001 of the CNV, as complemented by the Joint Resolution. The Argentine Pricing Supplement and the Argentine Program Circular will be available to the general public in Argentina. The placement of Notes in Argentina will take place in accordance with the provisions set forth in Section 16 of Law No. 17,811, the Joint Resolution and CNV regulations, through, among other things: (i) the publication of a summary of this Offering Circular and the Pricing Supplement related to a particular series of Notes in the Buenos Aires Stock Exchange Gazette; (ii) distribution of the Argentine Pricing Supplement and the Argentine Program Circular to the public in Argentina; (iii) road shows in Argentina for prospective investors; and (iv) conference calls with prospective investors in Argentina. Each Pricing Supplement will contain specific details of the public offering efforts to be undertaken, in accordance with Argentine law, as mentioned above, in connection with each issuance of Notes.

RISK FACTORS

Before making an investment decision, prospective purchasers should consider carefully, in light of their own financial circumstances and investment objectives, all of the information set forth in this Offering Circular, in particular the risk factors set forth below and in the applicable Pricing Supplement (if any) relating to the Issuer, the Guarantor, Argentina, Bolivia, Uruguay and Chile, and an investment in the Notes. In general, investing in the securities of issuers active in emerging market countries, such as Argentina and Bolivia, involves a higher degree of risk than investing in the securities of issuers in the United States and certain other jurisdictions. Additional risk factors relating to a particular Tranche or Series of Notes may be set forth in the applicable Pricing Supplement.

Risk Factors Related to Oil and Gas Industry

Volatility of Prices of Oil and Gas May Curtail Pan American's Investment Plans and a Material Decline in Such Prices May Adversely Affect its Results of Operations

The demand for, and price of, oil and gas, is highly dependent on a variety of factors, including international supply and demand, the level of consumer product demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels and global economic and political developments. International oil prices have fluctuated widely in recent years and are likely to continue to fluctuate significantly in the future. During recent years, fluctuations in the price of oil have been caused by several factors, including the continued conflicts in the Middle East, hurricanes and other natural disasters, increased oil demand from countries such as China and India and, more recently, the effects of the financial and economic crisis that began in 2007. Volatility in oil and gas prices restrain longer term investment plans since the returns expected from such investments are unpredictable.

In particular, a material decline in the price of oil or domestic Argentine gas prices may have a material adverse effect on the financial condition and results of operations of Pan American since a substantial portion of Pan American's revenues are derived from the sale of crude oil and gas. Furthermore, because Pan American currently uses revenues generated from the sale of crude oil and gas to partially fund the expansion of its operations, a substantial reduction in oil and gas prices could adversely impact the ability of Pan American to continue to fund such expansion activities or cause it to divert funding from oil operations to gas operations or vice versa and may require Pan American to obtain additional third party financing for such activities which may not be available or cost effective at the time.

Uncertainty of Estimates of Oil and Gas Reserves May Adversely Affect Pan American's Financial Condition

Pan American's oil and gas reserve estimates were prepared by Ryder Scott and RPS at December 31, 2009, and by Ryder Scott and G&C at December 31, 2008 and 2007, except for the reserve estimates for the Caipipendi block at December 31, 2009 and for the Chaco blocks at December 31, 2008 and 2007 which were prepared by Pan American. Reserve estimates for proved reserves were prepared in accordance with the oil and gas reserve estimation and disclosure requirements and guidelines issued by the SEC. Reserve estimates for unproved reserves were prepared using methodology published by the Society of Petroleum Engineers. Oil and gas reserve engineering is a subjective process of estimating accumulations of oil and gas that cannot be measured in an exact way, and estimates of other engineers might differ materially from those set out herein. Numerous assumptions and uncertainties are inherent in estimating quantities of proved oil and gas reserves, including projecting future rates of production, timing and amounts of development expenditures and prices of oil and gas, including many of which are beyond the control of Pan American. Results of drilling, testing and production after the date of the estimate may require revisions to be made. Accordingly, reserve estimates are often materially different from the quantities of oil and gas that are ultimately recovered, and to the extent substantially lower than estimated, could have an adverse impact on the financial condition of Pan American.

Uncertainty of Pan American's Ability to Acquire, Develop and Exploit New Reserves May Adversely Affect its Results of Operations

Pan American's future success will depend on, among other things, its ability to produce oil and gas from existing reserves, find additional oil and gas reserves and economically exploit oil and gas from such reserves. Unless Pan American is successful in its exploration for and development of oil and gas reserves or otherwise acquires additional reserves, Pan American's reserves will generally decline as oil and gas are produced.

There can be no assurance that Pan American's future exploration and development activities will be successful, that Pan American will be able to implement its capital expenditure program, acquire additional reserves or that Pan American will be able to economically exploit such reserves. Such events would adversely affect Pan American's financial condition and results of operations.

Lack of Financing Alternatives May Adversely Impact Pan American's Results of Operations and Financial Condition and the Implementation of its Business Strategy

Since the global financial and economic crisis began in 2007, companies around the world, including Pan American, have had increasingly limited and more costly access to local and international financing sources. Further deterioration in the international credit markets could result in a further decrease in the availability of financing sources and an increase in financing costs for companies, including Pan American. Given Pan American's significant reliance in recent years on the international financial and capital markets to finance a significant part of its investments and execute its business strategy, if it is unable to gain access to the international credit markets to finance its investment plan and refinance its indebtedness at reasonable costs or under adequate conditions, Pan American may have to reduce its projected investments and capital expenditures, which may, in turn, adversely affect its financial condition and results of operations as well as the implementation of its business strategy.

Unavailability of Transportation Capacity May Limit Pan American's Ability to Increase Oil and Gas Production and May Adversely Affect its Financial Condition and Results of Operations

The ability of Pan American to exploit economically its oil and gas reserves is dependent upon, among other factors, the availability of the necessary transportation infrastructure on commercially acceptable terms to transport oil and gas produced by Pan American to the markets where Pan American's oil and gas are sold. Oil is usually transported by pipeline and tankers to refiners and gas is usually transported by pipeline to customers. The lack of adequate or alternative storage or loading infrastructure or of available capacity in the existing long-line gas transmission systems may adversely affect Pan American's financial condition and results of operations.

Operational Risks Related to Oil and Gas Exploration and Production May Adversely Affect its Financial Condition and Results of Operations

Oil and gas exploration and production activities are subject to natural hazards and uncertainties, including those relating to the physical characteristics of oil and gas fields. Pan American's operations are subject to all of the risks generally inherent to the exploration for and production of oil and gas, including blowouts, fires, equipment failure, weather and natural disasters, strikes and other risks which can result in personal injuries, loss of life and property and environmental damage. Offshore operations, in particular, are subject to a wide range of hazards, including capsizing, collision, bad weather and environmental pollution. Drilling activities are also subject to numerous risks and may involve unprofitable efforts, not only with respect to dry wells, but also with respect to wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a return on the investment or a recovery of drilling, completion and operating costs. In addition, Pan American's operation of gas gathering, compression and treatment plants, oil transportation, storage and loading facilities are subject to all of the risks generally inherent to such operations. The occurrence of any such operational risks may prevent Pan American from recovering its initial investment and adversely affect Pan American's financial condition and results of operations.

In addition, Pan American's exploration and production activities in certain blocks are conducted with co-venturers. Under certain of Pan American's agreements with co-venturers, the operation of these blocks is carried

out by the co-venturers and not by Pan American. While Pan American seeks to ensure that the operational standards of its co-venturers are consistent with Pan American's own operational standards, Pan American has limited to no control over the operation of these blocks.

Pan American's Concessions and Licenses May Be Terminated Which Could Have an Adverse Effect on its Financial Condition and Results of Operations

The terms of the concessions and licenses under which Pan American's businesses operate require the operator to meet specified requirements and maintain minimum quality and service standards as well as to make certain minimum investments. Failure to comply with these criteria could result in the imposition of fines or other government actions. In addition, in certain cases, Pan American's concessions or licenses could be terminated or revoked. Although Pan American believes that it has in the past complied, and currently is in compliance, in all material respects with the terms and conditions of its concessions and licenses, there can be no assurance that Pan American will be able to comply fully with the terms and conditions of its concessions and licenses in the future. The termination of, revocation of or failure to obtain extensions of concessions or licenses may adversely affect Pan American's financial condition and results of operations.

Intense Competition in the Oil and Gas Exploration and Production Industry May Adversely Affect its Financial Condition and Results of Operations

The oil and gas exploration and production business is highly competitive and is expected to remain competitive in the future. Pan American competes with other companies, including major oil and gas companies, in Argentina and elsewhere. Some of these companies have greater financial and other resources than Pan American and, as a result, may be in a better position to compete for future business opportunities. In addition, other competitive sources of energy could come into operation in the future. Accordingly, Pan American expects competition in the oil and gas industry to remain highly competitive or to increase and this could have an adverse effect on Pan American's financial condition and results of operations.

Risk Factors Related to Operations in Argentina

Government Intervention and Regulation May Adversely Affect Pan American's Financial Condition and Results of Operations

Historically, the oil and gas industry in Argentina has been significantly controlled by the Argentine government through the ownership of state-owned companies engaged in such activities. In the early 1990's, the Argentine government reduced its level of regulation and privatized large sectors of the oil and gas industry, leading to an increasing participation of private companies. Notwithstanding such reduction in overall regulation and control of the industry, the oil and gas industry in Argentina is still subject to significant governmental regulation and intervention in such matters as the award of exploration and production interests, restrictions on production and exports, the imposition of gross production assessments, export tariffs and taxes and specific investment obligations related to drilling and other work and environmental controls, as well as domestic price controls.

Pan American's financial condition and results of operations may be negatively affected if the Argentine government continues to issue decrees or intervene to curb price increases, or to reassign the volume of natural gas to be supplied to the local market or increase tariffs or controls over exports, or if it applies its emergency regulatory authority to set prices or adopts other laws to stabilize prices or limit or allocate supply.

In addition to the federal government, provincial governments in Argentina levy various taxes (including gross production assessments, turnover and stamp taxes) on the production of oil and gas within the relevant province. There can be no assurance that the Argentine provinces where Pan American has operations will not increase the taxes currently levied in respect of its oil and gas production activities or impose additional taxes, which could adversely affect Pan American's financial condition and results of operations.

Limits on Exports of Hydrocarbons have Negatively Affected, and May Continue to Affect, Pan American's Financial Condition and Results of Operations

In recent periods, Argentina has faced difficulties in satisfying its domestic energy needs. As a result, the government has enacted a series of measures limiting the export of hydrocarbons and related oil products, which has inhibited Argentine producers' ability to profit from higher prices for these commodities on the international market, hindered producers from offsetting sustained increases in costs endemic to the energy industry, and materially affected the competitiveness and financial condition and results of operations of Argentine producers.

In April 2004, in order to facilitate the recovery of natural gas prices, the Secretariat of Energy entered into an agreement with natural gas producers requiring them to sell a specified amount of gas in the local regulated market. During 2006, the Secretariat of Energy required producers to redirect gas earmarked for export to instead supply local thermal power plants and local gas distribution companies ("LDCs"). In January 2007, the Secretariat of Energy confirmed that the ability to export hydrocarbons would be subject to the satisfaction of domestic needs and that exports sales would have to be authorized on a case-by-case basis by the Secretariat of Energy. These measures prevent Argentine producers from benefiting from the higher margins offered by the export market. In 2007, following the expiration of the aforementioned agreement, the Argentine government and producers signed a new agreement effective until 2011 aimed at securing the domestic supply of gas.

Similarly to restrictions imposed on the export of natural gas, pursuant to Resolution No. 1,679/04, enacted in December 2004, oil producers must obtain the approval of the Argentine government prior to exporting crude oil or diesel oil. To obtain this approval, exporters must demonstrate that they have either satisfied local demand requirements or have granted the domestic market the opportunity to acquire oil or diesel oil under terms similar to current domestic market prices and, in the case of diesel oil, they must also demonstrate, if applicable, that commercial terms offered to the domestic market are at least equal to those offered to their own gas station network. Furthermore, in December 2006, pursuant to Resolution No. 1,338/06, the Secretariat of Energy extended these regulations to the export of related hydrocarbons. In response to an increase in fuel prices in the domestic market, in January 2008 the Argentine government temporarily prohibited the exports of gasoline and diesel oil until the domestic market was fully supplied at the prices in force on October 31, 2007.

These limitations on exports have and further changes in regulations and/or the level of government intervention, could, adversely affect the ability of Pan American to produce and market its oil and gas and, therefore, have an adverse effect on its financial condition and results of operations.

Export Tariffs have Negatively Affected, and may Continue to Affect, Pan American's Results of Operations

The approval by the Argentine Congress of the Public Emergency Law and Exchange System Reform Act No. 25,561 in 2002 (the "Public Emergency Law"), permitted the Argentine Executive Branch to impose tariffs on the export of hydrocarbons. In accordance with this law and subsequent regulations since March 2002, the government introduced an export tariff of 20% on crude oil and 5% on LPG (reduced from a 20% export tariff originally applied). In May 2004, these export tariffs were increased to 25% for oil, 20% for LPG and 20% for natural gas. In August 2004, export tariffs on crude oil were increased through the application of a sliding scale of rates between 25% to 45%, linked to the levels of West Texas Intermediate ("WTI") price. In July 2006, export tariffs on gas exports were increased to 45% and established the price set for gas imports from Bolivia under the framework agreement signed on June 29, 2006 by the governments of Argentina and Bolivia, *Convenio marco entre la República Argentina y la República de Bolivia para venta de Gas Natural y la realización de proyectos de integración energética* ("Framework Agreement between Argentina and Bolivia"), which was then set on U.S.\$5.0 per million BTU, as the basis for valuation of natural gas exports. Export tariff expenses are included in "Taxes other than income taxes" in Pan American's Financial Statements.

Effective November 2007, the Ministry of Economy and Production through Resolution 394/2007 adopted a new method for calculating export tariffs applicable on exports of crude oil and certain oil by-products. In the case of crude oil, under this method, when the international price for crude oil exceeds U.S.\$60.90 per barrel, the price the producer receives is capped at U.S.\$42 per barrel. At prices below U.S.\$60.90 per barrel, the producer pays an export tariff of 45%. If prices are lower than U.S.\$45 per barrel, then the Ministry of Economy will decide within 90 days which export tariff will be applicable.

These tariffs on hydrocarbon exports have prevented Pan American from benefiting from significant increases in international prices for oil, oil related products and natural gas, limited Pan American's ability to offset or pass through to end-users increases in production costs, and materially affected Pan American's competitiveness and results of operations.

In 2008, Resolution No. 127/2008 of the Ministry of Economy increased the rate of export duties applicable to natural gas definitive exports from 45% to 100%, and modified the previously applicable reference price set by the Framework Agreement between Argentina and Bolivia by setting the highest price provided in any contract for the import of natural gas to Argentina, as the reference price for the calculation of natural gas export duties. This reference price is periodically informed by Argentina's Undersecretary of Fuels. As of December 31, 2009, the applicable reference price was U.S.\$6.16 per mmbtu. With respect to petroleum gas and other gaseous hydrocarbons (including propane, butane, LPG and others), a formula applies in order to determine the rate of the export duty applicable when the international price informed on a daily basis by the Undersecretary of Fuels is equal to or exceeds the reference price set in the resolution. When such international price is lower than the applicable reference price, the rate of the export duty rate is 45%.

In November 2008, through Decree No. 2014/2008, the Argentine government implemented the *Petróleo Plus Program* (the "Petróleo Plus Program"), which was intended to provide private oil producers with incentives to increase oil production and the rate of proved oil reserves replacement. Under the *Petróleo Plus Program*, oil producers that can demonstrate an increase in their oil production and replacement of their oil proved reserves will be entitled to receive fiscal credits that can be used to offset export taxes on oil, LPG and other petroleum derivatives. By obtaining these fiscal credits oil producers can reduce the impact of the export tariffs imposed by Resolution No. 394/2007 and Resolution 127/2008 of the Ministry of Economy.

There can be no assurance that the Argentine government will not change or suspend the *Petróleo Plus Program*. In addition, while Pan American believes that it currently meets the requirements to qualify for the *Petróleo Plus Program*, there can be no assurance that it will continue to meet these requirements. If the Argentine government discontinues the *Petróleo Plus Program* or Pan American is no longer able to qualify for such fiscal credits and the export tariff regime is not amended, Pan American's financial condition and results of operations may be adversely affected.

There can be no assurances that the Argentine government will maintain current export tariff rates or whether it will increase them further or as to the possible adverse impact that any changes on export tariffs may have on Pan American's financial condition and results of operations.

Price Controls have Affected, and May Continue to Affect, Pan American's Financial Condition and Results of Operations

Certain actions taken by the Argentine government have affected the domestic price of crude oil. Crude oil prices had been set by supply and demand in the domestic market from 1991 to 2001. However, since 2002, the Argentine government has imposed export tariffs on the export of crude oil, which have reduced the price at which crude oil is sold in the domestic market.

In addition, the Argentine government has imposed price restrictions with respect to the determination of gas prices. Between 1994 and 2001, the price of gas sold at the wellhead in Argentina (where it is delivered to the gas transportation and distribution system) was determined by the domestic market, with producers negotiating prices directly with LDCs and large consumers, such as utilities and certain industrial companies. Under the regulations governing the gas industry, however, gas transportation and LDCs in Argentina are subject to regulation and oversight by a regulatory authority, *Ente Nacional Regulador del Gas* ("ENARGAS").

Since 2002, in order to reduce inflationary pressures generated by the sharp peso devaluation, the Argentine government has increased the regulation of gas prices by imposing certain price controls. In 2004, the Argentine government introduced mechanisms to allow the Secretariat of Energy to regulate the price of gas in various segments of the domestic market. See "Business—Sales and Marketing of Hydrocarbons—Regulatory Matters Affecting Sales of Hydrocarbons in Argentina" and "Business—Sales and Marketing of Hydrocarbons—Gas."

In addition, in January 2008, the Argentine government adopted certain measures to encourage hydrocarbon refineries to reduce gasoline export volumes, which were intended to achieve a reduction in gasoline and diesel prices to those levels in effect on October 31, 2007. These measures also lifted exports restrictions applicable to the hydrocarbon refineries that actually reduced such prices in their gasoline stations.

These price controls have had, and similar measures by the Argentine government in the future could have, a material adverse effect on Pan American's financial condition and results of operations.

Inflation May Adversely Affect Pan American's Financial Condition and Results of Operations

Throughout the 1980s and into the 1990s, the Argentine economy was subject to high levels of inflation, including periods of hyperinflation such as in 1989 and at the end of 1990, with consumer prices rising at annual rates in excess of 1,000% and reaching a high in 1989 of 4,924%. From 1991 to 2001, the Argentine government successfully implemented programs to curb inflation. The annual inflation rate fell from approximately 84.0% in 1991 to 0.7% in 1998. After the devaluation of the peso during Argentina's crisis in 2002, inflation increased again 40.9%. In subsequent years, in substantially improved economic conditions, inflation was 3.7% in 2003, 6.1% in 2004, 12.3% in 2005, 9.8% in 2006, 8.5% in 2007, 7.2% in 2008 and 7.7% in 2009.

If the Central Bank issues significant amounts of currency to finance public sector spending or to assist financial institutions in distress or if the value of the peso cannot be stabilized by Argentina's fiscal and monetary policies, inflation rates may rise. Inflation and government efforts to combat inflation may have a material adverse effect on Argentina's growth and Pan American's financial condition and results of operations.

Because a substantial portion of Pan American's operating costs are incurred in pesos while the majority of its revenues are invoiced in U.S. dollars or in pesos pursuant to a U.S. dollar-based formula, an increase in the rate of inflation in Argentina, without a correlating devaluation of the peso, could result in an increase in Pan American's operating costs without a corresponding increase in its revenues which could have an adverse effect on Pan American's financial condition and results of operations.

In addition to the foregoing, the accuracy of inflation rates reported by the Argentine Instituto Nacional de Estadística y Censos ("INDEC") has been put into question as a result of increased governmental intervention in staffing decisions at INDEC, as well as in determining the methodology for calculating the consumer price index ("CPI").

Government Intervention or Employees' or Labor Union's Claims to Grant Salary Increases and/or Additional Benefits to Pan American's Employees May Adversely Affect its Financial Condition and Results of Operations

In the past, the Argentine government adopted certain laws, regulations and decrees which required private companies to maintain certain salary levels and grant certain benefits to their employees. In addition, both public and private-sector employers have been under significant pressure to increase the salaries and benefits of their employees. There can be no assurance that the Argentine government will not adopt future measures requiring that employers increase salaries and/or fringe benefits, or that Pan American's employees and/or labor unions will not directly request such increase themselves. Any such increase could result in an increase of Pan American's operating expenses and, therefore, adversely affect Pan American's results of operations.

Pan American has been and could be Subject to Organized Labor Action

Many of Pan American's operations are highly labor-intensive and require a significant number of workers. The sectors in which Pan American operates is largely unionized. Pan American has experienced organized work disruptions and stoppages in the past, frequently due to strikes by employees of contractors Pan American employs.

There can be no assurance that Pan American will not experience such disruptions or work stoppages in the future, and any such action could have an adverse effect on Pan American's financial condition and results of operations. Furthermore, Pan American does not maintain insurance coverage for business interruptions caused by labor action.

Strikes, picketing or other types of conflict with the unionized personnel could curtail Pan American's operations and result in higher costs, having an adverse effect on Pan American's financial condition and results of operations.

A Devaluation of the Peso and Increased Government Intervention in the Establishment or Maintenance of Exchange Rates May Adversely Affect Pan American's Financial Condition

At various times in the past, restrictions or limitations on a company's right to convert Argentine currency to U.S. dollars have been put into effect by Argentine governments.

Until 1991, the Argentine currency had been devalued numerous times during the prior two decades. In April 1991, the Argentine government launched a plan aimed at controlling inflation and restructuring the economy, enacting Law No. 23,928 and its regulatory Decree No. 529/1991, known collectively as the "Convertibility Law." The Convertibility Law fixed the exchange rate at one peso per U.S. dollar and required that the Central Bank maintain reserves in gold and foreign currency at least equivalent to the monetary base. On January 6, 2002, the Public Emergency Law put an end to U.S. dollar-peso parity and authorized the Argentine government to set the exchange rate between the peso and foreign currencies, and issue regulations related to foreign exchange markets. After devaluing the peso, the Argentine government initially established a dual exchange rate of Ps.1.40 per U.S. dollar for certain transactions and a free-floating rate for all other transactions. This dual system was later eliminated in favor of a single free-floating exchange rate for all transactions. Since the end of U.S. dollar-peso parity and through the end of 2003, the peso fluctuated significantly. As a result, the Central Bank has taken several measures to stabilize the exchange rate and preserve its reserves. As of April 23, 2010, the exchange rate as reported by Banco de la Nación Argentina was Ps.3.87 per U.S. dollar. See "Exchange Rates."

Pan American's consolidated revenues are primarily invoiced in U.S. dollars. The proceeds of sales made in the domestic market are collected in pesos and the proceeds of export sales are collected in U.S. dollars and, if necessary, converted to pesos to pay costs payable in pesos. There can be no assurance that a significant change in exchange rates or the adoption by the Argentine government of new regulations with respect to exchange rates will not adversely affect Pan American's financial condition.

Limitations on Access to Foreign Currency or the Imposition of Transfer Restrictions May Adversely Affect Pan American's Ability to Repay its Foreign Currency Denominated Indebtedness, including the Notes

Due to the deterioration of the economic and financial situation in Argentina during 2001, the inability of Argentina to service its public external debt and the decreased level of deposits in the financial system, the Argentine government established a number of monetary and currency exchange control measures, including restrictions on the free disposition of funds deposited in banks and restrictions on the transfer of funds abroad.

However, pursuant to Decree No. 1,589/1989 relating to the deregulation of the upstream oil industry, companies engaged in oil and gas production in Argentina are entitled to maintain outside of Argentina 70% of the foreign currency proceeds from crude oil and gas exports. Currently, these companies are required to repatriate the remaining 30% through the Argentine currency exchange markets. During 2002, and until the issuance of Decree No. 2,703/2002, which became effective as of January 1, 2003 and which reaffirmed the right of producers to maintain 70% of such proceeds abroad, the Central Bank challenged such right.

If the Argentine government decides to eliminate the right of producers to keep 70% of export proceeds abroad, Pan American's access to U.S. dollars may be adversely affected, which may adversely affect its ability to make principal or interest payments on its external indebtedness, including the Notes, when and as it becomes due.

These and other restrictions or additional authorization requirements may adversely affect Pan American's ability to access the international capital markets in order to obtain financing and to effectively invest the funds raised in any such financing, which could adversely affect Pan American's financial condition and results of operations.

The Lack of Financing Alternatives for Argentine Companies May Negatively Impact Pan American's Financial Condition and Results of Operations and the Implementation of its Business Strategy

Pan American's ability to execute and carry out its business strategy depends upon its ability to obtain financing at a reasonable cost and on reasonable terms. In November 2008, the Argentine Congress passed a law eliminating the private pension system, mandating that funds administered by the private Retirement and Pension Funds Administrators (the "AFJPs") be transferred to a new administrator, the National Social Security Administrative Office (*Administración Nacional de la Seguridad Social*, or "ANSES"). Although Pan American has not regularly obtained financings from the private pensions fund system in Argentina, the nationalization of these funds and the transfer of their assets to a state-run administrator has led to a decline in liquidity in the local capital markets, and may further limit the sources of financing for Argentine companies, including the Branch. If Pan American is unable to gain access to international or local financial markets at reasonable cost and on reasonable terms, it may have to reduce the amount of its projected investments and capital expenditures, which, in turn, may adversely affect its financial condition and results of operations as well as the implementation of its business strategy.

Government Measures Designed to Exercise Greater Control Over Funds Entering Argentina May Disrupt Pan American's Ability to Access the International Capital Markets

The Argentine government has enacted Decree No. 616/2005 in order to regulate funds coming into and flowing out of Argentina. The government has publicly announced that this Decree is intended to maintain stability and support the economic recovery of the country. This Decree provides that certain funds remitted into Argentina are subject to a 30% reserve requirement that must be deposited into an account with a local financial institution as a U.S. dollar deposit for one year without accruing interest or yielding any other kind of benefit, which also cannot be used as collateral for any transaction.

These and other similar measures may adversely affect Pan American's ability to access the international capital markets in order to obtain financing and to effectively invest the funds raised in any such financing, which could adversely affect the Branch's and Pan American's financial condition and results of operations. For a description of these and other similar measures and certain further exchange control measures, see "Exchange Controls" and "Subscription and Sale."

Competition from the State-Owned Hydrocarbons and Energy Company Could Have an Adverse Effect on Pan American

On May 11, 2004, the Argentine government announced the creation of Empresa Nacional de Energía S.A. ("ENARSA"), a state-owned hydrocarbons and energy company, with the purpose of improving the level of hydrocarbon reserves, increasing gas production, addressing gas transportation and electricity transmission problems and supplying gas and electricity for the domestic market at prices accessible to consumers. ENARSA was formed on November 3, 2004 pursuant to Law No. 25,943 and its by-laws were approved pursuant to Decree No. 1,692/2004. The Argentine government holds 53.0% of the equity interest of ENARSA, which equity interest is not transferable, and the provincial governments hold an additional 12.0% of the equity interest in ENARSA. The remaining 35.0% of the equity interest of ENARSA will be offered to the private sector. Since its formation, ENARSA entered into several agreements with different companies to, among other activities, pursue offshore exploration activities and participate in competitive provincial bidding processes for new oil and gas concessions. However, there can be no assurance that ENARSA's (or any provincial owned company) participation in the bidding processes for new oil and gas concessions in such markets will not influence market forces in such a manner that could have an adverse effect on Pan American's financial condition and results of operations.

Political, Social and Economic Instability in Argentina May Adversely Affect Pan American

In 2001, Argentina underwent significant economic, political and social crisis. Although social and economic conditions have improved significantly since 2002, significant structural problems remain unresolved and uncertainty remains as to whether the current growth and relative stability are sustainable. Instability is still prevalent and it may continue to affect social and economic conditions in Argentina.

Since 2004, the activities of producers of oil and gas have been affected by union strikes and protests by the unemployed that have inhibited access to the blocks, causing delays in their development and production activity. In addition, in 2008, strong reactions from organizations and individuals related to the agricultural sector were caused by measures issued by the Argentine government intended to impose variable export tariffs on certain agricultural products (mainly soy).

Argentine government actions concerning the economy and in response to political and social protests, including those aimed at targeting inflation, interest rates, price controls, foreign exchange controls and taxes, have had, and may continue to have, an adverse effect on private sector entities, including Pan American. There can be no assurance that future economic, social and political developments in Argentina, over which Pan American has no control, will not further impair Pan American's business, financial condition, or results of operations or impair its ability to make payments of principal and/or interest on its outstanding indebtedness.

The Existing Sovereign Default and Unavailability of Financing for Argentina May Adversely Affect Pan American's Financial Condition

In 2001, the Argentine government defaulted on over U.S.\$144.5 billion in external debt. As part of its debt restructuring process, the Argentine government consummated a debt exchange offer in the second quarter of 2005, with a rate of participation of approximately 76% and an aggregate tendered amount of U.S.\$62.3 billion. Despite the high participation levels in the exchange offer, outstanding debt in an amount equal to approximately U.S.\$20 billion was not tendered in the exchange offer. Some bondholders in the United States, Italy and Germany filed legal actions against Argentina that are still pending resolution, and holdout creditors may initiate new law suits in the future. Argentina's past default and its failure to fully restructure its remaining sovereign debt and negotiate with holdout creditors may prevent the Argentine government from accessing the international capital markets for the foreseeable future. Moreover, even following the consummation of the exchange offer, Argentina's outstanding sovereign debt is still significant and may inhibit economic growth and result in lower fiscal surpluses that could further restrict its ability to repay its outstanding debt, including its restructured debt. As a result, the Argentine economy may suffer additional shocks and downturns that may adversely impact Pan American.

Following the settlement of Argentina's exchange offer, the Argentine government announced its intention to prepay all of its outstanding debt with the International Monetary Fund (the "IMF"), totaling U.S.\$9.8 billion. On January 3, 2006, the Argentine government made such prepayment with reserves of the Central Bank that were in excess of the amounts necessary to support 100% of Argentina's monetary base and it is currently analyzing measures to be adopted in order to cancel approximately U.S.\$4 billion of outstanding foreign debt also with foreign reserves of the Central Bank. In addition, the Argentine government has recently announced its intent to launch an exchange offer in April aimed at restructuring the remaining debt with its holdout creditors for approximately U.S.\$20 billion. This exchange offer was approved by the SEC on March 19, 2010. Although the details of the offer have not been publicly announced, press reports indicated that the exchange offer consists of a 65% discount with respect to the defaulted debt and the issuance of a Discount bond denominated in Euros due 2033, a Par bond denominated in Euros due 2038 and a global bond denominated in dollars due 2017 as well as payment of accrued interest. If the Central Bank reserves are used in connection with the exchange offer, the reduction of the Central Bank's foreign-currency reserves may weaken Argentina's ability to overcome economic deterioration in the future. Without international private financing, Argentina may not be able to finance its obligations, and financing from multilateral financial institutions may be limited or unavailable. This could also inhibit the ability of the Central Bank to adopt measures to combat inflation and could adversely affect Argentina's economic growth and public finances, which could adversely affect Pan American's business, financial condition or results of operations.

During 2005 through 2008, the Argentine government issued debt instruments which have been mostly subscribed by Venezuela as an alternative to access the international capital markets. However, Argentina's past default, its failure to completely restructure its remaining sovereign debt, and its failure to fully negotiate with the holdout creditors has prevented and may continue to prevent Argentina from re-entering the international capital markets. As a result, the government may not have the financial resources necessary to implement reforms and foster growth, which could have a material adverse effect on the country's economy and, consequently, on Pan American's financial condition.

Risk Factors Related to Bolivia and Other Emerging Markets

Political, Social and Economic Instability in Bolivia and Nationalization of Chaco

The Bolivian congress passed the new Hydrocarbons Law No. 3,058 on May 19, 2005 (the “Bolivian Hydrocarbons Law”). The Bolivian Hydrocarbons Law provided that all hydrocarbons at the wellhead are the property of Bolivia, and mandated the conversion of all “shared risk” contracts entered into prior to such date into new operating contracts. In addition, through the creation of a new tax, effectively increased production taxes with respect to hydrocarbons from 18% to 50%. Such increase has had a significant adverse effect on the economics of production in Bolivia as a greater percentage of the revenues from sales of hydrocarbons must be shared with the Bolivian government. In August 2005, Pan American sent a dispute notice to the Bolivian government with respect to certain acts and omissions by such government that affect Pan American’s rights under the United States-Bolivia bilateral investment protection treaty. Similar letters were sent by several other oil and gas companies with operations in Bolivia.

The Bolivian hydrocarbon regime underwent further changes on May 1, 2006, when the Bolivian government issued Supreme Decree No. 28,701 relating to hydrocarbons. Pursuant to this decree, with effect from May 1, 2006, the Bolivian government reasserted its ownership rights in respect of, and assumed total control of, the country’s hydrocarbon resources, including reserves, through the nationalization, and transfer to YPFB, of the shares in the previously privatized companies (including Chaco) required to vest the Bolivian government with control over such companies (by holding 50% of the equity of such companies plus one share). See “Business—Contractual Matters and Regulations—Bolivia.”

On January 23, 2009, the Bolivian government, through Supreme Decree N° 29,888, nationalized almost all of Pan American’s shares in Chaco, which represented 50% of the total shares of Chaco, without providing Pan American with prompt, adequate and effective compensation.

As a result of the nationalization of Chaco, since January 1, 2009, the Company deconsolidated Chaco’s assets, liabilities and shareholders’ equity on a line-by-line basis and allocated the net balance to “other accounts receivable” included in non-current assets. See note 22 to Pan American’s Financial Statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Comparability of Financial Information—Comparability of Pan American’s Financial Statements After Deconsolidation of Chaco.”

On March 12, 2010, Pan American submitted a claim before the ICSID against Bolivia pursuant to the treaty between the Government of the United States of America and the Government of the Republic of Bolivia concerning the Encouragement and Reciprocal Protection of Investments. See “Business—Legal Proceedings.”

In accordance with Article 357 of the Political Constitution of Bolivia, in force since February 7, 2009, registration and collateralization of hydrocarbon reserves may only be carried out by the Bolivian government. The Caipipendi block reserves included in this Offering Circular have not been registered on any stock exchange as property of the Company nor used as a collateral for financing transactions. Such registration and collateralization may only be carried out by the Bolivian government. The volume of proved reserves that correspond to the Caipipendi block as of December 31, 2009 are 18,975 mbbbl of oil and 521,786 mmcf of gas, which are equivalent to 108,938 mboe.

The political, social and economic situation in Bolivia remains unstable and subject to change. Certain developments in Bolivia are likely to continue to adversely affect Pan American’s operations in that country and its overall financial condition and results of operations.

The Perception of Risk in other Countries, Especially Emerging Market Countries, May Adversely Affect the Market Value of Securities of Argentine Issuers, Including the Notes.

The market value of securities of Argentine issuers is affected to varying degrees by economic and market conditions in other countries, including other Latin American and emerging market countries. Although economic conditions in those countries may differ significantly from economic conditions in Argentina, investors’ reactions to

developments in these other countries may have an adverse effect on the market value of securities of Argentine issuers. Crises in other emerging market countries may hamper investor demand for securities of Argentine issuers, including the Notes, which could adversely affect the market value of the Notes.

Access to International Capital Markets for Argentine Companies is Influenced by the Perception of Risk in Other Emerging Market Countries, Which May Adversely Affect the Company's Ability to Finance its Operations.

Economic and market conditions in other emerging market countries, especially those in Latin America, influence the market for securities issued by Argentine companies. As a result of economic problems in various emerging market countries (such as the Asian financial crisis of 1997, the Russian financial crisis of 1998 and the Argentine financial crisis that began in 2001), investors may view investments in emerging markets with heightened caution. These crises gave rise to a significant outflow of U.S. dollars from Argentina, causing Argentine companies to face higher costs for raising funds, both domestically and abroad, and impeding access to international capital markets. There can be no assurance that international capital markets will remain open to Argentine companies or that the costs of financing in these markets will be advantageous to Pan American.

Risk Factors Related to Pan American

A Significant Portion of Pan American's Reserves are Derived from Operations in One Block, Cerro Dragón

Pan American has 69% of its total proved reserves in the Cerro Dragón block, located in the provinces of Chubut and Santa Cruz. As such, any government intervention, impairment or disruption of Pan American's production due to factors outside of its control or any other significant adverse event in Pan American's operations in such block would have a material adverse affect on Pan American's financial condition and results of operations.

Unavailability and Increased Costs of Insurance May Adversely Affect Pan American's Operations and Financial Condition

Pan American's operations are subject to various hazards common to the oil and gas industry, including explosions, fires, toxic emissions and other pollution, maritime hazards and natural catastrophes. As protection against these hazards, Pan American maintains insurance coverage against some, but not all, of these potential losses and liabilities. Pan American may not be able to maintain or obtain desirable types of insurance at reasonable rates. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. If Pan American were to incur a significant liability for which it was not fully insured, it could have a material adverse effect on the financial condition of Pan American.

Pan American's insurance program includes a number of insurance carriers. Disruptions in global financial markets have resulted in the deterioration in the financial condition of many financial institutions, including insurance companies. Pan American is not currently aware of any information that would indicate that any of its insurers is unlikely to perform in the event of a covered incident. However, in the event that Pan American is unable to obtain insurance or if the cost of the insurance maintained by Pan American substantially increases, Pan American would be assuming more uninsured risks in its operations or the overall expenditures of Pan American relating to insurance could increase substantially.

Pan American's Business Requires Substantial Capital Expenditures

Pan American's business is capital intensive. Specifically, the exploration and development of hydrocarbon reserves, production, processing and refining and the maintenance of machinery and equipment require substantial capital expenditures. Pan American must continue to invest capital to maintain or to increase the amount of hydrocarbon reserves that it produces. Pan American's ability to finance its capital expenditures, however, is limited given its current levels of debt and cash flow. There can be no assurances that Pan American will be able to maintain its production levels or generate sufficient cash flow, or that Pan American will have access to sufficient loans or other financing alternatives to continue its exploration, development and production activities at or above present levels.

Environmental Regulation May Adversely Affect Pan American's Financial Condition and Operations

Pan American is subject to environmental laws and regulations in connection with its operations, the failure to comply with which may result in the imposition of fines or the incurrence of extensive liabilities. Pan American's operations involve certain inherent risks, such as accidental spills, leakages or other unforeseen circumstances. Pan American may not be able to comply at all times with such environmental laws and regulations. In addition, Argentina has adopted regulations that will require Pan American's operations to meet stricter environmental standards and local, provincial and national authorities are moving toward stricter enforcement of existing laws which may increase Pan American's cost of doing business or affect its operations in any area. There can be no assurances that Pan American will not incur additional costs related to environmental law and regulations in the future. To the extent that Pan American incurs costs to comply with such environmental law and regulations in excess of its historical expenditure on these items, or compliance requires it to shut down production, there could be an adverse effect on Pan American's financial condition and results of operations.

Covenants in the Notes and other Indebtedness could Adversely Restrict Pan American's Financial and Operating Flexibility

The Notes may contain, and some of Pan American's current credit facilities contain, affirmative and restrictive covenants that limit its ability to create liens, incur additional debt, dispose of its assets or consolidate, merge or sell part of its business. These restrictions may limit Pan American's ability to operate its business and may prohibit or limit its ability to enhance its operations or take advantage of potential business opportunities as they arise. The breach of any of these covenants or the failure to meet any of such conditions could result in a default under the Notes or the credit facilities. Pan American's ability to comply with these covenants may be affected by events beyond its control, including prevailing economic, financial and industry conditions and the renegotiation of concessions and licenses used in its business.

BP and Bidas, as Members, Exercise Significant Control Over Matters Affecting Pan American

BP owns 60% and Bidas owns 40% of the equity interests of Pan American. As Pan American's controlling members, BP and Bidas are in a position to direct Pan American's management, to control the election of Pan American's management committee, to determine Pan American's profit distribution policies and to generally determine the outcome of any matter requiring the consent of Pan American's members. The interests of BP and Bidas may not coincide with the interests of the holders of Notes.

Pan American has engaged in, and will continue to engage in, transactions with shareholders of BP and Bidas and their affiliates. See "Related Party Transactions."

Risk Factors Related to the Notes

Absence of Public Market for the Notes May Adversely Affect the Liquidity of the Notes

The Notes of any particular Tranche or Series may not be listed on any securities exchange or quoted on any automated quotation system and there can be no assurance that there will be a secondary market for the Notes or as to liquidity in the secondary market, if one develops.

An Active Trading Market for the Notes May not Develop or be Sustained

While the Dealers appointed by the Issuer in connection with the issuance of Notes under the Program may make a market in the Notes, they may not be obligated to do so or may discontinue market-making activities at any time without notice. In addition, their market-making activity will be subject to limits imposed by applicable law. There can be no assurance that any market for the Notes will develop or be sustained. If an active market is not developed or sustained, the market price and liquidity of the Notes may be adversely affected.

The Notes Will be Subject to Transfer Restrictions that May Adversely Affect their Value

The Notes will not be registered under the Securities Act. Under U.S. securities law, the Notes may therefore only be resold, pledged or transferred if such resale, pledge or transfer is registered under the Securities Act or exempt from, or not subject to, the registration requirements thereof. In addition, there are restrictions on the transfer of the Notes under European Union and U.K. law and there may be additional restrictions under the laws of other jurisdictions where the Notes may be sold.

The Notes and the Guarantee will be Effectively Subordinated to the Existing and Future Liabilities of Pan American's Subsidiaries

The Notes and the Guarantee will constitute the Issuer's and Pan American's respective unsecured and unsubordinated obligations and will rank *pari passu*, without any preferences among themselves, with all of the Issuer's and Pan American's other present and future unsecured and unsubordinated debt obligations. The Notes and the Guarantee are not secured by any of the Issuer's or Pan American's assets. Any future claims of secured lenders with respect to the Issuer's or Pan American's assets securing their loans will be prior to any claim of the holders of the Notes with respect to those assets.

Pan American's subsidiaries are separate and distinct legal entities from the Issuer and Pan American. Pan American's subsidiaries have no obligation to pay any amounts due on the Notes or to provide Pan American or the Issuer with funds to meet its payment obligations on the Notes, whether in the form of dividends, distributions, loans, guarantees or other payments. In addition, any payment of dividends, loans or advances by Pan American's subsidiaries could be subject to statutory or contractual restrictions. Payments to Pan American and the Issuer by Pan American's subsidiaries will also be contingent upon the subsidiaries' earnings and business considerations. Pan American's right to receive any assets of any of its subsidiaries upon their bankruptcy, liquidation or reorganization, and therefore the right of the holders of the Notes to participate in those assets, will be effectively subordinated to the claims of that subsidiary's creditors, including trade creditors.

Pan American's Credit Ratings May Not Reflect all Risks of Investments in the Notes

Pan American's credit ratings are an assessment by rating agencies of its ability to pay its debts when due. Consequently, real or anticipated changes in Pan American's credit ratings will generally affect the market value of the Notes. These credit ratings may not reflect the potential impact of risks relating to structure or marketing of the Notes. Agency ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization. Each agency's rating should be evaluated independently of any other agency's rating.

USE OF PROCEEDS

As required in Section 36 of the Negotiable Obligations Law, net proceeds obtained by the Branch from the offer and sale of any Tranche or Series of Notes will be used for one or more of the following purposes (i) investments in tangible assets in Argentina, (ii) for working capital to be used in Argentina, (iii) to refinance debt, whether at its original maturity or prior to such maturity, and (iv) for funding capital contributions to controlled or affiliated companies which will use such contributions exclusively for the purposes set forth in (i), (ii) or (iii) above. The specific use of proceeds from the offer and sale of each Tranche or Series of Notes, and such use will be set forth in the applicable Pricing Supplement.

EXCHANGE RATES

Prior to December 1989, the Argentine foreign exchange market was subject to exchange controls and, as a result of inflationary pressures, the Argentine currency was devalued repeatedly during the prior 30 years. In December 1989, Argentina adopted a freely floating exchange rate for all foreign currency transactions. In March 27, 1991, the Argentine Congress passed the Convertibility Law which became effective on April 1, 1991. Pursuant to the Convertibility Law, the Argentine currency became freely convertible into U.S. dollars and the Central Bank (i) was required to sell U.S. dollars to any person who so required at a rate of one peso per one U.S. dollar and (ii) had to maintain a reserve in foreign currencies and gold, and certain other instruments, all valued at market prices, in an aggregate amount at least equal to the monetary base (which consists of currency in circulation and peso deposits of the financial sector with the Central Bank).

On January 6, 2002, the Argentine Congress enacted the Public Emergency Law putting an end to over ten years of U.S. dollar-peso parity and eliminating the requirement that the Central Bank's reserves in gold and foreign currency be at all times at least equal to the aggregate amount of the monetary base. The Public Emergency Law granted the Argentine Executive Branch the power to set the exchange rate between the peso and foreign currencies and to issue regulations related to the foreign exchange market. On January 9, 2002, the Argentine Executive Branch established a temporary dual exchange, rate system. One exchange rate, covering exports and essential imports, was set at a rate of Ps.1.40 per U.S.\$1.00, while the other, covering all other transactions, was to be freely determined by the market.

On January 11, 2002, the Central Bank ended a suspension of banking and foreign exchange activities that had started on December 21, 2001. The exchange rate began to float freely for the first time since April 1991. The shortage of U.S. dollars and heightened demand for them caused the peso to further devalue significantly. On February 3, 2002, the Argentine Executive Branch repealed the dual exchange system, and since February 11, 2002, there has been only one freely floating exchange rate for all transactions. The peso has continued to fluctuate significantly and the Central Bank has intervened on several occasions by selling or buying U.S. dollars in an attempt to manage exchange rate fluctuations.

The following table sets forth, for the periods indicated, the high and low, period average and period-end rates of exchange for U.S. dollars into pesos.

	Seller Rates			Period End
	Low	High	Average ⁽¹⁾	
Year ended December 31,				
2005.....	2.86	3.04	2.92	3.03
2006.....	3.03	3.11	3.07	3.06
2007.....	3.07	3.18	3.12	3.15
2008.....	3.01	3.47	3.16	3.45
2009.....	3.45	3.85	3.73	3.80
2010:				
January	3.79	3.84	3.80	3.84
February	3.83	3.88	3.85	3.86
March	3.86	3.88	3.86	3.88

Source: Banco de la Nación Argentina.

(1) Represents the daily average exchange rate during each of the relevant periods.

On April 23, 2010, the exchange rate, as quoted by Banco de la Nación Argentina, was Ps.3.87 per U.S.\$1.00.

EXCHANGE CONTROLS

On December 3, 2001, the Argentine government issued Decree No. 1,570/2001, which established a number of monetary and currency exchange control measures, including restrictions on the free disposition of funds deposited in banks and restrictions on the transfer of funds abroad, subject to certain exceptions. However, Decree No. 1,589/1989, which was passed prior to such date, entitles companies engaged in the oil and gas production in Argentina (including Pan American) to maintain 70% of the foreign currency proceeds received by such companies from crude oil and gas exports outside of Argentina. The applicability of this exception was affirmed on January 1, 2003 pursuant to Decree No. 2,703/2002. As of the date of this Offering Circular, these companies are required to repatriate the remaining 30% through the Argentine foreign exchange market. Accordingly, in the absence of future challenges to the exception, the regulations described herein are not likely to have an adverse effect on the ability of the Issuer to make payments in respect of the Notes.

In addition to the above measures, on February 9, 2002, the Central Bank issued rigid restrictions which required the prior authorization of the Central Bank with respect to transfers of funds outside of Argentina for the purpose of servicing principal and/or interest payments on foreign indebtedness. Some of these restrictions have been progressively amended or eliminated since 2003.

The following briefly summarizes some of the current regulations imposed by the Central Bank with respect to registration, disbursement, payment of principal and interest and prepayments, among other exchange control measures related to foreign indebtedness as well as portfolio investments held abroad.

- *Registration Requirement.* The Central Bank must be informed by a debtor of any foreign indebtedness it incurs and must validate such indebtedness in accordance with Communication “A” 3602 in order to enable such debtor to purchase foreign currency in the local foreign exchange market for the purpose of servicing such foreign indebtedness.
- *Disbursements.* Proceeds received from foreign indebtedness must be settled in the Argentine foreign exchange market and exchanged for Argentine pesos within 365 days of the date of disbursement. The free disposition of these funds is currently subject to certain restrictions pursuant to Decree No. 616/2005. For a description of such restrictions, see “—Restrictions on Foreign Indebtedness” below.
- *Interest Payments.* Foreign currency necessary to pay interest on foreign indebtedness accrued since the date in which the funds were sold in the Argentine foreign exchange market can be purchased:
 - (a) up to 15 days in advance of the relevant payment date;
 - (b) to pay interest accrued at any date within the current interest period; and
 - (c) to pay interest accrued starting either (i) on the date the proceeds received from foreign indebtedness were sold in the Argentine exchange market or (ii) on the date of disbursement of funds, provided that those funds were credited in accounts of correspondent banks that are authorized to sell foreign exchange proceeds in the Argentine exchange market within 2 days of disbursement thereof.
- *Principal Repayments.* Foreign currency necessary to pay principal on foreign indebtedness can be acquired on the maturity date thereof.
- *Principal Prepayments.* Foreign currency necessary to prepay principal on foreign indebtedness can be acquired:
 - (a) at any time, within 30 days prior to the stated maturity of the applicable obligation; *provided* that the funds disbursed under such obligation have remained in Argentina for at least the minimum stay-period required in each case under the applicable regulations; or
 - (b) in the case of credit facilities refinanced on or after February 11, 2002, in which payment obligations are subject to compliance with specific conditions, within the period of time prior to the maturity date

thereof that is required to comply with such specific conditions provided for in the relevant agreements; or

- (c) to make partial or full payments more than 30 days prior to the stated maturity of the relevant obligation, provided that the funds disbursed under the debt facility have remained in Argentina for at least the minimum stay-period required for such purpose under applicable regulations and (x) if the payment is not made as part of a debt restructuring process, the amount in foreign currency to be prepaid shall not exceed the current value of the portion of the debt being prepaid or the prepayment shall be fully offset with new foreign financing, the present value of which shall not exceed the value of the debt being prepaid; whereas (y) if the payment is made as part of a restructuring process with foreign creditors, the terms and conditions of the new financing and the corresponding cash prepayment must not result in an increase in the present value of the debt being refinanced.
- *Corporate Profits and Dividends.* Foreign currency necessary to pay corporate profits and dividends to non-resident shareholders as evidenced by audited financial statements can be acquired at any time in the local foreign exchange market.
- *Restrictions on Foreign Indebtedness.* In June 2005, the Argentine government imposed certain additional restrictions on inflows and outflows of foreign currency to the Argentine foreign exchange market through Decree No. 616/2005, as amended and supplemented, such as the following:
 - (a) *Minimum Term of Indebtedness.* New indebtedness entered into the foreign exchange market and debt renewals by non-Argentine residents from the private sector entered in the local foreign exchange market must be executed for and repaid within terms of no less than 365 calendar days, whatever the form of repayment thereof. Additionally, no prepayment of such indebtedness may be made prior to the expiration of such term, irrespective of the payment method and whether or not termination entails the execution of a foreign exchange transaction in the local market. The following transactions are exempt from such restrictions:
 - (i) foreign trade financings;
 - (ii) primary offerings of debt securities or capital stock issued pursuant to a public offering and listed on a self-regulated market; and
 - (iii) indebtedness with multilateral organizations and other international credit agencies.
 - (b) *Non Interest-Bearing Mandatory Deposit.* A mandatory nominative, non-transferable and non-interest-bearing Dollar-denominated deposit must be maintained in Argentina for a term of 365 calendar days, in an amount *equal* to the 30.0% of any inflow of funds to the local foreign exchange market arising from the following transactions:
 - (i) incurrence of foreign indebtedness;
 - (ii) offerings involving primary or secondary offerings of capital stock or debt securities issued by companies domiciled in Argentina which are not listed on self-regulated markets, to the extent they do not constitute direct investments (i.e., less than 10% of capital stock);
 - (iii) non-residents' portfolio investments made for the purpose of holding Argentine currency and assets and liabilities in the financial and non-financial private sector in excess of U.S.\$5,000 per calendar month, to the extent that such investments are not the result of primary subscriptions of debt securities issued pursuant to a public offering and listed in self-regulated markets and/or primary subscriptions of capital stock of companies domiciled in Argentina issued pursuant to a public offering and listed in self regulated markets;
 - (iv) non-residents' portfolio investments made for the purpose of purchasing any right on securities in the secondary market issued by the public sector;
 - (v) non-residents' portfolio investments made for the purpose of purchasing primary offers of Central Bank securities issued in primary offerings;

- (vi) inflows of funds to the Argentine foreign exchange market derived from the sale of foreign portfolio investments of Argentine residents within the private sector in an amount in excess of U.S.\$2.0 million per calendar month; and
 - (vii) any inflow of funds to the Argentine foreign exchange market made for the purpose of primary offers of bonds and other securities issued by a trust, whether or not issued pursuant a public offering and whether or not they are listed in self-regulated markets, to the extent that the funds to be used for the purchase of any of the underlying assets would be subject to the non-interest-bearing deposit requirement.
- The following transactions, among others, are exempt from the deposit requirements described above:
 - (a) primary or secondary offerings of debt securities or stock issued pursuant to a public offering and listed on a self-regulated market, such as those contemplated in this Offering Circular;
 - (b) foreign currency denominated loans granted by a local financial entity under certain conditions;
 - (c) indebtedness with multilateral organizations and other international credit agencies;
 - (d) the proceeds of foreign financial indebtedness; *provided* that (a) the proceeds from the exchange settlement, net of taxes and expenses are used to purchase foreign currency in order to pay principal on foreign debt and/or to invest in long term foreign assets; or (b) the loan has a minimum average life of not less than two years, including payments of principal and interest, and to the extent the proceeds of such loan are applied to make investments which are then recorded among other capitalized cost categories as “property, plant and equipment” (*bienes de uso*), “research/exploration costs” (*gastos de investigación, prospección y exploración*) or “intangible assets” (*activos intangibles*) as part of the relevant debtor’s balance sheet or “Inventory” (*bienes de cambio*); and
 - (e) foreign trade financings.
 - *Restrictions On Foreign Portfolio Investments for Argentine Residents.* The monthly amount of foreign currency that Argentine residents may purchase for investment or foreign portfolio investment purposes, without the prior authorization of the Central Bank, is U.S.\$2.0 million.
 - *Other Exchange Controls Measures.* Subject to certain conditions, Central Bank regulations allow the purchase of foreign currency in the local foreign exchange market for purposes of making payments on account of financial *derivatives* and for the purchase of primary offerings of debt securities issued by the Argentine government.

Since October 31, 2008, Argentine exporters of goods are required to transfer the amount they are required to enter into Argentina in respect of their exports proceeds, to an overseas account of a local financial institution within 10 business days from its collection, but without modifying the term to liquidate those proceeds in the local foreign exchange market.

RATINGS

Decree No. 656/1992 of the Argentine Executive Branch, as amended by Decree No. 749/2000, together with resolutions passed by the CNV, have established general rules concerning ratings applicable to issuers seeking to offer debt securities in Argentina through a public offering authorized by the CNV. Under Decree No. 749/2000, which amends Decree No. 656/1992, it is no longer a requirement that securities, such as the Notes, be rated by two duly authorized Argentine rating agencies. However, Decree No. 749/2000 provides that issuers may request rating agencies to rate any securities, whether or not these are subject to the regulations governing public offerings. Notwithstanding the foregoing, the CNV may require that securities be rated, if it shall deem it necessary based on the specific conditions of the issue.

If issuers should elect to obtain any rating, or if the CNV should deem it necessary that any such rating be obtained in light of the specific terms of the issue, Resolution No. 368/2001 of the CNV provides that, for short- and/or medium-term note programs, ratings must be obtained (i) prior to the issuance of any Note with respect to the nominal amount of the Program or (ii) prior to the issuance of each Series with respect to the nominal amount of such Series. Prior to the issuance of each Series, issuers shall determine whether the Notes will be rated with respect to the nominal amount of such Series. Issuers electing to have their Notes rated will select one or two rating agencies, as shall be set forth in the Pricing Supplement for each Tranche or Series issued under the Program.

The CNV has provided that issuers electing to have debt securities rated upon issuance thereof shall maintain such rating until full repayment of the relevant securities, unless otherwise agreed by unanimous resolution of holders.

Issuers electing not to have their debt securities rated by at least two rating agencies are required to include, in any and all references to securities in offering circulars, securities, certificates, notices, advertising material and any other form of communication, the following legend: (a) "THESE SECURITIES HAVE NOT BEEN RATED" or (b) "THESE SECURITIES HAVE ONLY ONE RATING," as applicable.

Specific guidelines for the standards on which ratings of securities will be based are submitted by Argentine authorized rating agencies to the CNV for approval.

Decree No. 656/1992 provides that Argentine rating agencies shall award ratings according to five basic debt-rating categories, ranging from "A" to "E." In addition, any sub-categories may be established. "A" through "D" ratings apply to debt securities meeting the disclosure requirements established by Argentine applicable laws and regulations. An "E" rating will be awarded to debt securities failing to meet such requirements and the requirements of the applicable rating agencies. Specific standards for each category and sub-category are included in the documentation submitted by each rating agency for the CNV's consideration.

The Issuer has elected not to seek ratings for the Program, and will decide whether not to seek ratings for any Tranche or Series of Notes to be issued under the Program on a series-by-series basis, as set forth in the applicable Pricing Supplement.

CAPITALIZATION

The following tables set forth the capitalization (including cash and cash equivalents) of each of the Branch and Pan American as of December 31, 2009. Except as disclosed herein or in the applicable Pricing Supplement, there has been no material change in the capitalization of each of the Branch and Pan American since December 31, 2009. These tables should be read in conjunction with “Presentation of Financial Information and Other Matters.” The applicable Pricing Supplement will set forth the adjustment to these capitalization tables resulting from the issuance of Notes pursuant to such Pricing Supplement.

Capitalization of the Branch

The following table sets forth the capitalization (which includes cash and cash equivalents) of the Branch as of December 31, 2009 and is derived from, and qualified in its entirety by reference to, the Branch’s Financial Statements, which have been prepared in accordance with Argentine GAAP. This table should be read in conjunction with the Branch’s Financial Statements.

	As of December 31, 2009
	<i>(in millions of pesos)</i>
Cash and Cash Equivalents	766.1
Short-Term Debt:	
Short-term debt (including accrued interest)	802.2
Current portion of long-term debt.....	514.6
Current portion of financial bonds.....	—
Accrued interest on long-term financings.....	88.5
Total short-term debt.....	1,405.3
Long-Term Debt:	
Long-term debt	3,324.8
Financial bonds.....	950.0
Total long-term debt.....	4,274.8
Account with Pan American	5,438.5
Capital allocated to the Branch.....	221.8
Capital Adjustment	239.5
Total Capitalization of the Branch:	11,579.9

Capitalization of Pan American

The following table sets forth the consolidated capitalization (which includes cash and cash equivalents) of Pan American as of December 31, 2009 and is derived from Pan American's Financial Statements, which have been prepared in accordance with U.S. GAAP. The table should be read in conjunction with Pan American's Financial Statements.

	As of December 31, 2009
	<i>(in millions of U.S.\$)</i>
Cash and Cash Equivalents	221.3
Short-Term Debt:	
Short-term debt (including accrued interest)	211.7
Current portion of long-term debt	149.6
Current portion of financial bonds	—
Accrued interest on long-term financings	22.7
Total short-term debt	<u>384.0</u>
Long-Term Debt:	
Long-term debt	919.4
Financial bonds	250.0
Total long-term debt	<u>1,169.4</u>
Members' Equity:	
Total Members' equity	4,610.1
Total Capitalization:	<u><u>6,163.5</u></u>

SELECTED FINANCIAL AND OTHER INFORMATION

The following table presents a summary of Pan American's consolidated financial and other information as of and for each of the periods indicated. This information should be read in conjunction with and qualified in its entirety by reference to the more detailed discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Pan American's Financial Statements included in this Offering Circular.

The selected consolidated financial information for the years ended December 31, 2007, 2008 and 2009 has been derived from Pan American's Financial Statements, which have been audited by KPMG, whose independent auditors' report is included in this Offering Circular.

The independent auditors' report issued by KPMG regarding Pan American's Financial Statements and, only with respect to Pan American's financial statements as of and for the years ended December 31, 2008 and 2007, expressed a qualified opinion due to a scope limitation, because the auditors were unable to obtain audited financial statements of Chaco as of and for the year ended December 31, 2008 and the update of such report for the year ended December 31, 2007. See "Risk Factors—Risk Factors Related to Bolivia and Other Emerging Market Countries—Political, Social and Economic Instability in Bolivia and Nationalization of Chaco" and "Business—History of Pan American—The Chaco Nationalization."

Pan American's Financial Statements and the Branch's Financial Statements have been prepared in accordance with U.S. GAAP and Argentine GAAP, respectively. Because the Branch's Financial Statements reflect only a portion of the consolidated assets, liabilities, stockholders' equity and results of operations of Pan American that are reflected in Pan American's Financial Statements and because of the differences between Argentine GAAP and U.S. GAAP, the Branch's Financial Statements and Pan American's Financial Statements, respectively, are not fully comparable. See "Annex A—Summary of Principal Differences between Argentine GAAP and U.S. GAAP" for a description of significant differences between Argentine GAAP and U.S. GAAP.

	As of and for the Year Ended December 31,		
	2007	2008	2009⁽¹⁾
	<i>(in thousands of U.S.\$)</i>		
Consolidated Statement of Income Data (U.S. GAAP):			
Revenues			
Sales and other operating revenues	2,611,155	3,290,295	2,775,826
Interest income	20,348	10,838	4,390
Other income	21,240	20,792	9,454
Third parties' hydrocarbon sales	2,262	—	—
Total revenues and gains	<u>2,655,005</u>	<u>3,321,925</u>	<u>2,789,670</u>
Cost and Expenses			
Operating expenses	(327,689)	(450,901)	(515,748)
Transportation expenses	(28,962)	(27,387)	(26,734)
Gross production assessment	(465,380)	(656,457)	(381,686)
Hydrocarbon exploration expenses, including exploratory dry holes	(14,314)	(51,377)	(35,129)
General and administrative expenses	(4,594)	(6,299)	(6,909)
Taxes other than income taxes, including export tariffs	(378,978)	(862,191)	(218,161)
Depreciation, depletion, amortization and retirements and abandonments	(396,773)	(423,122)	(429,526)
Interest expense	(78,636)	(106,807)	(110,214)
Other financial results	(8,290)	(10,866)	(18,924)
Other expenses	(35,071)	(45,581)	(104,583)
Cost of third parties' hydrocarbons purchase cost	(1,848)	—	—
Total costs and expenses	<u>(1,740,535)</u>	<u>(2,640,988)</u>	<u>(1,847,614)</u>
Income before income tax and noncontrolling interest	914,470	680,937	942,056
Income tax	(322,906)	(188,090)	(311,847)

	As of and for the Year Ended December 31,		
	2007	2008	2009⁽¹⁾
	<i>(in thousands of U.S.\$)</i>		
Net income	591,564	492,847	630,209
Less income attributable to noncontrolling interest	(27,865)	(51,754)	—
Net income attributable to Pan American Energy LLC	<u>563,699</u>	<u>441,093</u>	<u>630,209</u>
Consolidated Balance Sheet Data (U.S. GAAP):			
Current Assets			
Cash and cash equivalents.....	235,137	283,267	221,262
Short-term investments	—	14,899	10,385
Trade accounts receivable	255,559	260,841	336,657
Other accounts receivable	86,617	180,673	64,172
Due from officers and employees	3,373	4,330	5,049
Inventories.....	169,303	124,854	119,765
Deferred income taxes.....	1,785	—	—
Other current assets	12,258	9,990	9,716
Total current assets	<u>764,032</u>	<u>878,854</u>	<u>767,006</u>
Non-Current Assets			
Other accounts receivable	44,666	52,855	392,529
Investments in affiliated companies	73,626	68,415	68,217
Property, plant and equipment	5,500,378	6,289,326	5,999,847
Deferred income taxes.....	—	—	943
Other non-current assets.....	13,104	11,309	13,240
Total non-current assets	<u>5,631,774</u>	<u>6,421,905</u>	<u>6,474,776</u>
Total assets	<u>6,395,806</u>	<u>7,300,759</u>	<u>7,241,782</u>
Liabilities and Members' Equity			
Current Liabilities			
Trade payables and accrued expenses	291,002	330,719	316,839
Short-term debt.....	179,570	336,116	211,748
Current portion of long-term debt	79,721	157,720	149,610
Current portion of financial bonds	—	100,000	—
Accrued interest on long-term financing.....	24,923	25,907	22,735
Accrued taxes and other	110,458	136,291	316,168
Deferred income taxes.....	22,730	8,221	10,837
Total current liabilities.....	<u>708,404</u>	<u>1,094,974</u>	<u>1,027,937</u>
Non-current liabilities			
Long-term debt.....	705,307	920,679	919,436
Financial bonds	350,000	250,000	250,000
Other creditors.....	251,996	289,109	231,247
Total non-current liabilities	<u>1,307,303</u>	<u>1,459,788</u>	<u>1,400,683</u>
Deferred income taxes	<u>361,524</u>	<u>345,940</u>	<u>203,078</u>
Total liabilities and deferred income taxes	<u>2,377,231</u>	<u>2,900,702</u>	<u>2,631,698</u>
Members' equity			
Capital and additional paid-in capital.....	2,097,201	2,097,201	2,097,201
Accumulated other comprehensive income.....	(12,357)	(16,636)	—
Retained earnings	1,628,951	1,990,166	2,512,883
Total members' equity	<u>3,713,795</u>	<u>4,070,731</u>	<u>4,610,084</u>

	As of and for the Year Ended December 31,		
	2007	2008	2009⁽¹⁾
	<i>(in thousands of U.S.\$)</i>		
Noncontrolling interest	304,780	329,326	—
Total equity	4,018,575	4,400,057	4,610,084
Total liabilities and equity	6,395,806	7,300,759	7,241,782
Non-GAAP Data:			
Net Financial Debt / Total Capitalization⁽²⁾	21.9%	25.7%	21.6%
Consolidated EBITDA / Interest Expense⁽³⁾	17.8x	12.0x	14.4x
Total Financial Debt / Consolidated EBITDA⁽⁴⁾	1.0x	1.4x	1.0x
Reconciliation of Net Income to Consolidated EBITDA:			
Consolidated EBITDA⁽⁵⁾	1,403,008	1,278,995	1,591,459
Interest income	20,348	10,838	4,390
Other income	21,240	20,792	9,454
Third parties' hydrocarbons sales (net)	414	—	—
Hydrocarbon exploratory dry hole expenses	(11,770)	(43,312)	—
Depreciation, depletion and amortization	(396,773)	(423,122)	(429,526)
Interest expenses	(78,636)	(106,807)	(110,214)
Other financial results	(8,290)	(10,866)	(18,924)
Other expenses	(35,071)	(45,581)	(104,583)
Income tax	(322,906)	(188,090)	(311,847)
Income attributable to noncontrolling interest	(27,865)	(51,754)	—
Net income	(563,699)	(441,093)	(630,209)
Other Information:			
Capital Expenditures			
Exploration	72,961	72,081	7,466
Development	868,259	1,162,282	863,133
Other	82,204	4,322	3,012
Total capital expenditures	1,023,424	1,238,685	873,611
Production			
Oil (mmbbl/d)	113.6	112.2	116.9
Gas (mmcf/d) ⁽⁶⁾	714.2	746.5	644.1
LPG (mmbbls/d)	6.5	9.2	9.4
Total (mboe/d) ⁽⁷⁾	243.3	250.0	237.3
Proved Reserves			
Oil (mmbbl)	883.4	944.5	961.4
Gas (bcf)	3,669.7	3,444.5	3,278.3
LPG (mmbbl)	25.4	24.5	12.5
Total (mmbbl)	1,541.5	1,562.9	1,539.1

(1) On January 23, 2009, the Bolivian government issued Supreme Decree No. 29,888 which, among other things, nationalized almost all of Pan American's shares in Chaco, which represented 50% of the total shares of Chaco. As a consequence of Chaco's nationalization, Pan American has deconsolidated (as of January 1, 2009) the assets and liabilities of Chaco and allocated the net balance to "Other accounts receivable" included in non-current assets. See note 22 to Pan American's Financial Statements.

(2) Net financial debt comprises principal and accrued and unpaid interest as of the relevant date in respect of short and long-term financial indebtedness less cash and cash equivalents. Total capitalization comprises short- and long-term financial indebtedness and members' equity.

- (3) Interest expense comprises interest expense for the relevant period in respect of short- and long-term financial indebtedness.
- (4) Total financial debt comprises principal and accrued and unpaid interest as of the relevant date in respect of short- and long-term financial indebtedness.
- (5) Consolidated EBITDA for a period consists of sales and other operating revenues less (i) operating expenses, (ii) transportation expenses, (iii) gross production assessments, (iv) hydrocarbon exploration expenses (excluding exploratory dry holes), (v) general and administrative expenses and (vi) taxes other than income taxes, including export tariffs, in each case for the relevant period, on a consolidated basis. Consolidated EBITDA is not a U.S. GAAP measure, does not represent cash flow for the periods indicated and should not be considered as an alternative to net income (which is determined in accordance with U.S. GAAP), as an indicator of Pan American's operating performance or as an alternative to cash flow (which is determined in accordance with U.S. GAAP) as a source of liquidity.
- (6) The average net daily production of gas does not include gas produced but reinjected into the reservoirs and used as fuel in connection with the operations and processing facilities.
- (7) Based on a conversion rate of one barrel of oil to 5,800 cf of gas or one barrel of LPG.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Pan American's revenues and results of operations are affected principally by the following factors:

- its production of oil and gas;
- the demand for oil in both the domestic and international markets and the demand for gas in domestic and, to a lesser degree, regional markets;
- export restrictions and domestic supply requirements;
- the domestic and export prices for oil and gas;
- export tariffs and domestic price restrictions;
- its cost of operations;
- capital expenditures;
- the U.S. dollar/peso exchange rate;
- inflation; and
- other government regulation.

Pan American's principal place of business has historically been Argentina, but the Company also conducts operations in Bolivia, Uruguay and Chile. As of December 31, 2009, a significant part of Pan American's consolidated assets, revenues, oil and gas production and proved oil and gas reserves were located in Argentina. As a result, fluctuations in the Argentine economy and actions adopted by the Argentine government have had and will continue to have a significant effect on Pan American.

Pan American's production activities and development of additional reserves require substantial investment. Since late 1999, Pan American has significantly increased its investment in oil production during a period in which international oil prices have been rising, a trend that it maintained despite the economic crisis that prevailed in Argentina in 2001 and 2002. As a result of the crisis in Argentina in 2001 and 2002, gas prices in pesos were initially frozen by the Argentine government. Until 2004, Pan American was able to meet all of the gas demand contracted by its customers and also to increase its market share in Argentina relying on its own production and treatment capacity. Since 2004, when gas prices began to rise, Pan American has increased its investment in gas production activities. This increased investment in gas production, coupled with Pan American's sustained level of investment in oil production, has resulted in an increase in oil and gas production, during a period in which production of oil in Argentina generally decreased. This combination of factors has allowed Pan American to increase continuously its market share in Argentina in recent years, consolidating its position in 2009 as the second largest producer of oil and gas in Argentina and the largest exporter of oil, according to information published by the Argentine Oil and Gas Institute and the Secretariat of Energy, respectively.

Principal Factors Affecting Results of Operations

Argentine Economic Conditions

Fluctuations in the Argentine economy and actions adopted by the Argentine government to curtail inflation have had and will continue to have a significant effect on Argentine private sector entities, including Pan American. Specifically, Pan American has been, and may continue to be, affected by inflation, interest rates, charges in the

value of the peso against foreign currencies, price controls, business regulations, tax regulations and in general by the political, social and economic conditions in and affecting Argentina.

Domestic demand for oil and gas tends to fluctuate with changes in gross domestic product (“GDP”) in Argentina. GDP increased significantly during the period from 2003 to 2008, after a significant decline in 2002, and, consequently, the demand for oil and gas increased consistently. This increase contributed to the shortage in the domestic supply for gas and price restrictions that affected Argentina during that period. In 2008, the global financial and economic crisis caused a slowdown of the Argentine economy that led to a decrease in the domestic demand for oil. This decrease in demand resulted in a substantial increase in Pan American’s oil exports during 2009.

Inflation

Historically, the Argentine economy has shown significant volatility, characterized by periods with high rates of inflation, which have materially undermined the Argentine economy and the government’s ability to stimulate economic growth. Throughout the 1980s and into the 1990s, the Argentine economy was subject to high levels of inflation, including periods of hyperinflation such as in 1989 and at the end of 1990, with consumer prices rising at annual rates in excess of 1,000% and reaching its highest rate in 1989 of 4,924%. From 1991 to 2001, the Argentine government has successfully implemented programs to curb inflation. In 2002, the Argentine CPI increased by 40.9%. In subsequent years, in a substantially improved economic scenario, the Argentine CPI increased by 3.7% in 2003, by 6.1% in 2004, by 12.3% in 2005, by 9.8% in 2006, by 8.5% in 2007, by 7.2% in 2008 and by 7.7% in 2009. See “Risk Factors—Risk Factors Related to Operations in Argentina—Inflation May Adversely Affect Pan American’s Financial Condition and Results of Operations.”

A material increase in inflation may impact Pan American’s results of operations as a substantial portion of Pan American’s costs is denominated in pesos and, in recent years, Pan American experienced an increase in its peso-cost base when expressed in U.S. dollars due to the fact that the increase of costs in the oil and gas industry of Argentina outpaced the rate of depreciation of the peso. See “—Results of Operations—Year Ended December 31, 2009 Compared with Year Ended December 31, 2008—Overview.”

In accordance with Argentine GAAP, the Argentine Federation of Professional Councils in Economic Sciences is responsible for determining inflation accounting procedures. However, in March 2003, the CNV, under Resolution No. 441, provided that beginning on March 1, 2003, financial statements of companies subject to the CNV’s reporting requirements such as Pan American must be stated in nominal currency. Accordingly, Pan American discontinued adjustment for inflation accounting for the Branch and its Argentine subsidiaries, which was last performed in February 2003.

Exchange Rate Fluctuations

As of December 31, 2007, 2008 and 2009, the peso-U.S. dollar exchange rate was Ps.3.149, Ps.3.453 and Ps 3.80 per U.S. dollar, respectively. A substantial part of the revenues of Pan American’s business is derived from crude oil sales, which are denominated in U.S. dollars. Conversely, a significant portion of the expenses and taxes and, to a lesser extent, capital expenditures are denominated in pesos. However, other cash outflows such as long-term financial debt repayments and interest expense are denominated in U.S. dollars.

The exchange and conversion differences included in Pan American’s Financial Statements determined for the years ended December 31, 2007, 2008 and 2009 have resulted in gains of U.S.\$1.8 million, U.S.\$14.3 million and U.S.\$12.9 million, respectively, due to the impact of the peso devaluation on the net liability position denominated in pesos.

Regulation of Crude Oil Sales

Since 2002, the Argentine government has imposed export tariffs on exports of crude oil, which also affected the price at which crude oil can be sold in the local market. The approval by the Argentine Congress in 2002 of the Public Emergency Law vested the Argentine Executive Branch with the power to impose duties on exports of hydrocarbons. Since March 2002, the Argentine government has issued several regulations affecting export tariffs

for oil, oil by-products, natural gas and LPG. See “Risk Factors—Risk Factors Related to Operations in Argentina—Export Tariffs have Negatively Affected, and May Continue to Affect, Pan American’s Results of Operations” and “Business—Hydrocarbon and Other Taxes.”

This export tariff regime and government intervention in the oil and gas sector have adversely affected the results of operations of Pan American’s upstream business and has prevented Pan American from fully benefiting from significant increases in international oil prices. For the year ended December 31, 2009, the introduction of the “Petróleo Plus Program” has allowed Pan American to mitigate the impact of export tariffs. See “Business—Sales and Marketing of Hydrocarbons in Argentina—Regulatory Matters Affecting Sales of Hydrocarbons in Argentina—Oil.”

As a result of the prevailing export tariff regime enacted since 2002, Pan American’s results of operations and cash flows are less exposed to risks related to the volatility of international prices, mainly for crude oil and oil derivatives.

The Company’s three year average oil sales mix in Argentina for the 2007-2009 period, in terms of volume, was 46% allocated to the domestic market and 54% for the export market.

During 2009, WTI oil price reached a high of approximately U.S.\$81.37 per barrel on a nominal basis. The WTI price closed at U.S.\$79.36 per barrel as of December 31, 2009, averaging U.S.\$62.09 per barrel during the year. During 2007 and 2008, the WTI average price was U.S.\$72.36 and U.S.\$99.75 per barrel, respectively.

Since the introduction of new regulations affecting gas prices in 2002, Pan American has been able to sell its incremental production of natural gas to industrial clients and power generation utilities and to the natural gas vehicle (“NGV”) segment. As a result, Pan American’s participation in the residential gas segment through LDCs has decreased. In 2009, the average prices and participation in total volumes of gas sold by Pan American in Argentina by segment were: power generators: U.S.\$2.01/mcf (31.3%), industrial clients: U.S.\$2.26/mcf (41.9%), LDCs: U.S.\$0.66/mcf (20.0%), NGV: U.S.\$0.92/mcf (4.8%) and exports: U.S.\$2.07/mcf (2.0%).

Oil and Gas Production and Reserves in Argentina

Oil and gas reserves in Argentina have followed a downward trend in recent years. In the 2001-2008 period, according to official data from the Argentine Oil and Gas Institute, proved oil and gas reserves dropped by an annualized 3.9% cumulative average and oil production decreased by an annualized 2.2% cumulative average. In 2009, oil production in Argentina declined for the eighth year in a row, although to a lesser extent than in previous years. During 2009, oil production in Argentina averaged 622.8 mbbld, a decline of approximately 1.1% over 2008.

Despite this trend, and notwithstanding Pan American sale of its interests, in several production blocks, Pan American was able to increase its Argentine proved reserves of oil and gas between 1999 and 2009 by 80.9%, from 790.4 mmboe as of December 31, 1999 to 1,430.2 mmboe as of December 31, 2009. In addition, Pan American increased its oil and gas production in Argentina during such period by 111.2%, from 110.9 mboepd in 1999 to 234.2 mboepd in 2009.

For the 2007-2009 period, Pan American’s proved oil and gas reserves in Argentina grew by 51.1%, from 943.9 mmboe as of December 31, 2006 to 1,430.2 mmboe as of December 31, 2009.

Pan American’s business plan for the 2010-2014 period provides for significant investments in oil and gas exploration in Argentina, both onshore and off-shore. Due to the current regulatory environment in Argentina and the risks inherent to exploration activities, Pan American’s management can give no assurance that Pan American will be able to implement such investments or that the implementation of such investments will result in the continued growth or even allow Pan American to maintain its current production and proved reserves levels in Argentina.

Comparability of Financial Information

Comparability of Pan American's Financial Statements to the Branch's Financial Statements

The Branch's Financial Statements are prepared in accordance with Argentine GAAP and the regulations of the CNV, while Pan American's Financial Statements are prepared in accordance with U.S. GAAP. In addition, the Branch's Financial Statements reflect only a portion of the consolidated assets, liabilities and results of operations included in Pan American's Financial Statements, which as of December 31, 2009 accounted for approximately 82.2% and 91.8% respectively, of the consolidated assets and liabilities of Pan American. As a result, the Branch's Financial Statements and Pan American's Financial Statements are not fully comparable. See "Presentation of Financial Information and Other Matters."

Comparability of Pan American's Financial Statements After Deconsolidation of Chaco

As required under U.S. GAAP, through December 31, 2008, the financial statements of Pan American included elsewhere in this Offering Circular consolidated on a line by line basis the assets, liabilities, shareholders' equity and results of operations of Chaco. As a consequence of Chaco's nationalization, Pan American has deconsolidated (as of January 1, 2009) the assets and liabilities of Chaco and allocated the net balance to "Other non-current account receivable." See note 22 to Pan American's Financial Statements. As a result, the Financial Statements of Pan American as of December 31, 2009 will not be fully comparable with the Financial Statements of Pan American for prior periods included in this Offering Circular.

For the years ended December 31, 2007 and 2008, 4.9% and 11.7%, respectively, of net income attributable to Pan American and 13% and 16%, respectively, of its consolidated revenues derived from its operations in Bolivia through Chaco.

Results of Operations

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

The following discussion is based on the consolidated financial statements of Pan American for the years ended December 31, 2007, 2008 and 2009 and is qualified in its entirety by and should be read in conjunction with Pan American's Financial Statements included in this Offering Circular. See also "Presentation of Financial Information and Other Matters."

Overview

The following were the primary factors which affected Pan American's results of operations in 2009 compared with 2008:

- On January 23, 2009, the Bolivian government issued a decree nationalizing almost all of Pan American's shares in Chaco, which represented 50% of the total shares of Chaco. As a result of such nationalization, the Company deconsolidated the results of operations of Chaco beginning on January 1, 2009 in its financial statements.
- Argentine GDP increased by 0.9% in 2009 as compared to a growth of 6.8% in 2008. The domestic demand for oil decreased, allowing an increase of the Company's exports, while domestic demand for gas continued increasing.
- The peso depreciated against the U.S. dollar by 10.0% in 2009, from Ps.3.45 per U.S.\$1.00 as of December 31, 2008 to Ps.3.80 per U.S.\$1.00 as of December 31, 2009. Despite this peso depreciation, Pan American experienced an increase in Pan American's peso cost base when expressed in U.S. dollars as the increase of costs in the oil and gas industry of Argentina outpaced the rate of depreciation of the peso.
- Argentine WPI increased by 10.3% in 2009. The increase in costs across the oil industry, however, outpaced the increase in Argentine WPI.

- Pan American's oil production increased by 4.7% from 111.7 mbbld in 2008 to 116.9 mbbld in 2009.
- Average oil sales prices decreased by 2.2% from U.S.\$54.49 per bbl in 2008 to U.S.\$53.30 per bbl in 2009.
- Gas production decreased by 11.2% from 842.2 mmcfpd in 2008 to 747.9 mmcfpd in 2009, principally as a result of the nationalization of Chaco.
- The average gas price decreased by 32.6% from U.S.\$2.85 per mcf in 2008 to U.S.\$1.92 per mcf in 2009, principally as a result of the nationalization of Chaco, which had significantly higher prices than gas produced in Argentina.
- During 2009, the Company started receiving tax fiscal credits under the *Petróleo Plus* Program, which had a positive impact on net income.

Total Revenues

Total revenues of Pan American decreased by 16.0% from U.S.\$3.32 billion for 2008 to U.S.\$2.79 billion for 2009 primarily as a result of the deconsolidation of Chaco. Revenues attributable to Chaco represented U.S.\$534.5 million, or 16.0% in 2008.

Sales and Other Operating Revenues

The following were the primary factors which affected Pan American's sales and other operating revenues during 2009:

- Total production of oil, gas and LPG decreased by 5.2% from 95.6 mmboe (or 261.2 mboepd) in 2008 to 90.6 mmboe (or 248.2 mboepd) in 2009.
- Oil production increased by 4.7% from 40.9 mmbbl in 2008 to 42.7 mmbbl in 2009, with a 0.8% decrease in sales revenue from U.S.\$2.29 billion in 2008 to U.S.\$2.27 billion in 2009. The average oil sales price decreased by 2.2% over the same period from U.S.\$54.49 per bbl in 2008 to U.S.\$53.30 per bbl in 2009. The increase in oil production during the period was primarily attributable to an increase in oil production in the Cerro Dragón, Piedra Clavada and Cuenca Austral blocks, partially offset by the deconsolidation of Chaco.
- Gas production decreased by 11.2% from 308.2 bcf in 2008 to 273.0 bcf in 2009, with a 48.4% decrease in sales revenue from U.S.\$876.0 million in 2008 to U.S.\$451.6 million in 2009, due to the deconsolidation of Chaco. Chaco's gas sales represented U.S.\$433.0 million in 2008 due to Chaco's higher gas prices than those prevailing for gas production from Argentina. The overall decrease in gas production was attributable principally to the deconsolidation of Chaco, as Chaco's gas production represented 34.1 bcf or 11.1% of total gas production in 2008.
- LPG production decreased by 47.7% from 1.6 mmbbl in 2008 to 0.8 mmbbl in 2009, with a 56.2% decrease in sales revenue from U.S.\$106.5 million in 2008 to U.S.\$46.7 million in 2009, due to Chaco's deconsolidation and to the decrease in prices for LPG in Argentina.

Operating and Other Hydrocarbon Expenses

Operating expenses increased by 14.4% from U.S.\$450.9 million for 2008 to U.S.\$515.7 million for 2009, due to increased expenses as a result of increased costs associated with commitments assumed by Argentine exploration and production companies, including Pan American, in order to keep levels of employment stable and an increase in the peso-based cost for the Argentine oil and gas industry, which was substantially higher than the rate of inflation during that period. These changes were partially offset by the devaluation of the peso during that period and by the impact of the Chaco deconsolidation. Operating expenses per boe increased from an average of U.S.\$4.28 per boe in 2008 to U.S.\$5.70 per boe in 2009.

Transportation expenses decreased by 2.6% from U.S.\$27.4 million in 2008 to U.S.\$26.7 million in 2009. Gas prices are prices for gas at the delivery point in each block, which requires the buyer of the gas to pay separately for transportation costs.

Gross production assessments levied by Argentine provinces, decreased by 41.9% from U.S.\$656.5 million in 2008 (of which Chaco accounted for U.S.\$269.8 million) to U.S.\$381.7 million in 2009.

Hydrocarbon exploration expenses, which include exploratory dry holes, decreased from U.S.\$51.4 million in 2008 to U.S.\$35.1 million in 2009. This decrease is principally attributable to a decrease in write-offs related to dry holes, which in 2008 were U.S.\$43.3 million. See note 2.4 to Pan American's Financial Statements. During 2009, Pan American's most significant exploration expenses were those incurred in the Golfo San Jorge off-shore block, which totaled U.S.\$20.9 million and in the Coirón block in Chile, which totaled U.S.\$8.6 million.

General and Administrative Expenses

General and administrative expenses increased from U.S.\$6.3 million for 2008 to U.S.\$6.9 million for 2009.

Taxes Other than Income Taxes

Taxes other than income taxes comprise principally export tariffs, debits and credits banking tax and turnover tax. These taxes decreased by 74.7% from U.S.\$862.2 million in 2008 to U.S.\$218.2 million in 2009, mainly due to a decrease in export tariffs payments as a result of the implementation of the *Petróleo Plus* Program, under which Pan American started receiving fiscal credits since January 2009. These credits have been applied to the payment of export tariffs related to oil and LPG payable by Pan American.

Depreciation, Depletion, Amortization and Retirements and Abandonments

Depreciation, depletion, amortization and retirements and abandonments increased by 1.5% from U.S.\$423.1 million for 2008 to U.S.\$429.5 million for 2009. This increase primarily resulted from increased production in Argentine blocks and an increased balance in the line item amortization of fixed assets in 2009. This effect was partially offset by a decrease in depreciation, depletion and amortization due to the deconsolidation of Chaco, which represented U.S.\$45.8 million in 2008, and an increased volume of reserves in almost all of Pan American's production blocks.

Interest Expense

Interest expense increased by 3.2% from U.S.\$106.8 million for 2008 to U.S.\$110.2 million for 2009. This increase was primarily due to an increase in Pan American's average debt, which increased from U.S.\$1.5 billion to U.S.\$1.6 billion between 2008 and 2009. However, the year-end 2009 balance of outstanding debt decreased by U.S.\$236.9 million when compared to the year-end balance at December 31, 2008. The average interest rate in 2008 was approximately 6.56% in U.S. dollars and 3.97% in U.S. dollars equivalent for its financial debt denominated in pesos, compared with approximately 5.96% in U.S. dollars and 2.53% in U.S. dollars terms equivalent for Pan American's financial debt denominated in pesos in 2009. The increase in interest expense was also partially offset by compensation accrued by Pan American during 2008 in the amount of U.S.\$3.4 million and U.S.\$7.5 million in 2009 under a hedging agreement with BP. This agreement provides that BP will compensate Pan American for the difference between the interest rate applicable to Pan American's 2002 loan from Credit Suisse and the U.S. CPI. These amounts are accounted for as a reduction in interest expense.

Other Financial Results

Other financial results increased by 73.4% from U.S.\$10.9 million in 2008 to U.S.\$18.9 million in 2009. Other financial results comprises principally amortization of debt placement fees, the Argentine withholding tax on interest payments, equity results of affiliates (such as GCDS, Dinarel, Termap, Oldeval, CDS and DGM), and the effect of the conversion into U.S. dollars of assets and liabilities balances denominated in pesos and the hedging of interest rates.

Other Expenses

Other expenses increased by 129.4% from U.S.\$45.6 million in 2008 to U.S.\$104.6 million in 2009. These expenses relate to pension plans, advisory services, new business development and other charges and provisions. This increase is primarily due to the fact that in 2009 Pan American expensed certain disbursements and costs paid on account of logistics and other services provided by related parties in 2009 and prior years. See “Related Party Transactions—Oilfield and Other Services.”

Income Tax

Income tax, including both current and deferred, increased by 65.8% from U.S.\$188.1 million for 2008 to U.S.\$311.8 million for 2009. The effective income tax rate increased from 27.6% in 2008 to 33.1% in 2009. This increase resulted primarily from higher profits from operations in Argentina. Pan American incurred an amount equal to U.S.\$371.1 million for current income tax during 2009.

Net Income Attributable to Pan American

Net income attributable to Pan American increased by 42.9% from U.S.\$441.1 million for 2008 to U.S.\$630.2 million for 2009, due to the factors described above.

Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Overview

The following were the primary factors which affected Pan American’s results of operations in 2008 compared with 2007:

- Argentine GDP increased by 6.8% in 2008 as compared to a growth of 8.7% in 2007, resulting in a continued increase in the domestic demand for oil and gas.
- The peso depreciated against the U.S. dollar by 9.7% in 2008, from Ps.3.15 per U.S.\$1.00 as of December 31, 2007 to Ps.3.45 per U.S.\$1.00 as of December 31, 2008. Despite this peso depreciation, Pan American experienced an increase in Pan American’s peso cost base when expressed in U.S. dollars as the increase of costs in the oil and gas industry of Argentina outpaced the rate of depreciation of the peso.
- Argentine WPI increased by 8.8% in 2008. The increase in costs of oil industry outpaced the increase in Argentine WPI.
- Oil production decreased by 1.7% from 113.7 mbbld in 2007 to 111.7 mbbld in 2008.
- Average oil sales prices increased by 18.7% from U.S.\$45.92 per bbl in 2007 to U.S.\$54.49 per bbl in 2008.
- Gas production increased by 5.4% from 799.3 mmcfpd in 2007 to 842.2 mmcfpd in 2008, which reflected Pan American’s efforts to satisfy increased demand.

- The average gas price increased by 47.7% from U.S.\$1.93 per mcf in 2007 to U.S.\$2.85 per mcf in 2008 mainly due to a change in the sales mix (export sales vs. domestic sales) in Bolivia, which resulted in a significant increase in exports from that country, and as a consequence of a gradual deregulation of the industrial gas market in Argentina.
- On November 15, 2007, the Ministry of Economy and Production of Argentina issued Resolution No. 394/07 by which export tariffs on oil and oil by-products were significantly increased.

Total Revenues

Total revenues of Pan American increased by 24.8% from U.S.\$2.66 billion for 2007 to U.S.\$3.32 billion for 2008, primarily due to an increase in gas production and an increase in oil and gas prices.

The following were the primary factors which affected Pan American's sales and other operating revenues during 2008:

- Total production of oil, gas and LPG increased by 2.5% from 93.3 mmboe (or 255.5 mboepd) in 2007 to 95.6 mmboe in 2008.
- Oil production decreased 1.7% from 41.5 mmbbl in 2007 to 40.9 mmbbl in 2008, with a 16.4% increase in sales revenue from U.S.\$2.0 billion in 2007 to U.S.\$2.3 billion in 2008 due to higher export prices. The average oil sales price increased by 18.7% from U.S.\$45.92 per bbl in 2007 to U.S.\$54.49 per bbl in 2008. The decrease in oil production was primarily attributable to decreased production in the Piedra Clavada, Cuenca Austral and Chaco blocks.
- Gas production increased by 5.4% from 291.8 bcf in 2007 to 308.2 bcf in 2008, with a 56.8% increase in sales revenue from U.S.\$558.7 million in 2007 to U.S.\$876.0 million in 2008. Average gas prices increased by 47.7% from U.S.\$1.93 per mcf in 2007 to U.S.\$2.85 per mcf in 2008, primarily as a result of increased exports resulting from changes in the sales mix (export sales vs. domestic sales) in Bolivia, as well as increased gas prices. In addition, prices for gas were impacted by the agreement entered into by the Argentine Secretariat of Energy and the natural gas producers in April 2004 and June 2007. The increase in gas production during this period was attributable to an increase in production from the Cerro Dragón, Acambuco, Aguada Pichana and Chaco blocks.
- LPG production increased by 4.2% from 1.49 mmbbl in 2007 to 1.55 mmbbl in 2008, with a 49.2% increase in sales revenue from U.S.\$71.4 million in 2007 to U.S.\$106.5 million in 2008, principally due to higher prices for LPG production from Argentina, which, in turn, were due to a significant increase in exports.

Operating and Other Hydrocarbon Expenses

Operating expenses increased by 37.6% from U.S.\$327.7 million for 2007 to U.S.\$450.9 million for 2008, due to increased expenses as a result of increased costs associated with commitments assumed by Argentine exploration and production companies, including Pan American, in order to keep levels of employment stable and an increase in the peso-based cost for the oil and gas industry, which outpaced the rate of the peso devaluation. The increase in production in 2008 partially offset the increase in operating expenses per boe during that period, which averaged U.S.\$4.28 per boe in 2008 as compared to U.S.\$3.20 per boe in 2007.

Transportation expenses decreased by 5.5% U.S.\$29.0 million in 2007 to U.S.\$27.4 million in 2008, which reflected the fact that no transportation costs were incurred by Chaco in 2008 while such costs were U.S.\$7.4 million in 2007. This was due to the new terms under the renegotiation of the existing agreements between Chaco and YPFB under which, beginning on May 1, 2007, all transportation expenses were paid by YPFB. Gas prices are wellhead prices, which require the buyer to pay separately for transportation costs.

Gross production assessments, which comprise production taxes and other assessments levied on by Argentine provinces, increased by 41.1% from U.S.\$465.4 million in 2007 to U.S.\$656.5 million in 2008. This increase is

principally attributable to the new terms of the renegotiated agreements with YPF in Bolivia, which allowed Chaco to increase its exports, at higher gas prices, which, in turn, resulted in an increase in sales. The increase in oil exports from Argentina also contributed to the increase in gross production assessments in 2008.

Hydrocarbon exploration expenses, which include exploratory dry holes, increased from U.S.\$14.3 million in 2007 to U.S.\$51.4 million in 2008. This increase is principally attributable to the write-off of an exploration well in the Acambuco block in 2008.

General and Administrative Expenses

General and administrative expenses increased from U.S.\$4.6 million for the year ended December 31, 2007 to U.S.\$6.3 million for 2008, mainly due to increased labor costs.

Taxes Other than Income Taxes

Taxes other than income taxes comprise principally turnover taxes, debits and credits banking tax and export tariffs. These taxes increased by 127.5% from U.S.\$379.0 million in 2007 to U.S.\$862.2 million in 2008 mainly due to an increase in oil exports from Argentina and the application of new regulations on export tariffs in Argentina as described below.

In November 2007, the Ministry of Economy and Production of Argentina issued Resolution No. 394/2007, which increased export tariffs on oil and by products exports sales above U.S.\$60.90 per barrel. The 2007 results of operations reflect the impact of this increase only since November 2007, while the 2008 results of operations reflect the impact of such increase during the entire year.

Depreciation, Depletion, Amortization and Retirements and Abandonments

Depreciation, depletion, amortization and retirements and abandonments increased by 6.6% from U.S.\$396.8 million for 2007 to U.S.\$423.1 million for 2008. This increase was primarily due to a higher depletion rate, which resulted from a stable volume of reserves in almost all of the Company's production blocks, increased production and increased additions to fixed assets, in 2008. This increase in the depletion rate was partially offset by an increase in the Cerro Dragón reserves as a consequence of the extension of the concession applicable to such production block, which impacted the full 2008 year.

Interest Expense

Interest expense increased by 35.9% from U.S.\$78.6 million for 2007 to U.S.\$106.8 million for 2008. This increase was primarily due to an increase in Pan American's average outstanding debt, which increased from U.S.\$1.25 billion to U.S.\$1.5 billion between 2007 and 2008 as a result of the incurrence of additional debt. The average interest rate in 2008 was approximately 6.56% in U.S. dollars and 3.97% in U.S. dollars terms equivalent for Pan American's financial debt denominated in pesos, compared with approximately 6.80% in U.S. dollars and 5.11% in U.S. dollars terms equivalent for its financial debt denominated in pesos in 2007. The increase in interest expense was also partially offset by compensation accrued by Pan American during 2008 in the amount of U.S.\$3.4 million compared to U.S.\$4.4 million in 2007 under a hedging agreement with BP which provides that BP will compensate Pan American for the difference between the interest rate applicable to Pan American's 2002 loan from Credit Suisse and the U.S. CPI. These amounts are accounted for as a reduction in interest expense.

Other Financial Results

Other financial results increased by 7.6% from U.S.\$8.3 million in 2007 to U.S.\$10.9 million in 2008. Other financial results comprises amortization of debt placement fees, the Argentine withholding tax on interest payments, equity results of affiliates (such as GCDS, Dinarel, Termap, Oldeval, CDS and DGM), the effect of the conversion into U.S. dollars of assets and liabilities balances denominated in pesos and the hedging of interest rates.

Other Expenses

Other expenses increased by 29.9% from U.S.\$35.1 million in 2007 to U.S.\$45.6 million in 2008. These expenses typically relate to new business development, advisory services, pension plans and provisions.

Income Tax

Income tax, including both current and deferred, decreased by 41.7 % from U.S.\$322.9 million for 2007 to U.S.\$188.1 million for 2008. This decrease resulted from lower profits from operations in Argentina. Pan American incurred in an amount of U.S.\$214.0 million for current income taxes during 2008. In addition, the effective income tax rate decreased from 35.3% in 2007 to 27.6% in 2008.

Net Income Attributable to Pan American

Net income attributable to Pan American decreased by 21.7% from U.S.\$563.7 million for 2007 to U.S.\$441.1 million for 2008, as a result of changes in the above-mentioned items.

Critical Accounting Policies and Estimates

The following discussion sets forth Pan American's critical accounting policies. Critical accounting policies are those policies that require Pan American to exercise its judgment or involve a higher degree of complexity in the application of the accounting policies that currently affect Pan American's financial condition and results of operations. The accounting estimates Pan American makes in these contexts require it to calculate variables and make assumptions about matters that are uncertain. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, revenues and expenses. Actual results may differ in some cases from these estimates. This information should be read together with note 2, and other related notes described below, to Pan American's Financial Statements. There are other areas in which Pan American uses estimates about uncertain matters, but Pan American's management believes that the reasonably likely effect of changed or different estimates is not material to the Company's financial condition and results of operations.

Estimated Oil and Gas Reserves

Pan American accounts for its oil and gas exploration and production activities under the "successful efforts" method of accounting. Investments related to such activities are amortized under the units-of-production method on the basis of proved reserves on a block by block basis. The reserves are based on technical studies prepared internally, reviewed and certified by third-party oil and gas consultants and subsequently approved by Pan American's management, based on estimation methodologies recommended by international organizations of specialists in hydrocarbon reserves consistent with the guidelines followed by the SEC. Oil and gas reserves are divided between proved and unproved reserves. Proved reserves are estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Evaluations of oil and gas reserves are important to the effective management of assets. They are an integral part of Pan American's investment decisions about oil and gas properties such as whether development should proceed or enhanced recovery methods should be undertaken. Proved oil and gas reserve quantities are also used as the basis of calculating the unit-of-production rates for depreciation and for evaluating impairment in the event there are indicators that suggest that an impairment test should be performed in connection with certain asset. The estimation of reserves is an ongoing process based on rigorous technical analysis of well data, such as flow rates and reservoir pressure declines and is subject to several uncertainties inherent to the determination of proved reserves, production recovery rates, the timeliness with which investments are made to develop the reservoirs and the degree of maturity of the fields.

Impairment of Long-Lived Assets

Pan American records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those items. Pan American applies ASC Topic 360-10 "Impairment or Disposal

of Long-Lived Assets,” which addresses the accounting for the recognition and measurement of impairment losses for long-lived assets, including oil and gas properties accounted for under the successful efforts method of accounting and certain identifiable intangibles to be held and used or disposed of. Pan American performs a review for impairment of proved oil and gas properties on a block-by-block basis when circumstances suggest there is a need for such a review. For each block determined to be impaired, an impairment loss equal to the difference between the carrying value and the fair value of the block is recognized. Fair value, on a block-by-block basis, is estimated to be the present value of expected future cash flows computed by applying estimated future oil and gas prices, as determined by management, to estimated future production of oil and gas over the economic life of the reserves. Pan American groups and evaluates other property, plant and equipment for impairment based on the ability to identify separate cash flows generated therefrom. See note 2.7 to Pan American’s Financial Statements.

Depreciation, Depletion and Amortization (DD&A)

Depletion of acquisition field costs and depreciation of related intangible drilling and development costs are recognized using the units-of production method. Amortization of the rest of property, plant and equipment is computed on a straight-line basis over the estimated economic lives. The portion of costs of unproved oil and gas properties estimated to be non-productive is charged to expense. Long-lived assets with recorded values that are not expected to be recovered through future cash flows are written down to current fair value. Fair value is generally determined from estimated future net cash flows. Significant gains or losses from retirements or disposition of facilities are credited or charged to income. See note 2.4 to Pan American’s Financial Statements.

Abandonment of Wells and Facilities in the Fields

Pan American applies ASC Topic 410-20, “Asset Retirement Obligations,” which requires the fair value of a liability for an asset retirement obligation to be recorded in the period in which the asset that gives rise to such retirement obligation is incorporated with the corresponding increase in the carrying amount of the related long-lived asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation would be adjusted at the end of each period to reflect the passage of time and changes in the estimated abandonment cost underlying the obligation. The asset is depreciated over the remaining useful life of the related long-lived asset and the obligation generates an annual change to financial results. This is a consequence of the annual unwinding of the discounted abandonment obligation. See note 2.14 to Pan American’s Financial Statements.

Pension Plans and other Post-Retirement Benefits

Pan American applies ASC Topic 715 “Compensation-Retirement Benefits” to account for a defined benefit plan for its personnel denominated “Plan Puente.” U.S. GAAP requires the Company to recognize the overfunded or underfunded status of each of its defined benefit pension and other postretirement benefit plans as an asset or liability and to reflect changes in the funded status as a direct charge to “Accumulated other Comprehensive Income” (“AOCI”), as a separate component of members’ equity, in the year in which they occur. See note 2.10 to Pan American’s Financial Statements.

Litigation

Pan American is generally subject to claims from third parties and other claims arising in the normal course of business, as well as regulatory and arbitral proceedings. Management and legal counsel evaluate these situations based on their nature, the likelihood that they materialize, and the amounts involved, to decide on any changes to the amounts accrued and/or disclosed. This analysis includes current legal proceedings against the Company and claims not yet initiated. In accordance with management’s evaluation, Pan American creates provisions to meet these costs when it is probable that a liability has been incurred and reasonable estimates of the liability can be made. Estimates are based on legal counsel’s evaluation of the cases and management’s judgment. See note 11 to Pan American’s Financial Statements.

Derivative Instruments and Hedging Activities

Occasionally Pan American uses derivative financial instruments such as options, swaps and others, mainly to mitigate the impact of changes in interest and exchange rates. Pan American accounts for derivative instruments

and hedging activities under ASC Topic 815 “Derivatives and Hedging.” These rules require qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about contingent features related to credit risk in derivative agreements. See note 2.16 to Pan American’s Financial Statements.

Exploratory Dry Holes

Pan American writes off exploratory costs incurred in connection with an exploratory well after testing of the well is completed and the non commercial recoverability of reserves from the well is determined. See note 2.4 to Pan American’s Financial Statements.

Revenue Recognition

The Company uses the production method of accounting for crude oil revenues. To the extent that crude oil is produced but not sold, the oil in tanks, if material, is recorded as inventory at cost in the Pan American Financial Statements.

The Company uses the sales method of accounting for natural gas revenues adjusted for over and under produced amounts associated with gas balancing arrangements. Under this method, revenues are recognized based on actual volumes of gas sold to purchasers.

Functional currency

The U.S. dollar has been determined to be the appropriate functional currency for essentially all of the Company’s operations. All of the Company’s activities are carried out outside the United States. However, the most significant transactions of the Company are generally denominated in U.S. dollars.

Fair value of Financial Instruments

The Company applies ASC Topic 820 “Fair Value Measurements and Disclosures”. U.S. GAAP defines fair value, establishes a consistent framework for measuring fair value, establishes a fair value hierarchy (Level 1, Level 2 or Level 3) based on the quality of inputs used to measure fair value, and expands disclosure requirements for fair value measurements.

Pursuant to the provisions of U.S. GAAP, fair values determined by Level 1 inputs utilize quote prices in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs are based on quoted prices for similar assets or liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The Company uses appropriate valuation techniques based on the available inputs to measure the fair values of its applicable assets and liabilities. When available, the Company measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

Liquidity and Capital Resources

Pan American’s principal sources of liquidity derive from the cash generated by its operations and from various financing sources, including domestic and international commercial banks, domestic and international capital market financings and multilateral organizations. Pan American requires funding principally in order to finance its operating costs and capital expenditure requirements and in order to repay its maturing debt obligations. Increases in capital investments or in the costs of operating its business create corresponding increases in working capital needs.

Capital Expenditures

Pan American's principal capital requirements arise from expenditures relating to the development of existing reserves and fields, exploration for new reserves and acquisition of interests in exploration and production blocks. Using leading technology related to 3D seismic geological and geophysical interpretation, Pan American is able to identify new opportunities for the drilling of new reservoirs, thus reducing the risk of drilling dry holes through the use of an integrated geological and geophysical interpretation system. Pan American has additional capital requirements for investments relating to its interest in oil and gas transportation, gas distribution, oil storage and loading facilities and power generation.

During the years ended December 31, 2007, 2008 and 2009, Pan American's aggregate additions to fixed assets were U.S.\$1.02 billion, U.S.\$1.2 billion and U.S.\$873.6 million, respectively, of which U.S.\$868.3 million, U.S.\$1.16 billion and U.S.\$863.1 million, respectively, were invested in development and production activities. These expenditures included U.S.\$819.2 million, U.S.\$1.06 billion and U.S.\$856.2 million, respectively, for the development of existing reserves in Argentina and U.S.\$49.1 million, U.S.\$106.6 million and U.S.\$6.9 million, respectively, for the development of existing reserves in Bolivia during those periods.

Cash Flows

The table below sets forth Pan American's cash flows for 2007, 2008 and 2009:

	Year ended December 31,		
	2007	2008	2009
	<i>(in millions of U.S.\$)</i>		
Cash generated by (used in)			
Operating activities.....	994.4	952.2	1,192.6
Investing activities.....	(977.4)	(1,244.5)	(925.6)
Financing activities.....	(93.8)	340.5	(329.0)
Increase (decrease) in cash and cash equivalents	(76.8)	48.1	(62.0)

Cash Flow Provided by Operating Activities

Cash flow generated by operating activities in 2007, 2008 and 2009 was U.S.\$994.4 million, U.S.\$952.2 million and U.S.\$1.19 billion, respectively. Pan American's cash flow from operations in 2007, 2008 and 2009 was mainly affected by the increase in the production of oil and gas, their respective prices, gross production assessments, export tariff and operating expenses.

Cash Used in Investing Activities

Cash flow used in investing activities was U.S.\$977.4 million during 2007, U.S.\$1.24 billion during 2008 and U.S.\$925.6 million during 2009. During each of such periods, Pan American's investing activities were primarily related to additions to fixed assets in production and development.

Cash Provided by (Used in) Financing Activities

Pan American's financing activities resulted in a net cash decrease of U.S.\$93.8 million in 2007, a net cash increase of U.S.\$340.5 million in 2008 and a net cash decrease of U.S.\$329.0 million in 2009.

Financing Activities

As of December 31, 2009, Pan American had an unused borrowing capacity of U.S.\$288.9 million available with various financial institutions in Argentina. This amount is available to be borrowed in pesos or U.S. dollars. As such credit lines are normally uncommitted, access to them could be restricted. However, Pan American believes that its access to credit facilities is adequate to support its currently anticipated financial needs for 2010.

The following table sets forth Pan American's short-term and long-term consolidated financial debt as of December 31, 2009:

	Amount	Average Life
	<i>(in millions of U.S.\$)</i>	<i>(Years)</i>
Short-term financial debt	210.2	0.2
Long-term financial debt: ⁽¹⁾		
International Finance Corporation 2007	468.2	3.1
<i>Obligaciones Negociables</i>	250.0	1.7
Syndicated Loan	200.0	2.8
International Finance Corporation 2005	149.2	2.5
International Finance Corporation 2009	153.0	4.1
Credit Suisse	58.7	1.0
Corporación Andina de Fomento.....	30.0	3.7
JP Morgan Chase Bank.....	10.0	3.5
Total long-term debt	1,319.1	2.8
Total financial debt principal.....	1,529.3	2.4
Accrued Interest ⁽²⁾	24.3	
Total financial debt	1,553.6	

(1) Includes the current portion of long-term financial debt.

(2) Includes U.S.\$1.6 million of accrued interest of short-term debt.

Short-term Financing Arrangements

As of December 31, 2009, Pan American had short-term financial debt outstanding of U.S.\$384.1 million, which consisted of: (i) short-term bank debt of U.S.\$211.8 million (U.S.\$210.2 million of principal and U.S.\$1.6 million of accrued interest); (ii) the current portion of long-term debt of U.S.\$149.6 million (of which U.S.\$115.4 million corresponds to debt owed to International Finance Corporation ("IFC"), U.S.\$14.2 million corresponds to the current portion of debt owed to Credit Suisse, U.S.\$20.0 million corresponds to the current portion of debt owed under a syndicated loan (the "Syndicated Loan"); and (iii) accrued interest on long-term debt of U.S.\$22.7 million.

Long-term Financing Arrangements

As of December 31, 2009, Pan American had long-term financial debt outstanding (excluding the current portion thereof) of U.S.\$1.17 billion (of which U.S.\$654.9 million corresponds to debt owed to IFC, U.S.\$250.0 million corresponds to *obligaciones negociables* (Series 4), U.S.\$180.0 million under the Syndicated Loan, U.S.\$44.5 million corresponds to debt owed to Credit Suisse, U.S.\$10.0 million corresponds to debt owed to JPMorgan Chase Bank and U.S.\$30.0 million corresponds to debt owed to the Corporación Andina de Fomento ("CAF").

In 2009, Pan American incurred additional long-term debt in the amount of U.S.\$183.0 million (compared to U.S.\$351.4 million and U.S.\$442.3 million in 2008 and 2007, respectively). This was due to the incurrence in September 2009 of (i) U.S.\$153.0 million from the IFC, in three tranches of U.S.\$103.0 million; U.S.\$10.0 million and U.S.\$40.0 million with final maturity in August 2013, August 2015 and August 2017, respectively, and (ii) U.S.\$30.0 million from CAF with final maturity in August 2015.

Multilateral Financings

The Branch is the borrower and Pan American is the guarantor under a credit facility entered into in September 2009 with IFC in the aggregate amount of U.S.\$153.0 million (the “2009 IFC Loan”). The loans made under this facility were disbursed to the Branch in 2009 and the proceeds thereof were used to fund the development of the Cerro Dragón, Piedra Clavada and Koluel Kaike blocks. The 2009 IFC Loan consists of three tranches: an amortizing A loan in the amount of U.S.\$10.0 million with a 6-year final maturity, an amortizing B loan in the amount of U.S.\$103.0 million with a 4-year final maturity and a C loan in the amount of U.S.\$40.0 million with an 8-year bullet maturity. The C loan accrues interest at a fixed rate of 12.25% per annum. The A and B loans accrue interest at a variable rate based on LIBOR (six-month) plus the applicable margin. As of December 31, 2009, the principal outstanding balance under the 2009 IFC Loans was U.S.\$153.0 million.

The Branch is also the borrower and Pan American the guarantor under a credit facility entered into in July 2007 with IFC in the aggregate amount of U.S.\$550.0 million (the “2007 IFC Loan”). The proceeds from the loans made under this facility were used to finance part of the investment program of the Branch in the Cerro Dragón block. The 2007 IFC Loan consists of three tranches: (i) the A loan in the amount of U.S.\$150.0 million, which amortizes semi-annually with final maturity in April 2018, (ii) the B loan tranche 1 for U.S.\$158.5 million, which amortizes semi-annually with a final maturity in April 2014 and (iii) the B Loan tranche 2 for U.S.\$241.5 million, which amortizes semi-annually with a final maturity in April 2015. The A and B loans accrue interest at a variable rate based on LIBOR (six-month) plus the applicable margin. On August 14, 2009, the Branch entered into several agreements with three financial institutions in order to swap this obligation to pay 6-month LIBOR in respect of the 2007 IFC Loan with outstanding notional amounts of U.S.\$129.7 million, U.S.\$204.3 million and U.S.\$134.2 million, resulting in annual fixed rates of 4.13%, 4.49% and 5.46%, respectively. This interest rate swap was effective as of October 15, 2009. As of December 31, 2009, the principal outstanding under this facility was U.S.\$468.2 million.

The Branch is the borrower and Pan American is the guarantor under a credit facility entered into in July 2005 with IFC in the aggregate amount of U.S.\$250.0 million (the “2005 IFC Loan,” and, together with the 2009 IFC Loan and the 2007 IFC Loan, the “IFC Loans”). The loans made under the 2005 IFC Loan were disbursed to the Branch in 2005 and the proceeds thereof were used for the development of the Cerro Dragón, Piedra Clavada and Koluel Kaike blocks. The 2005 IFC Loan consists of three tranches: an amortizing A loan in the amount of U.S.\$100.0 million with a 10-year final maturity, an amortizing B loan in the amount of U.S.\$135.0 million with a 7 year final maturity and a C loan in the amount of U.S.\$15.0 million with an 11-year bullet maturity. The C loan accrues interest at a fixed rate equal to 5.66% per annum plus additional interest based on the performance of Pan American. The interest to be paid under the A and B loans was fixed through interest rate swaps entered into with the IFC, resulting in a fixed rate of 7.56% per annum and 6.97% per annum, respectively. As of December 31, 2009, the principal outstanding balance under the 2005 IFC Loan was U.S.\$149.2 million.

Each of the IFC Loans contain covenants which require Pan American to maintain certain financial ratios, including (i) a consolidated debt service coverage ratio of at least 1.5 to 1 and (ii) a total liabilities to total capitalization ratio not exceeding 0.5 to 1. In addition, each of the IFC Loans place certain restrictions on the ability of each of the Branch and Pan American to create liens on its properties, undertake mergers, consolidations or reorganizations and pay dividends or make distributions to its members if the financial covenants are not complied with.

The Branch is also the borrower and Pan American is the guarantor under a credit facility entered into on December 2009 with CAF in the aggregate amount of U.S.\$30.0 million. The proceeds of this facility were used to finance part of the investment program of the Branch in the Cerro Dragón, Piedra Clavada and Koluel Kaike block. The CAF loan has a principal amount of U.S.\$30.0 million, which amortizes semi-annually and has a final maturity in August 2015. The loan accrues interest at the variable rate based on LIBOR (six month) plus the applicable margin. The CAF loan contains covenants which require Pan American to maintain certain financial ratios, including (i) a consolidated debt service coverage ratio of at least 1.5 to 1 and (ii) a total liabilities to total capitalization ratio not exceeding 0.5 to 1. In addition, this agreement contains certain covenants which place restrictions on the ability of each of the Branch and Pan American to create liens on its properties undertake mergers, consolidations or reorganizations and pay dividends or make distributions to its members if financial covenants are not satisfied and in the event the 2009 IFC loan is prepaid, in this case, at CAF’s option as well as

certain mandatory prepayment events, for instance, in the events of a change of control. There are also covenants that require the Branch to provide similar treatments to CAF with respect to the 2009 IFC Loan. As of December 31, 2009, the principal outstanding under this facility was U.S.\$30.0 million.

International Credit Facilities

The Branch is also the borrower and Pan American is the guarantor under the Syndicated Loan entered into on May 21, 2008, with Credit Agricole Corporate and Investment Bank New York Branch, formerly known as Calyon New York Branch, as administrative agent, JP Morgan Securities INC, ABN AMRO Bank, N.V. and Credit Agricole Corporate and Investment Bank New York Branch, formerly known as Calyon New York Branch, as joint-lead arrangers and joint-book runners, Banco Itaú Buen Ayre S.A. as intermediary bank and a syndicate of international commercial banks as lenders (Credit Agricole Corporate and Investment Bank New York Branch, formerly known as Calyon New York Branch, JP Morgan Chase Bank, N.A., ABN AMRO Bank N.V., Banco Itaú New York Branch, Natixis, Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. Rabobank Nederland New York Branch, and Export Development Canada) in an amount of U.S.\$200 million, and has a final maturity on May 23, 2011. Under the Syndicated Loan, Pan American, as guarantor, is required to maintain certain financial ratios, including (i) a consolidated debt service coverage ratio of at least 1.5 to 1 and (ii) a total liabilities to total capitalization ratio not exceeding 0.5 to 1. In addition, the Syndicated Loan contains certain restrictions on the ability of each of the Branch and Pan American to create liens on its properties, undertake mergers, consolidations or reorganizations, and pay dividends or make distributions to its members if certain financial covenants are not complied with. On December 30, 2009 the Branch entered into an amended and restated agreement with the lenders under the Syndicated Loan, which amended the maturities originally agreed upon. Pursuant to this amendment, the final maturity was extended to May 2013 and the amount of U.S.\$170 million shall be payable in two installments of U.S.\$85 million each on November 2012 and May 2013. The remaining balance of the loan, U.S.\$30.0 million remains with a final maturity on May 23, 2011. As of December 31, 2009, the principal outstanding balance under this facility was U.S.\$200.0 million.

In December 2002, Pan American borrowed U.S.\$156.4 million under a U.S.\$225 million ten year credit agreement with Credit Suisse at an annual interest rate equal to the higher of 6.5% and the U.S. CPI calculated on a quarterly basis. The repayment of the facility is tied to the capital expenditures and net production from the Acambuco block. The Credit Suisse agreement requires Pan American to maintain certain financial ratios, including a consolidated indebtedness of not more than 50% of Pan American's consolidated capitalization at any time. As of December 31, 2009, the principal amount outstanding under this facility was U.S.\$58.7 million.

Bond Offerings

On August 9, 2006, the Branch issued U.S.\$250 million of *obligaciones negociables* (Series 4) under the U.S.\$1,000,000,000 Global Medium-Term Note Program authorized by the CNV on February 21, 2002 (the "2002 Program") and guaranteed by Pan American. This Series matures on February 9, 2012 and accrues interest at a fixed rate of 7.75% per annum. In addition, the *obligaciones negociables* (Series 4) include restrictions on the ability of the Branch and Pan American to create liens on their properties, undertake merger or consolidations and incur additional indebtedness, subject to compliance with certain financial ratios. As of December 31, 2009, Pan American had a total of U.S.\$250.0 million outstanding debt of *obligaciones negociables* (Series 4).

Market Risk Analysis

Pan American is exposed to market risk from changes in interest rates and currency exchange rates. Through various arrangements described below, Pan American seeks to hedge its interest rate risk of certain of its debt instruments.

For additional information on Pan American's hedging transactions, see note 2.16 to Pan American's Financial Statements.

As of December 31, 2009, the mark-to-market value of Pan American's derivative financial instruments amounted to a liability of U.S.\$9.2 million.

Interest Rate Risk

Interest rate risk exists principally with respect to Pan American's floating rate indebtedness, substantially all of which is determined by reference to six-month LIBOR. To reduce the financial impact of fluctuations in Pan American's floating rate debt, Pan American has entered into several hedging contracts. On December 31, 2009, after taking into consideration the effect of these hedging arrangements, Pan American had approximately U.S.\$1.32 billion principal aggregate amount of indebtedness, 26% of which bore interest at floating interest rates and 74% of which bore interest at fixed rates. As of December 31, 2009, Pan American had outstanding interest rate swaps on U.S.\$602 million of its long term bank debt.

Foreign Currency Risk

A substantial part of the revenues of Pan American's business derives from crude oil sales, which are denominated in U.S. dollars. Conversely, a significant portion of Pan American's expenses and taxes and, to a lesser extent, capital expenditures are denominated in pesos. However, other cash outflows such as long-term financial debt repayments and interest expense are denominated in U.S. dollars. Given these factors, Pan American does not believe to be materially exposed to foreign currency exchange risk with respect to its revenues, costs, assets and liabilities.

Contractual Obligations

The following table summarizes Pan American's contractual obligations as of December 31, 2009, as well as the maturity of those obligations:

	Payment Due by Period				Total
	1 year	2-3 years	4-5 years	5+ years	
	<i>(in millions of U.S.\$)</i>				
Pension plans ⁽¹⁾	10	21	18	35	84
Debt financial obligations ⁽²⁾	359	696	325	149	1,529
Investment and expense commitments (concession extensions) ⁽³⁾	21	195	98	1,365	1,680
Other commitments under concession extensions	48	10	—	—	58
Operating lease ⁽⁴⁾	4	8	—	—	12
Purchase obligations - gas transportation	10	21	21	86	138
Total	452	951	462	1,635	3,500
Gas sales obligations ⁽⁵⁾	304	255	231	539	1,330

(1) Based on actuarial projections for the term of such pension plans.

(2) Includes only principal amount. Amounts converted to U.S. dollars as of December 31, 2009.

(3) Under its concession extension agreements, Pan American agreed to certain annual minimum capital commitments. To the extent Pan American invests amount that exceed its capital commitment in one year it receives a credit for the following year. To the extent Pan American contributes less than its minimum capital commitment in one year it is required to cover the shortfall in the following year. See notes 24 and 25 to Pan American's Financial Statements.

(4) See note 17 to Pan American's Financial Statements.

(5) Delivery or payment obligations under gas sales agreements. Contracts with price adjustment clauses are calculated using prevailing prices as of December 31, 2009.

Off-Balance Sheet Arrangements

Pan American has no off-balance sheet liabilities or interest in or relationship with any special purpose vehicles.

BUSINESS

Introduction

Pan American is a company organized in the State of Delaware, United States, on September 29, 1997 to effect the strategic alliance formed by Amoco Corp. and Bidas for specific oil and gas activities in the Southern Cone. Amoco Corp. was merged with and into BP in 1999. Currently, Pan American has operations in Argentina, Bolivia, Uruguay and Chile.

Pan American is a holding company which conducts its operations through its branch in Argentina and its subsidiaries and related companies in Argentina, Bolivia, Chile and Uruguay. Through its subsidiaries and related companies, Pan American is engaged mainly in the exploration, development and production of oil and gas. In 2009, Pan American was the largest exporter of oil from Argentina and the second largest oil and gas producer in the country, in each case by volume of oil and gas owned and produced in Argentina, according to information published by the Argentine Oil and Gas Institute.

A significant part of Pan American's operations and reserves are located in Argentina. As a result, fluctuations in the Argentine economy and measures adopted by the Argentine government have had and will continue to have a significant effect on Pan American. See "Risk Factors—Risk Factors Related to Operations in Argentina."

The following table contains a brief summary of operational information for Pan American as of and for the three years ended December 31, 2007, 2008 and 2009.

	2007	2008 ⁽⁴⁾	2009
Total certified reserves (mmbobe) ⁽¹⁾⁽²⁾	2,630.7	2,507.6	2,354.8
Total proved reserves (mmbobe) ⁽¹⁾⁽²⁾	1,541.5	1,562.9	1,539.1
Average daily production (mboe) ⁽¹⁾	243.3	250.0	237.3
Sales and operating revenues (in millions of U.S.\$)	2,611.2	3,290.3	2,775.8
Net Income attributable to Pan American (in millions of U.S.\$)	563.7	441.1	630.2
Consolidated EBITDA (in millions of U.S.\$) ⁽³⁾	1,403.0	1,279.0	1,591.5

- (1) Years 2008 and 2007 include 50.001% of Chaco's total certified reserves, proved reserves and average daily production, which corresponds to Pan American's proportional ownership interests in Chaco as of such date. As a result of the nationalization of almost all the shares of Chaco held by Pan American, 2009 figures do not include any reserve or production data related to such company.
- (2) In compliance with Article 357 of the Political Constitution of Bolivia, in force since February 7, 2009, the Caipipendi block reserves included in the above table have not been registered on any stock exchange as property of the Company nor used as a collateral to secure financing transactions. Such registration or collateralization may only be carried out by the Bolivian government. For a discussion regarding Pan American's reserves in Bolivia and recent significant regulatory changes in the Bolivian oil and gas sector, see "Risk Factors—Risk Factors Related to Bolivia and Other Emerging Market Countries" and "Business—Contractual Matters and Regulations—Bolivia."
- (3) Consolidated EBITDA for a period consists of sales and other operating revenues less (i) operating expenses, (ii) transportation expenses, (iii) gross production assessments, (iv) hydrocarbon exploration expenses (excluding exploratory dry holes), (v) general and administrative expenses and (vi) taxes other than income taxes, including export tariffs, in each case for the relevant period, on a consolidated basis. Consolidated EBITDA is not a U.S. GAAP measure, does not represent cash flow for the periods indicated and should not be considered as an alternative to net income (which is determined in accordance with U.S. GAAP), as an indicator of Pan American's operating performance or as an alternative to cash flow (which is determined in accordance with U.S. GAAP) as a source of liquidity.
- (4) In 2008, Pan American's interest in Chaco accounted for 10.7% of its total certified reserves, 8.6% of its total proved reserves, 8.3% of average its daily production, 16.0% of its sales and operating revenues, 11.7% of the net income attributable to Pan American and 15.8% of Consolidated EBITDA.

Pan American is one of the few corporations operating in Argentina with an international corporate rating from Moody's, S&P and Fitch above the Argentine sovereign rating, reflecting its large long-life reserve base, track record of maintaining low financial leverage while growing production at competitive extraction and development costs and the ability to service U.S. dollar-denominated debt. As of the date of this Offering Circular, Pan American's international foreign currency credit rating was Ba2 from Moody's, B+ from S&P and BB- from Fitch. In addition, during the 2001-2002 Argentine financial crisis, Pan American continued making payments on its indebtedness as they became due and, unlike many other Argentine companies, did not default on or restructure its debt.

History of Pan American

The Strategic Alliance

Pan American was formed as a successor in business to the Argentine branch of AAOC, following the announcement of a strategic alliance between Bidas and Amoco Corp. on September 7, 1997. As a result of the alliance, Bidas contributed to Pan American certain of its assets and liabilities in the Southern Cone, creating the second largest oil and gas producer in Argentina. As part of the transaction, Bidas also acquired a minority interest in Amoco Corp.'s operations in Bolivia (which operations were conducted through Chaco, one of the two companies into which the upstream operations of YPFB were divided as part of the privatization of the industry in Bolivia). At its commencement of operations, Pan American had approximately 1.1 billion boe in certified reserves and a production of approximately 115,000 boepd.

Amoco Corp. and Bidas entered into the strategic alliance to enhance the businesses of both companies by combining the strengths and resources of two successful energy companies in the region to create an entity that could compete for additional growth opportunities in the Southern Cone. All of the assets contributed by AAOC were related to oil production and had a strong short- and medium-term cash generation capability, while the assets contributed by Bidas provided for a substantial amount of undeveloped gas reserves to take advantage of domestic and regional growth opportunities. The alliance also benefited from Bidas' local and regional business expertise and from Amoco Corp.'s financial strength and well known technical capabilities.

In 1999, Amoco Corp. was merged with and into BP. As of the date hereof, BP owns 60.0% and Bidas owns 40.0% of the equity interests of Pan American. See "Principal Members" for a further description of BP and Bidas.

Since the formation of the alliance in 1997, Bidas and AAOC agreed not to compete with Pan American in an "area of mutual interest," which includes Argentina, Bolivia, southern Brazil, Chile, Paraguay, Peru and Uruguay, subject to certain exceptions. The establishment of this "area of mutual interest" for Pan American makes it the vehicle for growth in the Southern Cone for Bidas and BP in respect of upstream oil and gas and mid-and downstream gas activities, including thermal power generation.

BP plc

BP is one of the largest oil and gas integrated companies in the world with assets in excess of U.S.\$236.0 billion and a market capitalization of about U.S.\$177.0 billion as of December 31, 2009. As of December 31, 2009, it had net proved reserves of 18.3 billion boe, 57% of which were in the form of oil and condensates. During 2009, its worldwide daily production volume averaged 2.5 mmbbls of crude oil and 9.0 bcf of natural gas. BP has operations in more than 70 countries around the world.

Amoco Argentina Oil Company

AAOC was incorporated in Delaware in 1958 as an indirect, wholly owned subsidiary of Amoco Corp. Since its formation it was engaged in the exploration, development and production of oil in Argentina. Its involvement in Argentina began in 1958 with the awarding of the approximately one million acres in the Cerro Dragón area from the Argentine state oil company, Yacimientos Petrolíferos Fiscales Sociedad del Estado ("YPF"). In 1973, approximately one-third of the acreage was returned to YPF pursuant to the terms of their original contractual agreement, leaving AAOC with 673,461 acres located on the northern flank of the Golfo San Jorge basin, about 50 miles west of the city of Comodoro Rivadavia in the provinces of Chubut and Santa Cruz.

AAOC was one of the largest oil producers in Argentina, and it operated in Argentina for 37 years prior to the alliance with Bidas. In 2002, AAOC changed its name to BP Argentina Exploration Company.

Bidas Corporation

Bidas is an international oil and gas holding company, based in the British Virgin Islands, engaged, through its subsidiaries, in four principal areas of operations: (i) exploration and development of oil and gas reserves and production of oil and gas; (ii) marketing and transportation of oil, gas and oil derivatives; (iii) gathering, treatment,

processing and distribution of gas; and (iv) drilling and well services. Bidas commenced operations in the oil and gas industry in Argentina in 1959 and became the second largest natural gas producer in the country, prior to the formation of Pan American. In the year ended December 31, 2009, Bidas' consolidated financial statements recorded sales of U.S.\$1.12 billion with a U.S.\$256.7 million net profit. As of December 31, 2009, Bidas' consolidated assets totaled U.S.\$3.41 billion and their consolidated net worth was U.S.\$2.34 billion.

Bidas Energy Holding's Joint Venture with CNOOC Ltd.

Bidas Energy Holdings Ltd., Bidas' parent company, recently announced that on March 13, 2010 it entered into a joint venture agreement with CNOOC Ltd. to transfer a partial interest in Bidas to CNOOC International Ltd., a wholly owned subsidiary of CNOOC Ltd. According to this transaction, each of Bidas Energy Holdings Ltd. and CNOOC International Ltd. will hold 50% of the interests in Bidas.

The Chaco Nationalization

On January 23, 2009, the Bolivian government, through Supreme Decree No. 29,888, nationalized 8,049,660 shares of Chaco owned by Pan American, which represented 50% of the total shares of Chaco. On March 12, 2010, Pan American submitted a claim before the ICSID against Bolivia pursuant to the Treaty between the Government of the United States of America and the Government of Bolivia concerning the encouragement and reciprocal protection of investments. For more information, see "Risk Factors—Risk Factors Related to Bolivia and Other Emerging Market Countries—Political, Social and Economic Instability in Bolivia and Nationalization of Chaco."

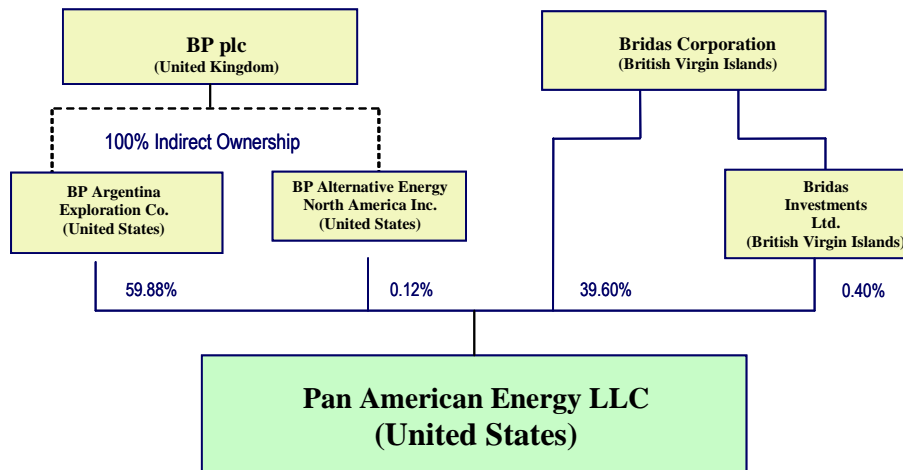
Pan American's Assets

The following map shows the main areas of operations of Pan American:



Ownership Structure

Pan American has 10,000 shares. BP owns, indirectly, a 60.0% interest in Pan American and Bidas owns, directly and indirectly, the remaining 40.0% interest in Pan American.

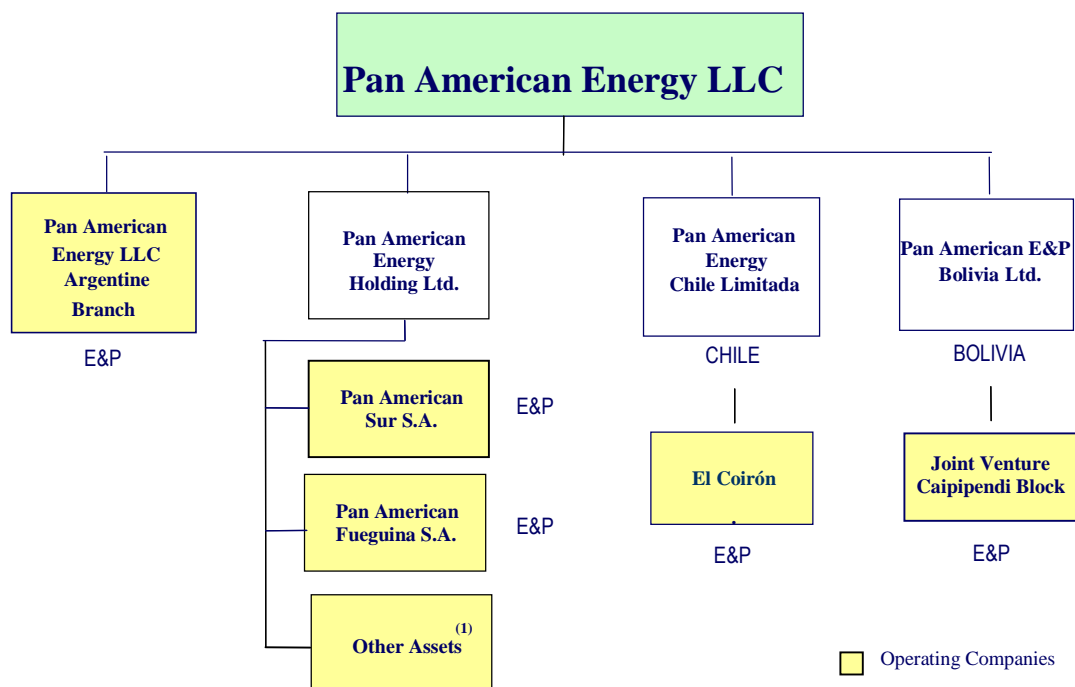


Corporate Structure

Pan American's assets and liabilities are allocated among the Branch and five principal subsidiaries:

- the Branch, which holds all of the exploration and production assets in continental Argentina and is the obligor on substantially all of the consolidated financial debt of Pan American;
- Pan American Fuegoina, which holds the right to receive gas production from certain onshore assets in Tierra del Fuego;
- Pan American Sur, which holds the offshore exploration and production assets in Tierra del Fuego;
- Pan American Chile, which holds a participation in El Coirón exploration block in Chile.
- Pan American E&P Bolivia, which holds a participation in the Caipipendi block in Bolivia, which primarily produces gas; and
- Pan American Holdings, which holds minority participations in non-exploration and production ventures.

The chart below describes the principal direct and indirect subsidiaries of Pan American:



(1) Minority interest in mid and downstream oil and gas companies.

See “Business—Subsidiaries and Affiliates” for a complete list of Pan American subsidiaries.

The following table sets out selected information about proved reserves, production, revenues and debt of Pan American, the Branch and its three main operating subsidiaries.

	Year ended December 31, 2009		As of December 31, 2009	
	Production <i>(mboepd)</i>	Revenues <i>(in millions of U.S.\$)</i>	Proved Reserves <i>(mmboe)</i>	Financial Debt ⁽¹⁾ <i>(in millions of U.S.\$)</i>
Pan American ⁽²⁾	—	—	—	58.7
Branch	208.7	2,585.5	1,266.5	1,470.6
Pan American Sur	22.7	153.1	156.0	—
Pan American Fuegoina ⁽³⁾	2.8	4.9	7.7	—
Pan American E&P Bolivia ⁽⁴⁾	3.1	32.3	108.9	—
Others	—	—	—	—
Total	237.3	2,775.8	1,539.1	1,529.3

(1) Based on Pan American’s Financial Statements which have been prepared in accordance with U.S. GAAP. Financial debt relates only to principal amounts outstanding as of December 31, 2009.

(2) The financial debt of Pan American is presented on an unconsolidated basis.

- (3) In September 2006, Pan American sold its interest in the Tierra del Fuego block, retaining all rights, title and interest in and to 16.8 mmcfpd of gas produced from the Tierra del Fuego block, until a total volume of 64.9 bcf of natural gas is delivered.
- (4) The volume of proved reserves corresponding to the Caipipendi block as of December 31, 2009 is 18,975 mbbl of oil and 521,786 mmcf of gas, which are equivalent to 108,937 mboe. In compliance with Article 357 of the Political Constitution of Bolivia, in force since February 7, 2009, the Caipipendi block reserves included in the above table have not been registered on any stock exchange as property of the Company nor used by it as a collateral for financing transactions. Such registration and collateralization may only be carried out by the Bolivian government.

Competitive Strengths

Pan American believes that its business benefits from the following competitive strengths:

- *Significant Investments in Exploration, Development and Production Activities.* Over the past five years, Pan American invested approximately U.S.\$4.5 billion in its exploration, development and production activities and in the expansion and upgrading of its production facilities. Investments are allocated to achieve a balanced short-term/long-term distribution to support production growth and the development and replacement of its hydrocarbon reserve base, in contrast to the trends of production and reserve declines in Argentina in recent years. Pan American is BP's and Bidas's vehicle for growth in upstream oil and gas and mid- and downstream gas activities in the Southern Cone.
- *Strong Track Record of Production Growth.* Pan American's oil production in Argentina increased from 103.0 mboepd in 2004 to 116.2 mboepd in 2009, which represented a cumulative average yearly growth rate of 2.4% during that period. Pan American's gas production also increased from 526.3 mmcfpd in 2004 to 630.4 mmcfpd in 2009, which represented a cumulative average yearly growth rate of 3.7% during that period. This growth has enabled Pan American, during the same period, to increase its market share in oil and gas production in Argentina from 13.0% in 2004 to 16.7% in 2009, and consolidate its position as the second-largest oil and gas producer. In addition, in 2009 Pan American was the largest exporter of crude oil in Argentina. Pan American's main crude oil production is Escalante, a 24 degrees API sweet crude oil blend, which is produced in excess of current local demand for such blend from domestic refiners.
- *Significant Oil and Gas Reserves.* Pan American has grown its proved reserves in Argentina from 981.2 mmboe in 2004 to 1,430.2 mmboe in 2009 with an implied average reserve replacement ratio of 209% during the period. Based on production for 2009, Pan American's estimated net proved reserves as of December 31, 2009 represented a reserve life of approximately 22 years for oil and 12 years for gas, or a combined proved reserve life of approximately 17 years. Since 2007, Pan American has extended the term of all of its concessions which were scheduled to expire on or before 2017, including the concessions for its main production block, Cerro Dragón, which were extended until 2047. Consistent with its development strategy, Pan American has been able to move unproved reserves to proved developed status and, at the same time, sustain high reserve replacement ratios despite its increase in production levels during that period. As of December 31, 2009, Pan American ranked first in Argentina in terms of proved reserves. Pan American has also increased its exploration acreage from 1.3 million net acres as of December 31, 2005 to 7.7 million net acres as of December 31, 2009.
- *World Class Operational Efficiency.* Pan American has developed a performance-based culture that has allowed it to achieve high operational efficiency and strong financial results. This culture is founded on solid managerial concepts, and a deep respect for the environment and the communities in which it operates. Substantially all of Pan American's facilities and operations in the Cerro Dragón block are automated, powered by electricity generated by the Company's own gas fired power plants and monitored through a computerized well surveillance system. These features make Pan American operations at Cerro Dragón one of the most technologically advanced and operationally efficient in Latin America. Pan American's production costs for the year ended December 31, 2009 were U.S.\$5.70 per boe.

- *Conservative Capital Structure and Prudent Financial Management.* Pan American has maintained a conservative capital structure and prudent financial management policy, consistent with the industry and environment in which it operates. As of December 31, 2009, Pan American's net leverage was 21.6% (net financial debt to total capitalization), with its total financial debt representing 1.0x Consolidated EBITDA, and a Consolidated EBITDA to interest expense ratio of 14.4x. Pan American maintains one of the highest international corporate credit ratings in Argentina, as rated by Moody's (Ba2), S&P (B+) and Fitch (BB-). In addition, during the 2001-2002 Argentine financial crisis, Pan American continued making payments on its debt as they became due and, unlike many other Argentine companies, and did not default on or restructure its debt.
- *Experienced Management.* At its inception, Pan American retained the most skilled and experienced members of the management team from its predecessor companies to manage its operations. Pan American's management has an average of over 20 years experience in the industry. This has allowed Pan American to achieve sound operating results, even during difficult industry years, and develop a strong and collaborative relationship with its industry partners and regulators, which, in turn, have allowed it to actively participate in the development of the oil and gas sector in Argentina.
- *Experienced and Committed Controlling Members.* Pan American's controlling members, BP and Bidas, have contributed to Pan American's strong performance, by combining BP's technological and operational experience with Bidas' country and regional expertise. Pan American's management believes that the continued support and breadth of experience and technical expertise of the Company's controlling members will be a significant competitive advantage for Pan American's business.
- *Environmentally and Socially Responsible Practices.* Pan American is strongly committed to contributing to the economic, social, and cultural development, as well as environmental preservation efforts, of the areas in which it operates. Pan American has developed and implemented effective management processes to deliver improvements in its health, safety and environmental performance. Pan American has also developed a strong positive relationship with the local communities in its areas of operation. Its commitment to sustainable community development is exemplified by its support for numerous social development activities focused on key areas such as education, health, employment and the environment. Pan American has also teamed up with a number of non-governmental organizations to identify opportunities for additional social investment.

Business Strategy

Pan American's long term strategy is to continue to deliver value to its members by increasing both oil and gas production, further developing its strong and diversified hydrocarbon resource base, consolidating its position as the second largest oil and gas producer in Argentina and increasing its participation in the Southern Cone energy markets in an environmentally and socially responsible manner. To achieve these objectives, Pan American will focus on the following key components of its business:

- *Commitment to Health, Safety, the Environment and Social Responsibility.* Pan American intends to maintain its commitment to the health and safety of its employees, contractors and social communities in the areas in which it operates as well as to apply advanced technological solutions to protect the environment.
- *Balanced Short-Long-Term Investment Allocation.* Pan American has a balanced short-/long-term investment allocation designed to support production growth and the development and replacement of its large hydrocarbon reserve base. Pan American believes that developing a growing and balanced portfolio of proved reserves and unproved resources of both oil and gas are essential to its long term success. Pan American plans to continue investing in the Cerro Dragón block, where the majority of its reserves and production are currently located, by drilling additional production and step out wells and workovers in well delineated hydrocarbon formations as well as developing new waterfloods and extensions throughout the area in order to increase reserves. In addition, Pan American intends to continue investing in improving production efficiency through further increasing electrification and automation of the fields and remote well surveillance. Pan American also intends to pursue opportunities to further expand its resources

through exploration in the Golfo San Jorge offshore area and the CAA-40 and CA-46 offshore blocks in Argentina and in the Coirón block in Chile.

- *Conservative Capital Structure and Prudent Financial Management.* Pan American intends to maintain a conservative capital structure and prudent financial management policy, consistent with the industry and environment in which it operates. Pan American believes that well-managed leverage and liquidity levels are essential to providing sufficient flexibility to obtain financing from diverse sources and implement capital expenditure plans on a timely basis.
- *Maintain and Improve Operational Efficiency.* Pan American has developed a performance based culture which is embedded in its entire organization. Management processes are in place for target setting and monitoring, thereby ensuring that targets are met in a cost effective and safe manner. With respect to both oil and gas activities, Pan American will continue to apply advanced technological and operational cost solutions to increase its production and reserves, and will draw on resources and expertise available to it from both of its members, BP and Bidas. Pan American's access to BP's technical and process expertise and worldwide operational experience assist Pan American in areas such as reservoir and production management, risk management, assurance processes and health safety and environment controls.

Exploration and Production Activities

General

Pan American holds interests in ten oil and gas production blocks in Argentina and interests in one active oil and gas production and development block in Bolivia. Pan American's blocks in Argentina are located in the four major hydrocarbon basins of the country. The most significant blocks in terms of average net daily production in 2009 were: Cerro Dragón (which accounts for 85% of total oil production and 35% of total gas production) in the Golfo San Jorge basin; Acambuco (which accounts for 3% of total oil production and 22% of total gas production) in the Northwest basin; Cuenca Austral (which accounts for 3% of total oil production and 16% of total gas production) in the Austral basin; and San Roque and Aguada Pichana (which together account for 1% of total oil production and 20% of total gas production) in the Neuquina basin.

Pan American's production and development activities in Argentina are conducted pursuant to exploration permits and exploitation concessions granted by the Argentine federal and provincial governments and association agreements with third parties. The activities are conducted solely by Pan American or pursuant to operating agreements with other co-venturers according to standard international industry practice.

Pan American's production and development activities for the Caipipendi block in Bolivia are conducted pursuant to a long-term operating contract with YPF and a joint operating agreement with other co-venturers.

The table below sets out certain information concerning each of Pan American's production blocks or blocks where Pan American has proved reserves as of December 31, 2009. Pan American generally updates its reserve estimates on an annual basis.

Location	Block/Field ⁽²⁾	Net Proved Developed and Undeveloped Reserves ⁽¹⁾ as of December 31, 2009						Average Net Daily Production for 2009 (mboe)
		Company Interest (%)	Oil (mmbbls)	Gas (bcf)	LPG (mmbbls)	Total (mmboe)	Developed (%)	
ARGENTINA								
Austral Basin	Cuenca Marina Austral (including Spica)	25.0	14.1	750.5	12.5	156.0	42.0	22.7
	Tierra del Fuego ⁽³⁾	—	—	44.8	—	7.7	100.0	2.8
Neuquina Basin	Aguada Pichana	18.2	0.8	98.0	—	17.7	80.1	15.6
	San Roque	16.5	1.5	85.8	—	16.3	100.0	11.5

	Lindero Atravesado	62.5	1.3	37.5	—	7.8	89.6	3.5
Golfo San Jorge Basin	Cerro Dragón/Anticlinal Funes ⁽⁴⁾	100.0/80.0	869.0	1,092.4	—	1,057.3	57.0	137.7
	Estancia La Escondida	25.0	0.2	0.2	—	0.3	100.0	0.1
	Piedra Clavada	100.0	26.6	3.8	—	27.3	74.2	5.4
	Koluel Kaike	100.0	17.1	16.1	—	19.8	56.2	3.1
Northwest Basin	Acambuco	52.0	11.9	627.4	—	120.1	67.2	31.8
BOLIVIA⁽⁵⁾								
Tarija Basin	Caipipendi ⁽⁶⁾	25.0	19.0	521.8	—	108.9	28.9	3.1
Total			<u>961.4</u>	<u>3,278.3</u>	<u>12.5</u>	<u>1,539.1</u>	<u>55.7</u>	<u>237.3</u>

- (1) As estimated by Ryder Scott or RPS (for the Cerro Dragón/Anticlinal Funes, Piedra Clavada, Koluel Kaike and Acambuco blocks) and Pan American (for the Caipipendi block).
- (2) Pan American operates the Lindero Atravesado, Piedra Clavada, Koluel Kaike, Cerro Dragón, Anticlinal Funes and Acambuco blocks.
- (3) In September 2006, Pan American sold its interest in the Tierra del Fuego block, retaining all rights, title and interest in and to 16.8 mmmcfpd of gas produced from the Tierra del Fuego block, until a total volume of 64.9 bcf of natural gas is delivered.
- (4) Cerro Dragón and Anticlinal Funes are treated as two blocks. See “— Contractual Matters and Regulations—Argentina.”
- (5) For a discussion regarding Pan American’s reserves in Bolivia and recent significant regulatory changes in the Bolivian oil and gas sector, see “Risk Factors—Risk Factors Related to Bolivia and Other Emerging Market Countries” and “Business—Contractual Matters and Regulations—Bolivia.”
- (6) In compliance with Article 357 of the Political Constitution of Bolivia, in force since February 7, 2009, the Caipipendi block reserves included in the above table have not been registered on any stock exchange as property of the Company nor used as a collateral to secure financing transactions. Such registration or collateralization may only be carried out by the Bolivian government. For a discussion regarding Pan American’s reserves in Bolivia and recent significant regulatory changes in the Bolivian oil and gas sector, see “Risk Factors—Risk Factors Related to Bolivia and Other Emerging Market Countries” and “Business—Contractual Matters and Regulations—Bolivia.”

In addition to its interests in the production blocks summarized above, Pan American holds interests in nine exploration blocks, of which eight are located in Argentina and one is located in Chile. The net exploration acreage of Pan American amounts to approximately 7.7 million acres, of which 94% is located in Argentina and the remaining 6% is located in Chile. Pan American’s exploration activities in Argentina are generally conducted pursuant to exploration permits or exploitation concessions granted by the Argentine government, while its operations in Chile are conducted through a special operations contract (the “CEOP”) dated as of April 14, 2008 entered into among the Chilean government, acting through its Ministry of Mining, Empresa Nacional del Petróleo (“ENAP”) and Pan American Chile, which became effective on July 29, 2008. See “—Contractual Matters and Regulations.”

The table below sets out certain information as of the date of this Offering Circular, concerning Pan American’s hydrocarbon exploration blocks.

Location	Block/Field	Acreage Gross	Company Interest (%)	Acreage Net
ARGENTINA				
Neuquina Basin	Bandurria	122,070	18.18	22,192
Golfo San Jorge Basin	Centro Golfo San Jorge Marina (Chubut) ⁽¹⁾	451,585	90.00 ⁽²⁾	406,427
	Centro Golfo San Jorge Marina (Santa Cruz) ⁽¹⁾	1,770,312	90.00 ⁽²⁾	1,593,281
	Paso de Indios ⁽¹⁾	2,471,000	100.00	2,471,000
	Paso Moreno ⁽¹⁾	698,057	100.00	698,057
	Nueva Lubecka ⁽¹⁾	1,584,899	100.00	1,584,899
Malvinas Basin	CAA-40/CAA-46	848,330	33.50	284,190
CHILE				
Southern Region of Magallanes	El Coirón	954,815	50.00	477,408
Total		<u>8,901,065</u>		<u>7,677,426</u>

- (1) Operated by Pan American.
- (2) Pan American bears 100% of the exploration cost up to U.S.\$80 million, and in case of success in the exploration, the provinces retain a 10% participation in the development and production phases.

Pan American holds a 90% working interest in two offshore exploration blocks in the Golfo San Jorge Marina basin, through association agreements with the provincial state-owned energy companies Fomento Minero de Santa Cruz S.E. ("Fomicruz"), of the province of Santa Cruz, and Petrominera Chubut S.E. ("Petrominera"), from the province of Chubut, corresponding to the portions of the Centro Golfo San Jorge Marina block located in each of the respective provinces. These blocks are in shallow waters (20 meter to 100 meter depth) covering an area of 9,000 km² and are considered to be of high risk due to geological uncertainties in the area. Pursuant to the association agreements entered into in connection with the development of these blocks, Pan American will bear 100% of the exploration costs associated with these blocks up to the amount of U.S.\$80 million between 2007 and 2012. As of December 31, 2009, Pan American had spent U.S.\$26 million, mainly in the acquisition of 1,700 km² of 3D seismic. Pan American anticipates that analysis of this seismic data will be finished during the fourth quarter of 2010 and, that, the resulting prospects are expected to be drilled during the third and fourth quarters of 2011.

On November 15, 2007, Pan American was awarded, through an international bidding process, the 3,864 km² comprising the El Coirón block, which is one of the ten blocks offered by the Chilean Ministry of Mining in Chile's southern region of Magallanes. Chile's state-owned oil and gas company, ENAP, holds 50% interest in the exploration and exploitation rights in the El Coirón block in the Magallanes region of Chile while Pan American holds the remaining 50% and acts as operator. Pan American's exploration and exploitation rights are set forth in the CEOP. The exploration phase covers seven years divided into three periods (the first period of three years and two subsequent periods of two years each). Exploration activities began with the acquisition of 700 km² of 3D seismic during the first four-month period of 2009. In order to comply with the first period's commitment, two wells will be drilled during 2010. At the end of each exploration period Pan American will decide whether to terminate the exploration phase or to continue with the following exploration period, provided that all the exploration commitments for such period have been satisfied. Pan American estimates the total investment to be made in connection with this explorations phase the El Coirón block in approximately U.S.\$34 million. The exploitation phase will begin on the date that the relevant area is declared commercially exploitable and will last for an up to 25-year period. Pursuant to the CEOP, the maximum term for the exploration and the exploitation phases cannot exceed 35 years. Pan American will bear all of the costs and expenses related to the initial exploration phase, and 50% of the costs and expenses related to the exploitation phase.

On October 22, 2008, the Branch and YPF S.A. each transferred to Petrobras Energía S.A. a 16.5% interest in the CAA-40 and CAA-46 exploration permits in the Malvinas basin located approximately 450 kilometers east of Tierra del Fuego, in which they previously held a 50.0% stake each. As a result of the transfer to Petrobras Energía, the Branch and YPF S.A. each hold a 33.5% interest and Petrobras Energía holds the remaining 33% interest. YPF S.A. is the operator of the CAA-40 and CAA-46 exploration blocks. Pursuant to this joint venture, the co-venturers plan to drill one exploration well by the end of 2010, at which time the Branch will have satisfied its outstanding committed investment requirements for the exploration phase of both blocks.

In August 2009, the Branch acquired 100% of the interests in three exploration areas in the Province of Chubut: (i) Paso Moreno with 2,825 km², (ii) Nueva Lubecka with 6,414 km² and (iii) Paso de Indios with 10,000 km². The first exploration period has been extended until the end of 2011 and the Branch has committed to drill one well and carry on certain geochemical studies during 2010 and 2011.

In addition to its oil and gas exploration acreage, Pan American holds a mining permit and is conducting a coal mining project in the Lamadrid block, which is located in the centre of Buenos Aires province, Argentina. The presence of coal beds has been proved. During 2009, the information from the six wells drilled during 2008 was evaluated. On June 14, 2010, the exploration period will end and Pan American will need to decide whether or not to enter the development stage of this project.

Production

For the year ended December 31, 2009, Pan American's average combined net daily production of oil, gas and LPG was 237.3 mboe, net of amounts reinjected into reservoirs and consumed in the operations and the processing facilities. In this period, production of oil, gas and LPG accounted for approximately 49%, 47% and 4%, respectively, of Pan American's total average net daily production measured in boe. Pan American was the second largest producer of oil and gas in Argentina by volume during 2009, accounting for approximately 18.6% of total domestic oil production, approximately 15.2% of total domestic gas production and approximately 16.7% of total

domestic oil and gas production (as measured on a combined boe basis) during that period, according to information published by the Argentine Oil and Gas Institute.

Pan American has full access to BP's subsurface technology and work processes. Considering the size of Pan American, full technical and process support from a major E&P company such as BP represents a significant advantage. Key subsurface technologies that have contributed to Pan American's success include 3D seismic acquisition, imaging and visualization, petroleum systems modeling, complex structural modeling, reservoir prediction and characterization, high-temperature high-pressure drilling and completion and injection technology. Key BP work processes embedded in Pan American include "Base Production Management through Waterflood Injection Excellence," "Loss Management and Cost Efficiency through Operations Excellence," "HSE Excellence," "Gas Well Deliquification," "Lift Optimization," "Integrated Asset Modeling" and "Production/Reservoir Technical Limits."

The main type of crude oil sold by Pan American is the Escalante blend, which is produced at the Cerro Dragón block and represented approximately 84.7% of Pan American's total oil production in 2009. Escalante is a 24 degrees API sweet crude oil blend with a low sulfur content, which makes it very attractive for refineries worldwide. The Piedra Clavada and Koluel Kaike blocks produce the Cañadón Seco blend, a 25 degrees API sweet crude oil, which represented approximately 7.3% of Pan American's total oil production in 2009. The rest of the crude oil produced by Pan American is lighter and is typically sold to local Argentine refineries.

The table below sets forth Pan American's average net daily production of oil, gas and LPG for each of the last five years.

	Oil <i>(mmbbls)</i>	Gas⁽¹⁾ <i>(mmcf)</i>	LPG <i>(mmbbls)</i>	Total⁽²⁾ <i>(mboe)</i>
2005 ⁽³⁾	111.2	627.3	4.6	223.9
2006 ⁽³⁾	114.4	692.7	4.6	238.4
2007 ⁽³⁾	113.6	714.2	6.5	243.3
2008 ⁽³⁾	112.2	746.5	9.2	250.0
2009 ⁽⁴⁾	116.9	644.0	9.3	237.3

(1) The average net daily production of gas does not include gas produced but reinjected into the reservoirs and used as fuel in connection with the operations and processing facilities.

(2) Based on a conversion rate of one barrel of oil to 5,800 cf of gas or one barrel of LPG.

(3) Includes 50.001% of Chaco's average daily production.

(4) As a result of the nationalization of almost all the shares of Chaco held by Pan American, 2009 figures do not include any production from Chaco.

The table below sets forth Pan American's average realized oil and gas prices and production costs for each of the last three years.

	Year ended December 31,		
	2009	2008	2007
Average oil price (U.S.\$ per bbl).....	53.30	54.49	45.92
Average gas price (U.S.\$ per mcf)	1.92	2.85	1.93
Average production costs (U.S.\$ per boe).....	5.70	4.28	3.20

The table below sets forth the average net daily production of oil, gas and LPG for 2009, for each production block in which Pan American has an interest.

Block/Field	Oil <i>(mmbbls)</i>	Gas <i>(mmcf)</i>	LPG <i>(mmbbls)</i>	Total⁽¹⁾ <i>(mboe)</i>
ARGENTINA				
Cerro Dragón/Anticlinal Funes.....	99.1	224.0	—	137.7
Cuenca Marina Austral (including Spica)	3.2	100.3	2.2	22.7
Acambuco.....	3.1	142.5	4.1	31.8
San Roque.....	0.9	60.8	—	11.5
Tierra del Fuego ⁽²⁾	—	16.7	—	2.8
Aguada Pichana	0.5	70.2	3.0	15.6
Lindero Atravesado	0.8	15.8	—	3.5
Piedra Clavada.....	5.4	—	—	5.4
Koluel Kaike.....	3.1	—	—	3.1
Estancia La Escondida.....	0.1	—	—	0.1
BOLIVIA				
Caipipendi.....	0.7	13.7	—	3.1
Total	116.9	644.0	9.3	237.3

(1) Pan American has used a conversion of one barrel of oil to 5,800 cf of gas or one barrel of LPG.

(2) In September 2006, Pan American sold its interest in the Tierra del Fuego block, retaining all rights, title and interest in and to 16.8 mmcfpd of gas produced from the Tierra del Fuego block, until a total volume of 64.9 bcf of natural gas is delivered.

Reserves

As of December 31, 2009, Pan American's net proved, probable and possible reserves, as estimated by leading third party oil and gas engineering consultants and Pan American, were 2,354.8 mmboe, consisting of 1,442.9 mmbbls of oil and condensate, 5,166.9 bcf of natural gas and 20.9 mmbbls of LPG. From these reserves, 1,539.1 mmboe are proved, of which oil represented approximately 62%, gas represented approximately 37% and LPG represented approximately 1%. Based on net production for 2009, Pan American's estimated net proved reserves as of December 31, 2009 represented a reserve life of approximately 22 years for oil and 12 years for gas, or a combined proved reserve life of approximately 17 years. In December 2008, the SEC issued Release 33-8995, Modernization of Oil and Gas Reporting (ASC 2010-3), which amends the oil and gas disclosures and certain requirements for the estimation of proved oil and gas reserves. The effect of applying the new reserve estimation requirements did not significantly impact net proved reserved volumes, nor are these requirements expected to have a natural impact on depletion expense in future periods.

Since its formation in 1997, Pan American has maintained a strong reserves replacement ratio in alignment with its long term strategy to foster production growth. With support from BP's work processes and access to BP's subsurface technology, Pan American endeavored to move unproved reserves forward to proved developed producing status and, at the same time, sustain replacement quality by making annual investments to replenish a wide range of options in all reserve categories.

The table below sets out Pan American's net certified reserves of oil, gas and LPG as of December 31, 2009.

	Oil <i>(mmbbls)</i>	Gas <i>(bcf)</i>	LPG <i>(mmbbls)</i>	Total⁽²⁾ <i>(mmboe)</i>	% in Argentina
Proved.....	961.4	3,278.3	12.5	1,539.1	92.9
Probable.....	292.5	1,076.3	4.7	482.8	91.1
Possible.....	189.0	812.4	3.7	332.8	100.0
Total Certified(1)(3).....	<u>1,442.9</u>	<u>5,166.9</u>	<u>20.9</u>	<u>2,354.8</u>	<u>93.5</u>

- (1) As estimated by Ryder Scott in its report as of December 31, 2009 for the Lindero Atravesado, Cuenca Austral, San Roque, Aguada Pichana and Estancia La Escondida blocks, as estimated by RPS in its report as of December 31, 2009 for the Cerro Dragón, Anticlinal Funes, Piedra Clavada, Koluel Kaike and Acambuco blocks, and as estimated by Pan American for the Caipipendi block.
- (2) Pan American has used a conversion rate of one barrel of oil to 5,800 cf of gas or one barrel of LPG.
- (3) In compliance with Article 357 of the Political Constitution of Bolivia, in effect since February 7, 2009, the Caipipendi block reserves included in the above table have not been registered on any stock exchange as property of the Company nor used as a collateral to secure financing transactions. Such registration or collateralization may only be carried out by the Bolivian government. For a discussion regarding Pan American's reserves in Bolivia and recent significant regulatory changes in the Bolivian oil and gas sector, see "Risk Factors—Risk Factors Related to Bolivia and Other Emerging Market Countries" and "Business—Contractual Matters and Regulations—Bolivia."

Each of the reserves certifications provided by Ryder Scott and RPS is an independent full scale complete reserve audit involving a detailed technical and commercial evaluation of the proved and non proved reserves for all of Pan American's assets in Argentina. The proved reserves are established in accordance with SEC standards and the non proved reserves are determined in accordance with the standards of the Society of Petroleum Engineers. See "Risk Factors—Risk Factors Related to the Oil and Gas Industry—Uncertainty of Estimates of Oil and Gas Reserves May Adversely Affect Pan American's Financial Condition."

Pan American is required to file estimates of oil and gas reserves with certain governmental regulatory authorities in Argentina. The basis for reporting reserves to such authorities, in the case of blocks where Pan American is not the operator, is not identical to the basis used for reporting the reserve data reported herein. Pan American does not believe that the differences in the reserve estimates are significant.

The table below sets out estimates of Pan American's net proved developed and undeveloped oil, gas and LPG reserves as of January 1, 2007, December 31, 2008 and December 31, 2009.

	Oil, Gas and LPG			
	Proved Developed and Undeveloped Reserves			
Proved Developed and Undeveloped⁽¹⁾	Oil <i>(mdbl)</i>	Gas <i>(mmcf)</i>	LPG <i>(mdbl)</i>	Total <i>(mboe)⁽²⁾</i>
As of January 1, 2007 ⁽³⁾⁽⁴⁾	562,845	3,697,458	28,381	1,228,722
Revisions of previous estimates.....	668	(86,309)	(1,462)	(15,675)
Redetermination of interests	—	—	—	—
Extensions and discoveries	326,727	269,462	—	373,186
Acquisitions of reserves in place	—	—	—	—
Sales of reserves in place.....	—	—	—	—
Improved recovery.....	34,645	80,813	—	48,578

Production for the year ⁽⁸⁾	<u>(41,484)</u>	<u>(291,757)</u>	<u>(1,487)</u>	<u>(93,274)</u>
As of December 31, 2007 ^{(5) (9)}	883,401	3,669,667	25,432	1,541,537
Revisions of previous estimates.....	3,806	(227,800)	651	(34,819)
Redetermination of interests	–	–	–	–
Extensions and discoveries	61,670	198,501	–	95,891
Acquisitions of reserves in place	–	–	–	–
Sales of reserves in place.....	–	–	–	–
Improved recovery.....	36,523	112,387	–	55,900
Production for the year ⁽¹⁰⁾	<u>(40,889)</u>	<u>(308,228)</u>	<u>(1,553)</u>	<u>(95,584)</u>
As of December 31, 2008 ^{(6) (11)}	944,511	3,444,527	24,530	1,562,925
Revisions of previous estimates ⁽¹⁴⁾	(16,013)	(563,580)	(11,190)	(124,372)
Redetermination of interests	–	–	–	–
Extensions and discoveries	5,210	79,919	–	18,988
Acquisitions of reserves in place	890	29,607	–	5,995
Sales of reserves in place.....	–	–	–	–
Improved recovery.....	69,474	560,777	–	166,160
Production for the year ⁽¹²⁾	<u>(42,671)</u>	<u>(273,000)</u>	<u>(810)</u>	<u>(90,550)</u>
As of December 31, 2009 ^{(7) (13)(15)}	<u>961,401</u>	<u>3,278,250</u>	<u>12,530</u>	<u>1,539,146</u>

- (1) There is no deduction from the proved developed and undeveloped reserves for gross production assessments.
- (2) The Company has used a conversion ratio of 1 barrel of oil to 5,800 cubic feet of gas or 1 barrel of LPG.
- (3) Proved developed and undeveloped reserves at January 1, 2007 do not include volumes of gas for consumption.
- (4) As estimated by Ryder Scott in its report dated December 31, 2006 for Lindero Atravesado, Cuenca Austral, San Roque, Aguada Pichana and Estancia La Escondida blocks, as estimated by G&C for Cerro Dragón, Anticlinal Funes, Piedra Clavada, Koluel Kaike and Acambuco blocks in its report dated December 31, 2006, and as estimated by Pan American for the Caipipendi and the Chaco blocks.
- (5) As estimated by Ryder Scott in its report dated December 31, 2007 for Lindero Atravesado, Cuenca Austral, San Roque, Aguada Pichana and Estancia La Escondida blocks, as estimated by G&C for Cerro Dragón, Anticlinal Funes, Piedra Clavada, Koluel Kaike, Acambuco and Caipipendi blocks in its report dated December 31, 2007, and as estimated by Pan American for the Chaco blocks.
- (6) As estimated by Ryder Scott in its report dated December 31, 2008 for Lindero Atravesado, Cuenca Austral, San Roque, Aguada Pichana and Estancia La Escondida blocks, as estimated by G&C for Cerro Dragón, Anticlinal Funes, Piedra Clavada, Koluel Kaike, Acambuco and Caipipendi blocks in its report dated December 31, 2008, and as estimated by Pan American for the Chaco blocks.
- (7) As estimated by Ryder Scott in its report dated December 31, 2009 for Lindero Atravesado, Cuenca Austral, San Roque, Aguada Pichana and Estancia La Escondida blocks, as estimated by RPS for Cerro Dragón, Anticlinal Funes, Piedra Clavada, Koluel Kaike and Acambuco blocks in its report dated December 31, 2009, and as estimated by Pan American for the Caipipendi block. See note 15 below.
- (8) Includes 31 billion cubic feet of natural gas consumed in operations.
- (9) Includes 385 billion cubic feet of fuel gas.

- (10) Includes 35 billion cubic feet of natural gas consumed in operations.
- (11) Includes 451 billion cubic feet of fuel gas.
- (12) Includes 38 billion cubic feet of natural gas consumed in operations.
- (13) Includes 476 billion cubic feet of fuel gas.
- (14) Includes the effect on proved reserves of the nationalization of almost all of Pan American's shares in Chaco (see notes 1, 11, 22 and 27 to Pan American's Financial Statements).
- (15) In compliance with Article 357 of the Political Constitution of Bolivia, in force since February 7, 2009, the Caipipendi block reserves included in the above table have not been registered on any stock exchange as property of the Company nor used as a collateral to secure financing transactions. Such registration or collateralization may only be carried out by the Bolivian government. For a discussion regarding Pan American's reserves in Bolivia and recent significant regulatory changes in the Bolivian oil and gas sector, see "Risk Factors—Risk Factors Related to Bolivia and Other Emerging Market Countries" and "Business—Contractual Matters and Regulations—Bolivia."

Sales and Marketing of Hydrocarbons

Regulatory Matters Affecting Sales of Hydrocarbons in Argentina

Pan American's rights to oil and gas from the blocks in Argentina in which it participates are subject to Argentine laws, regulations and decrees governing both hydrocarbons and privatization of state-owned assets, and to the governing documents applicable to each block. Under Argentine law, the federal or provincial government, as the case may be, owns all mineral rights. In turn, the government may grant to private parties the right to explore for, develop and produce hydrocarbons from a defined geographic area.

Argentine Decrees No. 1,055/1989, No. 1,212/1989 and No. 1,589/1989 (the "Oil Deregulation Decrees"), eliminated restrictions on imports and exports of crude oil and, with effect from January 1, 1991, deregulated the domestic oil industry, including the prices of oil and petroleum products. Under Law No. 17,319 passed in 1967 relating to hydrocarbons (the "Argentine Hydrocarbons Law") and under the Oil Deregulation Decrees, the holders of exploitation concessions or of contracts, such as Pan American, have the right to freely dispose of their production either through sales in the domestic Argentine market or abroad.

The approval by the Argentine Congress in 2002 of the Public Emergency Law vested the Argentine Executive Branch with the power to impose tariffs on exports of hydrocarbons. Since March 2002, the Argentine government has issued several decrees in respect of export tariffs for oil, oil by-products, natural gas and LPG. Currently, in accordance with Resolution No. 394/2007 issued by the Ministry of Economy, the tariffs applicable to certain hydrocarbons exports, including crude oil, are based on the International Price ("IP") for such goods, therefore: (i) in the event that the IP is higher or equal to the reference value (U.S.\$60.90 per barrel for crude oil), the export tariff is calculated in accordance with a formula (based on the IP and a capped price, that for crude oil is U.S.\$42 per barrel), which effectively implies that for an IP higher than the reference value, the exporter receives the capped price and the excess over the capped price is paid by the exporter as export tariffs; (ii) if the IP is lower than the reference value, then a 45% export tariff is applicable to the price charged by the exporter; and (iii) if the IP of the crude oil is lower than U.S.\$45 per barrel, then the Ministry of Economy will decide within a 90-day period which export tariff will be applicable. Furthermore, Resolution No. 127/2008 of the Ministry of Economy set the rate of export duties applicable to natural gas definitive exports at 100% of the highest price provided in any contract for the import of natural gas by any Argentine importer. Through this resolution, the Argentine government modified the previously applicable reference price set by the Framework Agreement between Argentina and Bolivia. As of December 31, 2009, the applicable reference price was U.S.\$6.1590 per mmbtu. This reference price is updated periodically with respect to petroleum gas and other gaseous hydrocarbons (including propane, butane, LPG and others), a formula applies in order to determine the rate of the export duty applicable when the IP informed by the Secretariat of Energy is equal to or exceeds the reference price. In such case, the exporter will receive the capped price established by Resolution No. 127/2008 for the corresponding product (U.S.\$233 per cubic meter for propane; U.S.\$271 per cubic meter for butane and U.S.\$250 per cubic meter for LPG) with the excess over the capped price being paid by the exporter to the government as export tariffs. When the IP is lower than the applicable reference price, the rate of the export duty rate is 45%.

Pursuant to Law No. 19,640 enacted in 1972, exports of oil and gas from Tierra del Fuego were exempted from export tariffs. Notwithstanding the foregoing, on October 10, 2006, the Ministry of Economy issued Resolution No. 776/2006, interpreting that export tariffs were in fact applicable also to exports of oil and gas from the special customs area of Tierra del Fuego since the Public Emergency Law, made no exception about it. Following the issuance of this resolution, the Argentine customs service authority initiated claims against companies that exported hydrocarbons from the special customs area of Tierra del Fuego, pursuing the collection of export duties based on the retroactive application of such export tariffs from the date of entry into force of Decrees Nos. 310/2002, 809/2002 and 645/2004. In addition, Law No. 26,217, enacted on January 16, 2007, (i) extended the application of the export tariffs on hydrocarbons until 2012, (ii) maintained in force for an additional five years Resolution No. 532/2004 (which had increased the tariff imposed on crude oil exports and was superseded by Resolution No. 394/2007) and (iii) ratified the imposition of export tariffs on hydrocarbons exports from Tierra del Fuego.

Pursuant to current regulations, producers are allowed to keep abroad 70.0% of all proceeds derived from export sales, although there was a period in 2002 when the government cast doubt on this right and then later reaffirmed it. Currently, producers are required to repatriate the remaining 30.0% through the Argentine currency exchange markets.

Oil

Since January 2003, the price of crude oil in the domestic market has been restricted by market conditions. The combination of a number of market-related considerations, including the obligation to supply the domestic market, the discretion that the Argentine government has shown with respect to the determination of export tariffs, the inability of oil refiners to pass on price increases to their retail consumers and the need for oil producers and refineries to frequently renegotiate the domestic market prices in light of the volatility in the WTI price have resulted in a decrease in the prices obtained by Pan American in respect of oil sales in the domestic market.

In November 2008, the Argentine government implemented the *Petróleo Plus Program*, with the intention to provide private oil producers with incentives to increase oil production and oil proved reserves replacement.

Under the *Petróleo Plus Program*, oil producers that can demonstrate an increase in their oil production and replacement of their oil proved reserves will be entitled to receive fiscal credits that can be used to offset export taxes on oil, LPG and other petroleum derivatives payable pursuant to Resolution No. 394/2007 and Resolution No. 127/2008. The *Petróleo Plus Program* went into effect retroactively to October 1, 2008. The tax credit certificates granted by the Secretariat of Energy and are freely assignable.

The benefits granted as a consequence of increases in oil production and reserves replacement will be determined and paid separately in accordance with the following performance-based criteria:

- the fiscal credits for increases of oil production are granted quarterly to those oil producers that in the relevant quarter: (i) have a production rate higher than the average production of the first half of 2008 (base year); and (ii) have either (A) a reserve replacement ratio of at least 0.8; or (B) a reserve replacement ratio higher than the average of the reserve replacement ratio of the last 3 years.
- the fiscal credits for replacement of oil reserves are granted annually to those oil producers that in the relevant year: (i) have a production rate higher than the average production of the first half of 2008 (base year); and (ii) have a reserve replacement ratio of at least 0.5.

In both cases, the reserve replacement ratio is calculated considering the producer's: (a) proved reserves at the end of the relevant year; (b) proved reserves at the end of the previous year; and (c) oil production of the relevant year.

The program also provides for fiscal credit certificates to be issued to oil exporters based on the domestic price of oil and provided they have complied with certain performance-based criteria.

Gas

The basis for deregulating the domestic natural gas industry in Argentina was established when the Argentine government approved Law No. 24,076 (the “Gas Law”) in June 1992. The Gas Law also created ENARGAS, the regulatory body that oversees the gas industry in Argentina. The price of gas at the wellhead was deregulated on January 1, 1994 and, until 2001, was freely negotiated between producers and purchasers, who mainly comprise LDCs and certain large consumers such as utilities and certain industrial companies. However, ENARGAS, which is empowered to regulate gas distribution and transportation tariffs, may decline to permit an LDC to pass on to its customers all or a portion of the increase in the cost of delivered gas in the event ENARGAS determines that the price paid by LDCs exceeds the price paid by other LDCs under equivalent conditions and for similar volumes, thus indirectly limiting producers’ ability to negotiate gas prices directly with LDCs. The Argentine government has intervened in the pass-through of gas prices to the consumer since 2002. Gas producers also have the right to freely dispose of their production abroad in order to reduce inflationary pressures generated by the sharp peso devaluation in 2002, the pass-through of gas prices to certain customers has been restricted, with wellhead prices set substantially below 2001 prices in U.S. dollar terms.

In recent years, the Argentine government has increased the level of regulation applicable to the gas industry. Effective as of February 2004, Decree No. 180/2004 established an electronic gas market (the “Electronic Gas Market”) that is owned and operated by the Buenos Aires Stock Exchange and whose main purpose is the creation of a free, transparent and competitive market for gas purchases and sales, in the spot, natural gas and secondary markets (gas transportation and distribution). The Electronic Gas Market is intended to provide transparency in the price formation process in short-, medium- and long-term operations. The Decree also provides for the creation of a trust fund to be used to finance the expansion of the gas transportation system in Argentina. The Decree requires that such trust fund be constituted mainly by increases in the rates paid by consumers, by funds obtained from financings with certain national and/or international organizations, and specific contributions made by the principal beneficiaries of such trust fund. Finally, the Decree sets forth a power supply stoppage mechanism that will be implemented by each utility company in the event that restrictions in the supply of gas emerge.

The Argentine government also issued Decree No. 181/2004, dated February 13, 2004, which instructs the Secretariat of Energy to establish a procedure intended to normalize natural gas prices at the point of entry into the transmission system by December 31, 2006, through agreements made with natural gas producers. This Decree was implemented in order to prohibit large consumers (such as industrial companies) from purchasing gas from LDCs and, in turn, purchasing directly from producers at market prices. The so-called unbundling process was concluded in September 2006, with all medium and small industrial gas users and NGV retail stations having contracted directly with gas producers the purchase of natural gas at the wellhead. Since that time, LDCs can only render gas transportation and distribution services to those gas end users. In April 2004, the Ministry of Federal Planning, Public Investment and Services approved an agreement reached between the Secretariat of Energy and gas producers in Argentina, including Pan American, for implementing such procedure. This agreement requires gas producers to guarantee minimum current daily supplies to distributors and thermal power stations through firm transportation contracts and establishes a method for setting gas prices according to three market segments, residential, industrial and power plants. Effective as of May 10, 2004, ENARGAS implemented new tariff increases applicable to gas sold at the wellhead, which included increases in tariffs to industrial customers and power stations. Gas prices for the industrial segment and the power plant segment are regulated on the basis of location. Interim price increases took effect for these market segments and gas prices for such segments were set for deregulation by December 31, 2006. However, by means of Resolution No. 599/2007, dated June 13, 2007, the Secretariat of Energy approved a framework agreement with natural gas producers, pursuant to which gas producers that adhere to such agreement must guarantee minimum current daily supplies of natural gas to domestic market consumers for a five-year term. Each participant producer, depending on its average market share between the years 2001-2006, must guarantee to supply a volume of natural gas, which is calculated based on the domestic demand in 2006 plus the increase in the estimated demand of natural gas in the residential market segment for the term of the agreement. Producers must also prioritize domestic demand over exports. In addition, this resolution provides for the issuance of a complementary program by the Secretariat of Energy aimed at covering the natural gas demand of the domestic market in case of insufficient supply. Prices for industrial and power plant segments can be adjusted according to an index prepared by the Secretariat of Energy on a monthly basis. With regards to the residential, commercial and NGV market segments, the agreement sets certain rules which would allow wellhead gas prices to smoothly converge to the prices applicable to the non-regulated industrial market segment.

In 2007, the Argentine government entered into the Gas Producers Agreement with gas producers, which was intended to ensure that the supply of natural gas meet domestic demand and to normalize economic conditions for natural gas supply. The Gas Producers Agreement sets forth certain minimum volumes of gas to be supplied by each producer in the domestic market and a method to calculate its price. Under applicable regulations, in case of undersupply of gas in the domestic market, the Argentine government can require those producers who have not signed the Gas Producers Agreement to supply available gas to the domestic market in such volumes as may be necessary to meet the demand before any of such gas can be exported.

On March 3, 2008, the Secretariat of Energy issued Resolution No. 24/2008 (subsequently modified by Resolution No. 1031/2008), which created the “Gas Plus Program.” The purpose of this program is to encourage gas producers to make investments in production activities in order to increase natural gas production in Argentina. The main aim of the Gas Plus Program is to guarantee to gas producers who qualify for this program the free disposal and commercialization of all Gas Plus Program gas production. In order to qualify for the Gas Plus Program, a gas producer must meet certain requirements. These requirements include being a party to, and being in compliance with, the terms and conditions of the Gas Producers Agreement, submitting a project to make investments in new gas areas that require a high degree of investment, and/or in geologically complex gas areas (tight gas sands) and/or in gas production areas that have not been in production since 2004. Nonetheless, Resolution No. 695/09 issued by the Secretariat of Energy allowed companies, whether or not they are a party to the Gas Producers Agreement, to participate in the Gas Plus Program, so long as they delivered, during the 12-month period prior to the filing of the application to the Gas Plus Program, more than 95% of their net production obtained from sources not qualified as Gas Plus Program, and that the deliveries were made in accordance with the price and supply priority dispositions set in the Gas Producers Agreement or in accordance with the conditions established by the Secretariat of Energy in the gas supply requirements issued within the scope of Resolution No. 599/05 issued by the Ministry of Federal Planning, Public Investment and Services. This resolution also sets forth other exceptions to participate in the Gas Plus Program, applicable to companies which are part of the Gas Producers Agreement but do not comply with the obligations arising therefrom.

During 2008, Pan American submitted three tight-sands natural gas exploration and production development projects to the Secretariat of Energy under the Gas Plus Program: the Coiron and Trahuil projects in Cerro Dragón and the Grupo Cuyo deepening development in Lindero Atravesado. All 3 projects have been approved by the Secretariat of Energy. In January, 2010, first Gas Plus Program gas production started to be delivered from Aguada Pichana to CAMMESA, the administrator of the Argentine wholesale electricity market.

The Argentine High-Pressure Natural Gas Transportation System consists of five major pipelines: the Norte and Centro Oeste Pipelines (part of Transportadora de Gas del Norte S.A.’s (“TGN”) system), and the San Martin, Neuba I and Neuba II Pipelines operated by Transportadora de Gas del Sur S.A. (“TGS”). The two systems cover the north, center and southern regions of the country and link up with the Buenos Aires High Pressure Loop, which supplies the major demand center of Buenos Aires. As a result of the Argentine economic crisis in late 2001, significant expansions to the country’s natural gas infrastructure were delayed. This has resulted in shortages of natural gas pipeline infrastructure during the period of recovery of the Argentine economy. As the country started recovering from the 2001/2002 economic crisis, demand for energy and particularly for natural gas increased at a fast pace and, thus, natural gas transportation infrastructure became a bottleneck to sustain economic growth and Industrial output. In order to cope with this infrastructure shortage, the Argentine government launched a “*Plan Energético Nacional*” with the objective of enlarging the Argentine energy structure to a size adequate to satisfy the growing energy demand. One of the agendas of this global plan is the two-phase expansion of the gas transportation system. The first phase, involving the expansion of the TGN and TGS transport capacity by 64 mmcf/d and 102 mmcf/d respectively, was completed during 2005. This expansion involved 743 kilometers of new pipelines and 54,410 hp of additional installed compression capacity, and required a total investment of U.S.\$568.0 million. The second phase, which will involve the expansion of the TGN and TGS systems including the looping of the Magellan Strait crossing pipeline which is expected to be completed by June 2010.

The Branch has jointly participated with other hydrocarbon producers in the financing of the laying and assembly works of the *Transmagallánico II* submarine pipeline through a U.S.\$30 million contribution to the *Fideicomiso de Obra Gasoducto Sur 2006-2008* trust. This expansion will increase the General San Martin pipeline transportation capacity in its offshore section. The project consisted of the construction, laying and assembly of a 24-inch diameter submarine pipe with a length of 37 kilometers long in the Magallanes Strait eastern mouth, in the

Argentine jurisdictional sea, linking *Cabo Espiritu Santo* in the Tierra del Fuego province with *Cabo Vírgenes* in Santa Cruz province. This expansion, which will be operational as from June 2010, has a technical transportation capacity of 17 million cubic meters per day and runs parallel to the existing pipeline operated by TGS. The initially contracted transportation capacity in the *Transmagallánico II* pipeline is 7.5 million cubic meters per day and will be fully utilized beginning in June 2010. Considering the combined transportation capacity of both pipelines, the total combined transportation capacity available between Tierra del Fuego and continental Argentina will be almost 25.4 million cubic meters per day. The *Transmagallánico II* pipeline will allow the Company to substantially increase the gas sales volumes from its Cuenca Austral block.

The Secretariat of Energy, through Resolutions Nos. 1,070/2008 and 1,071/2008, ratified (i) an agreement supplemental to the Gas Producers Agreement (the “Supplemental Gas Agreement”) entered into with the gas producers, including Pan American, and (ii) a price stabilization agreement for LPG, entered into with the LPG producers, including Pan American. The Supplemental Agreement provides for (a) the introduction of new wellhead natural gas prices for residential users by allowing increases in such prices for the first time since 2001, (b) differentiates the demand of natural gas for residential use, and (c) increases wellhead gas prices for the NGV and power generation markets. Pan American and the other producers party to the Supplemental Gas Agreement, have agreed to transfer all of the increase in prices allowed in the Supplemental Gas Agreement less certain deductibles to a trust fund created by Law No. 26,020, for the purpose of enabling low income consumers who do not have access to natural gas to purchase LPG at a subsidized price. Through the Price Stabilization Agreement for LPG, the producers of LPG agreed to supply LPG to fractionation companies at a price that would make it economically viable for them to sell the LPG bottles at the above-mentioned subsidized price. The Supplemental Agreement will remain in force until December 31, 2010.

On December 3, 2008 the Argentine Executive Branch enacted Decree No. 2,067 that created a trust fund to support the import of natural gas and the acquisition of gas required to satisfy the local demand.

According to such regulation, the trust fund is funded with: (i) a fee (*cargo tarifario*) payable by (a) the users of the gas transportation and/or distribution service, (b) the consumers that receive gas directly from the gas producers without using the transportation or distribution system, and (c) the companies that process natural gas; (ii) the proceeds obtained from certain special loan agreements entered into with national and international financial institutions or organizations; and (iii) specific contributions made by the members of the gas industry (e.g. gas producers, transporters, distributors, etc.).

According to several legal precedents, courts of justice have declared that the fee (*cargo tarifario*) established by Decree No. 2,067 must be considered as a “tax”, which according to the Argentine Constitution can only be created by law, and therefore is unconstitutional. Consequently, preliminary injunctions were issued in order to suspend the application of such fee.

Regulatory Matters Affecting Sales of Hydrocarbons in Bolivia

Until May 2005, Pan American’s rights to oil and gas from the blocks in Bolivia were subject to a legal and regulatory regime in Bolivia that was established during the capitalization of state-owned hydrocarbon assets. Law No. 1,330, enacted in April 1992 (the “Privatization Law”) and Law No. 1,544, enacted in March 1994 (the “Capitalization Law”) led to the privatization of Bolivia’s national oil and gas companies and Pan American’s acquisition of a stake in production and exploration in Bolivia. Government control over the oil and gas industry increased with the enactment of the New Bolivian Hydrocarbons Law No. 3058, which abrogated Law. No. 1689, significantly increasing royalties on gas production, and the issue of Supreme Decree No. 28,701 on May 1, 2006, declaring the nationalization of all hydrocarbon resources, including reserves and production. Hydrocarbon producers were required to deliver their production to YPFB and YPFB will be responsible for marketing all hydrocarbons produced in Bolivia, and for determining the conditions, and the volume and prices, to apply in the domestic and export markets as well as for production. As a result of the nationalization process in Bolivia, Pan American was required to restructure its oil and gas operations in Bolivia and thus forced to enter into operations agreements with YPFB to replace its existing “shared-risk” contracts with such company. An operation contract was entered by each of Pan American’s operating subsidiaries in Bolivia, for the production block of Caipipendi and for each of the production blocks of Chaco. Pursuant to these new long-term operation contracts with YPFB, YPFB is the sole owner of all of the reserves and production of such blocks, and the operating companies receive their

respective recoverable costs and share of the profits from the net hydrocarbon volume produced on a monthly basis discounted by the concession royalties, fees and other charges, including transportation. On January 23, 2009, the Government of Bolivia, through Supreme Decree No. 29,888, nationalized 8,049,660 shares of Chaco owned by the Company, which represented 50% of the total shares of Chaco. See “Risk Factors—Risk Factors Related to Bolivia and Other Emerging Market Countries and “Business—Legal Proceedings.”

Sales of Hydrocarbons

Pan American’s total oil and gas sales in 2009 amounted to U.S.\$2.78 billion. Pan American’s five main customers who represented over 61.5% of its total revenues for such year were: Esso in the local market and Vitol Inc., Mercuria Energy Trading S.A., BP West Coast Products LLC and Unipecc Asia Co. Ltd in the export market. Pan American’s 2009 net sales were approximately 29% of domestic sales, while the remaining 71% consisted of export sales. Although Pan American’s primary client in 2009 was Vitol Inc., Pan American does not depend on any single client and its sales domestically or internationally are based on existing crude oil prices in local and international markets.

Sales Breakdown by Product

The following table sets out Pan American’s sales and operating revenues by product for the years ended December 31, 2007, 2008 and 2009:

	<u>2007</u>	<u>2008</u>	<u>2009</u>
	<i>(in millions of U.S.\$)</i>		
Product			
Oil	1,969	2,292	2,274
Gas	559	876	452
LPG	71	106	47
Sub-total.....	<u>2,599</u>	<u>3,274</u>	<u>2,773</u>
Other sales	9	13	—
Other ⁽¹⁾	3	3	3
Total.....	<u><u>2,611</u></u>	<u><u>3,290</u></u>	<u><u>2,776</u></u>

(1) Comprises revenues from gas transportation and compression services.

Sales Breakdown by Subsidiary

The following table sets out Pan American’s sales by the Branch and its principal operating subsidiaries in the year ended December 31, 2009.

	<u>Total Sales</u>	<u>As % of Total Sales</u>
	<i>(in millions of U.S.\$)⁽¹⁾</i>	
Subsidiary		
Branch	2,585.4	93.1%
Pan American Fuegoina.....	4.9	0.2%
Pan American Sur.....	153.1	5.5%
Pan American E&P Bolivia.....	32.4	1.2%
Total	<u><u>2,775.8</u></u>	<u><u>100.0%</u></u>

(1) Calculated in accordance with U.S. GAAP.

Sales Breakdown by Customer

Pan American's two largest customers by revenue in 2009 were Vitol Inc. and Mercuria Energy Trading S.A. The table below shows a list of the main customers of Pan American for the years ended December 31, 2007, 2008 and 2009.

	<u>2007</u>	<u>2008</u>	<u>2009</u>
	<i>(in millions of U.S.\$)</i>		
Customers			
Vitol Inc.....	--	60.1	643.1
Mercuria Energy Trading S.A.	552.6	509.0	329.4
BP West Coast Products LLC.....	239.6	443.7	291.6
Esso Petrolera Argentina S.R.L.	604.7	652.3	236.0
Unipet Asia Company Limited	--	--	209.0
Glencore Limited.....	--	--	147.7
Petrobras International Finance Co.....	--	2.0	125.9
Shell C.A.P.S.A.	183.0	8.1	109.6
YPF S.A.....	93.8	204.7	1.3
Sinochem International Oil London Co.....	--	153.9	--
Others ⁽¹⁾	928.3	1,243.3	682.2
Subtotal oil and gas sales.....	<u>2,602.0</u>	<u>3,277.1</u>	<u>2,775.8</u>
Power generation sales	9.2	13.2	--
Total.....	<u><u>2,611.2</u></u>	<u><u>3,290.3</u></u>	<u><u>2,775.8</u></u>

(1) Each individually lower than 10% of total sales.

Oil Marketing

In 2009, 43 mmbbls of crude oil from Pan American's fields in Argentina were marketed both in the Argentine and international markets, of which 21% were sold in the domestic market and the balance was exported. Pan American's oil sales to local refiners are made pursuant to supply agreements generally with a term of up to three months. Any oil not sold under the various supply contracts in existence at the time has generally been sold on the spot market, including sales in the export market. Given its high liquidity, the spot market provides Pan American with a continuing outlet for its uncommitted oil production.

Pan American's export sales prices mainly reflect the prevailing international market price of Argentine oil and relate to international crude markets such as the WTI. As described above, other market-related considerations have an impact on Pan American's sales prices. Pan American receives its payments for exports in U.S. dollars and for domestic sales in pesos. Domestic oil prices in Argentina are related to export prices for Argentine production of crude oil. Pan American currently focuses its marketing efforts on the identification and development of new export markets. In 2009, Pan American's main domestic customers were Esso Petrolera Argentina S.R.L., Shell CAPSA and Refinor S.A. and its main foreign customers were Vitol Inc., Mercuria Energy Trading S.A., BP West Coast Products LLC, Unipet Asia Company Ltd., Glencore Ltd, and Petrobras International Finance Company.

The main type of crude oil sold by Pan American is the Escalante crude, which is produced from the Cerro Dragón block and represents approximately 84.7% of Pan American's total production. Escalante is a 24 degrees API sweet crude oil blend with a low sulfur content of 0.20%, which makes it very attractive for refineries worldwide with coking facilities in order to produce gasoline and calcined anode grade coke used in the aluminum smelting process. Due to this low sulfur content, Escalante is used for blending with high sour crudes. The Piedra Clavada and Koluel Kaike blocks produce the Cañadón Seco blend, a 25 degrees API sweet crude oil, which represents approximately 7.3% of Pan American's total oil production. The rest of the crude oil produced by Pan American in other blocks is lighter and is typically sold to local refineries.

Pan American exports Escalante crude at the loading terminal on a FOB basis. The crude oil produced in the Cerro Dragón block is transported through a pipeline owned by Pan American to the Caleta Córdova storage and loading facility, which is owned by Termap. The crude oil produced in the Piedra Clavada and Koluel Kaike blocks is transported through a pipeline owned by YPF S.A. to the Caleta Olivia storage and loading terminal, also owned

by Termap. The production from the Cuenca Austral blocks in the Austral basin is transported through pipelines and loaded at terminals owned and operated by the consortium.

Pan American sells a material amount of its total oil production in Argentina through short-term contracts. Using short-term contracts gives Pan American flexibility in how and when it sells its oil production. Pan American is not subject to any restrictions that would prevent it from selling its oil production anywhere, should it wish to do so, but in the case of exports it has to first offer the production to local refineries in Argentina.

Pan American has made two separate investments in strategic oil transportation, storage and loading facilities, which are intended to optimize and assure Pan American's transportation, delivery and export of its oil production. It owns, indirectly, 11.9% of Oldelval, the only pipeline system that connects the Neuquina basin to the Atlantic export terminals. In addition, it owns, indirectly, a 31.7% interest in Termap, which is strategically located in the Golfo San Jorge basin (where the Cerro Dragón block is located) and provides oil storage and loading facilities and services. See "Business—Other Activities."

Gas Marketing

Gas production from Pan American's fields in Argentina is currently marketed primarily in Argentina with a small number of sales to border countries (Chile and Uruguay). Pan American's gas production is sold to its local clients in three primary ways: (i) LDCs: volumes committed to the LDC are established monthly by the Secretaría de Energía taking into account Resolution No. 599/2007, (ii) power generation plants: natural gas is sold through long-term contracts and also on a spot basis, and (iii) industries: sales are primarily made through one-year term contracts. Gas produced from blocks where Pan American does not hold a 100.0% stake, in some cases, is sold by Pan American jointly with its partners in the relevant block.

As of December 31, 2009, Pan American's gas production was committed through 198 supply agreements for an average daily dispatch of approximately 650 mmcf. Pan American's export gas supply contracts generally reflect the wellhead price of gas prevailing in a particular basin. In certain cases, price fluctuation will be subject to a floor or a ceiling or both. Pan American structures its gas contracts on a rolling take or pay basis pursuant to which the purchaser is obliged to purchase an agreed amount of gas but also may in certain cases be entitled to purchase a greater amount if it requires. If in any given period the purchaser elects to take less than the minimum amount of gas it is required to purchase, it is able to take the difference at a later time during the term of the contract. Certain of Pan American's gas supply contracts contain an exclusivity provision which requires that the purchaser purchase all the gas it requires from Pan American. The purchaser's compensation for this exclusive purchase arrangement is reflected in the take or pay volume.

The volumes of gas sold to the unbundled LDCs are included in the local industrial sales. Natural gas for NGV retail stations are 0.8 MMm³/d of Pan American's total sales. These volumes have been stepped down from Pan American's contracts with LDCs.

Pan American's gas sales mix by volume is approximately 20.0% to LDCs, 41.9 % to local industrials, 31.3% to power generators, 4.8% to NGV retail stations and 2.0% to exports.

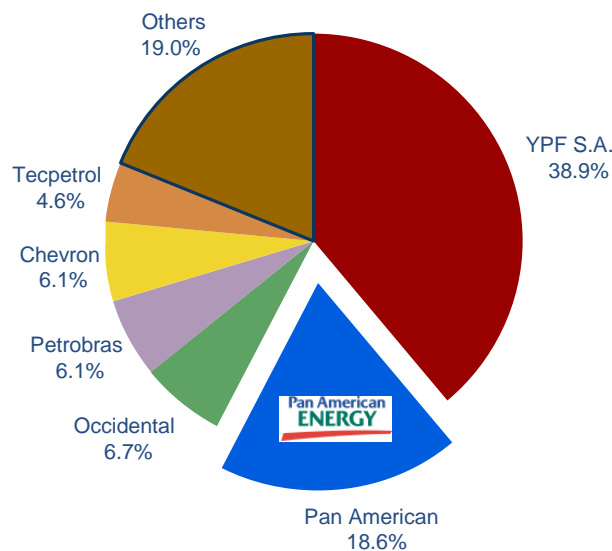
Pan American believes that the size of its gas reserves and their geographic location gives it a competitive advantage over certain of its competitors. Pan American has made several investments in the gas distribution, gas transportation and power generation areas to optimize and assure Pan American's ability to transport, deliver and market its gas production. Pan American has, indirectly, a 34.0% interest in DGM, the Uruguayan company which holds the franchise for the production and distribution of natural gas via a pipeline distribution system in Montevideo, Uruguay. In the gas transportation industry, Pan American has a 30.0% interest in GCdS which in phase one constructed a 134 mile gas pipeline from a point near Punta Lara, in the province of Buenos Aires, crossing the Río de la Plata to Colonia, Uruguay and then on to Montevideo. Dinarel S.A., a company in which Pan American has a 40.0% ownership interest, owns a 51.0% interest in Gas Link, a company which transports gas 32 kilometers from Buchanan near La Plata to Punta Lara, in the province of Buenos Aires.

Additionally, Pan American indirectly holds a 19.99% interest in CDS, a power generation plant, which can be fueled with Pan American's natural gas production. CDS is an Argentine company which operates combined cycle power generation facilities in the Greater Buenos Aires area.

Pan American regularly considers opportunities to further expand its investments in mid and downstream projects where such investment would give Pan American an advantage in terms of gas sales. Given the size of its gas reserves and the flexibility that Pan American has in terms of both the gas production available to it and the infrastructure now in place, Pan American is well positioned to continue to increase its market share as market conditions permit.

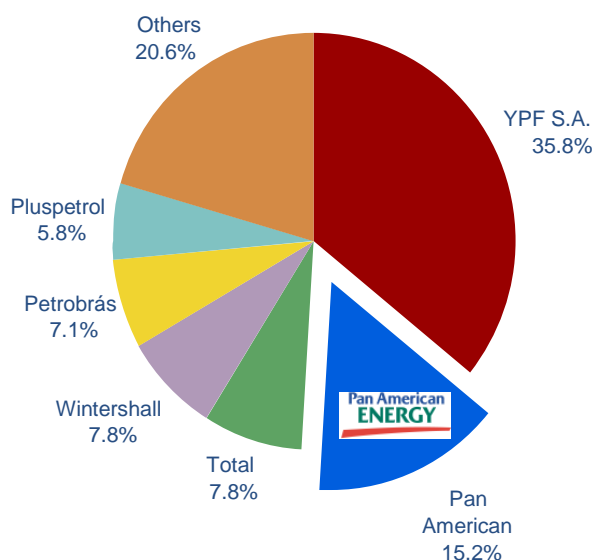
Competition

During 2009, Pan American was the second largest producer of oil in Argentina by volume, accounting for approximately 18.6% of domestic oil production. The five other largest oil producers in Argentina were YPF S.A., Occidental Argentina Exploration and Production, Inc., Petrobras Energía S.A., Chevron San Jorge S.A. and Tecpetrol S.A., which, together with Pan American, represented approximately 81% of total oil production. The following chart illustrates the market share of Pan American and its principal competitors with respect to the domestic oil market.



Source: Argentine Oil and Gas Institute

Pan American was also the second largest producer of gas in Argentina by volume during 2009, accounting for approximately 15.2% of Argentine gas production. The five other largest private sector gas producers in Argentina were YPF S.A., Total Austral S.A., Wintershall Energia S.A., Petrobras Energía S.A. and Pluspetrol S.A. which, together with Pan American, represented approximately 79.5% of total gas production. The following chart illustrates the market share of Pan American and its principal competitors with respect to the domestic gas market.



Source: Argentine Oil and Gas Institute

On a combined boe basis, Pan American was Argentina's second largest producer of oil and gas during 2009, accounting for approximately 16.7% of combined domestic oil and gas production.

The largest overall producer of both oil and gas in Argentina in 2009 was YPF S.A., accounting for approximately 37.1% of Argentina's 2009 production, based on a combined boe basis. During 2009, Repsol YPF's net interest accounted for approximately 38.9% of Argentina's oil production and approximately 35.8% of Argentina's marketable gas production.

Other Activities

Oil Transportation, Storage and Loading

Pan American, together with other Argentine oil producers, has ownership interests in certain strategic affiliated companies that own oil transportation, storage and loading facilities. The interests in these companies are intended to assure and to optimize Pan American's transportation, delivery and marketing of its oil production. The positions in the oil transportation, storage and loading companies include the following companies:

Oleoductos del Valle S.A.

Pan American has, indirectly, an 11.9% ownership interest in the capital stock of Oldelval, an Argentine company that owns a 600-mile oil pipeline system from the Neuquina basin to the Puerto Rosales oil pipeline system. Oldelval operates the pipeline under a 35-year concession agreement (expiring in 2028) that may be extended by the Secretariat of Energy for an additional 10-year period. The Oldelval system is the only oil pipeline system that connects the Neuquina basin to the Atlantic export terminals located in the port city of Bahia Blanca. In accordance with Decree No. 44/1991, any change in the fee charged for transporting oil through this pipeline system is subject to the approval of the Secretariat of Energy.

Pursuant to the Oldelval stock purchase agreement, the consortium agreed to cause Oldelval to assume certain obligations set out in certain oil transportation agreements between YPF S.A. and third parties. During 2009 and 2008, respectively, the pipeline throughput reached 182,628 and 197,826 barrels per day.

For the year ended and as of December 31, 2009, Oldeval's total sales were U.S.\$45.8 million, net loss was U.S.\$1.7 million, total assets were U.S.\$86.3 million and total equity was U.S.\$77.8 million.

Terminales Marítimas Patagónicas S.A.

Pan American has, indirectly, a 31.7% ownership interest in Termap, an Argentine company that owns the oil storage and loading facilities located in Caleta Córdova, province of Chubut, and Caleta Olivia, province of Santa Cruz. Termap operates the facilities under a 35-year concession agreement from the Argentine government (expiring in 2029), which may be extended by the Secretariat of Energy for an additional 10-year period.

The operations at Caleta Córdova in part are utilized to store and load onto oil tankers for delivery to market of Pan American's oil production from its Cerro Dragón block located approximately 60 miles from the facilities. During 2009, Termap loaded 218 tankers with a total volume of 101.5 mmbbls of crude oil produced in the Golfo San Jorge basin.

For the year ended and as of December 31, 2009, Termap's total sales were U.S.\$35.6 million, net income was U.S.\$10.7 million, total assets were U.S.\$49.6 million and total equity was U.S.\$41.7 million.

Gas Distribution

Pan American's ownership interests in companies involved in gas distribution are consistent with its strategy of pursuing mid and downstream gas projects which, in addition to being profitable ventures, will allow Pan American to achieve an advantageous position to capture new markets for its gas reserves.

Distribuidora de Gas de Montevideo S.A.

Pan American holds, indirectly, a 34.0% ownership interest in DGM, an Uruguayan company that has the franchise for the production and distribution of manufactured gas and LPG via a pipeline distribution system in the city of Montevideo, Uruguay. This franchise is held under a 30-year concession (expiring in 2025). Petrobras acquired a 51.0% ownership interest in DGM that was previously owned by Gaz de France, as well as a 15.0% ownership interest from Acodike Supergas S.A. As a result, Petrobras is the new operator and the majority shareholder, holding 66.0% ownership interest in DGM. The concession was extended to include the distribution of natural gas that will be delivered to DGM via GCdS.

The conversion of 350 km of the old distribution system to a new one serving almost 22,000 clients began during 2006 and was completed in 2009. During 2007, DGM awarded the contract of the conversion of 260 kms to a Brazilian consortium that offered to finance the work undertaken by DGM through a loan they received from the Banco Nacional de Desenvolvimento Econômico e Social ("BNDES") with a full counter guarantee from Petrobras. In addition, DGM refinanced its financial liabilities by converting into equity certain debt obligations owing to its shareholders in the amount of U.S.\$4.1 million, and refinanced its U.S.\$10 million existing debt with Natixis and all its short-term debt, through a new U.S.\$17 million debt with Natixis, which is 48% of which is guaranteed by Pan American.

Pan American has a position of preference, under competitive market terms and conditions, to be the supplier of gas to DGM. DGM has been unable to continue expanding its customer base as a result of a significant increase in gas costs. Such increase in gas costs derived from the recent increase in the applicable export tariffs in Argentina.

For the year ended and as of December 31, 2009, DGM's total sales were U.S.\$44.0 million, net income was U.S.\$12.5 million, total assets were U.S.\$86.4 million and total shareholders' equity was U.S.\$30.9 million.

Gas Transportation

In a continued effort to grow across the natural gas production and distribution chain, Pan American holds strategic ownership interests in a number of natural gas transportation companies.

Gasoducto Cruz del Sur S.A.

GCdS, in which Pan American has a 30.0% ownership interest, holds the concession for natural gas transmission from Punta Lara, Argentina to the city of Montevideo, Uruguay. GCdS has been in operation since November 2002. Pan American's partners in GCdS are BG International (40.0%), the Uruguayan state oil and gas company ANCAP (20.0%) and Wintershall (10.0%). As of December 31, 2009, the pipeline transported 141,24 cubic meters (5.0 mmcf) per day, with 36.2% of such amount destined for industrial purposes, 43.0% destined for LDCs and the remaining 20.8% destined for thermal power plants (UTE). During 2009, no new delivery points were connected to this pipeline.

For the year ended and as of December 31, 2009, GCdS's total sales were U.S.\$9.4 million, net income was U.S.\$10.6 million, total assets were U.S.\$124.3 million and total shareholders' equity was U.S.\$119.9 million.

Gas Link S.A.

Gas Link is 51.0% owned by Dinarel S.A., a company in which Pan American has a 40.0% ownership interest. Gas Link owns a gas pipeline that runs from Buchanan to Punta Lara, in Buenos Aires, Argentina, and which interconnects the Argentine southern gas transport system with the GCdS gas pipeline. The gas pipeline's initial capacity is 1 million cubic meters (35 mmcf) per day, and a future expansion is planned to increase its daily capacity up to 2 million cubic meters (71 mmcf) per day, depending on the Uruguayan gas demand.

For the year ended and as of December 31, 2009, Gas Link's total sales were U.S.\$2.6 million, net loss was U.S.\$0.3 million, total assets were U.S.\$13.2 million and total shareholders' equity was U.S.\$2.8 million.

Power Generation

In line with its strategy of creating new markets for its significant gas reserves, Pan American is involved in the power generation business, where thermal plants can be fueled by Pan American's natural gas production.

Central Dock Sud S.A.

In 1996, Pan American, together with Endesa Internacional S.A. ("Endesa"), a subsidiary of the Spanish power generation and distribution group, and YPF S.A., acquired 90.0% of the capital stock of CDS, an Argentine company which operates combined cycle power generation facilities in the Greater Buenos Aires area. The remaining 10.0% of the capital stock was then held by the employees of the company under a joint ownership program for privatized companies. Currently, Pan American's indirect net participation is 19.99% of the total capital stock of CDS with the remaining 80.01% of the total capital stock held by YPF S.A. (40.0%), Endesa (40.0%) and others (0.01%). Pan American has negotiated the terms of a long-term gas supply contract for 50.0% of the volumes of natural gas needed for the combined cycle plant built on the site with a net capacity of 774.5 MW and two 36 MW open side gas turbines. The plant was built by ABB Power Generation Ltd. and Babcock & Wilcox Española S.A. on a turn-key contract for approximately U.S.\$430 million and is run under a fixed-price maintenance contract. Pan American and its partners in Central Dock Sud S.A. have pledged their shares in such company to secure the obligations of Central Dock Sud S.A. under a financing arrangement entered into to finance the construction of the thermal power plant. Pan American has funded its equity participation through the capitalization of its initial gas sales as an in-kind shareholders' contribution. This capitalization ended in October 2004 and thereafter CDS has commenced paying for gas supplied by Pan American under a 15-year agreement. The combined cycle plant commenced generation in early 2001 and has been one of the most efficient thermal power plants in Argentina.

As all other power generators in Argentina, CDS is suffering from the freezing of its tariffs in pesos since the beginning of 2002. Furthermore, CDS, like most of the other power generators in Argentina, was required, until

December 2007, to contribute a portion (Ps.40.7 million) of its credits with the Electricity Wholesale Market Administrator (CMMESA) to a trust fund created to increase the offer of electricity power in the wholesale market. This trust fund, the Investment Funds Required to increase Electrical Energy Offers on the Electrical Wholesale Market (*Fondo para Inversiones Necesarias que permitan Incrementar la Oferta de Energía Eléctrica en el Mercado Eléctrico Mayorista* (FONINMEM)), was formed for the purpose of building two new power plants in Argentina, each with a power capacity of 800 MW, which are already in operation. As a result of its contribution to this fund, CDS became a shareholder in both of the new power plants. The electricity generated by CDS during 2009 was 3,852 GWh.

For the year ended and as of December 31, 2009, CDS's total sales were U.S.\$127.4 million, the net loss was U.S.\$11.9 million, total assets were U.S.\$276.9 million and total shareholders' equity was U.S.\$35.0 million.

Contractual Matters and Regulations

Argentina

The following is a description of certain contractual matters and regulations related to oil and gas exploration and production activities in Argentina.

Pan American's rights to oil and gas from the blocks in Argentina in which it participates are subject to Argentine laws, regulations and decrees governing hydrocarbons and privatization of formerly state-owned assets, and to the governing documents applicable to each block. Under Argentine law, the government – federal or provincial, as the case may be – owns all mineral rights. In turn, the government may grant to private parties the right to explore for, develop and produce hydrocarbons from a defined geographic area. Argentine laws and regulations provide that a producer has the right to dispose freely of the hydrocarbons it produces subject to certain regulations. The approval by the Argentine Congress in 2002 of the Public Emergency Law gave the Argentine Executive Branch the ability to impose tariffs on the export of hydrocarbons. Since March 2002, the Argentine government has issued several decrees in respect of export tariffs for oil, oil by-products, natural gas and LPG. Currently, in accordance with Resolution No. 394/07 of the Ministry of Economy, the export tariffs applicable to certain hydrocarbons, including crude oil, are based on the IP for such hydrocarbons; therefore: (i) in the event that the IP is higher or equal to the reference value (U.S.\$60.90 per barrel for crude oil), the export tariff is calculated in accordance with a formula (based on the IP and the capped price, that for crude oil is U.S.\$42 per barrel), which effectively implies that for an IP higher than the reference value, the exporter receives the capped price and the excess over the capped price is paid by the exporter on account of export tariff, (ii) if the IP is lower than the reference value, then a 45% export tariff is applicable to the price paid to the exporter, and (iii) if the IP of crude oil is lower than U.S.\$45 per barrel, then the Ministry of Economy will decide within a 90-day period the export tariff applicable. The same formula applies to LPG exports. If the IP is lower than the reference price, the export tariff applicable to LPG exports is also 45% of the reference price. When the IP informed by the Secretariat of Energy is equal to or exceeds the reference price, the LPG exporter receives the capped price established by Resolution No. 127/2008, which for LPG is U.S.\$250 per cubic meter, with the excess over the capped price being paid by the exporter to the government as export tariff. As to natural gas, Resolution No. 127/2008 of the Ministry of Economy increased the rate of export duties applicable to natural gas definitive exports from 45% to 100% (previously increased to 45% through Resolution No. 534/2006). It also set the highest price provided in any contract for the import of natural gas by any Argentine importer as the reference price for the calculation of natural gas export duties. Through this resolution, the Argentine government modified the previously applicable reference price set by the Framework Agreement between Argentina and Bolivia. As of December 31, 2009 the applicable reference price was U.S.\$6.1590 per mmbtu. See "Business Sales and Marketing of Hydrocarbons—Regulatory Matters Affecting Sales of Hydrocarbons."

Pursuant to Law No. 19,640, enacted on 1972, exports of oil and gas from Tierra del Fuego were exempted from export tariffs. On October 10, 2006, the Ministry of Economy issued Resolution No. 776/2006, declaring that export tariffs were applicable also to exports of oil and gas from the special customs area of Tierra del Fuego. Following the issuance of this resolution, the Argentine customs service authority initiated claims against companies that exported hydrocarbons from the special customs area of Tierra del Fuego, for the collection of export duties claimed from such companies based on the retroactive application of such export tariffs from the date of entry into force of Decrees Nos. 310/2002, 809/2002 and 645/2004. In addition, Law No. 26,217, enacted on January 16,

2007, (i) extended the application of the export tariffs on hydrocarbons until 2012, (ii) maintained in force for an additional five years Resolution No. 532/2004 (which had increased the tariff imposed on crude oil exports and was superseded by Resolution No. 394/2007), and (iii) ratified the imposition of export tariffs on hydrocarbons exports from Tierra del Fuego. See “Business—Legal Proceedings.”

Pursuant to current regulations, producers are allowed to keep abroad 70.0% of all proceeds derived from the export sales.

Pan American’s upstream oil and gas production, development and exploration activities in Argentina are carried out through exploitation concessions, production service agreements, exploration permits and association agreements. Contractual arrangements between Pan American and its co-venturers regarding the exploration and production activities are governed by operating agreements according to standard international industry practice.

Exploitation Concessions

Pan American holds 11 exploitation concessions in Argentina, all of which are in production. Argentine concessions are granted for a 25-year term, which may be extended for an additional 10-year period by the federal or provincial government, as applicable, at its discretion. A concession grants the holder the exclusive right to exploit the oil and gas within a defined concession area. Pan American’s concessions require it to pay a gross production assessment to the corresponding provincial or federal government in an amount equal to 12.0% of the wellhead price of the oil and/or gas produced. Under the terms of the concessions, Pan American must also pay to the federal or provincial government, as applicable, an annual exploitation surface rate per square kilometer of the concession area. In the case of concessions arising from the conversion of service contracts, YPF S.A. generally provides transportation for a specified amount of oil and gas produced under the concession.

On April 27, 2007, Pan American entered into an agreement with the province of Chubut which provides for the extension of its oil and gas exploitation concessions with respect to the Cerro Dragón block within the province of Chubut (namely the Anticlinal Grande – Cerro Dragón, Chulengo and Cerro Tortuga – Las Flores areas). On June 25, 2007, Pan American entered into an agreement with the province of Santa Cruz, which provides for the extension of its oil and gas exploration and exploitation concessions with respect to the Piedra Clavada and Koluel Kaike blocks and the part of the Cerro Dragón block within the province of Santa Cruz (namely the Cerro Dragón Santa Cruz concession).

Pursuant to these agreements, the provinces agreed to extend the concessions for a 10-year term, until 2026 (with respect to the Piedra Clavada and Koluel Kaike blocks) and 2027 (with respect to the Cerro Dragón block). Additionally, Pan American has the right to continue operating these blocks for an additional 20-year period (until 2046 with respect to the Piedra Clavada and Koluel Kaike blocks and until 2047 with respect to the Cerro Dragón block) following the expiration of the concessions extensions, pursuant to certain operating agreements with the provincial state owned energy companies Petrominera and Fomicruz if certain obligations are met by Pan American.

The main commitments undertaken by Pan American under the agreements with Chubut and Santa Cruz are to:

- Invest in hydrocarbons exploration and production activities, with a minimum investment of U.S.\$2 billion in Chubut and U.S.\$500 million in Santa Cruz through 2016, and an additional minimum investment of U.S.\$1 billion in Chubut and U.S.\$300 million in Santa Cruz, between 2017 and 2026.
- Invest U.S.\$80 million between 2008 and 2012 for exploration of the Centro Golfo San Jorge Marina offshore block, located in both the Chubut and Santa Cruz provinces, with Pan American bearing the cost of such exploratory activities and retaining the right to exploit the blocks in the case of a successful exploration. The activities are performed under the association agreements (“*Union Temporal de Empresas*” – *UTE agreements*) entered into with the provincial stated-owned energy companies, Petrominera and Fomicruz on July 17, 2007 and April 4, 2008, respectively. If the exploration is successful, Pan American is required to invest an additional U.S.\$500 million for the development of such commercial discoveries.

- Contribute U.S.\$120 million to Chubut and U.S.\$40 million to Santa Cruz for development purposes. These payments are payable in four annual installments.
- Make an additional contribution to the provinces of Chubut and Santa Cruz, equal to 3% of the net revenues generated by the concessions. Pan American began making payments to the province of Chubut in September 2007 and to the province of Santa Cruz in April 2008.
- Grant loans or guarantees to small and medium size companies in the Golfo San Jorge region, in amounts up to a total of Ps.500 million over a twenty-year term.
- Increase its commitments to education in the region through university scholarship grants.

The agreement with the province of Chubut was ratified by provincial Law No. 5,616 passed on May 24, 2007, implemented by Decree No. 500/2007 and published in the Official Gazette on May 28, 2007. The agreement with the province of Santa Cruz was ratified by provincial Law No. 3,009 passed on March 13, 2008 and implemented by Decree No. 545/2008 of the governor of Santa Cruz and published in the Official Gazette on March 27, 2008.

On January 28, 2009 the Neuquén province and the partners in the Aguada Pichana and San Roque blocks (Total Austral S.A., Wintershall Energia S.A., the Branch and YPF S.A.), in which Pan American has an 18.18% and 16.47% interest, respectively, entered into an agreement which provides for a 10-year extension of the term of the concessions for hydrocarbons production from 2017 to 2027. This agreement was finally approved by Decree No. 0235/09.

The main commitments undertaken by Pan American under these agreements with the Neuquén province are to:

- Invest and incur expenses in the Aguada Pichana and San Roque blocks from September 2008 through 2027, in the amount of U.S.\$153 million, inclusive of U.S.\$23 million for exploration, particularly for gas.
- Pay an initial concession bonus to the Neuquén province of U.S.\$11.2 million for the Aguada Pichana block and U.S.\$4.7 million for the San Roque block, payable from March 2009 through March 2010. Furthermore, the Company also agreed to pay a 3% extraordinary monthly production assessment applicable on the value of the production net of certain items.
- Commit to donations in the amount of U.S.\$1.3 million for the Aguada Pichana block and U.S.\$0.5 million for the San Roque block, payable to the province in 2009 and 2010.

On May 22, 2009 the Neuquén province and the partners in the Lindero Atravesado block (the Branch and YPF S.A.), in which the Branch has a 62.5% interest and is the operator, entered into an agreement which provides for a 10-year extension of the term of the concessions for hydrocarbon production from 2016 to 2026. This agreement was finally approved by Decree No. 998/09.

The main commitments undertaken by Pan American under this agreements with the Neuquén province are to:

- Invest and incur expenses in the Lindero Atravesado block from 2009 to 2026, in the amount of U.S.\$82.4 million, which includes U.S.\$12.6 million for exploration, particularly for gas.
- Pay an initial concession bonus to the province in the amount of U.S.\$4.9 million from May 2009 through December 2010. Furthermore, the Company also agreed to pay a 3% extraordinary monthly production assessment applicable on the value of the production net of certain items.
- Commit to donations in the amount of U.S.\$0.6 million for the Lindero Atravesado block, payable to the province in 2009 and 2010.

Within the framework of these concession extension negotiations with the Neuquén province, the Company, on January 28, 2009, entered into a settlement agreement with the province for the purpose of terminating all administrative and judicial claims and controversies between them, which mainly related to claims with respect to gross production assessments payments.

Pan American's concession for the Acambuco block expires between 2026 and 2040, depending on the field. The concession for the Cuenca Marina Austral block expires between 2021 and 2031, depending on the field, and pursuant to the Hydrocarbons Law may be extended for an extra 10-year period.

Upon termination of the concessions, the areas, production equipment, installations and facilities automatically revert to the government.

Association Agreements

The Anticlinal Funes block is operated by Pan American under an association agreement with Petrominera with an initial term expiring in 2015, which is renewable every five years for an additional five-year period by common consent of the parties.

Pan American holds a 90% working interest in two offshore exploration blocks in the Golfo San Jorge Marina basin, through association agreements with the provincial state-owned energy companies Fomicruz, of the province of Santa Cruz, and Petrominera, from the province of Chubut, corresponding to the portions of the Centro Golfo San Jorge Marina block located in each of the respective provinces. These blocks are in shallow waters (20 meter to 100 meter depth) covering an area of 9,000 km² and are considered to be of high risk due to geological uncertainties in the area. Pursuant to the association agreements entered into in connection with the development of these blocks, Pan American will bear 100% of the exploration costs associated with these blocks up to the amount of U.S.\$80 million between 2007 and 2012. As of December 31, 2009, Pan American had spent U.S.\$26 million, mainly in the acquisition of 1,700 km² of 3D seismic. Pan American anticipates that analysis of this seismic data will be finished during the fourth quarter of 2010, and that the resulting prospects are expected to be drilled during the third and fourth quarters of 2011.

Exploration Permits

Pan American holds six exploration permits in Argentina. Holders of exploration permits have the exclusive right to obtain an exploitation concession to develop and produce any hydrocarbons discovered in the area included in the permit, as well as a transportation concession to enable the concessionaire to exploit the area. Under the terms of the permits, Pan American must also pay (i) to the federal or provincial government an annual exploitation surface rate per square kilometer of the permit area, and (ii) a gross production assessment to the federal or provincial government in an amount equal to 15.0% of the wellhead price of the oil and/or gas produced during the exploration phase.

On October 22, 2008, the Branch and YPF S.A. each transferred to Petrobras Energía S.A. a 16.5% interest in the CAA-40 and CAA-46 exploration permits in the Malvinas basin located approximately 450 kilometers east of Tierra del Fuego, in which they previously held a 50.0% stake each. As a result of the transfer to Petrobras Energía S.A., Pan American and YPF S.A. each hold a 33.5% interest and Petrobras Energía holds the remaining 33% interest. YPF S.A. is the operator of the CAA-40 and CAA-46 exploration blocks. The blocks cover an approximate area of 6,500 km² and are considered high risk due to depths greater than 500 meters and difficult geological conditions. Pursuant to this joint venture, the co-venturers plan to drill one exploration well by the end of 2010, at which time the Branch will have satisfied its outstanding committed investment requirements for the exploration phase of both blocks.

In August 2009, the Branch acquired 100% of the interests in three exploration areas in the province of Chubut: (i) Paso Moreno with 2,825 km², (ii) Nueva Lubecka with 6,414 km² and (iii) Paso de Indios with 10,000 km². The first exploration period has been extended until the end of 2011 and the Branch has committed to drill one well and carry on certain geochemical studies during years 2010 and 2011.

Operating Agreements

Pan American's exploration and production activities are conducted, in several cases, with co-venturers. Contractual arrangements between Pan American and its co-venturers regarding exploration and production activities are governed by operating agreements. These agreements provide for the distribution among the co-venturers of costs and expenses incurred in the operation of the relevant exploration or production block, as well as for the distribution of production and liabilities. While operating agreements generally provide for liabilities to be borne by the co-venturers according to their respective percentage interests, co-venturers are jointly and severally liable to the Argentine government for their obligations under the applicable exploration permits and exploitation concessions. Distribution of production is calculated in accordance with the percentage interest held by each co-venturer in the production block. Each co-venturer has the right to market its share of production. The co-venturers appoint an operator and an operating committee, consisting of representatives of the co-venturers, that is created to supervise and control the operating activities. The decisions made by the operating committee generally are binding on all the parties to the operating agreement. Frequently, operating agreements (i) impose limitations and restrictions on the transfer of a co-venturer's interest in the exploration or production block, as well as on the creation of liens covering its interest and (ii) in the case of cash calls, give certain rights to non-defaulting parties to take up rights with respect to the defaulting party's interests.

As of December 31, 2009, Pan American operated six of the ten Argentine oil and gas production blocks in which it holds an interest, and five of the eight Argentine oil and gas exploration blocks in which it holds an interest. Pan American does not serve as the operator for the Cuenca Marina Austral, Aguada Pichana, San Roque and Estancia La Escondida, CAA-40, CAA-46, and Bandurria. Pan American currently acts as the operator in all other blocks in which it holds an interest. As the operator of a block, Pan American is permitted to charge a portion of its overhead operating costs attributable to that block to each of its co-venturers.

Bolivia

Pan American's rights to oil and gas from the blocks in Bolivia in which it participated have been reasserted by the Bolivian government pursuant to Supreme Decree No. 28,701 entered into on May 1, 2006. Under the previous Bolivian law, the government owned all oil and gas reserves. However, producers had the ability to freely dispose of hydrocarbons at the wellhead if they entered into shared risk contracts with YPF, acting on behalf of the national government, for the purpose of exploring, producing and marketing hydrocarbons. Following the issue of Supreme Decree No. 28,701 pursuant to which the Bolivian state reasserted its ownership rights in respect of, and assumed total control of, the country's hydrocarbon resources, Pan American was required to renegotiate its existing contracts with YPF and entered into new long-term Operating Contracts for the Caipipendi and Chaco blocks. Pursuant to these new long-term operation contracts with YPF, YPF is the sole owner of all of the reserves and production of such blocks, and the operating companies receive their respective share of the profits from the net hydrocarbon volume produced on a monthly basis discounted by the concession royalties, fees and recoverable costs. As a result of the Supreme Decree and renegotiation of production agreements in Bolivia, gross production assessment in Bolivia levied at 18.0% was increased to 50.0% in 2007. Such levy is covered by YPF and discounted from the profit share allocated to the operators.

Prior to the renegotiation of Pan American's shared risk contracts into operating contracts, 60% of the production of Caipipendi and Chaco blocks was sold to the domestic market in Bolivia and the remaining 40% was exported to Brazil. Following the renegotiation process and the reallocation of domestic and export supply commitments by the Bolivian government among the operators, the production of such blocks was reallocated so that currently 90% of the production is exported to Brazil and Argentina, pursuant to the agreement entered into between the governments of Bolivia and Argentina (through ENARSA). The remaining 10% is destined for domestic consumption. See "Risk Factors—Risk Factors Related to Bolivia and Other Emerging Market Countries" and "Business—The Oil and Gas Industry in Argentina and Bolivia."

The Government of Bolivia, through Supreme Decree No. 29,888, nationalized almost all of the shares held by Pan American in Chaco. On March 12, 2010, Pan American submitted a claim before the ICSID against Bolivia pursuant to the Treaty between the Government of the United States of America and the Government of the Republic of Bolivia concerning the Encouragement and Reciprocal Protection of Investment.

Chile

Pan American holds a 50% interest in, and acts as operator of, the exploration and exploitation rights in the El Coirón block in the Magallanes region of Chile, in which ENAP holds the remaining 50% interest. Pan American's exploration and exploitation rights in the block are set forth in the CEOP, which became effective on July 29, 2008. See "Business—Exploration and Production Activities."

Hydrocarbon and Other Taxes

Argentina

Under current Argentine regulations governing production activities, Pan American is subject to levies on its production in Argentina. In addition, it is subject to other Argentine taxation. The main taxes include:

- A gross production assessment in cash at a rate of 12.0% of the wellhead price of production. This assessment is levied by the provinces for onshore hydrocarbons and offshore hydrocarbons located within the provinces' jurisdiction, and by the federal government for offshore hydrocarbons located outside the provinces' jurisdictions. Export tariffs, discussed below, are not to be deducted of the price basis for the calculation of gross production assessments.
- An income tax of 35.0% on corporate net profits (other than on activities carried on within the jurisdiction of the province of Tierra del Fuego, which are exempt from national taxes).
- A 21.0% value added tax (VAT) on domestic sales of oil and gas which is added onto Pan American's sales invoices and passed on to the payer (exports are zero-rated and sales of oil and gas in Tierra del Fuego are tax free).
- A provincial tax (turnover tax) levied in general on oil and gas sales at an average rate of 2.0% of gross domestic revenues (export revenues are excluded).
- An asset tax (minimum presumed income tax) at a rate of 1.0% on the value of the company's assets, existing as of December 31 of each year, determined according to Law No. 25,063. Certain assets, such as shares and interest in other entities subject to the same tax, are exempted. Assets situated within the jurisdiction of the province of Tierra del Fuego are also exempted. The value of acquisitions and investments in assets subject to depreciation (except cars) are deductible in the determination of the amount of the taxable assets in the fiscal year of acquisition or investment and in the subsequent taxable year. The income tax paid, determined for the same fiscal year, is considered as a payment on account of this tax. Eventually, if the minimum presumed income tax exceeds the income tax amount payable, the minimum presumed income tax paid may be credited as a payment on account of the portion of income tax not absorbed in the immediately following ten fiscal years.
- A provincial stamp tax levied at different rates ranging from 0.1% to 5% (though averaging approximately 1%) depending on the province and type of transaction. This rate is applied to the economic value of the written contracts executed within the provincial jurisdiction. As of January 2009, this tax is also applicable in the jurisdiction of *Ciudad Autónoma de Buenos Aires* at a rate of 0.8%.
- Export tariffs applicable to certain hydrocarbons, including crude oil, depend on the IP for such hydrocarbons, therefore: (i) in the event that the IP is higher or equal to the reference value (U.S.\$60.90 per barrel for crude oil), the export tariff is calculated in accordance with a formula (based on the IP and the capped price, that for crude oil is U.S.\$42 per barrel), which effectively implies that for an IP higher than the reference value, the exporter receives the capped price and the excess of the sales price above the capped price value is paid as export tariff; (ii) if the IP is lower than the reference value then a 45% export tariff is applicable to the price paid to the exporter; and (iii) if the IP of crude oil is lower than U.S.\$45 per barrel, then the Ministry of Economy will decide within a 90-day period the export tariff applicable. The daily prices of the IP will be determined on a daily basis by the Secretariat of Energy. Export tariffs on other hydrocarbon exports (such as petroleum jelly, petroleum coke, among others) to which reference values and cut-off values are not applicable, shall be subject to the export duties applicable to crude oil exports determined as mentioned above.

- An export tariff on natural gas of 100% of the highest price established for gas imported to Argentina; and export tariffs applicable to LPG exports depend on the IP for such products. The IP will be determined on a daily basis by the Secretariat of Energy. In the event that the IP is higher than or equal to the reference value, the exporter receives the capped price (U.S.\$271 per cubic meter for butane, U.S.\$233 per cubic meter for propane and U.S.\$250 per cubic meter for LPG) and the excess of the sales price above the capped price is paid on account of export tariff. In case the IP is lower than the reference price, the export tariff will be 45% applicable to the price paid to the exporter. For butane and propane, the reference value is U.S.\$393 per cubic meter and U.S.\$338 per cubic meter, respectively, and for LPG, U.S.\$363 per cubic meter. See “— Sales and Marketing of Hydrocarbons—Regulatory Matters Affecting Sales of Hydrocarbons” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—General.”
- A bank credits and debits tax levied on current or checking accounts maintained at financial institutions located in Argentina and on other transactions that are used to substitute the use of checking accounts. The general rate is 0.6% for each debit and credit (although in certain cases an increased rate of 1.2% and a reduced rate of 0.075% may apply). Pursuant to Decree No. 534/04 (published in the Official Gazette on May 3, 2004), 34.0% of the tax paid on credits levied with the 0.6% tax rate and 17.0% of the tax paid on transactions levied with the 1.2% tax rate will be considered (subject to periodical revision by the government), in the case of corporations, as a payment on account of income tax and tax on presumed minimum income.
- An assets tax levied on shares or other interests held in entities regulated by Law No. 19,550 at a tax rate of 0.5% applied on the net worth. See “Taxation—Argentine Taxation.”
- An annual exploitation surface fee is payable at a rate of Ps.3,444.87 per square kilometer of the concession area. In case of the Cerro Dragón block, the respective residual surface pays the 15% of the mentioned value.
- The Branch has registered as taxpayer of the Impuesto a los Combustibles Líquidos y Gas natural Law No. 23,966 applied to the sale of natural gasoline. The tax rate is 62% applicable on a reference price published monthly by AFIP (National tax authority). This tax has been paid since September 2008.

Bolivia

Under current Bolivian regulations governing production activities, Pan American is subject to five principal levies on its production in Bolivia:

- An income tax of 25.0% on corporate net profits.
- A 12.5% withholding tax on dividends paid outside of Bolivia (Bolivian branches of foreign corporations must generally pay this charge annually on corporate net profits after deduction for income taxes).
- A VAT at an effective rate of 14.94% (13.0% nominal) on domestic sales of oil and gas and in the case of Pan American, on oil and gas related services under the long-term operating contract. Exports, including exports of oil and gas, are zero-rated. VAT refunds arising from exports are paid in transferable government bonds, which may only be used to satisfy Bolivian federal tax obligations. At this time, there are no regulations implementing the law requiring value added tax refunds arising from oil and gas exports. Actually, the only entity entitled to export and recover VAT taxes is the state hydrocarbon company YPFB.
- A transaction tax of 3.0% of the transaction amount, including VAT. Purchases and sales of hydrocarbons in the context of export transactions are exempt from this tax. The income tax paid at the end of each fiscal year is considered a payment in advance of the transaction tax that is to be paid during the following year.
- On April 1, 2004, a bank credits and debits tax was introduced to be levied for 24 months as from that date. The tax is levied on current or checking account transactions and other transactions through banks. The rate was 0.3% per transaction for the first 12 months and 0.25% per transaction for the second 12 months. On July 21, 2006, the rate was reduced from 0.25% to 0.15% per transaction. Such rate is to be effective for the

next 36 months following July 21, 2006. Pursuant to Decree N° 199 (published in the Official Gazette on July 8, 2009), this tax was extended for the next 36 months following July 24, 2009.

YPFB is subject to the following taxes, which indirectly affects Pan American. See “Sales and Marketing of Hydrocarbons—Regulatory Matters Affecting Sales of Hydrocarbons in Bolivia.”

- A gross production assessment, at a rate of 18.0% on the wellhead price of production according to the terms and conditions of the Operation agreement signed between the companies and YPFB.
- A tax on production (the “IDH”) established on the gross production assessment levied at a rate of 32.0%, calculated on wellhead production valued at a weighted average sale price according to the terms and conditions stated in the agreement mentioned in the previous paragraph.
- Under Decree No. 28,701, dated May 1, 2006, a levy on hydrocarbon production for fields that produced more than 100 mmcfpd of gas in 2005 of 82.0% (a gross production assessment levied at a rate of 18.0%, the IDH of 32.0% and an additional surcharge of 32.0%). Levies on hydrocarbon production for fields which produced less than 100 mmcfpd of gas in 2005 (which include the fields in Bolivia in which Pan American has an interest) will continue to be levied at the rates previously in effect payable by YPFB.
- Surtax (*impuesto a las utilidades extraordinarias por actividades extractivas de recursos naturales no renovables*) was derogated as from tax period 2007.

Chile

The CEOP and other relevant Chilean regulations govern the taxes that are applicable to Pan American’s activities in Chile. As of the date of this Offering Circular, the most significant of these taxes are the following:

- An income tax (*Impuesto de Primera Categoría*) at a rate of 17% on corporate net profits.
- A 35% withholding tax on dividends paid to equity holders located outside of Chile. The *Impuesto de Primera Categoría* is computed as a credit against this withholding tax.
- A VAT at an effective rate of 19% on the domestic purchases of goods and services. VAT paid on account of domestic purchases can be reimbursed to Pan American if it has no sales in Chile. The VAT reimbursement must be requested to the applicable tax authorities within two months following payment of VAT by Pan American.
- A 15% or 20% withholding tax on services, depending on the type of services, paid to foreign beneficiaries.

Health, Safety and Environmental

Pan American has developed, implemented and sought to continuously reinforce management processes which overtime have allowed it to improve its own health, safety and environmental (“HSE”) performance records. In addition, Pan American implements certain HSE test practices of its shareholders BP and Bridas.

Occupational Health

Pan American has adopted several preventive measures to reduce work-related injuries and illnesses, such as a policy of “No Drug and Alcohol Abuse in Work Environment,” health audits and training programs on fatigue prevention while driving. No occupational health illnesses were reported for the year ended December 31, 2009.

Safety

Pan American did not experience any fatalities or major environmental accidents during 2009. To monitor its safety standards, Pan American measures on a monthly basis key safety indicators. The following chart shows Pan American's main safety indicators during 2009 as compared with 2008:

Safety Indicator	Year		Reduction	
	2008	2009		
TRIC	Total recordable Labor Injury Cases	59	50	15%
TRICF	Total recordable Labor Injury Cases Frequency	0.557	0.512	8%
SVAC	Severe Vehicle Accident Cases	17	9	47%
SVAR	Severe Vehicle Accident Rate	0.187	0.091	51%
TVIC	Total Vehicle Incident Cases	46	23	50%
TVICF	Total Vehicle Incident Cases Frequency	0.506	0.232	54%

During 2009, seismic operations were carried out by Pan American in two new areas: the Golfo San Jorge Marina offshore operations and the El Coirón area in Chile. This is the first time that Pan American has conducted activities offshore as an operator and the Company achieved an excellent HSE performance, recording no accidents or environmental incidents.

Environmental Compliance

Pan American's management believes that its current operations are in all material respects in compliance with applicable laws and regulations related to the protection of the environment as such laws and regulations were interpreted and enforced as of the date of this Offering Circular. However, local, provincial and national authorities in Argentina are moving towards more stringent enforcement of environmental laws. Pan American is analyzing the alternatives in the market and implementing a plan that will allow it to comply with the requirements of Law No. 25,675. In 2007 and 2008, new laws related to oil waste management and drilling and injection of wells were enacted in some provinces where Pan American's oil and gas fields are located.

In 2008 Pan American completed a ground water quality assessment of the environmental baseline studies and developed an environmental sensitivity map to be used in its ongoing operations by operational departments.

New techniques as TDU (thermal desorption unit), TDP (thermal destruction process) and bioremediation piles, the first two for the treatment of oil based mud and the third for oil contaminated soil, were incorporated to Pan American's waste treatment processes in September 2007.

In July 2008, Pan American's operations in Golfo San Jorge, Acambuco and Neuquén successfully passed the recertification external audits related to ISO 14001:2004. In 2009, all delivery units were subject to and passed the required annual external audits. Pan American also participates in the global reporting initiative, an international reporting framework in connection with its environmental performance.

In 2009, no oil spills greater than 100 bbl occurred. The number of oil spills between 1 and 100 bbl decreased from 82 in 2008 to 65 in 2009, a reduction of more than 20%. Due to new legal requirements, Pan American conducted, for the first time, environmental audits in hydrocarbon storage tanks in all the facilities. External auditors authorized by the national authorities reported no significant HSE findings in connection with these audits for the Golfo San Jorge, Acambuco and Neuquen provinces operated areas.

Pan American conducted bioremediation through soil piles to test for oil contaminated soil in the Cerro Dragon block, which, according to new legal requirements, has been established as a standard for soil remediation replacing older methodologies.

Additionally, Pan American continues to develop its geographic information system (“GIS”), which identifies and stores key environmental information in different thematic layers. In 2009, Pan American created a ground water sampling database and all sampling information is now available in the GIS. According to the groundwater monitoring program, Pan American built and sampled 28 new wells in 2009.

Pan American’s greenhouse gases emissions intensity rate in 2009 increased in comparison to 2008 due to new gas turbines for electricity generation and a gas treatment membrane plant built in 2009 in the Golfo San Jorge area, and a compression plant built in the Acambuco area. However, CO2 equivalent real sustainable reduction projects have been implemented to reduce methane emissions of gas production as well as improve energy efficiency by turning the main power plants into combined cycle generation plants.

Pan American also reported that the general environmental management program was 92% complete as of December 2009. An update and revision is scheduled to be conducted in 2010.

Operational Hazards and Insurance

Pan American’s operations are subject to various risks. Pan American carries insurance for certain of such risks, including those related to onshore and offshore property, well control, third-party liability, cargo casualty related risks and for other activities. In conjunction with its insurance consultant, Pan American conducts an annual review of its risk management policies and insurance coverage. Pan American sets its levels of risk and insurance for those risks based on the findings of that review.

Pan American believes that it maintains adequate insurance for its operations consistent with industry practice. As required by Argentine regulations, insurance is contracted with Argentine insurers who reinsure their risk outside Argentina. Pan American’s insurance policies will be in effect until July 2010. Pan American is in the process of discussing new insurance policies which are expected to contain terms consistent with the current coverage and expects them to be in place by July 2010. The deductibles under Pan American’s current insurance policies range from U.S.\$0.1 million to U.S.\$1.0 million. Since 1998, Pan American has made three material claims under its insurance policies in an aggregate amount of U.S.\$7.3 million, none of which was declined.

Properties

Pan American does not own any significant real estate. It holds concessions in the blocks in which it has been granted exploration and production rights and its headquarters in Buenos Aires are leased from a related party. See “Related Party Transactions.”

Legal Proceedings

Pan American (including its subsidiaries) and the Issuer from time to time are involved in arbitration proceedings and in litigation in the ordinary course of business, including certain labor disputes and unresolved claims brought by third parties and tax-related disputes with certain Argentine provinces and the federal tax authorities. Pan American and the Issuer believe that none of the arbitration and litigation proceedings in which Pan American, or its subsidiaries, and the Issuer are involved is expected to have a material adverse effect on their business, financial condition or results of operations. See note 11 to Pan American’s Financial Statements and note 14 to the Branch’s Financial Statements.

Dispute regarding Pan American’s investment in Empresa Petrolera Chaco S.A. (Bolivia)

On March 12, 2010, Pan American Energy submitted a claim before the ICSID against Bolivia pursuant to the Treaty between the Government of the United States of America and the Government of Bolivia concerning the encouragement and reciprocal protection investments. The dispute arises out of certain measures adopted by Bolivia, starting in 2003, which interfered with Pan American’s investment in Bolivia by dismantling the commitments given to Pan American within the legal and contractual framework applicable to its investment on the basis of which Pan American decided to invest. These measures caused serious loss to Pan American’s investment and culminated in January 2009 with the direct taking of 99.99875 percent of Pan American’s interest in Chaco without prompt, adequate and effective compensation.

Asociación de Superficiarios de la Patagonia

On August 21, 2003, Asociación de Superficiarios de la Patagonia (“AS.SU.PA.”) initiated proceedings against YPF and certain other oil companies with operations in the Neuquina basin relating to the environmental impact of such companies’ hydrocarbon operations. The proceedings were amended to include Pan American as a defendant on September 9, 2004. The proceedings involve a claim for an unspecified amount of damages and a claim for specific performance. AS.SU.PA.’s claim seeks remediation based on Argentine Law 25,675 (General Environmental Law or “GEL”) and requests the establishment of a compensation fund as contemplated in the GEL. The claim for specific performance contemplates the implementation by the defendants of measures to prevent future damage to the environment as a consequence of hydrocarbon operations. AS.SU.PA.’s claim asserts that, in the event that remediation is not possible, it should manage any compensation (mainly for reforestation) that is awarded. The proceedings involve claims in respect of the environmental impact of regular operations and for environmental damages in general.

The claims relate to operations in an extensive geographical area (approximately 147,000 km²) without allocating any specific damage to a specific defendant or identifying either the relevant environmental damage caused or the remediation measures sought with respect thereto. The claims include general fact assertions and extend such assertions to all of the defendants based on a PNUD (*Programa de Naciones Unidas para el Desarrollo* – United Nations Program for Development) funded report which only refers to three blocks (Huantraico, Chihuido de la Sierra Negra and Puesto Hernández) in the Neuquina basin, in which Pan American has no interest.

Pan American filed its defense on October 26, 2004, asserting defenses on the following basis: (i) legal defect, on the basis that the claims are not sufficiently specific; (ii) lack of standing; (iii) similar administrative/judicial actions pending; and (iv) statute of limitations. The Argentine Supreme Court accepted the defense of legal defect and ordered the plaintiffs to better identify the basis of their claim on August 29, 2006. The plaintiffs purportedly cured the legal defect and the Court notified Pan American of such motion on December 6, 2006. On March 12, 2007, Pan American rejected plaintiff’s arguments based on the legal defect defense and alleged, as main defenses (i) that no environmental damage was caused; (ii) lack of standing, and (iii) statute of limitations. On August 26, 2008, Pan American was notified of the resolution of the Supreme Court establishing by a majority vote that the alleged legal defect was cured. The proceedings will continue as Pan American has already submitted its main defense brief. As of December 31, 2009, Pan American had established a reserve in an amount of Ps.0.15 million to cover potential losses associated with this claim.

Central Bank

There are three administrative investigations (*sumarios*) filed by the Central Bank. The first one is against Pan American Sur and its managers, the second one is against Pan American Fueguina and its managers and the third one is against the Branch and one of its managers.

The Central Bank proceedings relate to the export of hydrocarbons by the defendants following the economic crisis in Argentina in 2002, an issue that applies to all Argentine companies that exported hydrocarbons during such period. The Central Bank claimed that Argentine Decree No. 1,589/1989 (which permits oil producers to keep 70.0% of their export sales proceeds abroad) was tacitly abrogated during the economic emergency crisis in 2002 and therefore hydrocarbon producers did not have the right to keep 70.0% of their export proceeds abroad.

In August 2005, Pan American Sur and its five managers were served with process in proceedings brought by the Central Bank involving the prosecution of criminal actions based on the alleged violation of Central Bank regulations. The Central Bank claimed that during 2002 the defendants (i) brought U.S.\$4.9 million of export proceeds into the Argentine financial system after the time they were obligated to do so in accordance with applicable law and (ii) miscalculated the applicable exchange rate in respect of one specific instance of bringing export proceeds into Argentina, involving a claim for an amount equal to Ps.0.3 million. Pan American Sur filed its defense brief in October 2005 and its brief on the evidence on April 25, 2007. The Central Bank may submit the case before a court.

The second administrative investigation was brought by the Central Bank on August 6, 2007, against Pan American Fueguina and its five managers involving the prosecution of criminal actions based on the alleged

violation of Central Bank regulations. The Central Bank claimed that during 2002 the defendants brought U.S.\$1.4 million of export proceeds (representing 70% of the proceeds from export sales, according to Decree No. 1589/2989) into the Argentine financial system after the time they were obligated to do so in accordance with applicable law. Pan American Fueguina filed its defense brief on September 12, 2007.

The third administrative investigation was brought by the Central Bank in January 2008 against the Branch and one of its managers. This proceeding is similar to those against Pan American Sur and Pan American Fueguina. In this case, the Central Bank claimed that during 2002 the Branch brought U.S.\$77 millions of export proceeds into the Argentine financial system after the date on which they were obligated to do so in accordance with applicable law and failed to bring into the Argentine financial system the sum of U.S.\$24,588.91 corresponding to freight charges. The Branch filed its defense brief on October 14, 2008 and its brief on the evidence on November 2009. On February 12, 2010, the Branch was notified that the Central Bank had submitted the case before an economic criminal court.

Resolution 776/2006

Exports of oil and gas from the province of Tierra del Fuego were exempted from export tariffs pursuant to Law No. 19,640. On October 10, 2006, the Ministry of Economy issued Resolution 776/2006, declaring that exports tariffs established as of such date were also applicable to exports of oil and gas from the special customs area of Tierra del Fuego.

In addition, Law No. 26,217, enacted on January 16, 2007 extended the application of the export duty on hydrocarbons for an additional five-year term and ratified the imposition of export tariffs on exports from Tierra del Fuego.

The customs service authority of Río Grande, Tierra del Fuego, initiated claims for the payment of retroactive export duties against Pan American Sur and Pan American Fueguina with respect to certain of the export transactions which occurred after the enactment of Executive Orders No. 310/02, 809/02 and 645/2004. In 2008, the customs service authority determined, with respect to the proceedings opened at that time, that the retroactive taxes established by Resolution 776/2006 were inapplicable.

Towards the end of 2009, however, the customs service authority of Río Grande, Tierra del Fuego, initiated new claims against Pan American Sur and Pan American Fueguina for the payment of retroactive export tax duties with respect to other export transactions.

Notwithstanding the above, on December 11, 2007, Pan American Sur initiated a claim before the Federal Court of Rio Grande arguing the unconstitutionality of Resolution 776/2006 and Law No. 26,217 with respect to the obligation to pay export duties which occurred prior to the enactment of these rules. On August 28, 2008, Pan American Fueguina initiated an identical claim before the Rio Grande's Federal Court. Pan American Sur notified the Argentine Attorney General's office of its claim on December 19, 2008 and the Argentine Ministry of Economy on September, 2009. In October 2009, Pan American Fueguina notified the Argentine Attorney General's office of its claim.

Administrative Investigation by the Antitrust Commission of Argentina

In November 2003, the Antitrust Commission of Argentina, CNDC, commenced an investigation concerning possible oligopoly practices in the natural gas industry. The CNDC has requested information from several natural gas producers, including Pan American, about abusive pricing practices and the lack of competition in the Argentine gas market. The main argument of the CNDC is that there is scarce competition in the gas market, leading to a concentration of available gas in a few companies. The CNDC has also drawn attention to certain provisions in some export and local sale contracts that would seem to restrict free competition, such as exclusivity and resale limitations, among others.

On January 18, 2007, Pan American was served notice by the CNDC informing that the investigation is concluded and that it has 15 days to file its defense brief. On a timely manner, in February 2007, Pan American filed its defense brief with the CNDC and requested that the investigation be concluded and all suspected violations

by Pan American be declared unfounded. To this date there has been no further action by the CNDC regarding the investigation with regards to Pan American.

Subsidiaries and Affiliates

The following is a list of Pan American's subsidiaries and affiliates as of December 31, 2009 showing Pan American's ownership interest and the principal activity of each entity.

Entity	Principal Activity	Ownership Interest
Pan American Energy LLC	Investment	—
o Pan American Energy Holdings Ltd.....	Investment	99.975%
Central Dock Sud S.A.	Power Generation	19.99%
Pan American Energy Uruguay S.A.	Investment	96.25%
Pan American Fuegoína S.A.	E&P	90.00%
Pan American Sur S.A.	E&P	90.00%
Pan American Energy Ibérica, S.L.	Investment	100.00%
➤ Oleoductos del Valle S.A.	Oil Transportation	11.90%
➤ Distribuidora de Gas de Montevideo S.A.	Gas Distribution	34.00%
➤ Terminales Marítimas Patagónicas SA.....	Oil Storage and Loading	31.71%
➤ Barranca Sur Minera S.A.	Mining	80.00%
➤ Pan American Energy Chile Limitada.....	E&P	40.00%
• Inversiones Buló Buló S.A	Investment	59.99%
• PAE Oil & Gas Bolivia Ltda.....	E&P	0.00014%
o Pan American Energy do Brasil Ltda.	E&P	96.55%
• Vigésimus Administração e Participação Ltd.	E&P	25.00%
o PAE Oil & Gas Bolivia Ltda.....	E&P	99.99972%
• Amoco Bolivia Oil and Gas Aktiebolag.....	E&P	100.00%
• YPFB Chaco S.A.	E&P	0.000627%
• Inversiones Buló Buló S.A.....	Investment	40.00%
o Pan American Energy Investments Ltd	Investment	100.00%
• Stonewall Resources Ltd.	Investment	100.00%
• Pan American Energy Holdings Ltd.....	Investment	0.025%
• Inversiones Buló Buló S.A.....	Investment	0.01%
• PAE Oil & Gas Bolivia Ltda.	E&P	0.00014%
• Pan American Energy Uruguay S.A.	Investment	3.75%
• Pan American Energy do Brasil Ltda.	E&P	3.45%
• PAE E&P Bolivia Ltd.....	E&P	0.025%
o Gasoducto Cruz del Sur S.A.....	Gas Transportation	30.00%
o Dinarel S.A.....	Trading	40.00%
• Gas Link S.A.....	Gas Transportation	51.00%

Entity	Principal Activity	Ownership Interest
o Pan American Energy LNG LLC	LNG	100.00%
• Pacific LNG Bolivia SRL	LNG	25.00%
o Gemalsur S.A.	Investment	100.00%
• Barranca Sur Minera S.A.	Mining	20.00%
o PAE E&P Bolivia Ltd	E&P	99.975%
• Pan American Fueguina S.A	E&P	10.00%
• Pan American Sur S.A	E&P	10.00%
o Pan American Energy Chile Limitada	E&P	60.00%

REGULATORY FRAMEWORK OF THE OIL AND GAS INDUSTRY IN ARGENTINA

History

Deregulation and Demonopolization of the Argentine Oil and Gas Industry

Prior Oil and Gas Regulatory System

From the 1920s to 1989, the Argentine public sector dominated both the upstream and downstream segments of the Argentine oil and gas industry. The Argentine Hydrocarbons Law established the basic legal framework for oil and gas exploration and production in Argentina. Although this law allows the Argentine Executive Branch to grant exploration permits and production concessions to private parties, prior to 1990 no such concessions were granted thereunder and almost all oil exploration and production in Argentina was carried out by or on behalf of YPF. However, before 1989, an increasing volume of oil was produced by private sector companies operating under service contracts with YPF. Under this system, crude oil production, whether extracted by YPF or by private companies operating under service contracts, was delivered to YPF, and the Secretariat of Energy distributed the same among the refining companies according to quotas. In addition, the Argentine Executive Branch set official prices for crude oil and refined petroleum products at levels which in many cases were lower than the international prices.

With respect to the electric utility sector in Argentina, before the mid-1940's the government had no participation in it. In 1946, the General Directorate of Electric Power Plants of the State was created in order to analyze, build and operate electricity generating plants. In 1990, the public sector provided almost all electricity in Argentina through the national electric companies, Agua y Energía Eléctrica, SEGBA and Hidronor. These companies represented 97.0% of all electricity produced in Argentina. In addition, several provinces operated their own electricity companies. The Argentine government had responsibility for industry regulation and control through the Secretariat of Public Services and Works, whereas the national interest in the facilities being studied, developed or operated jointly with neighboring countries was evaluated by the Ministry of Foreign Affairs.

Deregulation of the Argentine Oil and Gas Industry

In August 1989, the Argentine government enacted Laws No. 23,696 and No. 23,697 (respectively, the "State Reform Law" and the "Economic Emergency Law"), which provided for the deregulation of the economy and privatization of Argentina's government-owned companies. The State Reform Law granted the Argentine Executive Branch broad authority to reorganize such companies and declared certain state assets and most government-owned companies to be subject to privatization.

Following the enactment of the State Reform Law and the Economic Emergency Law, a series of presidential decrees relating specifically to deregulation of energy activities was issued. The Oil Deregulation Decrees, issued pursuant to the State Reform Law and the Argentine Hydrocarbons Law, eliminated restrictions on imports and exports of crude oil and, effective January 1, 1991, deregulated the domestic oil industry including the prices of oil and petroleum products.

Additional steps were taken towards deregulation and de-monopolization, including: (i) the offering under open international bidding of exploitation concessions for certain marginal areas previously operated by YPF; (ii) the offering of association agreements with YPF for the exploration and exploitation of certain major producing areas held by YPF; (iii) the transformation of existing exploration service contracts with YPF into exploration permits; (iv) the transformation of existing production service contracts with YPF into exploitation concessions; (v) the elimination of official prices for crude oil and refined products, which became effective on January 1, 1991; and (vi) the deregulation of gas wellhead prices on January 1, 1994.

YPF Privatization

On September 24, 1992, the Argentine Congress enacted Law No. 24,145, which provided for the privatization of YPF (the "YPF Privatization Law"), pursuant to which the Argentine government and provincial governments sold in two public offerings approximately 50.5% of YPF's capital stock. Following such public offerings, YPF's

share capital was owned as follows: 65.0% by the public; 20.3% by the Argentine government; 4.7% by the provincial governments; and 10.0% by YPF's employees.

In accordance with the YPF Privatization Law and the Oil Deregulation Decrees, YPF has disposed of interests in certain production blocks, gas producing fields, several refineries, pipelines, port facilities, drilling rigs, seismic survey equipment, oil tankers and barges.

In January 1999, Repsol acquired from the Argentine government 14.99% of the capital stock of YPF. In April 1999, Repsol tendered for the remaining shares of YPF. As a consequence of this tender, in June 1999, Repsol acquired 82.5% of the capital stock of YPF, thus becoming owner of 97.5% of the capital stock of YPF. The consolidation of the two companies created Repsol YPF, a globalized and integrated oil and gas company.

Gas del Estado Privatization

In June 1992, the Gas Law established the basis for deregulating the transportation and distribution of natural gas in Argentina. The Gas Law provided for the sale of the assets of Gas del Estado to private companies, the granting of licenses to operate such assets, the establishment of a regulatory framework for the industry and the creation of a regulatory body to oversee the industry. Pursuant to the Gas Law the transportation and distribution components of Gas del Estado were organized into two transportation companies and eight LDCs.

The Gas Law also created ENARGAS to administer and enforce the Gas Law and applicable regulations. ENARGAS' jurisdiction extends to transportation, marketing, storage and distribution of gas. Its mandate, as stated in the Gas Law, includes the protection of consumers, the fostering of competition in the supply and demand of gas and the encouragement of long-term investment in the gas industry.

The responsibilities of ENARGAS include: (i) the regulation of transportation and distribution tariffs; (ii) advising the government on the award, extension and termination of the licenses; (iii) the prevention of any anti-competitive or discriminatory behavior in the industry; and (iv) the maintenance of technical and safety standards. Since January 1, 1994, the price of gas at the wellhead has been deregulated and may be freely negotiated between the producers and purchasers (LDCs, large consumers such as utilities and certain industrial users, and re-sellers). Although as a general rule LDCs may transfer to consumers the increases of natural gas wellhead prices, such increases in tariffs are subject to the approval of ENARGAS.

Electric Sector Privatization

The Secretariat of Energy, currently the principal authority in the electric utility sector, regulates the electricity supply and grants and controls electricity sector concessions at the national level through National Boards for Coordination and Regulation of Prices and Rates for Electricity Planning. In addition, the Federal Board of Electric Energy (*Consejo Federal de la Energía Eléctrica*), made up of representatives of each province, is an advisory body of the Secretariat of Energy.

Law No. 24,065 describes the general principles for the regulation of the electricity sector in Argentina. Among its main objectives, this legal framework: (i) protects user's rights; (ii) encourages competition in the generation of electricity, and (iii) encourages efficiency, reliability, free access, non-discrimination and fair pricing of tariffs in the transmission and distribution activities.

The *Ente Nacional Regulador de Electricidad* ("ENRE") is an autonomous body responsible for all policy making and supervision with respect to the electric sector. Its sole purpose is to pursue the objectives set out in the Regulatory Framework Act and issue all the regulations regarding security, standards and procedures for technical areas of the electricity industry. It has the jurisdiction to solve all disputes between generation, transmission and distribution sectors and is empowered to apply penalties for non-compliance of the act.

ENARSA

ENARSA was created by Law No. 25,943, published on November 3, 2004. The Argentine government keeps a controlling share of the stock, amounting to 53%, while the provinces are entitled to hold up to 12% of the Capital

Stock. The Argentine government intends to offer the remaining 35% of the equity of ENARSA to the private sector. The law grants ENARSA exploration permits and exploitation concessions over all federal offshore areas which are not yet awarded to third parties. Likewise, ENARSA is enabled to develop, solely or with other domestic or foreign public and private entities, all kinds of activities related to hydrocarbons upstream, midstream and downstream. Law No. 25,943 also grants ENARSA the right to intervene in the market in order to avoid the abuse of its dominant position due to the formation of monopolies or oligopolies. Since its formation, ENARSA entered into several agreements with different companies for the purposes of, among other activities, pursuing offshore exploration activities and participating in provincial calls for bids.

Current Structure of Argentine Oil and Gas Regulation

Exploration and Production

The Argentine Hydrocarbons Law established the basic legal framework for the current regulation of exploration and production of hydrocarbons in Argentina.

Since 1991, the Argentine government has reduced regulation and privatized large sectors of the oil and gas industry, leading to an increasing participation of private companies in the oil and gas industry. Notwithstanding such reduced regulation, the oil and gas industry in Argentina is still subject to governmental regulation and intervention in such matters as the award of exploration and production interests, restrictions on production and exports, the imposition of gross production assessments and taxes and specific investment obligations related to drilling and other work and environmental controls. The approval by the Argentine Congress of the Public Emergency Law in 2002 gave the Argentine Executive Branch the ability to increase its intervention in economic activity. The oil and gas industry was consequently affected by a series of new regulations that impacted mainly the marketing and price of oil and gas and that imposed of export tariffs. See “Business—Sales and Marketing of Hydrocarbons” and “Business—Hydrocarbon and Other Taxes.”

After the amendment to the National Constitution passed in 1994, all hydrocarbon resources are owned by the provinces. On December 6, 2006, the Argentine Congress enacted Law No. 26,197 (the “Short Law”), which in accordance with Article 124 of the Argentine National Constitution, provided that provinces shall be the owners of all crude oil and gas reserves located within their territories including offshore areas up to 12 marine miles from the base lines set forth by Law No. 23,968.

Pursuant to the Short Law, the authority relating to oil and gas exploration and exploitation permits originally granted to the federal government were transferred to the provincial governments, which remained responsible for supervising and administering their corresponding hydrocarbon resources. The Short Law also states that the provinces shall fully assume exercise of original domain and administration of the hydrocarbon fields located in their respective territories. In this way, the relevant provinces become application authorities of the Short Law assuming all jurisdictional functions formerly exercised by the Secretariat of Energy over such areas and all intra province hydrocarbon transportation concessions, provided that the transportation concessions are not directly destined for export.

Although the counterparties to the exploration permits and exploitation concession holders change from the federal government to the provinces, the Argentine Executive Branch shall continue to be responsible for the design of energy policies at the federal level. Certain provincial governments have construed the provisions of the Short Law as allowing them to enact their own regulations concerning exploration and production of oil and gas within their territories.

According to Law No. 17,319, the Argentine government is entitled to set exploitation and exploration surface fees based on fluctuations in crude oil prices applicable to the domestic market. On October 11, 2007, the Argentine government issued Decree No. 1,454/2007 pursuant to which the annual exploitation surface rate per square kilometer that Pan American must pay over the area covered by its concessions significantly increased from Ps.419.50 to Ps.3,444.87 per km². Said decree also established new rates applicable to exploration permits.

Current Contracts

A variety of contractual arrangements is currently permitted in Argentina, including: (i) exploitation concessions under the Argentine Hydrocarbons Law either formerly granted by the Argentine Executive Branch or after the Short Law by the provincial governments (a) that resulted from the renegotiation of former service production or exploration service contracts relating to areas now in production, (b) that have been awarded over marginal production blocks tendered by YPF or (c) that resulted from a declaration of commercially recoverable reserves from certain acreage covered by an exploration permit; (ii) joint ventures or association agreements between YPF and private sector companies for the exploration, development and exploitation of some of YPF's main producing areas where these companies acquire a majority working interest and that take title to a share of the production equal to their interest; (iii) exploration contracts that are basically risk service contracts, most of which have been transformed into exploration permits or concessions, depending on the phase of the relevant contract; (iv) exploration permits granted in response to international public tenders under the exploration program (Plan Argentina) launched by the Argentine government in 1992; (v) exploration permits granted after the Short Law by the provincial governments; (vi) joint ventures or association agreements with provincial state owned companies; and (vii) service agreements with the provinces for the exploration, development and exploitation of marginal areas which were transferred by YPF to the provincial governments under Decree No. 1,055/89 or over new areas created by such governments. YPF's former rights over exploration and production blocks were transformed by the YPF Privatization Law into exploration permits and exploitation concessions governed by the Argentine Hydrocarbons Law. See "Business—Contractual Matters and Regulations—Argentina", for a description of certain contractual matters and regulations related to oil and gas exploration and production activities in Argentina.

Transportation

The holder of an exploitation concession is also entitled to request and obtain a transportation concession to transport oil and gas produced within the concession block. The holder of a transportation concession is entitled to transport oil, gas and petroleum products and to construct and operate pipelines and storage and related facilities. Although the holder of a transportation concession is obligated to transport hydrocarbons on a non-discriminatory basis on behalf of third parties for a fee, this obligation applies to producers of oil or gas only to the extent that such concession holder has surplus capacity available, and is expressly subordinated to the transportation requirements of the holder of the concession. Oil transportation tariffs are subject to approval of the Secretariat of Energy and gas transportation tariffs to the approval of ENARGAS.

Market Regulation

Since January 2003, the price of crude oil in the domestic market has been restricted by market and regulatory conditions. The combination of a number of market-related considerations, including the obligation to supply the domestic market, the discretion that the Argentine government has exercised with respect to the determination of export tariffs, the inability of oil refiners to pass on price increases to their retail consumers and the need for oil producers and refineries to frequently renegotiate the domestic market prices in light of the volatility in the WTI price operates to implicitly restrict the prices obtained by Pan American in respect of oil sales in the domestic market. See "Business—Sales and Marketing of Hydrocarbons—Regulatory Matters Affecting Sales of Hydrocarbons in Argentina", for a description of regulations related to the marketing of oil and gas in Argentina.

Taxation and Export Tariffs on Argentine Oil and Gas Producers

See "Hydrocarbon and Other Taxes—Argentina," for a description of regulations related to taxation and export tariffs applicable to oil and gas activities in Argentina.

Promotional Regime for Hydrocarbons Exploration and Exploitation

Law No. 26,154 establishes a regime where investors in hydrocarbons exploration may enjoy certain tax benefit, as follows:

(i) there will be an accelerated return of VAT to the companies on their expenses and investments made during the exploration and exploitation periods provided by Law No. 25,924; (ii) for income tax purposes, investments in

exploration and exploitation will be amortized in three annual equal and consecutive installments as from the year in which such investment is made available; (iii) the holders of exploration permits will not be subject to the Presumed Minimum Income tax (*Impuesto a la Ganancia Mínima Presunta*); (iv) Holders of exploration permits will be exempted from import duties on capital equipment needed for their exploration and production operations that are not available from local manufacturers; (v) for offshore areas, benefits under the Law will be applied for fifteen years; (vi) for areas in sedimentary basins (onshore) currently with no production, benefits will apply for twelve years; (vii) for sedimentary basins currently under production, benefits will apply for ten years; (viii) companies interested in exploring for hydrocarbons in Argentina must associate with ENARSA (ENARSA's participation in results generated from the activity under this regime will in each case be "in a reasonable ratio to obligations assumed and contributions made"); (ix) both the federal government and the provinces may authorize access to adjoining areas, if a geological continuity is demonstrated, and rights of third parties are not affected; and (x) benefits will extend to companies that are already exploring concession areas under the current hydrocarbons laws. These companies may request to the Secretariat of Energy the subdivision of their production areas, which are only partially explored. Such procedure will generate new areas for exploration with the same benefits, for twelve years offshore and ten years onshore. In order to have the area considered a "new area", and therefore obtain the tax benefits mentioned above, these companies must associate with ENARSA. See "—Hydrocarbon and Other Taxes—Argentina."

MANAGEMENT AND LABOR FORCE

Management Committee

The following table sets forth the names of Pan American's Management Committee as of December 31, 2009. All managers hold their positions until the next annual meeting of Pan American's members or until their respective successors are elected and qualified. Executive officers serve at the discretion of Pan American's Management Committee.

<u>Name</u>	<u>Position</u>
Alejandro P. Bulgheroni	Chairman, Manager
Felipe Bayón Pardo	Manager
Carlos A. Bulgheroni	Manager
Dennis P. Kelleher	Manager
Larry D. McVay	Manager

The business address of the members of the Management Committee and the senior executive officers is Av. Leandro N. Alem 1180 (C1001AAT), Buenos Aires, Argentina.

Neither the members of the Management Committee nor the Senior Executive Officers have any actual or potential conflict of interest between their duties to the Issuer and Guarantor and their private interests or other duties.

Messrs. Carlos A. and Alejandro P. Bulgheroni are brothers. There are no other family relationships between any manager or executive officer of Pan American and any other director or executive officer of Pan American.

The present principal occupations and employment history of each manager and executive officer of Pan American are set forth below.

Alejandro P. Bulgheroni is Chairman of Pan American. He has been a member of the Management Committee of Pan American since November 1997. He has been the Vice-Chairman of Bridas since 1993. Mr. Bulgheroni is a graduate of the University of Buenos Aires with a degree in industrial engineering.

Felipe Bayón Pardo is Chief Executive Officer of Pan American. He has been a member of the Management Committee since August 2005. He is a graduate of Universidad de Los Andes, Bogotá, Colombia with a degree in mechanic engineering.

Carlos A. Bulgheroni has been a member of Pan American's Management Committee since November 1997. He has been the Chairman of Bridas since 1993. Mr. Bulgheroni is a graduate of the University of Buenos Aires Law School.

Dennis P. Kelleher is Chief Financial Officer of Pan American. He has been a member of the Management Committee since June 2007. He is a graduate of the University of Illinois Urbana-Champaign with a degree in accounting and has an MBA from the J. L. Kellogg School of Management (Northwestern University). Mr. Kelleher is a Certified Public Accountant in Illinois (1986).

Larry D. McVay has been a member of Pan American's Management Committee since 2008. He is the Managing Director of Edgewater Energy Partners LLC. He is a graduate of Texas Tech University with a degree in mechanical engineering.

Senior Executive Officers

Alberto E. Gil is Chief Operations Officer of Pan American. He has worked since 1976 in the business that is now owned by Pan American. He is a graduate from the Universidad Nacional de Cuyo, Mendoza, Argentina with a degree in petroleum engineering.

Adrián F. Pérès is Senior Vice President—Commercial Development of Pan American. He has worked since 1985 in the business that is now owned by Pan American. He is a graduate of the University of Buenos Aires Law School. He also serves on the Board of Directors of other affiliated companies.

Rodolfo E. Berisso is Senior Vice President—Finance of Pan American. He has worked since 1980 in the business that is now owned by Pan American. He has a degree in industrial engineering from the Instituto Tecnológico de Buenos Aires.

Rodolfo Diaz is Vice President—Legal Affairs. He has worked at Pan American since 2008. He is a graduate of the Law School of the University of Mendoza and has a postgraduate degree in social sciences from the *Instituto Latinoamericano de Doctrina y Estudios Sociales* in Santiago, Chile.

Mario Calafell Loza is Vice President—Public Affairs of Pan American. He has worked since 1977 in the business that is now owned by Pan American. He is a graduate of the University of Buenos Aires Law School. He also serves on the Board of Directors of affiliated companies.

Rodrigo Miguel Ramacciotti is Vice President—Human Resources of Pan American. He took on this position on October 2008. He is a graduate from the Catholic University of Rosario, with a degree in law.

Rafael Machin is Vice President—Planning and Economics of Pan American. He has a degree in Industrial Engineering from the Universidad Católica Argentina and a master degree in International Business from the Universidad de Belgrano.

Mary Stella Corsaro is the Manager of the HSE Department of Pan American. She has a degree in industrial engineering from University of Comahue and has completed postgraduate studies at Stanford University.

Fernando Villareal is Vice President—Offshore Operations of Pan American. He has worked since 1995 in the business that is now owned by Pan American. He has a degree in civil engineering from the University of Buenos Aires.

Ricardo Srebernic is Vice President—Oil Operations of Pan American. He has worked since 1976 in the business that is now owned by Pan American. He has a degree in industrial engineering from the University of Comahue, Neuquén.

Employees

As of December 31, 2009, Pan American had 1,431 employees (1,429 in Argentina, one in Chile and one in Bolivia), 36 of whom are affiliated with labor unions. Pan American's contractors also have employees that are affiliated with labor unions.

All employees also receive life insurance coverage and health care coverage paid for by Pan American, with the government payroll tax for public health care rebated to Pan American.

In 2009, as a result of strikes, most of which took place outside Pan American's operating area, Pan American suffered road blockages that impeded its employees' normal access to the work facilities and premises during four days in the province of Chubut, and during 19 days in the province of Santa Cruz. See "Risk Factors—Risks Related to Operations in Argentina—Political, Social and Economic Instability in Argentina May Adversely Affect Pan American."

Pension Plans

Until November 2008, Argentine law required that pension plans and other post-retirement benefits contributions be based on salaries were made directly to private pensions responsible for the payment of pension and other post-retirement benefits to retirees. However, in November 2008, the Argentine Congress passed a law eliminating the private pension system, mandating that funds administered by the “AFJP be transferred to a new administrator, ANSES. As such, there is no additional liability to Pan American or its subsidiaries for future pension payments or for any unfunded pension liabilities.

In August 2004, the Branch and Pan American Fuegoina implemented an unfunded pension plan called “Plan Puente”. As of July 1, 2009, however, Pan American discontinued the “Plan Puente” with no significant impact on the Company’s financial position and results of operations. Consequently, upon the settlement thereof, such plan will not accrue further years of service and the liability will be adjusted as a result of company-wide salary increases in Argentine pesos. Some employees have already chosen to change the benefit accrued for a personal savings plan (defined Company contribution). Additionally, each employee is entitled to contribute a portion of his or her wages and salaries to such savings plan. Pan American provides contributions and transfers such amounts to a fiduciary fund.

For more information on Pan American’s pension obligations, see notes 2.10 and 9 to Pan American’s Financial Statements.

Compensation

During 2009, the aggregate compensation paid by Pan American to the then current members of its management committee, its senior executive officers and key employees as a group for services in all capacities was Ps.28,261,991.

Contractors

As of December 31, 2009, Pan American’s contractors had a combined staff of approximately 7,400 employees working on Pan American’s activities in Argentina. Pan American evaluates all of its contractors on the basis of technical capability and experience, financial resources and HSE performance. It bids its projects between eligible contractors, evaluating their credentials and suitability before evaluating their financial proposal. Since mid-2004, Pan American has been developing an initiative with some of its major contractors in order to improve operational efficiencies as well as overall HSE performance. This initiative involves the addition of certain provisions to the standard terms on which Pan American contracts with its contractors. The additional provisions involve key performance indicators designed to test the contractors’ performance. These key performance indicators enable Pan American to more effectively manage the contractors’ performance.

RELATED PARTY TRANSACTIONS

In the ordinary course of its business, Pan American, including through the Branch, engages in transactions with related parties on an arm's-length basis. In accordance with Pan American's constitutive document, as amended, the limited liability company agreement (the "LLC Agreement"), all transactions with related parties are subject to the approval of Pan American's Management Committee, requiring the affirmative vote of managers representing both BP and Bidas. Under the LLC Agreement, a related party transaction means any transaction by Pan American or any affiliated company which is material in size, directly or indirectly, with either (a) any of the management or members holding 5% or more of the equity interests in Pan American or any affiliated company, or promoters of Pan American or any affiliated company, (b) any entity in which any such person described in clause (a) is interested or (c) any person who is connected or related to any such person described in clause (a) above.

For additional information concerning transactions with related parties, see note 13 to Pan American's Financial Statements.

Administrative and Professional Services

Pan American, its subsidiaries and the Branch contract for executive and other services such as office rent, administrative and technical services in the ordinary course of business. Several of those services are contracted by certain subsidiaries and the Branch with companies controlled by BP and Bidas. In 2007, 2008 and 2009, Pan American's subsidiaries and the Branch paid an aggregate amount of approximately U.S.\$11.3 million, U.S.\$12.6 million and U.S.\$22.0 million, respectively, in connection with such services in the ordinary course of their business and on an arm's-length basis.

Oil Field and Other Services

Certain subsidiaries and the Branch have entered into transactions with related parties, such as drilling and well services, which are provided by a company that is related to Bidas, as well as other services, including technical support for field services, which are provided by several entities related to BP. In 2007, 2008 and 2009 Pan American's subsidiaries and the Branch paid a net aggregate of approximately U.S.\$117.2 million, U.S.\$185.1 million and U.S.\$234.3 million, respectively, for such services in the ordinary course of their business and on an arm's-length basis.

Sales of Crude Oil

Certain crude oil sales were made by the Branch to a related party of BP engaged in oil refining activities. In 2007, 2008 and 2009, the Branch sold an aggregate of approximately U.S.\$239.6 million, U.S.\$443.7 million and U.S.\$291.6 million, respectively, to such related party in the ordinary course of its business and on an arm's-length basis.

Other transactions

In 2002, Pan American entered into an agreement with Credit Suisse in relation to the Company's interest in the Acambuco block. This agreement was entered into in connection with obligation that BP had assumed at the time of formation of Pan American to provide substitute financing for the development of such block. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Financing Activities."

The following table summarizes receivable and payable balances at December 31, 2008 and December 31, 2009 with related parties, arising from the transactions described above.

	December 31,	
	2008	2009
	<i>(in millions of U.S.\$)</i>	
Trade account receivable	0.9	0.9
Other accounts receivable.....	1.8	1.6
Trade payables and accrued liabilities	17.4	43.5

PRINCIPAL MEMBERS

Pan American is 60% indirectly owned by BP and 40% owned by Bidas.

The relationship between Pan American and its members is set out in the LLC Agreement. The LLC Agreement sets out arrangements governing Pan American. It provides for, among other things: (i) a five person management committee (the "Management Committee"), with three appointments by BP and two by Bidas, (ii) a dividend policy of a minimum of 15.0% of discretionary cash flow (net income plus depreciation, amortization and asset impairment, plus exploration expenditure, plus or minus any provision for deferred taxes, plus restoration and abandonment provisions), (iii) delineation of the geographic area of mutual interest for Pan American's activities and (iv) the matters which need the approval of specified percentages of the interests of its members and the matters which need the approval of specified percentages of the Management Committee.

BP is one of the largest oil and gas integrated companies in the world with assets in excess of U.S.\$236.0 billion and a market capitalization of about U.S.\$177.0 billion as of December 31, 2009. As of December 31, 2009, it had net proved reserves of 18.3 billion boe, 57% of which were in the form of oil and condensates. During 2009, its worldwide daily production volume averaged 2.5 mmbbls of crude oil and 9.0 bcf of natural gas. BP has operations in more than 70 countries around the world.

Bidas is a British Virgin Islands holding corporation. This company is an international oil and gas company engaged in four principal areas of operations: (i) the exploration and development of oil and gas reserves and the production of oil and gas; (ii) the marketing and transportation of oil, gas and oil by products; (iii) the gathering, treatment, processing and distribution of gas; and (iv) wind power generation. Bidas commenced oil and gas activities in Argentina in 1959 and later became the second largest natural gas producer in the country, prior to the formation of Pan American. Bidas is owned by Bidas Energy Holdings Ltd. In 2009, Bidas' consolidated financial statements recorded sales of U.S.\$1.12 billion with a U.S.\$256.7 million net profit. As of December 31, 2009, total consolidated assets of Bidas amounted to U.S.\$3.41 billion.

Bidas Energy Holdings Ltd., Bidas' parent company, recently announced that on March 13, 2010 it entered into a joint venture agreement with CNOOC Ltd. to transfer a partial interest in Bidas to CNOOC International Ltd., a wholly owned subsidiary of CNOOC Ltd. According to this transaction, each of Bidas Energy Holdings Ltd. and CNOOC International Ltd. will hold 50% of the interests in Bidas.

All financial information contained in this section was derived from the financial statements, as of December 31, 2009, of BP and Bidas, which are not included herein nor incorporated by reference.

DESCRIPTION OF THE NOTES

The following summary of certain provisions of the Indenture and the Notes do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all of the provisions of the Indenture, which is referred to herein and incorporated herein by reference, including the definitions therein of certain terms. The particular terms of the Notes sold pursuant to any Pricing Supplement to this Offering Circular will be described in the applicable Pricing Supplement. The terms and conditions established under the "Description of the Notes" heading, apply to all the Notes unless it is stated otherwise in its corresponding Pricing Supplement. Capitalized terms not otherwise defined in this Section shall have the meanings given to them in the Indenture, the Terms and Conditions of the Notes (the "Terms and Conditions") or the Notes, as applicable.

General

The creation of the Program for the issuance of the Notes has been authorized by a resolution of the Legal Representative of the Issuer passed on November 27, 2007. The Notes will be issued pursuant to the Indenture dated as of February 17, 2009 among the Branch, as issuer, Pan American, as guarantor, the Trustee, as Trustee, Co-Registrar, Paying Agent and Transfer Agent, and Banco de Valores S.A., as Registrar, Paying Agent, Transfer Agent and Representative of the Trustee in Argentina, to receive notices on its behalf from residents of Argentina or the CNV. No Note will become valid or enforceable for any purpose unless and until such Note has been authenticated by or on behalf of the Trustee.

The terms of the Notes are those stated in the Indenture and the Notes. The following summary of the terms and conditions of the Notes and the Indenture are subject to, and qualified in their entirety by reference to, the applicable provisions of the Notes and the Indenture. Wherever particular sections, articles or defined terms of the Indenture are referred to herein, such sections, articles or defined terms shall be as specified in the Indenture. The Holders of the Notes will be entitled to the benefits of, be bound by, and be deemed to have notice of, all of the provisions of the Indenture and the Notes. Copies of the Indenture will be available for inspection and copying during normal business hours at the offices of the Trustee, the Representative of the Trustee in Argentina, the Registrar, the Co-Registrar and the Paying Agents.

The Notes will be issued in Tranches, and each Tranche will be the subject of a Pricing Supplement prepared by or on behalf of the Branch, a copy of which may be obtained at the specified office of the Trustee and each of the Paying Agents and, in the case of a Tranche in relation to which application has been made for listing on any Stock Exchange, a copy of which will be delivered to such Stock Exchange. The Pricing Supplement in respect of Installment Notes (as defined hereinafter) and other types of Notes the terms of which are not specifically provided for herein, will set out in full all terms applicable to such Notes.

The particular terms and conditions of a Series or Tranche of Notes will be described in the applicable pricing supplement. The pricing supplement may supplement or amend the general terms described in this Offering Circular and the Indenture with respect to a Series of Notes. In the event of any discrepancies between this Offering Circular and a pricing supplement the terms set forth in the pricing supplement will prevail with respect to the relevant Series of Notes.

Upon the execution and delivery of the Indenture, or from time to time thereafter, Notes in an aggregate principal amount not in excess of, at any time Outstanding, U.S.\$1,200,000,000 (including, in the case of Notes not denominated in U.S. dollars, the U.S. dollar equivalent of such Notes as determined on the respective dates of issuance thereof pursuant to the terms of the Indenture), or such other amounts as may be agreed to and approved by the CNV, may be issued under the Program. The Trustee shall determine the U.S. dollar equivalent of the principal amount of Notes denominated in a currency other than U.S. dollar in accordance with the terms of the Indenture.

References in this section, the Indenture or any Pricing Supplement to (i) "principal" shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortized Face Amounts and all other amounts in the nature of principal payable pursuant to the terms herein or any amendment or supplement to it, (ii) "interest" shall be deemed to include all Interest Amounts and all other amounts payable pursuant the Terms and Conditions or the Indenture or any amendment or supplement thereto and (iii) "principal" and/or "interest" shall be deemed to include any Additional Amounts that

may be payable under the Terms and Conditions or the Indenture or any undertaking given in addition to or in substitution for it under the Indenture.

Certain Definitions

“Argentine Taxes” means any present or future taxes, duties, levies, withholdings or other governmental charges of whatever nature imposed or established by or on behalf of Argentina or any political subdivision or authority thereof or therein having power to tax.

“Authorized Officers” means any officer, director or attorney-in-fact of the Issuer or the Guarantor, as applicable, as may be duly authorized to take actions under the Indenture and notified to the Trustee in writing by the Issuer or the Guarantor, as applicable.

“Bank” means, with respect to any currency, a bank in the Principal Financial Center for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

“Business Day” means, with respect to any Note, unless otherwise specified in a Legal Representative Resolution or in the applicable Pricing Supplement related to the Series of such Note, any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in New York City or the City of Buenos Aires; *provided* that, with respect to Notes denominated in a Specified Currency other than U.S. dollars, “Business Day” shall also not be a day on which commercial banks are authorized or required by law, regulation or executive order to close in the Principal Financial Center of the country issuing such Specified Currency (or, if the Specified Currency is the Euro, such day is also a day on which the Trans-European Automated Real Time Gross Settlement Express Transfer (TARGET) System is open); provided further, that, with respect to Floating Rate Notes that bear interest at LIBOR, “Business Day” shall also be a London Banking Day.

“Cede” means Cede & Co.

“Consolidated Tangible Assets” means, for any Person at any time, the total consolidated assets of such Person as set forth on the balance sheet as of the most recent fiscal quarter of such Person, less all amounts attributable to intangible capitalized items such as unamortized debt discount and expense, unamortized deferred charges, goodwill, patents, trademarks, service marks, trade names, copyrights and all other items which would be treated as intangible assets on the consolidated balance sheet of such Person prepared in accordance with the relevant general accepted accounting principles applicable to such Person.

“Co-Registrar” means the Trustee, acting as a co-registrar for the Notes.

“Dealer” means any dealer, underwriter, selling or placement agent or similar entity named in any program, underwriting, subscription, distribution, syndicated trade or similar agreement executed in connection with any issuance and sale of Notes. Unless the context otherwise requires, the term “Dealer” shall be deemed to include any purchaser of Notes of any Series which is not otherwise a Dealer and purchases such Notes directly from the Issuer.

“Default” means any event that after giving of notice or passage of time or both would be an Event of Default.

“Governmental Agency” means any public legal entity or public agency, whether created by federal, state or local government, or any other legal entity now existing or hereafter created, or now or hereafter owned or controlled, directly or indirectly, by any public legal entity or public agency.

“Government Obligations” means, in relation to a Series of Notes, unless otherwise specified with respect to such Series of Notes in the relevant Pricing Supplement, (i) direct obligations of the government which issued the Specified Currency in which the Notes of such Series are payable or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the government which issued the Specified Currency in which the Notes of such Series are payable, the payment of which is unconditionally guaranteed by such government, which, in either case, are full faith and credit obligations of such government payable in such Specified Currency and are not callable or redeemable at the option of the issuer thereof and shall also include a depositary

receipt issued by a bank or trust company as custodian with respect to any such Government Obligation or a specific payment of interest on, or principal of, any such Government Obligation held by such custodian for the account of the holder of a depositary receipt; provided, however that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the Government Obligation or the specific payment of interest or principal of the Government Obligation evidenced by such depositary receipt.

“Hedging Obligations” means, in respect of any Person, all liabilities of such Person under interest rate swap agreements, interest rate cap agreements and interest rate collar agreements, and all other agreements or arrangements designed to protect such Person against fluctuations in, or to achieve more favorable, interest rates or currency exchange rates; provided, in any such case, that no such interest rate swap agreements, interest rate cap agreements and/or interest rate collar agreements or all other such agreements or arrangements are entered into for speculation purposes.

“Interest Payment Date(s)” means the date(s) specified in the applicable Pricing Supplement as the date(s) on which interest is payable throughout the life of the related Notes.

“Investment Grade Rating” means a rating equal to or higher than (i) BBB-, by Standard & Poor’s, a division of the McGraw Hill Companies, Inc. or Fitch Ratings Ltd. and (ii) Baa3, by Moody’s Investors Service, Inc. or (iii) the equivalent of either (i) or (ii) from any other Nationally Recognized Statistical Rating Organization.

“Issue Date” means the date of authentication.

“Issue Price” means the price (generally expressed as a percentage of the principal amount) at which the Notes will be issued, as specified on the Notes.

“Legal Representative” means the *representante legal* of the Issuer, as determined in accordance with Argentine law and notified to the Trustee in writing.

“Legal Representative Resolution” means a written resolution of the Legal Representative.

“Lien” means any mortgage, pledge, lien (including a fiduciary assignment as security for any Indebtedness or with recourse to the Issuer, the Guarantor or any Material Subsidiary), or other similar encumbrance or security interest (including any conditional sale or other title retention agreement and the interest of a lessor under a capital lease); provided, however, that “Lien” shall not include any right or interest arising out of the sale (including through a fiduciary assignment without recourse) by the Issuer, the Guarantor or any Material Subsidiary of accounts receivable relating to any receivables’ securitization or similar transaction.

“Material Subsidiary” means any Subsidiary which would constitute a “significant subsidiary” as defined in Rule 1.02 of Regulation S-X issued under the Exchange Act based on the most recently issued quarterly or annual consolidated financial statements of the Guarantor.

“Maturity” means, with respect to any Note, the date on which any principal of such Note becomes due and payable as provided therein or herein, whether at the Stated Maturity with respect to such principal or by declaration of acceleration, call for redemption or purchase or otherwise.

“Maturity Date” means when used with respect to any Note, the date specified in the applicable Pricing Supplement as the date on which the related Notes (unless previously redeemed or purchased and cancelled) will be redeemed.

“Nationally Recognized Statistical Rating Organization” has the meaning set forth under Rule 436 under the Securities Act.

“Opinion of Counsel” means a written opinion of counsel, who may, but need not, be counsel for, or an employee of, the Issuer, and who shall be reasonably acceptable to the Trustee.

“Optional Redemption Date” means the date specified as such in the applicable Pricing Supplement for the related Notes.

“Person” means any individual, corporation, limited liability company, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Principal Financial Center” means with respect to any Specified Currency, the principal financial center of the country of such Specified Currency or, if the Specified Currency is euro, in Luxembourg.

“Specified Currency” means the specified currency (which may include Argentine pesos, Australian dollars, Canadian dollars, Danish krone, euro, Hong Kong dollars, New Zealand dollars, Norwegian krone, English pound sterling, Swedish kronor, Swiss francs, U.S. dollars, Japanese yen or such other currency or currencies as may be agreed between the Issuer, the Guarantor and the relevant Dealer(s)) in which the Notes will be denominated.

“Specified Denomination” means, with respect to any Note, the denomination of such Note which shall comply with the requirements of Condition 2.

“Stock Exchange” means any securities exchange.

“Subsidiary” means, with respect to any Person, any corporate entity of which more than 50% of the outstanding ownership interest having ordinary voting power to elect a majority of the governing body of such corporate entity (irrespective of whether at the time ownership interests of any other class or classes of such corporate entity shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned by such Person and one or more other Subsidiaries of such Person or by one or more other Subsidiaries of such Person; provided, however, that the term Subsidiary shall not include Chaco or any of its Subsidiaries, unless and until the Guarantor becomes the direct or indirect owner of at least 75% of the voting shares of Chaco. When used in this definition, the term “Subsidiary” shall include any branches of the Guarantor or any of its Subsidiaries.

“TARGET System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereto.

Form, Denomination and Title

Notes of each Tranche of each Series sold in reliance on Rule 144A under the Securities Act to qualified institutional buyers or QIBs, will be represented by a permanent restricted global note in fully registered form without interest coupons attached, a Rule 144A Global Note, which will be deposited with a custodian for and registered in the name Cede, as nominee of DTC. Notes of each Tranche of each Series sold in offshore transactions in reliance on Regulation S under the Securities Act will be initially represented by a temporary restricted global note in fully registered form without interest coupons attached, a Restricted Regulation S Global Note, which will be deposited with a custodian for, and registered in the name of Cede, as nominee of, DTC for the accounts of Euroclear and Clearstream, Luxembourg. Until and including the expiration of any Restricted Period, beneficial interests in a Restricted Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg. After the Restricted Period has terminated, owners of beneficial interests in the Restricted Regulation S Global Note may exchange their beneficial interests in the Restricted Regulation S Global Note of a particular Tranche for beneficial interests in an unrestricted global note of such Tranche that shall be issued in the form of a permanent global note in fully registered form without interest coupons each, an Unrestricted Regulation S Global Note, upon certification that such beneficial owner is not a “U.S. Person” within the meaning of Rule 902 of the Securities Act or upon certification that such beneficial owner is a U.S. Person who purchased its interest in a transaction that did not require registration under the Securities Act. Beneficial interests in Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including depositaries for Euroclear and Clearstream, Luxembourg.

Any reference herein to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearance system approved by the Branch, the relevant Dealer(s) and the Trustee.

Each Note will be numbered serially with an identifying number that will be recorded in the Register to be kept by the Registrar. Title to Notes will pass only by registration of transfer in the Register. The Holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not such Note is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss), and no person will be liable for so treating the Holder.

Unless otherwise indicated in the applicable Pricing Supplement, Notes will be issued in the following Specified Denominations: (i) Notes resold pursuant to Rule 144A will be in denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof (or, in the case of Notes not denominated in U.S. dollars, such amount as set forth in the applicable Pricing Supplement); and (ii) Notes sold pursuant to Regulation S will be in denominations of U.S.\$10,000 and integral multiples of U.S.\$1,000 in excess thereof (or, in the case of Notes not denominated in U.S. dollars, such amount as set forth in the applicable Pricing Supplement).

The Notes may be issued (a) to bear interest on a fixed rate basis (“Fixed Rate Notes”), (b) to bear interest on a floating rate basis (“Floating Rate Notes”), (c) on a non interest bearing basis (“Zero Coupon Notes”), (d) with principal and/or interest (i) payable in one or more currencies different from the currency in which such Notes are denominated (“Dual Currency Notes”), or (ii) linked to an index and/or a formula (respectively “Index Linked Interest Notes” and “Index Linked Redemption Notes” and together “Indexed Notes”), (e) which are redeemable in two or more installments (“Installment Notes”), (f) in respect of which the subscription money due from the Holder is not paid in full (“Partly Paid Notes”) and (g) in any combination thereof as specified in the applicable Pricing Supplement, depending upon the Interest Basis and Redemption/Payment Basis specified in the applicable Pricing Supplement, or in such other form as the Branch, the Guarantor and any Dealer may agree. References in this section to a Note being denominated in a Specified Currency (as defined herein) shall, unless the context otherwise requires, include a reference to such Note being payable in that Specified Currency.

Global Notes

The statements set forth herein include summaries of certain rules and operating procedures of DTC, Euroclear and Clearstream Luxembourg, which affect transfers of interests in the Global Notes.

Except as set forth below, a Global Note may be transferred, in whole or part, only to DTC, another nominee of DTC or a successor of DTC or its nominee.

Beneficial interests in the Global Notes will be represented, and transfers of such beneficial interests will be effected, through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Subject to the minimum denominations described above, such beneficial interests will be in denominations of U.S.\$1,000 and integral multiples thereof (or, in the case of Notes not denominated in U.S. dollars, the equivalent thereof as set forth in the applicable Pricing Supplement). Investors may hold Notes directly through DTC, Euroclear or Clearstream Luxembourg, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Euroclear and Clearstream Luxembourg hold securities on behalf of their participants through customers’ securities accounts in their respective names on the books of their respective depositaries, which in turn hold such securities in customers’ securities accounts in the depositaries’ names on the books of DTC.

A beneficial interest in Restricted Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note only upon receipt by the Trustee of a written certification from the transferor (in the applicable form provided in the Indenture) to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in the Restricted Regulation S Global Note or Unrestricted Regulation S Global Note, only upon receipt by the Trustee of a written certification from the transferor (in the applicable form provided in the Indenture) to the

effect that (i) such transfer is being made in accordance with Regulation S or, after the expiration of any Restricted Period, that the Note being transferred is not a “restricted security” within the meaning of Rule 144 under the Securities Act and (ii) prior to the expiration of any Restricted Period, interests in such Note will be held immediately thereafter through Euroclear or Clearstream Luxembourg. Any beneficial interest in one of the Global Notes that is transferred to a person who takes delivery in the form of an interest in another Global Note will, upon transfer, cease to be an interest in such Global Note and become an interest in such other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for as long as it remains such an interest.

Until the expiration of any Restricted Period, beneficial interests in a Restricted Regulation S Global Note may be held only through Euroclear or Clearstream Luxembourg.

DTC has advised the Branch that it is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. DTC’s participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of which and/or their representatives own DTC. Access to DTC’s book-entry system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. Persons who are not participants may beneficially own securities held by DTC only through participants.

Upon the issuance of the Global Notes, DTC will credit, on its book-entry registration and transfer system, the respective nominal amounts of the Notes represented by such Global Notes to the accounts of the participants designated by the relevant Dealer or Dealers.

Persons who are not DTC participants may beneficially own Notes held by DTC only through direct or indirect participants in DTC (including Euroclear and Clearstream Luxembourg). So long as Cede, as the nominee of DTC, is registered owner of the Global Notes, Cede for all purposes will be considered the sole Holder represented by the Global Notes under the Indenture and the Notes. Except as provided below, owners of beneficial interests in the Global Notes will not be entitled to have Notes represented thereby registered in their names, will not receive or be entitled to receive physical delivery of such Notes in definitive form and will not be considered the Holders thereof under the Indenture or the Notes. Accordingly, any person owning a beneficial interest in either of the Global Notes must rely on the procedures of DTC and, to the extent relevant, Euroclear or Clearstream Luxembourg, and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, to exercise any rights of a Holder represented thereby. The Branch understands that, under existing industry practice, in the event that any owner of a beneficial interest in a Global Note desires to take any action that Cede, as the Holder of such Global Note, is entitled to take, Cede would authorize the participants to take such action, and the participants would authorize beneficial owners owning through such participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

DTC may grant proxies or otherwise authorize DTC participants (or persons holding beneficial interests in the Notes through such DTC participants) to exercise any rights of a Holder or take any other actions which a Holder is entitled to take under the Indenture or the Notes. Under its usual procedures, DTC would mail an omnibus proxy to the Branch assigning Cede’s consenting or voting rights to those DTC participants to whose accounts the Notes are credited on a record date as soon as possible after such record date. Euroclear or Clearstream Luxembourg, as the case may be, will take any action permitted to be taken by a Holder under the Indenture or the Notes on behalf of a Euroclear participant or Clearstream Luxembourg participant only in accordance with its relevant rules and procedures and subject to its depository’s ability to effect such actions on its behalf through DTC. In order to attend meetings of Holders, Holders must notify the Co-Registrar of their intention to do so at least three business days prior to the date of such meeting, such notice entitling such Holder to attend the meeting.

The Global Notes will not be exchangeable for Definitive Notes, except as provided under “—Definitive Notes.”

Definitive Notes

If DTC or any successor depository is at any time unwilling or unable to continue as a depository for a Global Note or ceases to be a “clearing agency” registered under the Exchange Act and a successor depository is not appointed by the Branch within 90 days after the Branch receives notice from such depository or the Trustee to that effect or after the Branch becomes aware that such depository is no longer so registered, or the Trustee has instituted or has been directed to institute any judicial proceeding in a court to enforce the rights of the Holders under the Notes and the Trustee has been advised by counsel that in connection with such proceeding it is necessary or appropriate for the Trustee to obtain possession of the Notes or an Event of Default has occurred and is continuing with respect to the Notes, the Trustee will complete, authenticate and deliver Notes in certificated registered form duly executed by the Branch and deposited with the Trustee on the Issue Date in exchange for such Global Note. In the case of Definitive Notes issued in exchange for a Rule 144A Global Note, such certificates will bear, and be subject to, the legend referred to under “Transfer Restrictions.”

The Holder of Definitive Notes may transfer such Notes by surrendering them at the office or agency maintained by the Branch for such purpose in the Borough of Manhattan, The City of New York, which initially will be the office of the Trustee, or at the office of any Transfer Agent. Upon the transfer, exchange or replacement of Definitive Notes bearing a restrictive legend, or upon specific request for removal of such legend, the Branch will deliver only Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Branch such satisfactory evidence, which may include an Opinion of Counsel, as may reasonably be required by the Branch, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Neither the Registrar, the Co-Registrar nor any Transfer Agent shall register the transfer of or exchange of any Definitive Notes during the period commencing on the 15th day prior to the due date for any payment of principal of any such Note or any Interest Payment Date on any such Note, or register the transfer or exchange of any Notes previously called for redemption.

Foreign Currency Denominated Notes

The Notes may be denominated in U.S. dollars or in one or more other Specified Currencies. Purchasers of Notes denominated in a Specified Currency are required to pay for such Notes in the Specified Currency unless otherwise provided in the applicable Pricing Supplement.

The Branch’s obligation on Notes denominated in a Specified Currency is to make payment of principal of and interest on such Notes in such Specified Currency. Holders of Notes denominated in a Specified Currency other than U.S. dollars must make an election in accordance with the terms of the Notes in order to receive payments in such Specified Currency. In the absence of such an election, Holders will receive payments on the Notes in U.S. dollars.

Transfer of Notes and Issuance

A Note may be transferred in whole or in part in a Specified Denomination. Transferees of interests in one Note may take delivery in the form of interests in another Note of the same Tranche, subject to the certification requirements set forth in the Indenture.

The Holder of Definitive Notes may transfer such Notes by surrendering them at the office or agency maintained by the Branch for such purpose in the Borough of Manhattan, The City of New York, which initially will be the office of the Trustee, or at the office of any Transfer Agent. Upon the transfer, exchange or replacement of Definitive Notes bearing a restrictive legend, or upon specific request for removal of such legend, the Branch will deliver only Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Branch such satisfactory evidence, which may include an Opinion of Counsel, as may reasonably be required by the Branch, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

If DTC or any successor depository is at any time unwilling or unable to continue as a depository for a Global Note or ceases to be a “clearing agency” registered under the Exchange Act and a successor depository is not appointed by the Branch within 90 days after the Branch receives notice from such depository or the Trustee to that effect, or after the Branch becomes aware that DTC is no longer so registered, or the Trustee has instituted or has been directed to institute any judicial proceedings in a court to enforce the rights of Noteholders under the Notes and the Trustee has been advised by an Opinion of Counsel in connection with such proceedings that it is necessary or appropriate for the Trustee to obtain possession of the Notes or an Event of Default (as defined herein) has occurred and is continuing with respect to the Notes, the Trustee will complete, authenticate and deliver Notes in certificated registered form duly executed by the Branch and deposited with the Trustee on the Issue Date in exchange for such Global Note.

No transfer or exchange between a Note of one Series and a Note of another Series shall be permitted. Neither the Registrar nor the Co-Registrar nor any Transfer Agent shall register the transfer or exchange of any Notes previously called for redemption.

Status and Ranking of the Notes and of the Guarantee

The Notes will (unless provided otherwise in the applicable Pricing Supplement) constitute direct, unsecured and unconditional obligations of the Branch. Unless otherwise noted in the applicable Pricing Supplement, the payment obligations of the Branch under the Notes will, except as is or may be provided by Argentine law, at all times rank at least pari passu in priority of payment with all other present and future unsecured and unsubordinated obligations of the Branch from time to time outstanding.

The Branch’s obligations under the Notes will be guaranteed by the Guarantor in accordance with the terms of the Indenture and the applicable Pricing Supplement. The Guarantee will rank pari passu in right of payment to all existing or future indebtedness of the Guarantor.

Interest

(a) Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding principal amount from and including the Issue Date or the Interest Commencement Date, if different from the Issue Date, at the rate per annum (expressed as a percentage) equal to the Rate(s) of Interest specified in the applicable Pricing Supplement, payable in arrears on the Interest Payment Date(s) specified in the applicable Pricing Supplement in each year and on the Maturity Date (as defined herein) so specified if such Maturity Date does not fall on an Interest Payment Date. If a Fixed Coupon Amount or a Broken Amount is specified in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the applicable Pricing Supplement.

(b) Floating Rate Notes and Index Linked Interest Notes

(i) *Interest Payment Dates.* Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding principal amount from the Issue Date or the Interest Commencement Date, if different from the Issue Date, at the rate per annum (expressed as a percentage) equal to the Rate of Interest, and such interest will be payable on each Interest Payment Date.

Such Interest Payment Date(s) is/are either specified in the applicable Pricing Supplement as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are so specified, Interest Payment Date shall mean each date which falls the number of months or other period specified in the applicable Pricing Supplement as the Specified Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention:* If any date referred to in this section that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day,

then, if the Business Day Convention specified is (i) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such date shall be brought forward to the immediately preceding Business Day and (B) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (ii) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (iii) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (iv) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) Rate of Interest for Floating Rate Notes: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the applicable Pricing Supplement, and the provisions below relating to either Screen Rate Determination or ISDA Determination shall apply, depending upon which is so specified.

(A) Screen Rate Determination. Where Screen Rate Determination is specified in the applicable Pricing Supplement, the Rate of Interest payable from time to time in respect of the relevant Tranche of Floating Rate Notes denominated in a Specified Currency will be determined on the basis of the following provisions:

(1) If the Primary Source for Floating Rate is the Relevant Screen Page, the Rate of Interest for each Interest Accrual Period shall, subject as provided below, be:

(x) the Relevant Rate (where such Relevant Rate on such Relevant Screen Page is a composite quotation or is customarily supplied by one entity), or

(y) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Relevant Screen Page,

in each case appearing on such Relevant Screen Page at the Relevant Time on the Interest Determination Date.

(2) (A) If the Primary Source for Floating Rate is Reference Banks or (B) if the Primary Source for Floating Rate is the Relevant Screen Page but if, on any Interest Determination Date, no Relevant Rate appears on the Relevant Screen Page at the Relevant Time, or, in the case of a Relevant Screen Page that normally displays at least two rates for any relevant period, fewer than two Relevant Rates appear at such time, then in each such case the Rate of Interest for such Interest Accrual Period shall, subject as provided below, be the arithmetic mean (rounded, if necessary, to the nearest fourth decimal place (0.00005 being rounded upwards)) of the rates at which the Trustee is advised from the four Reference Banks that the Trustee has selected, that deposits of a Representative Amount of the Specified Currency for a period equal to the Specified Duration are offered by such Reference Banks to leading banks in the Relevant Financial Center at the Relevant Time on the Interest Determination Date, all as determined by the Trustee.

(3) If on any such Interest Determination Date to which subparagraph (2) above applies, the four Reference Banks that the Trustee has selected provide the Trustee such rates, the Rate of Interest for the next Interest Accrual Period shall, subject as provided below, be determined as in subparagraph (2) above on the basis of the rates of those Reference Banks providing such rates.

(4) If on any such Interest Determination Date to which subparagraph (2) above applies the Trustee is only able to obtain such rates from one or none of the Reference Banks, the Rate of Interest for the next Interest Accrual Period shall, subject as provided below, be the Reserve Interest Rate. The "Reserve Interest Rate" shall be the rate per annum that the Trustee determines to be either (x) the arithmetic mean (rounded, if necessary, to the nearest fourth decimal place (0.00005 being rounded upwards)) of the lending rates for the Specified Currency that banks selected by the Trustee in the principal financial center of the country of the Specified Currency or, if the Specified Currency is the euro, in Luxembourg (the "Principal Financial Center"), are quoting at the Relevant Time on the relevant Interest Determination Date for a period equal to the Specified Duration in respect of a Representative Amount of the Specified Currency to leading European banks or (y) in the event that the Trustee can determine no such arithmetic mean, the lowest lending rate for the Specified Currency that banks selected by the Trustee in the

Principal Financial Center of the country of the Specified Currency are quoting on such Interest Determination Date to leading European banks for a period equal to the Specified Duration in respect of a Representative Amount of the Specified Currency, if any; *provided* that if the banks selected as aforesaid by the Trustee are not quoting as mentioned above, the Rate of Interest shall be the Rate of Interest in effect for the last preceding Interest Accrual Period to which subparagraphs (1), (2) and (3) above shall have applied (after readjustment for any difference between any Margin, or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

(B) *ISDA Determination.* Where ISDA Determination is specified in the applicable Pricing Supplement, the Rate of Interest payable for the relevant Tranche of Floating Rate Notes for each Interest Accrual Period will be the relevant ISDA Rate.

For the purposes of this sub-paragraph (B), “ISDA Rate” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (1) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (2) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (3) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (B), “Floating Rate,” “Calculation Agent,” “Floating Rate Option,” “Designated Maturity,” “Reset Date” and “Swap Transaction” have the meanings given to those terms in the ISDA Definitions.

(iv) *Rate of Interest for Index Linked Interest Notes:* The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified in the applicable Pricing Supplement and interest will accrue by reference to an Index or Formula as specified in the applicable Pricing Supplement.

(v) *Determination of Rate of Interest and Computation of Interest Amount:* The Trustee will, as soon as practicable after the Relevant Time on each Interest Determination Date, determine the Rate of Interest and compute the amount of interest payable in respect of the minimum Specified Denomination (each an “Interest Amount”) for the relevant Interest Accrual Period. Each Interest Amount shall be computed by applying the Rate of Interest to the outstanding principal amount, multiplying such sum by the applicable Day Count Fraction unless an Interest Amount (or a formula for its calculation) is specified in respect of such period, in which case the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula) and rounding the resultant figure to the nearest cent (or its approximate equivalent in the relevant other Specified Currency), half a cent (or its approximate equivalent in the relevant other Specified Currency) being rounded upwards. Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods. The determination of the Rate of Interest and computation of each Interest Amount by the Trustee shall (in the absence of manifest error) be final and binding upon all parties.

(vi) *Margin:* If any Margin is specified, either (x) generally or (y) in relation to one or more Interest Accrual Periods, an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin, subject always to paragraph (vii) below.

(vii) *Minimum Interest Rate and Maximum Interest Rate.* If the applicable Pricing Supplement specifies a Minimum Interest Rate, then the Rate of Interest shall in no event be less than such minimum, and if a Maximum Interest Rate is specified, then the Rate of Interest shall in no event exceed such maximum.

(viii) Notification of Rate of Interest and Interest Amount. The Trustee will cause the Rate of Interest and the Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Branch, each Paying Agent as soon as possible but in any event not later than the fourth Business Day after their determination. Each Interest Amount and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) by written notification as aforesaid in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified by the Trustee to the relevant Stock Exchange (if any).

(c) Zero Coupon Notes

Where a Zero Coupon Note becomes due and payable prior to the Maturity Date, the amount due and payable shall be the Amortized Face Amount of such Note. Any outstanding principal amount of such Note not paid when due shall bear interest from the Maturity Date at a rate per annum equal to the Accrual Yield set forth in the relevant Pricing Supplement.

(d) Dual Currency Notes

In the case of Dual Currency Notes, if the Rate of Interest or amount of interest or payment in respect of principal (at maturity or otherwise) is to be determined by reference to a Rate of Exchange, the Rate of Interest or amount of interest or payment in respect of principal (at maturity or otherwise) payable shall be determined by the calculation agent specified in the applicable Pricing Supplement in the manner specified in the applicable Pricing Supplement.

(e) Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes that are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up principal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

(f) Accrual of Interest

Interest will be paid subject to and in accordance with the provisions of this Section, the Indenture and the applicable Pricing Supplement. Interest will cease to accrue on each Note (or, in the case of the redemption of only part of a Note, that part of such Note) on the due date for redemption thereof unless, upon due presentation thereof, payment of principal is improperly withheld or refused, in which event interest will continue to accrue (to the extent permitted by law as well after as before any judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the Holder of such Note and (b) the day on which the Trustee has notified the Holder thereof of receipt of all sums due in respect thereof up to that date.

(g) Definitions

As used in this section:

“*Day Count Fraction*” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the “*Calculation Period*”):

if “*Actual/365*” or “*Actual/Actual-ISDA*” is specified in the applicable Pricing Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

if “*Actual/365 (Fixed)*” is specified in the applicable Pricing Supplement, the actual number of days in the Calculation Period divided by 365;

if “*Actual/360*” is specified in the applicable Pricing Supplement, the actual number of days in the Calculation Period divided by 360;

if “*30/360*”, “*360/360*” or “*Bond Basis*” is specified in the applicable Pricing Supplement, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));

if “*30E/360*” or “*Eurobond Basis*” is specified in the applicable Pricing Supplement, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of a Calculation Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); and

if “*Actual/Actual-ISMA*” is specified in the applicable Pricing Supplement,

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“*Determination Period*” means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

“*Determination Date*” means the date specified as such on the Note or, if none is so specified, the Interest Payment Date.

“*Effective Date*” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such in the applicable Pricing Supplement, or if none is so specified, the first date of the Interest Accrual Period to which such Interest Determination Date relates.

“*Eligible Bank*” means JPMorgan Chase Bank NA, Citibank NA, HSBC Bank plc, Barclays Bank plc, Bank of America NA, Deutsche Bank AG, Credit Suisse Group, UBS AG; provided, however, that in the event of merger, consolidation or other combination involving any Eligible Bank, the Issuer shall designate in writing (with a copy of such designation delivered to the Trustee) another major commercial bank operating in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the Benchmark (which, if EURIBOR is the relevant Benchmark, shall be Europe), which bank shall become an Eligible Bank upon any such designation. At the Trustee’s written request, the Issuer shall deliver to the Trustee contact information for each Eligible Bank that the Trustee may contact in order to determine any necessary rates.

“*Interest Accrual Period*” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“*Interest Amount*” means the amount of interest payable, and in the case of Fixed Rate Notes, means the Fixed Coupon Amount or Broken Amount, as the case may be.

“*Interest Commencement Date*” means the Issue Date or such other date as may be specified in the applicable Pricing Supplement.

“*Interest Determination Date*” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the applicable Pricing Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“*Interest Period*” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“*Interest Period Date*” means each Interest Payment Date unless otherwise specified in the applicable Pricing Supplement.

“*ISDA Definitions*” means the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the applicable Pricing Supplement.

“*Rate of Interest*” means the rate of interest payable from time to time in respect of a Note and that is either specified or calculated in accordance with the provisions of such Note.

“*Reference Banks*” means the institutions specified as such in the applicable Pricing Supplement or, if none, four Eligible Banks selected by the Trustee.

“*Relevant Financial Center*” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the financial center as may be specified as such in the applicable Pricing Supplement or, if none is so specified, the financial center with which the relevant Benchmark is most closely connected (which, in the case of EURIBOR, shall be Europe) or, if none is so connected, London.

“*Relevant Rate*” means the Benchmark for a Representative Amount of the Specified Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date.

“*Relevant Screen Page*” means the screen page specified as such in the applicable Pricing Supplement.

“*Relevant Time*” means, with respect to any Interest Determination Date, the local time in the Relevant Financial Center specified in the applicable Pricing Supplement or, if no time is specified, the local time in the Relevant Financial Center at which it is customary to determine bid and offered rates in respect of deposits in the Specified Currency in the interbank market in the Relevant Financial Center and for this purpose “local time” means, with respect to Europe as a Relevant Financial Center, 11.00 hours, Brussels time.

“*Representative Amount*” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the amount specified as such in the applicable Pricing Supplement or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time.

“*Specified Duration*” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the duration specified in the applicable Pricing Supplement or, if none is specified, a period of time equal to the relevant Interest Accrual Period.

Redemption and Purchase

The Notes shall not be subject to redemption by the Branch or the Holder of a Note except as specified in the applicable Pricing Supplement, and as provided herein, and subject to compliance with all applicable laws and regulations.

(a) At Maturity

Unless otherwise specified in the applicable Pricing Supplement and unless previously redeemed, or purchased and cancelled, each Note will be redeemed by the Branch at its Final Redemption Amount or such other amount specified in the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

(b) Redemption for Tax Reasons

The Notes may be redeemed at the option of the Branch in whole, but not in part, at any time (in the case of a Note other than a Floating Rate Note) or on any Interest Payment Date (in the case of a Floating Rate Note), on giving not less than 30 nor more than 60 days’ irrevocable written notice to the Trustee (who shall give at least 15 day’s notice to the Holders) at their Early Redemption Amount together with accrued interest to the date fixed for redemption, if:

(i) on the occasion of the next payment due under the Notes, the Branch has or will become obliged to pay Additional Amounts (as defined herein) as a result of any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of Argentina or any political subdivision or any authority thereof or therein having power to tax, or any change in the application, administration or official interpretation of such laws, regulations or rulings including the holding of a court of competent jurisdiction, or any change in official position regarding, or application of, any treaty affecting taxation to which Argentina is a party which change or amendment becomes effective on or after the Issue Date of such Notes; and

(ii) such obligation to pay Additional Amounts cannot be avoided by the Branch taking reasonable measures available to it;

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Branch would be obliged to pay Additional Amounts were a payment in respect of the Notes then due.

Prior to the distribution of any notice of redemption in the terms hereof, the Branch shall deliver to the Trustee a certificate signed by the Legal Representative of the Branch stating that the Branch is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Branch so to redeem have occurred, and an opinion of independent legal advisers of recognized standing to the effect that the Branch has or will become obligated to pay such Additional Amounts as a result of such change or amendment.

(c) Pricing Supplement

The Pricing Supplement applicable to each Note will indicate that either:

(i) such Note cannot be redeemed prior to its Maturity Date (except as otherwise provided in the Indenture); or

(ii) such Note will be redeemable at the option of the Branch and/or the Holder of such Note prior to such Maturity Date in accordance with the provisions of paragraphs (d) and/or (e) below on the date or dates and at the amount or amounts specified in the applicable Pricing Supplement.

(d) Redemption At the Option of the Branch

If so specified in the applicable Pricing Supplement, the Branch may, on giving (unless otherwise specified in the applicable Pricing Supplement) not more than 30 nor less than 15 days' irrevocable written notice to the Trustee (or such other notice period as may be specified in the applicable Pricing Supplement and acceptable to the Trustee), redeem all or only some of the Notes of the Series with respect to which such Pricing Supplement relates then outstanding on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in the applicable Pricing Supplement together, if applicable, with accrued interest to but excluding the date fixed for redemption. The Trustee will notify the Holders at least 10 days prior to the Optional Redemption Date. Any such redemption must relate to Notes of a principal amount at least equal to the minimum principal amount to be redeemed specified in the applicable Pricing Supplement and no greater than the maximum principal amount to be redeemed specified in the applicable Pricing Supplement. In the case of a partial redemption of Definitive Notes, the Notes to be redeemed will be selected by the Trustee *pro rata*, individually by lot or as otherwise selected by the Trustee in accordance with applicable law and any applicable regulations of any Stock Exchange, and a list of the Notes called for redemption shall be provided to the Holders of such Notes not less than 10 days prior to the Optional Redemption Date. In the case of a partial redemption of Notes that are represented by a Global Note, the relevant Notes will be redeemed in accordance with the rules of DTC, Euroclear and/or Clearstream, Luxembourg, as applicable. If and for so long as the Notes are listed on the Luxembourg Stock Exchange for trading on the Euro MTF or any other securities exchange and the rules of the relevant securities exchange so require, the Issuer shall, once in each year in which there has been a partial redemption of the Notes, cause to be published in a leading newspaper of general circulation in Luxembourg, which is expected to be the *Luxemburger Wort*, or as specified by such other securities exchange, a notice specifying the aggregate principal amount of Notes Outstanding and a list of the Notes drawn for redemption by not surrendered.

(e) Redemption at the Option of the Holders

If so specified in the applicable Pricing Supplement, upon the Holder of any Note giving to the Trustee in accordance with the provisions the Indenture not more than 60 nor less than 30 days' irrevocable written notice (or as otherwise specified in the Pricing Supplement and as agreed to by the Trustee), the Trustee shall promptly provide a copy of such notice to the Branch, and the Branch will redeem subject to, and in accordance with, the terms specified in the applicable Pricing Supplement in whole, but not in part, the Note on the Optional Redemption Date and at the Optional Redemption Amount specified in the applicable Pricing Supplement together, if applicable, with accrued interest.

(f) Notices to Redeem

Notices to redeem Notes shall be sent in accordance with the provisions of the Indenture and shall specify the date fixed for redemption, the applicable redemption price, the place or places of payment, that payment will be made, in the case of Definitive Notes, upon presentation and surrender at the office of any Paying Agent of the Notes to be redeemed (or portion thereof in the case of a partial redemption), and, in the case of any Global Notes, upon presentation for endorsement (in the case of a partial redemption) or surrender, and that on and after such date interest thereon will cease to accrue. If the redemption is pursuant to clause (b) above, such notice shall also state that the Branch has confirmed that the conditions precedent to such redemption have occurred and state that the Branch has elected to redeem all the Notes subject to the conditions of clause (b) above.

(g) Early Redemption Amounts

For the purposes of subsections (b) and (c) above, and unless otherwise specified in the applicable Pricing Supplement, Notes (other than Indexed Notes) shall be redeemed at an amount (the "Early Redemption Amount") computed by the Branch as follows:

(i) in the case of Notes issued at an Issue Price of 100% of their principal amount, at their principal amount in the relevant Specified Currency, together with interest accrued to the date fixed for redemption;

(ii) in the case of Notes (other than Zero Coupon Notes) issued with an Issue Price greater or less than 100% of their principal amount, at the amount set forth in the applicable Pricing Supplement; or

(iii) in the case of Zero Coupon Notes, at an amount (the "Amortized Face Amount") equal to:

- (A) the sum of (x) the Reference Price specified in the applicable Pricing Supplement and (y) the product of the Accrual Yield specified in the applicable Pricing Supplement (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption pursuant to subsections (b), (d) or (e) above or (as the case may be) the date upon which such Note becomes due and repayable; or
- (B) if the amount payable in respect of any Zero Coupon Note upon redemption of such Note pursuant to subsections (b), (d) or (e) above or upon its becoming due and repayable is not paid when due, the amount due and repayable in respect of such Note shall be the Amortized Face Amount of such Note computed as provided above, except that subparagraph (A) shall have effect as though the references in subparagraph (A) to the date fixed for redemption or the date upon which the Zero Coupon Note becomes due and repayable were replaced by references to the date (the "Reference Date") that is the earlier of:
 - (1) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the Holder of such Note; and
 - (2) the date on which the full amount of the moneys repayable has been received by the Trustee and notice to that effect has been given to the applicable Holders.

The computation of the Amortized Face Amount in accordance with subparagraph (B) will continue to be made, to the extent permitted by applicable law after as well as before judgment, until the Reference Date, unless the Reference Date falls on or after the Maturity Date, in which case the amount due and repayable shall be the principal amount of such Note together with interest at a rate per annum equal to the Accrual Yield and computed in accordance with the provisions of the Indenture.

(h) Other Notes

The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above) upon it becoming due and payable as provided in the Indenture shall be the Final Redemption Amount unless otherwise specified in the applicable Pricing Supplement.

(i) Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this section, the Indenture and the provisions specified in the applicable Pricing Supplement.

(j) Purchase of Notes by the Branch

The Branch, the Guarantor or any Affiliate of the Branch and/or the Guarantor may, to the extent permitted by applicable law, at any time or from time to time, purchase Notes in the open market, on an exchange, or by tender or by private agreement at any price. Any purchase of Notes of a Series by tender shall be made available to all Holders of Notes of such Series alike. Any Note so purchased may be held by, or for the account of, the Branch, the Guarantor or any Affiliate of the Branch and/or the Guarantor and may be surrendered to the Trustee for cancellation; provided, however, that for purposes of determining whether the Holders of the requisite principal amount of Outstanding Notes are present at a meeting of Holders for quorum purposes or have consented to or voted in favor of any request, demand, authorization, direction, notice, consent, waiver, amendment or modification under the Indenture, Notes owned by the Branch or the Guarantor or any Affiliate of the Branch and/or the Guarantor shall be disregarded and deemed not to be Outstanding.

Covenants

Payment of Principal and Interest

The Branch and Pan American, as long as any of the Notes remain outstanding, shall pay when due any principal, interest and any other amounts payable under any Notes or the Guarantee, respectively, in accordance with their respective terms.

Reports to the Trustee

The Indenture will provide that at any time during which the Notes are outstanding, the Branch and Pan American shall:

(a) give prompt written notice to the Trustee of the occurrence of any Event of Default or an event that would give rise to an Event of Default upon the giving of notice or the lapse of time or both, accompanied by a certificate specifying the nature of such Event of Default or other such event, the period of existence thereof and the action that each of the Branch and Pan American has taken or proposes to take with respect thereto.

(b) as soon as available but in any event within 90 days after the end of each fiscal quarter of each fiscal year, in English, deliver to the Trustee a copy of Pan American's unaudited consolidated financial statements for such quarter together with notes on such financial statements, prepared in accordance with U.S. GAAP or, following the adoption of IFRS by the Guarantor, in accordance with IFRS, and certified by an Authorized Officer; and

(c) as soon as available but in any event within 135 days after the end of each financial year deliver to the Trustee a copy of Pan American's audited consolidated financial statements, in English, together with the auditors' audit report on them, and any notes on such financial statements, prepared in accordance with U.S. GAAP or, following the adoption of IFRS by the Guarantor, in accordance with IFRS.

So long as the Notes are listed on the Euro MTF, the alternative market of the Luxembourg Stock Exchange, the Branch or Pan American will make available the information specified in (b) and (c) above at the specified office of the Luxembourg Paying Agent for the Notes.

Delivery of the above reports to the Trustee is for informational purposes only and the Trustee's receipt of such reports shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Branch's, Pan American's or any of its Subsidiaries' compliance with any of the covenants in the Indenture.

Maintenance of Existence

The Branch and Pan American shall (and Pan American shall cause each of its Material Subsidiaries to) (i) maintain in effect its corporate or other legal existence and all registrations necessary therefor and (ii) take all reasonable actions to maintain all rights, privileges, titles to property, franchises and the like necessary or desirable in the normal conduct of its respective business, activities or operations and (iii) keep all its respective property in good working order or condition; provided, however, that this covenant shall not require the Branch or Pan American to maintain any such right, privilege, title to property or franchise and the like or to maintain in effect the corporate or other legal existence and such registrations of any Material Subsidiary, if the Legal Representative of the Branch or Pan American, as the case may be, shall determine in good faith that the maintenance or preservation thereof is no longer desirable in the conduct of the business of the Branch or, as the case may be, Pan American and its Material Subsidiaries taken as a whole, and that the loss thereof is not, and will not be, adverse in any material respect to the Holders.

Compliance with Laws and Other Agreements

The Branch and Pan American shall (and Pan American shall cause each of its Subsidiaries to) comply with (i) all applicable laws, rules, regulations, orders and directions of any Governmental Agency having jurisdiction over it or its business or property and (ii) all covenants and other obligations contained in any agreements to which the Branch, Pan American or any such Subsidiary, as the case may be, is a party, except where the failure to so comply would not, in the aggregate, have a material adverse effect on the business, assets, operations or financial condition of the Branch and Pan American (including the Subsidiaries of Pan American), taken as a whole.

Maintenance of Books and Records

The Branch shall maintain books, accounts and records in accordance with generally accepted accounting principles as applied in Argentina, and Pan American will maintain books, accounts and records in accordance with U.S. GAAP or, following the adoption of IFRS by the Guarantor, in accordance with IFRS.

Insurance

Each of the Branch and the Guarantor shall (and the Guarantor shall cause each of its Material Subsidiaries to) maintain insurance with insurers which the Branch and the Guarantor believe to be financially sound and reputable insurance companies in such amounts and covering such risks as the Branch and Guarantor deem reasonable and prudent under the circumstances; provided, however, that the Branch and Guarantor may self-insure to the extent they consider reasonable and prudent and to the extent permitted by law and; provided, further, that such insurance and self-insurance shall be comparable to insurance usually carried by companies engaged in similar businesses and owning and/or operating properties similar to those owned and/or operated by the Branch, the Guarantor or such Material Subsidiaries, as the case may be, in the same general areas in which each of the Branch or the Guarantor or such Material Subsidiary owns and/or operates its properties.

Further Assurances

Each of the Branch and the Guarantor will, at its own cost and expense, execute and deliver to the Trustee all such other documents, instruments and agreements and do all such other acts and things as may be reasonably required, in the opinion of the Trustee, to enable the Trustee to exercise and enforce its rights under the Indenture and under the documents, instruments and agreements required under the Indenture and to carry out the intent of the Indenture.

Negative Pledge

Except for Permitted Liens, neither the Branch nor Pan American will, and will not permit its Material Subsidiaries to, create a Lien on any asset, now owned or hereafter acquired by it, securing any other Indebtedness unless, at the same time or prior thereto, the Branch's obligations under the Notes are secured equally and ratably therewith, or prior thereto; provided, however, that if such other Indebtedness consists of Notes issued under the Program, only Outstanding Notes of the same Series as such other Indebtedness need to be secured equally and ratably with such other Indebtedness, or prior thereto. For the purposes of this Section, "Indebtedness" means any loan or other indebtedness in the form of, or represented by bonds, notes, debentures, loan stock or other securities (i) which is denominated or payable, or at the option of the relevant creditor may be payable, in a currency other than Argentine pesos and (ii) which at the time of issue is or is capable of being quoted, listed or ordinarily dealt in on any exchange or over-the-counter market or other securities market (whether or not initially distributed by means of private placing); and "Permitted Liens" means:

- (1) Liens in existence as of the Issue Date;
- (2) Liens on any property securing Indebtedness incurred or assumed for the purpose of financing all or any part of the acquisition, development, construction, repair or improvement cost of such property, provided, that (A) any such Lien does not extend to any other property, (B) such Lien either is created (whether or not perfected) in connection with the acquisition, construction, repair or improvement of such property, within 90 days of completion of the acquisition of such property, and (C) the Indebtedness secured by any such Lien does not exceed 100% of the fair market value of such assets;
- (3) Liens required to be granted by Pan American, the Branch or any Material Subsidiary after the Issue Date under any instrument or contract entered into prior to the Issue Date of the Notes;
- (4) Liens incurred in connection with (i) hedging arrangements entered into for the purpose of protecting production against fluctuations in oil and gas prices, and (ii) any Hedging Obligations;
- (5) Liens in connection with worker's compensation, unemployment insurance or other social security, old age pension or public liability or statutory obligations, Liens securing any obligations to landlords, vendors, carriers, warehousemen, mechanics, workmen, materialmen or other like obligations; or

- (6) Liens arising by operation of law or in the ordinary course of business or which are contested in good faith by appropriate proceedings;
- (7) Legal or equitable Liens deemed to exist by reason of the existence of any litigation or other legal proceeding or arising out of a judgment or award with respect to which an appeal is being or will timely and diligently be prosecuted in good faith and for which reserves adequate under U.S. GAAP, Argentine GAAP or IFRS, as applicable, are maintained;
- (8) Liens in connection with rights reserved to or vested in any Governmental Agency in connection with any property of the Branch or Pan American or any Material Subsidiary of Pan American;
- (9) Liens for taxes, assessments or other governmental charges or levies that are not subject to penalty for non-payment or which are being diligently contested in good faith by appropriate proceedings and for which adequate reserves in accordance with U.S. GAAP, Argentine GAAP or IFRS, as applicable, shall have been set aside on the books of the Branch or the Guarantor, as applicable;
- (10) Liens on any property or assets acquired from a Person that is merged with or into the Issuer, the Guarantor or one or more Material Subsidiaries of the Guarantor, or any Lien on the property, capital stock, assets, income or profits of any Person, existing at the time such Person becomes a Material Subsidiary of the Guarantor and, in either such case, is not created as a result of or in connection with or in anticipation of any such transaction (unless such Lien was created to secure or provide for the payment of any part of the purchase price of such Person or was created in contemplation of such Person being merged with or into, or such Person becoming a Material Subsidiary of, the Issuer, the Guarantor or one or more Material Subsidiaries of the Guarantor); provided, however, that such Liens shall not extend to any other property, assets, income or profits of the Issuer, the Guarantor or any Material Subsidiary of the Guarantor;
- (11) any interest or title of a lessor under any capitalized lease obligation permitted hereunder;
- (12) Liens securing Indebtedness incurred to defease the Notes as permitted hereunder, to the extent the proceeds therefrom are applied concurrently to defease the Notes;
- (13) Liens to secure Indebtedness incurred or assumed in connection with any extension, renewal, refinancing, refunding or exchange (or successive extensions, renewals, refinancings, refundings or exchanges), in whole or in part, of or for any Indebtedness secured by any Permitted Lien; provided, however, that (i) such Liens do not extend to any property other than the property to which Liens securing the Indebtedness being renewed, extended, refinanced, refunded or exchanged attach, (ii) such Indebtedness is in an aggregate principal amount not in excess of the aggregate principal amount of the Indebtedness being renewed, extended, refinanced, refunded or exchanged and (iii) the maturity of such Indebtedness is not shorter than the maturity of the Indebtedness being renewed, extended, refinanced, refunded or exchanged; or
- (14) Liens in addition to Liens permitted in (1) to (13) above created on any part of any present or future property of the Branch, Pan American or any Material Subsidiary of the Guarantor to secure Indebtedness that in the aggregate amount does not exceed the greater of U.S.\$200 million and 3% of the Consolidated Tangible Assets of the Guarantor, as reflected in its most recent consolidated financial statements.

Suspension of Covenants

If on any date following the issuance of any Series of Notes under the Program, and pursuant to the Indenture:

- (a) such Series of Notes has been assigned an Investment Grade Rating by any one (1) Nationally Recognized Statistical Rating Organization; and
- (b) no Event of Default or event which, with the giving of notice or the lapse of time, or both, will become an Event of Default shall have occurred and be continuing with respect to such Series,

then, beginning on that date and subject to the provisions of the following paragraph, the covenants designated in the applicable Terms and Conditions (including the applicable Pricing Supplement, collectively, the “Suspended Covenants”) will automatically, without any notice of any kind, be suspended with respect to such Series of Notes

and the Branch, Pan American and its Subsidiaries shall have no obligation or liability whatsoever with respect to such covenants.

If, during any period in which the Suspended Covenants are suspended with respect to a Series of Notes, such Series of Notes ceases to have an Investment Grade Rating by any Nationally Recognized Statistical Rating Organization, the Suspended Covenants shall thereafter be reinstated and be applicable pursuant to their terms (including in connection with performing any calculation or assessment to determine compliance with the terms of the Indenture), unless and until such Series of Notes subsequently attains an Investment Grade Rating by any one (1) Nationally Recognized Statistical Rating Organization (in which event the Suspended Covenants will again be suspended with respect to such Series for such time that such Series of Notes maintains an Investment Grade Rating by such Nationally Recognized Statistical Rating Organization); provided, however, that no Default, Event of Default or breach or violation of any kind will be deemed to exist under the Indenture or a Series of Notes with respect to the Suspended Covenants (whether during the period when the Suspended Covenants were suspended or thereafter) based on, and neither the Branch, Pan American nor any of its Subsidiaries will bear any liability (whether during the period when the Suspended Covenants were suspended or thereafter) for, any actions taken or events occurring after a Series of Notes attain an Investment Grade Rating by any one (1) Nationally Recognized Statistical Rating Organization and before any reinstatement of the Suspended Covenants as provided above, or any actions taken at any time (whether during the period when the Suspended Covenants were suspended or thereafter) pursuant to any legal or contractual obligation arising prior to the reinstatement, regardless of whether those actions or events would have been permitted if the applicable Suspended Covenant had remained in effect during such period.

The Branch shall deliver an officers' certificate to the Trustee in the event that the Suspended Covenants are either suspended or reinstated. The Trustee will have no liability or responsibility with respect to the determination of whether any event or circumstances have or will result in the suspension or reinstatement of the Suspended Covenants.

Events of Default

An Event of Default is defined in the Indenture, with respect to the Notes of any Series, as:

(i) default in the payment of any interest or Additional Amounts on the Notes of such Series when it becomes due and payable, and continuance of any such default for a period of 5 calendar days;

(ii) default in the payment of the principal of, or premium, if any, on the Notes of such Series, when due, at maturity, upon redemption, pursuant to an offer to purchase required under the Indenture, by acceleration or otherwise and such default continues for a period of 3 calendar days;

(iii) default in the performance, or breach, of any covenant of the Branch or Pan American contained in the Notes, the Guarantee or the Indenture (other than defaults specified in clause (i) or (ii) above), and continuation of such default or breach for a period of 90 calendar days after written notice to the Branch and Pan American by the Trustee or to the Branch and the Trustee by the Holders of at least 25.0% in aggregate principal amount of the outstanding Notes of such Series is received;

(iv) failure by the Branch or Pan American (a) to make any payment or payments, in an aggregate amount equal to or in excess of the greater of U.S.\$40 million (or its equivalent in any other currency or currencies) and 1% of Pan American's total shareholders equity as set forth in the most recently issued consolidated financial statements of Pan American, when due (including, with respect to any interest payment only, after the giving effect to any applicable grace period) with respect to one or more classes or issues of Indebtedness (other than the Notes); or (b) to perform any term, covenant, condition, or provision of one or more classes or issues of other Indebtedness (other than the Notes), which failure, in the case of this clause (b), results in an acceleration of the maturity thereof of an aggregate amount equal to or in excess of the greater of U.S.\$40 million (or its equivalent in any other currency or currencies) and 1% of Pan American's total shareholders equity as set forth in the most recently issued consolidated financial statements of Pan American;

(v) one or more judgments, orders or decrees for the payment of money in excess of the greater of U.S.\$40 million (or its U.S. Dollar equivalent if such judgment is entered in another currency) and 1% of Pan American's total shareholders equity as set forth in the most recently issued consolidated financial statements of Pan American (to the extent not covered by insurance), either individually or in an aggregate amount, shall be entered against the Branch or Pan American or any of their respective properties and (a) shall not be discharged or fully bonded within 90 days from the date of entry thereof or (b) there shall be a period of 90 calendar days during which a stay of enforcement of such judgment or order, by reason of pending appeal or otherwise, shall not be in effect;

(vi) the Branch or Pan American shall (a) apply for or consent to the appointment of a receiver, trustee, liquidator or the like for itself or of its property, (b) be unable or admit in writing its inability to pay its debts as they mature, (c) make a general assignment for the benefit of its creditors, (d) be adjudicated bankrupt or insolvent, (e) file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or a judicial or extrajudicial preventive arrangement with its creditors (*concurso preventivo de acreedores*) or seeking to take advantage of any applicable insolvency law, (f) file any answer admitting the material allegation of a petition filed against it in any bankruptcy, reorganization or insolvency proceeding or (g) take any corporate action for the purpose of effecting any of the foregoing or the equivalent thereof under the laws of Argentina;

(vii) without its application, approval or consent, a proceeding shall be instituted in any court of competent jurisdiction seeking in respect of the Branch or Pan American: adjudication in bankruptcy, reorganization, dissolution, winding-up, liquidation, a composition or arrangement with creditors, a re-adjustment of debt, the appointment of a trustee, receiver, liquidator or the like of the Branch or Pan American of all or any material part of the assets thereof or other like relief in respect of the Branch or Pan American under any applicable bankruptcy or insolvency law; and either (a) such proceeding shall not be actively contested by the Branch or Pan American in good faith, or (b) such proceeding shall continue undismissed for any period of 90 consecutive calendar days, or (c) any order, judgment or decree shall be entered by any court of competent jurisdiction to effect any of the foregoing;

(viii) any authorization, consent, approval, license, filing or registration now or hereafter necessary to enable the Branch or Pan American to perform its obligations under the Indenture, the Guarantee or a Note, or any law, rule or regulation necessary for a Holder to enforce the Branch's or Pan American's obligations under the Indenture, the Guarantee or a Note of such Series in accordance with the terms of the Indenture, the Guarantee or such Note, shall be revoked, withdrawn, withheld or modified or shall cease to remain in full force and effect, or it shall become unlawful for the Branch or Pan American to perform its obligations thereunder or any Governmental Agency shall contest the legality or validity of any of the Notes of such Series or the Guarantee in a formal administrative, legislative or judicial proceeding;

(ix) any condemnation, seizure, compulsory purchase or expropriation by any Governmental Agency of assets of the Branch or the Guarantor (each an "Expropriation") which, would be reasonably likely to have a material adverse effect upon the ability of the Branch or Pan American, as the case may be to perform its obligations under the Indenture, the Notes of such Series or the Guarantee; *provided that*:

- (a) non-discriminatory measures of general application adopted in good faith by any governmental authority of Argentina and of the type which governmental authorities normally take in the public interest for requirements such as public safety, the collection of tax revenues, protection of the environment or regulation of economic activity shall not be regarded as constituting Expropriation;
- (b) non-fulfillment by the governmental authorities of Argentina of an obligation of a contractual nature towards the Branch or the Guarantor shall not in itself or by itself constitute Expropriation; and
- (c) any condemnation, seizure, compulsory purchase or expropriation of any property, rights or assets of the Issuer or the Guarantor located, or revenues of the Issuer or the Guarantor derived from its operations, in the Republic of Bolivia shall not be regarded as constituting an Expropriation.

(x) a general moratorium shall be agreed or declared in respect of the payment or performance of the obligations of the Branch or the Guarantor with respect to such Series of Notes; and

(xi) the Guarantee shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect, if such Guarantee is not replaced by a substitute Guarantee or other security to the satisfaction of the Trustee and approved by the Holders of the majority in aggregate principal amount of the Notes of such Series present and represented at a duly convened meeting of such Holders at which a quorum is present within 45 calendar days after written notice to the Branch and Pan American by the Trustee, or Pan American, or any Person acting on behalf of Pan American, as guarantor, shall deny or disaffirm its obligations under such Guarantee.

Defeasance or Covenant Defeasance of Indenture

The Branch may, at its option and at any time, terminate the obligations of the Branch with respect to the outstanding Notes of one or more Series and to have satisfied all its other obligations under such Notes and the Indenture (“defeasance”). Such defeasance means that the Branch shall be deemed to have paid and discharged the entire indebtedness represented by the outstanding Notes of any such Series, and to have satisfied all its other obligations under such Notes and the Indenture insofar as such Notes are concerned except for (i) the rights of holders of outstanding Notes to receive, solely from the trust fund described under the applicable provisions of the Indenture, payment in respect of the principal of (and premium and Additional Amounts (as defined in the Indenture and the Terms and Conditions of the Notes), if any) and interest on such Notes when such payments are due, (ii) certain provisions relating to the ownership of the Notes and the Branch’s obligations to register the transfer or exchange of any Notes, replace mutilated, destroyed, lost or stolen Notes and maintain an office or agency for payments in respect of the Notes, (iii) the rights, powers, trusts, duties, protections and immunities of the Trustee under the Indenture and (iv) the defeasance provisions of the Indenture. In addition, the Branch may, at its option and at any time, elect to terminate its obligations with respect to certain covenants that are set forth in the applicable Pricing Supplement, and any omission to comply with such obligations shall not thereafter constitute a default or an Event of Default with respect to the Notes (“covenant defeasance”).

In order to exercise either defeasance or covenant defeasance, (i) the Branch must irrevocably deposit or cause to be deposited with the Trustee, in trust, specifically pledged as security for, and dedicated solely to, the benefit of the holders of the then outstanding Notes of any such Series (in the Specified Currency in which such notes are denominated), cash or Government Obligations (determined on the basis of the Specified Currency in which such Notes are denominated), or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent certified public accountants expressed in a written certificate delivered to the Trustee, to pay and discharge the principal of (and premium and Additional Amounts, if any) and interest to redemption or maturity on the outstanding Notes; (ii) the Branch shall have delivered to the Trustee an Opinion of Counsel to the effect that the holders of the outstanding Notes of any such Series will not recognize income, gain or loss for United States federal income tax purposes as a result of such deposit, defeasance or covenant defeasance and will be subject to United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such deposit, defeasance or covenant defeasance had not occurred (in the case of defeasance, such opinion must refer to and be based upon a ruling of the United States Internal Revenue Service or a change in applicable United States federal income tax laws); (iii) no default or Event of Default shall have occurred and be continuing on the date of such deposit or will occur as a result of such deposit or, insofar as Section 4.1 (vi) and (vii) of the Indenture are concerned at any time during the period ending on the 91st day after the date of such deposit it being understood that such Conditions shall not be deemed satisfied until the expiration of such period; (iv) such deposit (and the related defeasance or covenant defeasance) will not result in a breach or violation of, or constitute a default under, any instrument to which the Branch is a party or by which it is bound; (v) such defeasance or covenant defeasance shall not cause the Trustee to have a conflicting interest (within the meaning of the United States Trust Indenture Act of 1939, as amended) with respect to any securities of the Branch; (vi) the Branch shall have delivered to the Trustee, subject to certain exceptions set forth in the Indenture, an Opinion of Counsel to the effect that after the 91st day (or with respect to any trust funds for the benefit of any Person who may be deemed an “insider” for purposes of Title 11 of the United States Code, after one year) following the deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors’ rights generally; (vii) the Branch has delivered to the Trustee an Opinion of Counsel to the effect that the Branch’s exercise of its option described above will not result in any of Pan American, the Trustee or the trust created by the Branch’s deposit of funds in connection with the exercise of its option described above becoming or being deemed to be an “investment company” as defined in the United States Investment Company Act of 1940, as amended; (viii) the Branch has paid or duly provided for payment of all amounts then due to the Trustee

pursuant to the terms of the Indenture; (ix) the Branch shall have delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent under the Indenture to either defeasance or covenant defeasance, as the case may be, have been complied with and that no violations under instruments or agreements governing any other outstanding indebtedness of the Branch would result; and (x) in the event that, subsequent to the date a defeasance or a covenant defeasance is effected pursuant with respect to Notes of any Series, Additional Amounts in excess of those established as of the date such defeasance or covenant defeasance is effected become payable in respect of such Notes, in order to preserve the benefits of the defeasance or covenant defeasance established hereunder with respect to such Series, the Branch will irrevocably deposit or cause to be irrevocably deposited in accordance with the provisions of this Section, within ten Business Days prior to the earlier to occur of (A) one year after the existence of such excess Additional Amounts is established and (B) the date the first payment in respect of any portion of such excess Additional Amounts becomes due, such additional funds as are necessary to satisfy the provisions of this Section as if a defeasance or covenant defeasance were being effected as of the date of such subsequent deposit. For purposes of clause (x), the existence of excess Additional Amounts will be deemed to have been established as of the date the governmental authority imposing the tax, assessment or other governmental charge resulting in the Additional Amounts first publishes the legislation, regulation or other enactment adopting such tax, assessment or other governmental charge. Failure to comply with the requirements of clause (x) will result in the termination of the benefits of the defeasance or covenant defeasance with respect to the Notes of such Series.

Payments and Paying Agents

All payments of principal of and interest on the Notes of any Series shall be allocated on a pro rata basis among all Outstanding Notes of such Series, without preference or priority of any kind among the Notes of such Series. Payments of principal and interest, if any, payable at maturity or upon redemption in respect of Notes will be made in the currency in which such Notes are denominated by check drawn on, or, upon satisfaction of the conditions specified below, by wire transfer to an account maintained by the Holder with, a Bank against presentation and surrender of such Note at the specified office of any of the Paying Agents. "Bank" means a bank in the Principal Financial Center for such currency or, in the case of the euro, in a city in which banks have access to the TARGET System. Payments of interest in respect of Notes (other than interest payable at maturity or upon redemption) will be made in the currency in which such Notes are denominated to the persons shown on the Register at the close of business on the Record Date by check drawn on a Bank and mailed to each Holder (or to the first named of joint holders) thereof at such Holder's address appearing in the Register or, upon satisfaction of the conditions specified below, by wire transfer to an account maintained by a Holder with the Bank. Upon written application by any Holder of at least U.S.\$1,000,000 principal amount of Notes (or, in the case of Notes not denominated in U.S. dollars, such amount as set forth in the applicable Pricing Supplement) to the Corporate Trust Office of the Trustee, with appropriate wire transfer instructions, not later than the Record Date immediately preceding the relevant payment date, such payment of interest may be made in the currency in which the Notes are denominated by wire transfer to an account maintained by the Holder with a Bank.

Except in the case of Global Notes issued in respect of Notes denominated in a Specified Currency other than U.S. dollars where the beneficial owner thereof has elected to receive payment in such Specified Currency as specified below, payments of principal and interest, if any, in respect of a Global Note shall be made to DTC or its nominee as the registered Holder of such Note. Neither the Branch, the Trustee, the Registrar, the Co-Registrar, any Paying Agent nor any Transfer Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership of interests in such Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Subject to the terms of the Indenture and the applicable Pricing Supplement, all payments are subject in all cases to any applicable tax or other laws and regulations. No commissions or expenses shall be charged to the Holders in respect of such payments.

If the due date for payment of any amount in respect of any Note is not a business day at any place of presentation, then the Holder will not be entitled to payment at such place of the amount due until the next following business day at such place and, except as otherwise provided in the Indenture, will not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "business day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of

presentation, in such jurisdictions as shall be specified as “Additional Financial Centers” in the applicable Pricing Supplement and: (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the Principal Financial Center of the country of such currency or (ii) (in the case of a payment in euro) which is a TARGET Business Day.

An owner of a beneficial interest in any Global Note denominated in a Specified Currency other than U.S. dollars held in the book-entry settlement system of DTC electing to receive payments of principal or interest in such Specified Currency must notify the DTC participant through which its interest is held on or prior to the applicable Record Date, in the case of a Payment Date, and by the date established by the relevant participant, in the case of payment of principal and interest at Maturity, of such owner’s election to receive all or a portion of such payment in such currency. Such DTC participant must notify DTC thereof on or prior to the date which is the third DTC business day after the Record Date for any Payment Date or, for payment of principal and interest at Maturity, on or prior to the date which is twelve DTC business days prior to such date and specify in such notice the account to which such payment shall be made. If complete instructions are received by a DTC participant from the relevant owner and forwarded by the DTC participant to DTC on or prior to such dates, and, if DTC subsequently notifies the Trustee by facsimile transmission (promptly confirmed in writing) of such instructions with appropriate wire transfer instructions on the Business Day immediately succeeding any such date, such relevant owner will receive payments in such Specified Currency from the Trustee. “DTC business day” means any day on which DTC is open for business.

In the case of a beneficial owner of interests in any Unrestricted Regulation S Global Note denominated in a Specified Currency other than U.S. dollars, such owner electing to receive payments in such Specified Currency must notify Euroclear or Clearstream, Luxembourg, as the case may be, at least seven days prior to the Record Date, in the case of a Payment Date, or, for payment of principal and interest at Maturity, at least seven days prior to Maturity.

Holders of Definitive Notes will receive payment upon maturity in U.S. dollars, unless such Definitive Notes are Notes denominated in a Specified Currency other than U.S. dollars and such Holder has elected to receive payment in the relevant Specified Currency by notifying the Trustee or any Paying Agent in writing of such election no later than the 15th day preceding Maturity (and where a Paying Agent is so notified, such Paying Agent shall provide a copy of such election notice to the Trustee by facsimile within two Business Days of its receipt of such notice).

The initial Paying Agents and Transfer Agents and their respective initial specified offices are set forth herein. The Branch reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents; provided, however, that while Notes are outstanding it will at all times maintain a Trustee and, provided further, however, that while Notes are outstanding or until monies for the payment of all principal of and interest (and any Additional Amounts) on all outstanding Notes shall have been made available at the offices of the Trustee, it will at all times maintain (i) a Co-Registrar, Paying Agent and Transfer Agent in the City of New York (which may be the Trustee), (ii) a Registrar, a Paying Agent, a Transfer Agent and a Representative of the Trustee in the City of Buenos Aires and (iii) so long as any Notes are listed on any Stock Exchange, a Paying Agent and a Transfer Agent with a specified office for such place as may be required by the rules and regulations of such Stock Exchange.

Any money deposited with the Trustee or any Paying Agent, or then held by the Branch in trust for the payment of the principal of or interest on any Note and remaining unclaimed for two years after such principal or interest has become due and payable shall be paid to the Branch upon written request of an Authorized Officer, or (if then held by the Branch) shall be discharged from such trust; and the Holder of such Note shall, subject to applicable statutes of limitation, thereafter, as an unsecured general creditor, look only to the Branch for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Branch as trustee thereof, shall thereupon cease; provided, however that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Branch cause to be published once, (i) in a newspaper published in the English language, customarily published on each Business Day and of general circulation in the City of New York, and (ii) in a newspaper published in the Spanish language and of general circulation in the Republic of Argentina, notice that such money remains unclaimed and that, after a date specified

therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Branch.

Additional Amounts

(a) All payments by or on behalf of the Branch or the Guarantor (where there is a payment under the Guarantee) in respect of the Notes will be made without withholding or deduction for or on account of any Argentine Taxes, unless such withholding or deduction is required by law. In such event, the Branch or, as the case may be, the Guarantor (where there is a payment under the Guarantee) will pay such additional amounts (“Additional Amounts”) as shall be necessary in order that the net amounts received by the Holders of the Notes after such withholding or deduction shall equal the amounts which would otherwise have been receivable by them in respect of payments on such Notes in the absence of such withholding or deduction, except that no such Additional Amounts shall be payable:

(i) to or on behalf of a Holder or beneficial owner of a Note that is liable for Argentine Taxes in respect of such Note by reason of having some present or former connection with Argentina otherwise than by the mere holding or owning of such Note or by the receipt of income or any payments in respect thereof;

(ii) in respect of any estate, asset, inheritance, gift, sales, transfer or any similar tax, assessment or governmental charges;

(iii) in respect of any taxes, duties, assessments or other governmental charges that are payable otherwise than by deduction or withholding from payments on the Notes;

(iv) to or on behalf of a Holder in respect of Argentine Taxes that would not have been imposed but for the failure of such Holder to present a Note for payment (where presentation is required) more than 30 days after the Relevant Date (as defined herein), except to the extent that the Holder would have been entitled to an Additional Amount on presenting the same for payment on such 30th day;

(v) to or on behalf of a Holder or beneficial owner of a Note in respect of Argentine Taxes, to the extent that such taxes would not have been imposed but for the failure of the Holder or beneficial owner of such Note to comply with any certification, identification, information, documentation or other reporting requirement if (A) such compliance is required by law, regulation, administrative practice or an applicable treaty as a precondition to exemption from, or reduction in the rate of, deduction or withholding of, Argentine Taxes and (B) at least 30 days prior to (or such shorter period of time as may be reasonably practicable where the relevant change to Argentine tax law giving rise to the application of this subsection (v) has been in effect for less than 30 days prior to the first applicable Interest Payment Date) the first Interest Payment Date with respect to which the Branch shall apply this subsection (v), the Branch shall have notified the Holders that such Holders or beneficial owners of the Notes will be required to comply with such requirement (it being understood and agreed that no notice given by or on behalf of the Branch or the Guarantor pursuant to this subsection (v) shall be construed as constituting tax advice with respect to Argentine Taxes);

(vi) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Union Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such directives;

(vii) in respect of any taxes that would not have been so imposed if the Holder had presented such Note for payment (where presentation is required) to another Paying Agent; or

(viii) where there is any combination of (i) through (vii) above.

Additional Amounts will also not be payable with respect to any payment on such Note to any Holder who is a fiduciary, partnership or any person other than the sole beneficial owner of such payment, to the extent that a beneficiary or settler with respect to such fiduciary, a member of such partnership or the beneficial owner of such

payment would not have been entitled to the Additional Amounts had such beneficiary, settler, member or beneficial owner been the actual Holder of such Note.

(b) As used herein, the “Relevant Date” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Holders in accordance with the terms of the Indenture.

The Issuer has agreed to pay any present or future stamp, court or documentary taxes or any other excise or personal property taxes, charges or similar levies that arise in any jurisdiction from the execution, delivery or registration of the Notes or any other document or instrument referred to in the Indenture or the Notes, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside of Argentina.

Reports to Holders and the Trustee

The Trustee shall transmit to Holders such information, documents and reports as are received by the Trustee from the Branch or the Guarantor upon written request of such Holder. A copy of each such document and report shall, at the time of such transmission to Holders, be filed by the Trustee with any Stock Exchange upon which such Notes are listed. The Branch will notify the Trustee when any Notes are listed on any Stock Exchange or delisted from any Stock Exchange.

Meeting of Holders. Modifications, Waivers and Amendments

(a) *Meetings of Noteholders.* The Trustee, the Branch or the Guarantor shall, upon the written request of the Holders of at least 5.0% in aggregate principal amount of the Notes at the time Outstanding or of the Notes of any Series at the time Outstanding, or the Branch or the Trustee at its discretion, may, call a meeting of the Holders or the Holders of Notes of any Series at any time and from time to time, to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Notes or the Notes of any Series to be made, given or taken by the Holders of such Notes, including the modification of any of the Terms and Conditions. The meetings will be held in the City of Buenos Aires, *provided, however*, that the Branch or the Trustee may determine to hold any such meetings in the City of New York and/or London. In any case, meetings shall be held at such time and at such place in any such city as the Branch or the Trustee shall determine. Any resolution passed at a meeting convened in London or the City of New York shall be binding on all Holders or all Holders of Notes of any Series, as the case may be (whether present or not at such meeting), only upon ratification by a meeting of such Holders held in the City of Buenos Aires in accordance with the Negotiable Obligations Law. The Indenture contains provisions for Holders present or represented at meetings of Holders convened in London or the City of New York to appoint representatives at meetings of Holders in the City of Buenos Aires. Subject as aforesaid, any resolution duly passed will be binding on all Holders or all Holders of Notes of any Series, as the case may be (whether or not they were present at the meeting at which such resolution was passed). If a meeting is being held pursuant to a request of Holders, the agenda for the meeting shall be as determined in the request and such meeting shall be convened within 40 days from the date such request is received by the Trustee or the Branch, as the case may be. Notice of any meeting of Holders or Holders of Notes of any Series (which shall include the date, place and time of the meeting, the agenda therefor and the requirements to attend) shall be given not less than 10 days nor more than 30 days prior to the date fixed for the meeting in the *Official Gazette of Argentina*, in one other newspaper of general circulation in Argentina (which is expected to be *La Nación*), in a newspaper published in the English language and of general circulation in the City of New York and also in the manner provided under the Indenture, and any publication thereof shall be for five consecutive business days in each place of publication.

(b) *Modification and Waiver.* Except as otherwise specified in the applicable Pricing Supplement, decisions shall be made by the affirmative vote of the Holders of a majority in aggregate principal amount of the Notes or the Notes of any Series, as the case may be, present or represented at a meeting of such Holders at which a quorum is present; *provided, however*, that the unanimous consent of all Holders of the Notes or the Notes of any Series, as the case may be, present or represented at a meeting of such Holders at which a quorum is present shall be required to adopt a valid decision on: (i) changing the stated maturity of the principal of, or any installments of interest on any Note; (ii) reducing or cancelling the principal amount of, or interest payable with respect to, any Note; (iii) changing

any obligation of the Branch to pay Additional Amounts in respect of any Note; (iv) reducing the amount of principal of a Note of such Series that is an Original Issue Discount Note that would be due and payable upon a declaration of acceleration of the maturity thereof; (v) changing the redemption provisions of any Note; (vi) materially adversely affecting any right of repayment at the option of the Holder of any Note; (vii) impairing the right to institute suit for the enforcement of any such payment on or after the Maturity Date thereof or any Optional Redemption Date; (viii) altering the currency of payment of any Note; (ix) reducing the percentage in principal amount of outstanding Notes, the consent of the Holders which is required for the adoption of a resolution, or the quorum required at any meeting of Holders or Holders of Notes of any Series at which a resolution is adopted or the percentage in principal amount of outstanding Notes or Notes of any Series, the Holders of which are entitled to request the calling of a Holders' meeting; or (x) releasing the Guarantor from any of its obligations under the Guarantee or the Indenture. For those purposes, Notes known to a Responsible Officer of the Trustee to be held for the account of the Branch, the Guarantor or any Affiliate of the Branch and/or the Guarantor shall not be considered Outstanding. The quorum at any meeting called to adopt a resolution will be Persons holding or representing at least 60% in aggregate principal amount of the Notes or the Notes of any Series, as the case may be, at the time Outstanding; provided, however, that at any such reconvened meeting adjourned for lack of the requisite quorum, the quorum will be Persons holding or representing at least 30% in aggregate principal amount of the Notes or the Notes of any Series, as the case may be, at the time Outstanding. Except as provided above, any modifications, amendments or waivers to the terms and conditions of the Notes will be conclusive and binding on all Holders or all Holders of Notes of any Series, as the case may be, whether or not they have given such consent or were present at any meeting, and whether or not notation of such modifications, amendments or waivers is made upon the Notes or the Notes of any Series if duly passed at a meeting convened and held in accordance with the provisions of the Negotiable Obligations Law.

Any Noteholder may attend the meeting either personally or by proxy. Holders who intend to attend the Noteholder's meeting must notify the Co-Registrar in writing of their intention to do so at least three Business Day prior to the Date of such meeting. The Co-Registrar must immediately thereafter notify the Registrar in writing of all notifications of attendance received from the Holders planning to attend the meeting. Such notification will entitle such Holder to attend the meeting.

For purposes of any meeting of the Holders, each U.S.\$1.00 (or its equivalent in the Specified Currency rounded to the nearest whole number) of face value of the Outstanding Notes or Notes of any Series will entitle the Holder to one vote. Notes known to a Responsible Officer of the Trustee to be held for the account of the Branch, the Guarantor or any Affiliate of the Branch and/or the Guarantor will not be considered Outstanding and such Holder(s) will not participate in taking any actions under the terms of the Notes.

Replacement of Notes

If any Note shall become mutilated or defaced or be destroyed, lost or stolen, the Branch may execute, the Guarantor may endorse its Guarantee and the Trustee may, upon the Holder of such Note agreeing to provide such indemnity as shall be required in the next paragraph and in the absence of notice to the Branch or the Trustee that such Note has been acquired by a "protected purchaser" (as defined in Section 8-303 of the New York Uniform Commercial Code, as amended), authenticate and deliver a new Note on such terms as the Branch and the Trustee may require, in exchange and substitution for the mutilated or defaced Note or in lieu of and in substitution for the destroyed, lost or stolen Note. Each Note authenticated and delivered for, or in lieu of, any such Note shall carry all the rights to interest accrued and unpaid and to accrue which were carried by such Note before such mutilation or defacement, or destruction, loss or theft.

In the case of a mutilated, defaced, destroyed, lost or stolen Note, an indemnity in favor of the Trustee and the Branch, satisfactory to the Trustee and the Branch, will be required of the owner of such Note and evidence to the satisfaction of the Trustee and the Branch of the destruction, loss or theft of such Note and of the ownership thereof before a replacement Note will be issued. In the case of mutilation or defacement of a Note, the Holder shall surrender to the Trustee the Note so mutilated or defaced. In addition, prior to the issuance of any Note in substitution for the mutilated, defaced, destroyed, lost or stolen Note, the Branch may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the reasonable fees and expenses of the Trustee and its counsel and counsel to the Branch) connected therewith. If any Note that has matured or will mature within 30 days shall become mutilated or defaced

or be apparently destroyed, lost or stolen, the Branch may pay, in its sole discretion, or authorize payment of the same without issuing a substitute Note.

Prescription

(a) Claims filed in Argentine courts for payments of principal or interest on or in respect of the Notes will be subject to the applicable statute of limitations for such claims, which currently is ten years and four years, respectively.

(b) Claims filed in the courts of the State of New York for payments of principal or interest on or in respect of the Notes will be subject to the applicable statute of limitations for such claims, which currently is six years from the due date for payment thereof.

Governing Law

The Negotiable Obligation Law governs the requirements for the Notes to qualify as *obligaciones negociables* thereunder, while such law, together with Argentine Law No. 19,550, as amended, and other applicable Argentine laws and regulations, govern the capacity and corporate authorizations of the Branch to execute and deliver the Notes and certain matters in relation to the Noteholder's meetings and the authorization of the CNV for the establishment of the Program and the public offering of the Notes in Argentina. As to all other matters, the Indenture and the Notes are governed by, and shall be construed in accordance with, the law of the State of New York, United States of America, without regard to the conflicts of laws provisions thereof.

Notices

The Branch is required to give written notice to the Trustee of any event which requires notice to be given to the Holders in sufficient time for the Trustee to provide such notice to the Holders in the manner provided in the Indenture. All notices regarding the Notes shall be given by the Trustee.

All notices to Holders will be deemed to have been duly given upon the mailing by United States first-class mail, postage prepaid, of such notices to each such Holder at its address as it appears in the Register, in each case not earlier than the earliest date and not later than the latest date prescribed in the Indenture for the giving of such notice. Any notice so mailed shall be deemed to have been given on the date of its mailing. In case, by reason of the suspension of or irregularities in regular mail service or by reason of any other cause, it shall be impracticable to mail notice of any event to Holders of Notes when such notice is required to be given pursuant to the Indenture, then any manner of giving such notice as shall be satisfactory to the Trustee shall be deemed sufficient giving of such notice for every purpose hereunder. In addition, notices to Noteholders will be published as follows: (i) in a leading newspaper having general circulation in the City of Buenos Aires (which is expected to be *La Nación*) and, to the extent required by law, in the *Official Gazette of Argentina*; (ii) in a leading newspaper of general circulation in the City of New York, published in the English language; (iii) as long as any Notes are listed on any Stock Exchange, as required by such Stock Exchange; and (iv) otherwise in accordance with the provisions of the Negotiable Obligations Law, as specified in an Opinion of Counsel.

Notice to be given by any Holder shall be in writing and given by forwarding the same, to the Trustee or any Paying Agent. While any Notes are represented by a Global Note, such notice may be given by any holder of an interest in such Global Note to the Trustee or any such Paying Agent via DTC, Euroclear and/or Clearstream, Luxembourg in such manner as the Trustee or Paying Agent, as the case may be, and DTC, Euroclear and/or Clearstream, Luxembourg may approve for such purpose.

The Trustee, the Registrar, the Co-Registrar, any Paying Agent, any Transfer Agent or any agent of any of such entities may conclusively rely on the records of DTC, Euroclear or Clearstream, Luxembourg, as applicable, as to the identity of agent members who hold beneficial interests in each Global Note and the principal amounts beneficially owned by each such agent member.

Consent to Service of Process; Jurisdiction

The Branch, the Guarantor and the Trustee have each submitted to the jurisdiction of the United States District Court for the Southern District of New York, the Supreme Court of the State of New York, New York County, and of the courts of such party's respective domicile, any appellate court from either thereof for purposes of any legal suit, action or proceeding against it arising out of or related to the Indenture or the Notes. The Branch and the Guarantor have appointed Law Debenture Corporate Services Inc., with offices at 400 Madison Avenue, Suite 4D, New York, New York 10017, as their authorized agent upon which process may be served in any such suit, action or proceeding.

Currency Indemnity

Except as otherwise specified herein, the Specified Currency in which Notes of a Tranche or Series are designated as payable is the sole currency of account and payment for all sums payable by the Branch or the Guarantor under or in connection with such Notes, including damages. Any amount received or recovered in a currency other than such Specified Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding up or dissolution of the Branch or the Guarantor or otherwise) by any Holder in respect of any sum expressed to be due to it from the Branch or the Guarantor shall only constitute a discharge of the Branch or the Guarantor to the extent of the Specified Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that Specified Currency amount is less than the Specified Currency amount expressed to be due to the recipient under any Note, the Branch or the Guarantor, as the case may be, shall indemnify such recipient against any loss sustained by it as a result. In any event, the Branch or the Guarantor, as the case may be, shall indemnify the recipient against the cost of making any such purchase. For purposes of this paragraph, it will be sufficient for the Holder to certify in a satisfactory manner (indicating the sources of information used) that it would have suffered a loss had an actual purchase of the Specified Currency been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of the Specified Currency on such date had not been practicable, on the first date on which it would have been practicable, it being required that the need for a change of date be certified in the manner mentioned above). These indemnities constitute a separate and independent obligation from the Branch's and Guarantor's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Holder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any other judgment or order.

Further Issues

The Branch may from time to time, subject to the authorization of the CNV, and without the consent of the Holders of any outstanding Notes appertaining thereto, create and issue further Notes having the same terms and conditions as such outstanding Notes or that are the same in all respects (except for their Issue Dates, Interest Commencement Dates and/or Issue Prices) so that the same shall be consolidated and form a single Series with such outstanding Notes.

FORM OF PRICING SUPPLEMENT

Pricing Supplement dated [●]

PAN AMERICAN ENERGY LLC, ARGENTINE BRANCH
Issue of [Aggregate Principal Amount of Tranche] [Title of Notes]
Guaranteed by Pan American Energy LLC
under the U.S.\$1,200,000,000 Global Note Program

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated [●] [and the supplemental Offering Circular dated [●]]. This Pricing Supplement must be read in conjunction with such Offering Circular [as so supplemented].

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

- | | | |
|----|---|--|
| 1. | (i) Issuer: | Pan American Energy LLC, Argentine Branch |
| | (ii) Guarantor: | Pan American Energy LLC |
| 2. | [(i)] Series Number: | [●] |
| | [(ii)] Tranche Number: | [●] |
| | (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.) | |
| 3. | Specified Currency or Currencies: | [●] |
| 4. | Aggregate Principal Amount: | |
| | [(i)] Series: | [●] |
| | [(ii)] Tranche: | [●] |
| 5. | [(i)] Issue Price: | [●] per cent of the Aggregate Principal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)] |
| | [(ii)] Net proceeds: | [●] (Required only for listed issues) |
| 6. | Specified Denominations: ¹ | [●] |
| | | [●] |
| 7. | (i) Issue Date: | [●] |
| | [(ii)] Interest Commencement Date (if different from the Issue Date): | [●] |
| 8. | [Maturity Date]: | [●] |

¹ Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 and which must be redeemed before the first anniversary of their date of issue must have a minimum denomination of £100,000 (or its equivalent in other currencies).

9. Payment Date: [specify date or (for Floating Rate Notes) Interest Payment Date falling in the relevant month and year]
10. Interest Basis: [[●] per cent Fixed Rate]
[[specify reference rate] +/- [●] per cent. Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[Other (specify)]
(further particulars specified below)
11. Redemption/Payment Basis: [Redemption at par]
[Index Linked Redemption]
[Dual Currency]
[Partly Paid]
[Installment]
[Other (specify)]
12. Change of Interest or Redemption/Payment Basis: [Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]
13. Put/Call Options: [Put]
[Call]
[(further particulars specified below)]
14. (i) Status of the Notes: Senior
(ii) Status of the Guarantee: Senior
15. Listing: [Buenos Aires Stock Exchange/Other (specify)/None]
16. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17. Fixed Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate [(s)] of Interest: [●] per cent. per annum [payable [annually/semi-annually/quarterly/ monthly] in arrear]
- (ii) Interest Payment Date(s): [●] in each year
- (iii) Fixed Coupon Amount [(s)]: [●] per [●] in principal amount
- (iv) Broken Amount: [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)] and the Interest Payment Date(s) to which they relate]

(v) Day Count Fraction (Condition 5(g)):	[●] (Day count fraction should ordinarily be Actual/Actual-ISMA for all fixed rate issues other than those denominated in U.S. dollars)
(vi) Determination Date(s) (Condition 5(g)):	[Insert day(s) and month(s) on which interest is normally paid (if more than one, then insert such dates in the alternative)] in each year ²
(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/give details]
18. Floating Rate Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph. Also consider whether EURO BBA LIBOR or EURIBOR is the appropriate reference rate for Notes denominated in euros)
(i) Specified Period(s)/Specified Interest Payment Dates:	[●]
(ii) Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
(iii) Additional Business Center(s) (Condition 5(g)):	[●]
(iv) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (give details)]
(v) Interest Period Date(s):	[Not Applicable/specify dates]
(vi) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Trustee]):	[●]
(vii) Screen Rate Determination (Condition 5(b)(iii)(A)):	[●]
Relevant Time:	[●]
Interest Determination Date:	[[●] [TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]]
Primary Source for Floating Rate:	[Specify "Relevant Screen Page" or "Reference Banks"]
Relevant Screen Page (if Primary Source is "Relevant Screen Page"):	[Specify]
Reference Banks (if Primary Source is "Reference Banks"):	[Specify four]

² Only to be completed for an issue where Day Count Fraction is Actual/Actual-ISMA

Relevant Financial Center:	[The financial center most closely connected to the Benchmark — specify if not London]
Benchmark:	[LIBOR, LIBID, LIMEAN, EURIBOR or other benchmark]
Representative Amount:	[Specify if screen or Reference Bank quotations are to be given in respect of a transaction of a specified notional amount]
Effective Date:	[Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period]
Specified Duration:	[Specify period for quotation if not duration of Interest Accrual Period]
(viii) ISDA Determination (Condition 5(b)(iii)(B)):	
Floating Rate Option:	[●]
Designated Maturity:	[●]
Reset Date:	[●]
19. ISDA Definitions: (if different from those set out in the Conditions)	[●]
(ix) Margin(s):	[+/-] [●] per cent, per annum
(x) Minimum Rate of Interest:	[●] per cent, per annum
(xi) Maximum Rate of Interest:	[●] per cent, per annum
(xii) Day Count Fraction (Condition 5(g)):	[●]
(xiii) Rate Multiplier:	[●]
(xiv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
20. Zero Coupon Note Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)
(i) Accrued Yield (Condition 6(g)):	[●] per cent. per annum
(ii) Reference Price (Condition 6(g)):	[●]
(iii) Day Count Fraction (Condition 5(g)):	[●]
(iv) Any other formula/basis of determining amount payable:	[●]
21. Index Linked Interest Note Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)
(i) Index/Formula:	[Give or annex details]
(ii) Calculation Agent responsible for calculating the interest due:	[●]

- (iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [●]
 - (iv) Specified Period(s)/Specified Interest Payment Dates: [●]
 - (v) Business Day Convention: [Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
 - (vi) Additional Business Center(s) (Condition 5(g)): [●]
 - (vii) Minimum Rate of Interest: [●] per cent, per annum
 - (viii) Maximum Rate of Interest: [●] per cent, per annum
 - (ix) Day Count Fraction (Condition 5(g)): [●]
22. Dual Currency Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate of Exchange/Method of calculating Rate of Exchange: [Give details]
 - (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due: [●]
 - (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [●]
 - (iv) Person at whose option Specified Currency(ies) is/are payable: [●]
 - (v) Day Count Fraction (Condition 5(g)): [●]

PROVISIONS RELATING TO REDEMPTION

23. Call Option [Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): [●]
 - (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [●]
 - (iii) If redeemable in part: [●]
 - (a) Maximum principal amount to be redeemed: [●]
 - (b) Minimum principal amount to be redeemed:
 - (iv) Option Exercise Date(s): [●]
 - (v) Description of any other Issuer's option: [●]
 - (vi) Notice period (if other than as set out in the Conditions): [●]

24. Put Option	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
(i) Optional Redemption Date(s):	[●]
(ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[●]
(iii) Option Exercise Date(s):	[●]
(iv) Description of any other Noteholders' option:	[●]
(v) Notice period (if other than as set out in the Conditions):	[●]
25. Final Redemption Amount	[Principal amount/Other/See Appendix]
26. Early Redemption Amount	
Early Redemption Amount(s) payable on redemption for taxation reasons (Condition 7(b)) or an event of default (Condition 11) and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[●]
GENERAL PROVISIONS APPLICABLE TO THE NOTES	
27. Form of Notes:	Registered Notes [Rule 144A Global Note and/or Restricted Regulation S Global Note available on Issue Date]
28. Additional Financial Center(s) (Condition 8) or other special provisions relating to payment dates:	[Not Applicable/Give details. Note that this item relates to the place of payment, and not interest period end dates, to which item 17(iii) relates]]
29. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	Not Applicable
30. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/give details]
31. Details relating to Installment Notes:	[Not Applicable/give details]
(i) Installment Amount(s):	[●]
(ii) Installment Date(s):	[●]
(iii) Minimum Installment Amount:	[●]
(iv) Maximum Installment Amount:	[●]
32. Redenomination, renominialization and reconventioning provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]

33. Consolidation provisions: [Not Applicable/The provisions annexed to this Pricing Supplement apply]
33. Other terms or special conditions:³ [Not Applicable/give details]

DISTRIBUTION

35. (i) If syndicated, names of Managers: [Not Applicable/give names]
(ii) Stabilizing Manager (if any): [Not Applicable/give name]
(iii) Dealer's Commission: [●]
36. If non-syndicated, name of Dealer: [Not Applicable/give name]
37. Additional selling restrictions: [Not Applicable/give details]

OPERATIONAL INFORMATION

38. (i) ISIN Code: [●]
(ii) CUSIP: [●]
(iii) CINS: [●]
(iv) Other: [●]
39. Common Code: [●]
40. Any clearing system(s) other than DTC and Euroclear and Clearstream Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
41. Delivery: Delivery [against/free of] payment
42. The Agents appointed in respect of the Notes are: [●]

GENERAL

43. The aggregate principal amount of Notes issued has been translated into [U.S. dollars] at the rate of [●], producing a sum of (for Notes not denominated in [U.S. dollars]): [Not Applicable/[U.S.\$][●]]
43. Use of proceeds: [●]

3 If full terms and conditions are to be used, please add the following here:

"The full text of the Conditions which apply to the Notes [and which will be endorsed on the Notes in definitive form] are set out in [the Annex hereto], which Conditions replace in their entirety those appearing in the Offering Circular for the purposes of these Notes and such Conditions will prevail over any other provision to the contrary."

The first set of bracketed words is to be deleted where there is a global note instead of Notes in definitive form. The full Conditions should be attached to and form part of the pricing supplement.

LISTING APPLICATION

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the listing of the U.S.\$1,200,000,000 Global Note Program of [●].

STABILIZING

In connection with the offering of any Series of Notes under the Program, the dealer (if any) disclosed as stabilizing agent in the applicable pricing supplement (the “Stabilizing Agent”) or any person acting on his or its behalf may engage in transactions that stabilize, maintain or otherwise affect the price of the Notes. Specifically, the Stabilizing Agent may overallocate in connection with the offering of the Notes, creating a short position. In addition, the Stabilizing Agent may bid for, and purchase, the Notes in the open market to cover short positions or to stabilize the price of the Notes. Any of these activities may stabilize or maintain the market prices of the Notes above independent market levels. The stabilizing agent is not required to engage in any of these activities at any time.]⁴

RATING

[_____]

MATERIAL ADVERSE CHANGE STATEMENT

[Except as disclosed in this document, there/There] has been no significant change in the financial or trading position of the Issuer or the Guarantor since [insert date of last audited accounts or interim accounts (if later)] and no material adverse change in the financial position or prospects of the Issuer or the Guarantor since [insert date of last published annual accounts.]

Signed on behalf of the Issuer:

By: _____
Duly authorized

Signed on behalf of the Guarantor:

By: _____
Duly authorized

⁴ Stabilization legend may need to be amended if any offers of Notes are to be made in the U.K.

TAXATION

General

The following is a summary of certain Argentine tax matters and U.S. Federal income tax matters that may be relevant with respect to the acquisition, ownership and disposition of the Notes. Prospective purchasers of the Notes should consult their own tax advisors as to the Argentine, U.S. Federal income or other tax consequences of the acquisition, ownership and disposition of the Notes.

Argentine Taxation

The following summary is based upon tax laws of Argentina as in effect on the date of this Offering Circular and is subject to any change in Argentine law that may come into effect after such date. Prospective purchasers of the Notes are advised to consult their own tax advisers as to the consequences under the tax laws of the country of which they are residents of an investment in the Notes, including, without limitation, the receipt of interest and the sale, redemption or any disposition of the Notes.

Income Tax

Except as described below, interest payments on the Notes (including original issue discount, if any) will be exempt from Argentine income tax, *provided* that the Notes are issued in accordance with the Negotiable Obligations Law, and qualify for tax exempt treatment under Article 36 of such law. Under Article 36, interest on the Notes shall be exempt if the following conditions (the “Article 36 Conditions”) are satisfied:

- (a) the Notes must be placed through a public offering authorized by the CNV in compliance with Joint Resolution 470-1738/2004 jointly issued by the CNV and the Argentine Tax Authority (Administración Federal de Ingresos Públicos) (the “Joint Resolution”);
- (b) the proceeds of the issue of such Notes must be, pursuant to corporate resolutions authorizing the offering, applied either to (A) investments in tangible assets located in Argentina, (B) funding working capital to be used in Argentina, (C) refinancing liabilities or (D) funding capital contributions in companies owned by or affiliated with the Issuer, provided such companies use the proceeds of such contributions for the purposes specified in (A), (B) or (C) of this paragraph (b); and
- (c) the Issuer must provide evidence to the CNV in the time and manner prescribed by regulations that the proceeds of the issue have been used for the purposes described in section (b).

The Issuer has undertaken that each Series of Notes will be issued in compliance with the Article 36 Conditions. The CNV has authorized the establishment of the Program, pursuant to Resolution No. 16,064 dated February 6, 2009. After the issue of a Series of Notes, the Issuer must file with the CNV the documents required by Resolutions 368/01 and Joint Resolution of the CNV, as amended. Upon approval by the CNV of such filing, the Notes will qualify for the tax-exempt treatment set forth under Articles 36 and 36 bis of the Negotiable Obligations Law, *provided* that Article 36 Conditions are met. However, in accordance with Article 38 of the Negotiable Obligations Law, if the Issuer is subsequently found to have violated or not complied with the Article 36 Conditions, the responsibility for payment of such taxes from which the Holders of the Notes would have been exempt otherwise will rest with the Issuer. Consequently, the specified exemptions will benefit the Holders of the Notes regardless of any subsequent violation or non-compliance by the Issuer, and Holders of the Notes will be entitled to receive the full amount due as if no withholding had been required. See also “Description of the Notes—Additional Amounts.”

The main points of the Resolution are as follows:

- (a) Whether a securities offering is a “public offering placement” is exclusively to be construed under Argentine law (Section 16 of Law 17,811). The law is such that notes offered to qualified institutional buyers under Rule 144A or offered pursuant to Regulation S are considered as placed by means of a public offering.

- (b) Public offering efforts should be properly carried out and documentation of such efforts should be kept by the Issuer. Notes will not be considered tax exempt by virtue of the mere authorization by the CNV of a public offering.
- (c) Public offering efforts may be made not only in Argentina but also abroad.
- (d) Offerings may be made to the “general public” or to a “specified group of investors” (such as qualified institutional buyers).
- (e) The offering may be underwritten pursuant to an “underwriting agreement.” The notes placed pursuant to such agreement will be considered placed by means of a public offering to the extent that the underwriter effectively carries out public offering efforts in accordance with Argentine law.
- (f) The refinancing of “bridge loans” is an accepted use of proceeds from the offering.

Presidential Decree No. 1,076 of July 13, 1992, as amended by Decree No. 1,157 of July 15, 1992, both of which were ratified by Law No. 24,307 of December 30, 1993 (the “Decree”), eliminated the exemption from Argentine income tax described above with respect to those taxpayers subject to the tax adjustment for inflation rules pursuant to Title VI of the Argentine income tax law (in general entities organized or incorporated under Argentine law, local branches of foreign entities, sole proprietorships and individuals carrying on certain commercial activities in Argentina).

As a result of the Decree, interest paid to Holders that are subject to the tax adjustment for inflation rules (and thus cannot avail themselves of the Article 36 exemption) is subject to the Argentine income tax as prescribed by Argentine tax regulations. In such case, unless such holder is a local financial entity, interest payment will be subject to a 35.0% withholding tax, which will be considered as a payment on account of the Argentine federal income tax to be paid by such Holder.

The exemption from Argentine income tax to interest payments on the Notes, as described above, will continue to be applicable in Argentina to revenues received by foreign beneficiaries abroad (i.e. individuals, undivided states or entities which are foreign fiscal residents that obtain income from an Argentine source) in spite of the fact that such revenues are taxable by a foreign tax authority.

Capital Gain

If the Article 36 Conditions are fully complied with, resident and non-resident individuals and foreign entities without a permanent establishment in Argentina are not subject to taxation on capital gains derived from the sale or other disposition of the Notes. As a result of the Decree No. 1,076 above mentioned, those taxpayers subject to the tax adjustment for inflation rules of the Argentine Income Tax Law are subject to taxes on capital gains on the sale or other disposition of the Notes as prescribed by Argentine tax regulations.

The exemption on capital gains derived from the sale or other disposition of the Notes, as described above, will continue to be applicable in Argentina to revenues received by foreign beneficiaries abroad (i.e. individuals, undivided states or entities which are foreign fiscal residents that obtain income from an Argentine source) in spite of the fact that such revenues are taxable by a foreign tax authority.

Personal Assets Tax

Individuals domiciled and undivided estates located in Argentina or abroad must include securities, such as the Notes, in order to determine their tax liability for the Personal Assets Tax. This tax levies certain taxable assets held as of December 31 of each year, at the following rates:

Value of taxable asset	Tax rate
Up to Ps.305,000	0%
Over Ps.305,000 up to Ps.750,000	0.50%
Over Ps.750,000 up to Ps.2,000,000	0.75%
Over Ps.2,000,000 up to Ps.5,000,000	1.00%
Over Ps.5,000,000	1.25%

In respect of individuals domiciled or undivided estates located abroad, the Personal Assets Tax is not required to be paid if the amount of such tax is equal or less than Ps.255.75 at a tax rate of 1.25%. The tax is applicable on the market value of the Notes (or the acquisition costs plus accrued interest in the case of unlisted Notes) as of December 31 of each calendar year. Although securities, such as the Notes, owned by individuals domiciled or undivided estates located outside Argentina would be technically subject to the Personal Assets Tax, according to the provisions of Decree No. 127/96, a procedure for the collection of such tax has not been established in respect of such securities.

Although the tax is levied only on those securities held by individuals domiciled or undivided estates located in Argentina or abroad, the Personal Assets Tax Law establishes a legal presumption, which does not allow proof of any kind to the contrary, that any securities issued by Argentine private issuers and which are directly owned (“*titularidad directa*”) by a foreign legal entity that (i) is domiciled in a jurisdiction which does not require shares or private securities to be held in registered form, and (ii) a) pursuant to its by-laws or the applicable regulatory regime of such foreign entity may only carry out investment activities outside the jurisdiction of its incorporation or b) cannot carry out certain transactions authorized by its by-laws or the applicable regulatory regime in its jurisdiction of incorporation, are deemed to be owned by individuals domiciled, or undivided estates located, in Argentina and, therefore, subject to the Personal Assets Tax.

In such cases, the law imposes the obligation to pay the Personal Assets Tax at an aggregate rate of 2.5% on the Issuer (the “Substitute Obligor”). The Personal Asset Tax Law also authorizes the Substitute Obligor to seek recovery of the amount so paid, without limitation, by way of withholding or by foreclosing on the assets that gave rise to such payment.

The above legal presumption shall not apply to the following foreign legal entities that directly own securities, such as the Notes: (i) insurance companies, (ii) open-end investment funds, (iii) pension funds and (iv) banks or financial entities whose head office is incorporated in a country whose Central Bank or equivalent authority has adopted the international standards of supervision established by the Basel Committee.

Furthermore, Decree No. 812/96, dated July 24, 1996, establishes that the legal presumption discussed above shall not apply to shares and debt-related private securities, such as the Notes, whose public offering has been authorized by the CNV and which are tradable on the stock exchanges located in Argentina or abroad. In order to ensure that this legal presumption will not apply and correspondingly, that the Issuer will not be liable as a Substitute Obligor in respect of the Notes, the Issuer shall keep in its records a duly certified copy of the CNV resolution authorizing the public offering of the shares or debt-related private securities and evidence verifying that such certificate or authorization was effective as of December 31 of the year in which the tax liability occurred, as required by Resolution No. 4,203 of the *Dirección General Impositiva*.

Value Added Tax

Interest payments made in respect of the Notes will also be exempt from any VAT to the extent the Notes are issued pursuant to a public offering authorized by the CNV. Furthermore, so long as the Notes satisfy the Article 36 Conditions, any benefits relating to the offering, subscription, underwriting, transferring, amortization and cancellation will be exempt from any VAT in Argentina.

Pursuant to the VAT law, transfer of the Notes is exempt from VAT even when the Article 36 conditions are not met.

Tax on Presumed Minimum Income

The tax on minimum presumed income (the "PMIT") is levied on the potential income from the ownership of certain income-generating assets. Corporations domiciled in Argentina, among others, are subject to the tax at the rate of 1.0% (0.20% in the case of local financial entities, leasing entities or insurance entities) applicable over the total value of assets, including the Notes, above an aggregate amount of Ps.200,000. This tax will only be owed if the income tax determined for any fiscal year does not equal or exceed the amount owed under the PMIT. In such case, only the difference between the PMIT determined for such fiscal year and the income tax determined for same fiscal year shall be paid. Any PMIT paid will be applied as a credit toward income tax owed in the immediately following ten fiscal years.

Tax on Debits and Credits on Bank Accounts

Law No. 25,413 (published in the Official Gazette on March 26, 2001), as amended, establishes, with certain exceptions, a tax levied on debits and credits on checking accounts maintained at financial institutions located in Argentina and on other transactions that are used as a substitute for the use of checking accounts. The general tax rate is 0.6% for each debit and credit (although in certain cases an increased rate of 1.2% and a reduced rate of 0.075% may apply).

Pursuant to Decree No. 534/2004 (published on the Official Gazette on May 3, 2004), 34.0% of the tax paid on credits levied at the 0.6% tax rate and 17.0% of the tax paid on transactions levied at the 1.2% tax rate will be considered (subject to periodical revision by the government) as a payment on account of income taxes, MPIT and the Special Contribution over Cooperative Capital.

The exceeding amount will not be subject to compensation with other taxes or transfer in favor of third parties, being able to be transferred, to its exhaustion, to other fiscal periods of the above-mentioned taxes.

Turnover Tax

Any investors regularly engaged in activities, or presumed to be engaged in activities, in any jurisdiction where they receive revenues from interest arising from holding notes, or from their sale or conveyance, could be subject to the turnover tax at rates that vary according to the specific laws of each Argentine province, unless an exemption applies.

Section 141, item (1) of the Tax Code of the City of Buenos Aires establishes that the income resulting from any transaction in respect of notes issued pursuant to the Negotiable Obligations Law (such as interest income and the sale value in the event of conveyance) is exempted from the turnover tax to the extent the Income Tax exemption is applicable.

Section 180, item (c) of the Tax Code of the province of Buenos Aires establishes that income resulting from any transaction on notes issued pursuant to the Negotiable Obligations Law and Law No. 23,962, as amended (such as interest income and the sale value in the event of conveyance) is exempted from the turnover tax to the extent the Income Tax exemption applies.

Argentine residents must consider the effect of the turnover tax applicable in the local jurisdiction of their residence or economic activity when purchasing any securities.

Stamp and Transfer Taxes

No Argentine stamp taxes shall be payable by Holders of the Notes in connection with resolutions, agreements and transactions related to the issuance, subscription, placement and transfer of the Notes (under Article 35 of the Negotiable Obligations Law) and under Section 385, item (5) of the Tax Code of the city of Buenos Aires and Section 274, item (46) of the Tax Code of the province of Buenos Aires. Holders of the Notes may be subject to stamp tax in certain Argentina provinces if transfers of Notes are performed or executed in such jurisdictions by means of written agreements. No federal Argentine transfer taxes are applicable on the sale or transfer of the Notes.

At a provincial level, the Province of Buenos Aires (“Province of Bs. As.”) established a Free Transmission of Goods Tax (through Law No. 14,044) (“FTGT”) effective as from 01 January 2010, which main characteristics are:

- The FTGT comprehends enrichments from all free transmission of goods, including inheritance, legacies, donations, etc.
- Individuals and legal entities are subject to the FTGT.
- Tax payers domiciled in the Province of Bs. As. are subject to the FTGT over goods located in and out of the Province of Bs. As., and tax payers domiciled in other provinces other than the Province of Bs. As. are subject to the FTGT over the free enrichment of goods located in the Province of Bs. As.
- Notes, such as the Notes, issued by an entity domiciled in the Province of Bs. As. are considered as located in the Province of Bs. As.
- Transfers of goods are exempted from the FTGT when the total amount of goods transferred is equal or less than Ps.3.000.000 (excluding exemptions, deductions, etc).
- The tax rates have been set between 5% to 10.5% according to the tax base and the degree of kinship involved.
- Free transmissions of notes might be subject to the FTGT if they are involved in free transmissions of goods in excess of Ps.3.000.000.

Analysis should be performed considering each particular jurisdiction in order to determine the applicability of similar free transportation of goods’ taxes.

Court Tax

In the event that it becomes necessary to institute enforcement proceedings in relation to the Notes in Argentina, a court tax (currently at a rate of 3.0%) will be imposed on the amount of any claim brought before the Argentine courts sitting in the City of Buenos Aires.

Tax Treaties

Argentina has entered into tax treaties with several countries. There is currently no tax treaty in force between Argentina and the United States.

U.S. Federal Taxation

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, YOU ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS OFFERING CIRCULAR OR ANY DOCUMENT REFERRED TO OR INCORPORATED BY REFERENCE HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY YOU

FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON YOU UNDER THE UNITED STATES INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS WRITTEN FOR USE IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) YOU SHOULD SEEK ADVICE BASED ON YOUR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

* * * * *

The following is a summary of the principal U.S. federal tax consequences of the acquisition, ownership and disposition of Notes. This summary does not address the material U.S. federal tax consequences of every type of Note which may be issued under the Program, and the relevant Pricing Supplement will contain additional or modified disclosure concerning the material U.S. federal tax consequences relevant to such type of Note as appropriate. Except as discussed under “– United States Aliens” below, this summary deals only with purchasers of Notes that are U.S. Holders (as defined below) and that will hold the Notes as capital assets. The discussion does not cover all aspects of U.S. federal taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, and does not address state, local, non-U.S. or other tax laws. In particular, this summary does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as banks, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions, integrated transactions or conversion transactions for U.S. federal income tax purposes, U.S. expatriates or investors whose functional currency is not the U.S. dollar).

As used herein, the term “U.S. Holder” means a beneficial owner of Notes that is for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the United States; (ii) a corporation, or other entity treated as a corporation, created or organized under the laws of the United States or any State thereof or the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source; or (iv) a trust (A) if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (B) if it has a valid election in effect under Treasury Regulations to be treated as a United States person. As used herein, the term “United States Alien” means any corporation, individual or estate or trust that is a beneficial owner of Notes and that, for U.S. federal income tax purposes, is (i) a foreign corporation, (ii) a non-resident alien individual or (iii) a foreign estate or trust.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of Notes the treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its own tax advisor.

The summary is based on the tax laws of the United States including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

The Company intends (consistent with its current and prior practice) to conduct its affairs in such a way, and we have assumed for purposes of the discussion below, that, consistent with the past, the Company will not be treated for U.S. federal income tax purposes as engaged in a trade or business in the United States. The U.S. federal income tax consequences to a Holder if the Company is treated as so engaged could be less favorable than those described below.

U.S. Holders

Payments of Interest

Interest on a Note, whether payable in U.S. dollars or a currency, composite currency or basket of currencies other than U.S. dollars (a “foreign currency”), other than interest on a “Discount Note” that is not “qualified stated interest” (each as defined below under “Original Issue Discount—General”), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder’s regular method of accounting for U.S. federal income tax purposes. Interest paid by the Issuer on the Notes and original issue discount (“OID”), if any, accrued with respect to the Notes (as described below under “Original Issue Discount”) generally will constitute income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

Effect of Argentine Withholding Taxes

As discussed in “Taxation—Argentine Taxation,” payments of interest in respect of the Notes may be subject to Argentine withholding taxes in certain circumstances. In such circumstances, discussed under “Description of the Notes—Additional Amounts,” the Branch may become liable for the payment of Additional Amounts to U.S. Holders so that U.S. Holders receive the same net amounts they would have received had no Argentine withholding taxes been imposed. For U.S. federal income tax purposes, U.S. Holders will be treated as having actually received the amount of Argentine taxes withheld by the Branch (as well as Additional Amounts paid by the Branch in respect thereof) with respect to a Note, and as then having actually paid over the withheld taxes to the Argentine taxing authorities. As a result, the amount of interest income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of interest may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Branch with respect to the payment.

Subject to certain limitations, a U.S. Holder generally will be entitled to a credit against its U.S. federal income tax liability for Argentine income taxes, if any, withheld by the Branch. Alternatively, a U.S. Holder may elect to deduct such Argentine income taxes when computing its U.S. federal taxable income, *provided* that such U.S. Holder elects to deduct (rather than credit) all foreign income taxes paid or accrued for the taxable year. Interest and OID in respect of the Notes generally will constitute “passive category income” for most U.S. Holders. In certain circumstances, a U.S. Holder may be unable to claim foreign tax credits (and may instead be allowed deductions) for foreign income taxes imposed on a payment of interest, if the U.S. Holder has not held the Notes for at least 16 days during the 31-day period beginning on the date that is 15 days before the date on which the right to receive the payment arises. Since a U.S. Holder may be required to include OID on the Notes in its gross income in advance of any withholding of Argentine income taxes from payments attributable to the OID (which may not occur until the Note is repaid or redeemed), a U.S. Holder may not be entitled to a credit or deduction for these Argentine income taxes in the year the OID is included in the U.S. Holder’s gross income, and may be limited in its ability to credit or deduct in full the Argentine income taxes in the year those taxes are actually withheld by the Branch. Prospective purchasers should consult their tax advisors concerning the U.S. foreign tax credit implications of the payment of any Argentine income taxes.

Original Issue Discount

General

The following is a summary of the principal U.S. federal income tax consequences of the ownership of Notes issued with OID. The following summary does not discuss Notes that are characterized as contingent payment debt instruments for U.S. federal income tax purposes. In the event the Issuer issues contingent payment debt instruments (which may include certain Indexed Linked Notes) the applicable Pricing Supplement will describe the material U.S. federal income tax consequences thereof.

A Note, other than a Note with a term of one year or less (a “Short-Term Note”), will be treated as issued with OID (a “Discount Note”) if the excess of the Note’s “stated redemption price at maturity” over its issue price is equal to or more than a *de minimis* amount (0.25% of the Note’s stated redemption price at maturity multiplied by

the number of complete years to its maturity). An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an “installment obligation”) will be treated as a Discount Note if the excess of the Note’s stated redemption price at maturity over its issue price is equal to or greater than 0.25% of the Note’s stated redemption price at maturity multiplied by the weighted average maturity of the Note. A Note’s weighted average maturity is the sum of the following amounts determined for each payment on a Note (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Note’s stated redemption price at maturity. Generally, the issue price of a Note will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Note is the total of all payments provided by the Note that are not payments of “qualified stated interest.” A qualified stated interest payment is generally any one of a series of stated interest payments on a Note that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or a variable rate (in the circumstances described below under “Variable Interest Rate Notes”), applied to the outstanding principal amount of the Note.

U.S. Holders of Discount Notes must include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income by a U.S. Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note (“accrued OID”). The daily portion is determined by allocating to each day in any “accrual period” a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Discount Note’s adjusted issue price at the beginning of the accrual period and the Discount Note’s yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Note allocable to the accrual period. The “adjusted issue price” of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period (without regard to the amortization of any acquisition premium or bond premium, as discussed below under “Original Issue Discount—Acquisition Premium” and “Notes Purchased at a Premium”) and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

De Minimis OID

If a U.S. Holder owns a Note issued with de minimis OID, which is discount that is not OID because it is less than 0.25% of the stated redemption price at maturity multiplied by the number of complete years to maturity (or, in the case of an installment obligation, the weighted average maturity), such U.S. Holder generally must include the de minimis OID in income at the time principal payments on the Note are made in proportion to the amount paid. Any amount of de minimis OID included in income will be treated as a capital gain.

Acquisition Premium

A U.S. Holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being “acquisition premium”) and that does not make the election described below under “Election to Treat All Interest as Original Issue Discount,” is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder’s adjusted basis in the Note immediately after its purchase over the Note’s adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, over the Note’s adjusted issue price.

Election to Treat All Interest as Original Issue Discount

A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant-yield method described above under “Original Issue Discount—General,” with certain modifications. For purposes of this election, interest includes stated interest, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortizable bond premium (described below under “Notes Purchased at a Premium”) or acquisition premium. This election will generally apply only to the Note with respect to which it is made and may not be revoked without the consent of the Internal Revenue Service (the “IRS”). If the election to apply the constant-yield method to all interest on a Note is made with respect to a Market Discount Note (as defined below), the electing U.S. Holder will be treated as having made the election discussed below under “Market Discount” to include market discount in income currently over the life of all debt instruments with market discount held or thereafter acquired by the U.S. Holder. U.S. Holders should consult their tax advisers concerning the propriety and consequences of this election.

Variable Interest Rate Notes

Notes that provide for interest at variable rates (“Variable Interest Rate Notes”) generally will bear interest at a “qualified floating rate” and thus will be treated as “variable rate debt instruments” under Treasury Regulations governing accrual of OID. A Variable Interest Rate Note will qualify as a “variable rate debt instrument” if, among other requirements, (a) its issue price does not exceed the total non-contingent principal payments due under the Variable Interest Rate Note by more than a specified *de minimis* amount and (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate.

A “qualified floating rate” is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Note is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Note (e.g., two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Note’s issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap), a minimum numerical limitation (i.e., a floor) or a restriction in the amount of increase or decrease in such rate (i.e., a governor) may, under certain circumstances, fail to be treated as a qualified floating rate unless the cap, floor, or governor, for example, is fixed throughout the term of the Note.

An “objective rate” is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g., one or more qualified floating rates or the yield of actively traded personal property). A rate will not qualify as an objective rate if it is based on information that is within the control of the Issuer (or a related party) or that is unique to the circumstances of the Issuer (or a related party), such as dividends, profits or the value of the Issuer’s stock (although a rate does not fail to be an objective rate merely because it is based on the credit quality of the Issuer). Other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Note will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest Rate Note’s term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Variable Interest Rate Note’s term. A “qualified inverse floating rate” is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Note provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Note’s issue date is intended to approximate the fixed rate (e.g., the value of the variable rate on the issue date does not

differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a “current value” of that rate. A “current value” of a rate is the value of the rate on any day that is no earlier than 3 months prior to the first day on which that value is in effect and no later than 1 year following that first day.

If a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a “variable rate debt instrument,” then any stated interest on the Note which is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a “variable rate debt instrument” will generally not be treated as having been issued with OID unless the Variable Interest Rate Note is issued at a “true” discount (i.e., at a price below the Note’s stated principal amount) in excess of a specified *de minimis* amount. OID on a Variable Interest Rate Note arising from “true” discount is allocated to an accrual period using the constant yield method described above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note.

In general, any other Variable Interest Rate Note that qualifies as a “variable rate debt instrument” will be converted into an equivalent fixed rate debt instrument for purposes of determining the amount and accrual of OID and qualified stated interest on the Variable Interest Rate Note. Such a Variable Interest Rate Note must be converted into an equivalent fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Interest Rate Note with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Note’s issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Interest Rate Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note. In the case of a Variable Interest Rate Note that qualifies as a “variable rate debt instrument” and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Note provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Note as of the Variable Interest Rate Note’s issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Note is converted into an equivalent fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Note is converted into an equivalent fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the equivalent fixed rate debt instrument by applying the general OID rules to the equivalent fixed rate debt instrument and a U.S. Holder of the Variable Interest Rate Note will account for the OID and qualified stated interest as if the U.S. Holder held the equivalent fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the equivalent fixed rate debt instrument in the event that these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Note during the accrual period.

If a Variable Interest Rate Note, such as a Note the payments on which are determined by reference to an index, does not qualify as a “variable rate debt instrument,” then the Variable Interest Rate Note will be treated as a contingent payment debt obligation. The proper U.S. federal income tax treatment of Variable Interest Rate Notes that are treated as contingent payment debt obligations will be more fully described in the applicable Pricing Supplement.

Short-Term Notes

In general, an individual or other cash basis U.S. Holder of a Short-Term Note is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realized on the sale or retirement of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realized.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the Short-Term Note. This election shall apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

Market Discount

A Note, other than a Short-Term Note, generally will be treated as purchased at a market discount (a "Market Discount Note") if the Note's stated redemption price at maturity or, in the case of a Discount Note, the Note's "revised issue price," exceeds the amount for which the U.S. Holder purchased the Note by at least 0.25 per cent of the Note's stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Note's maturity (or, in the case of a Note that is an installment obligation, the Note's weighted average maturity). If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes "*de minimis* market discount." For this purpose, the "revised issue price" of a Note generally equals its issue price, increased by the amount of any OID that has accrued on the Note and decreased by the amount of any payments previously made on the Note that were not qualified stated interest payments.

Under current law, any gain recognized on the maturity or disposition of a Market Discount Note (including any payment on a Note that is not qualified stated interest) will be treated as ordinary income to the extent that the gain does not exceed the accrued market discount on the Note. Alternatively, a U.S. Holder of a Market Discount Note may elect to include market discount in income currently over the life of the Note. This election shall apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the IRS. A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently will generally be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note that is in excess of the interest and OID on the Note includible in the U.S. Holder's income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. Holder.

Under current law, market discount will accrue on a straight-line basis unless the U.S. Holder elects to accrue the market discount on a constant-yield method. This election applies only to the Market Discount Note with respect to which it is made and is irrevocable.

Notes Purchased at a Premium

A U.S. Holder that purchases a Note for an amount in excess of its principal amount, or for a Discount Note, its stated redemption price at maturity, may elect to treat the excess as "amortizable bond premium," in which case the amount required to be included in the U.S. Holder's income each year with respect to interest on the Note will be reduced by the amount of amortizable bond premium allocable (based on the Note's yield to maturity) to that year. Any election to amortize bond premium shall apply to all bonds (other than bonds the interest on which is

excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. See also “—Original Issue Discount—Election to Treat All Interest as Original Issue Discount.”

Purchase, Sale and Retirement of Notes

A U.S. Holder’s tax basis in a Note will generally be its cost, increased by the amount of any OID or market discount included in the U.S. Holder’s income with respect to the Note and the amount, if any, of income attributable to *de minimis* OID and *de minimis* market discount included in the U.S. Holder’s income with respect to the Note, and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortizable bond premium applied to reduce interest on the Note.

A U.S. Holder will generally recognize gain or loss on the sale or retirement of a Note equal to the difference between the amounts realized on the sale or retirement and the tax basis of the Note. Except to the extent described above under “Market Discount” or “Original Issue Discount—Short Term Notes” or attributable to accrued but unpaid interest or changes in exchange rates (as discussed below), gain or loss recognized on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder’s holding period in the Notes exceeds one year. Gain or loss realized by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source unless (i) either (a) the U.S. Holder is an individual whose tax home is outside of the United States, or (b) the gain is attributable to an office or other fixed place of business maintained by the U.S. Holder outside the United States, and (ii) the holder actually pays a foreign income tax of at least 10 per cent on the gain.

Foreign Currency Notes

The acquisition, holding and disposition of Notes denominated in, or with payments determined by reference to, a foreign currency (“Foreign Currency Notes”) may give rise to exchange gain or loss for U.S. federal income tax purposes in the circumstances described below. Any such exchange gain or loss generally will be treated as ordinary income or loss for U.S. federal income tax purposes, and will be U.S. source unless either (i) the Notes are properly reflected on the books of a qualified business unit of the U.S. Holder that is outside the United States, or (ii) the U.S. Holder is an individual whose tax home is outside the United States.

The summary below does not discuss Notes that provide for payments to be made in more than one currency. If the Issuer issues Notes that provide for payments to be made in more than one currency (which may include certain Dual Currency Notes), the U.S. federal income tax consequences of these Notes will be described in the applicable Pricing Supplement.

Interest

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognized by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognized with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the

exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in, or determined by reference to, a foreign currency, the U.S. Holder may recognize exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the exchange rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

OID

OID for each accrual period on a Discount Note that is also a Foreign Currency Note will be determined in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment on the Note or a sale of the Note), a U.S. Holder may recognize exchange gain or loss equal to the difference between the amount received (translated into U.S. dollars at the exchange rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Market Discount

Market discount on a Foreign Currency Note will be accrued in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognize exchange gain or loss determined in the same manner as for accrued interest or OID. A U.S. Holder that does not elect to include market discount in income currently will recognize, upon the disposition or maturity of the Note, the U.S. dollar value of the amount accrued, calculated at the exchange rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

Bond Premium

Bond premium (including acquisition premium) on a Foreign Currency Note will be computed in units of the foreign currency, and any such bond premium that is taken into account currently will reduce interest income in units of the foreign currency. On the date bond premium offsets interest income, a U.S. Holder may recognize exchange gain or loss measured by the difference between the exchange rate in effect on that date, and on the date the Notes were acquired by the U.S. Holder. A U.S. Holder that does not elect to take bond premium (other than acquisition premium) into account currently will recognize a market loss when the Note matures.

Sale or Retirement

As discussed above under "Purchase, Sale and Retirement of Notes," a U.S. Holder will generally recognize gain or loss on the sale or retirement of a Note equal to the difference between the amounts realized on the sale or retirement and its tax basis in the Note. A U.S. Holder's tax basis in a Foreign Currency Note will be determined by reference to the U.S. dollar cost of the Note. The U.S. dollar cost of a Note purchased with foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

The amount realized on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or retirement or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognize exchange gain or loss on the sale or retirement of a Foreign Currency Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Note (or, if less, the principal amount of the Note) (i) on the date of sale or retirement or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale and (ii) the date on which the U.S. Holder acquired the Note or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase. Any such exchange rate gain or loss will be realized only to the extent of total gain or loss realized on the sale or retirement.

Disposition of Foreign Currency

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. dollar value at the time the interest is received or at the time of the sale or retirement. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase.

Tax Return Disclosure Requirements

A U.S. Holder may be required to report a sale or other disposition of its Notes (or, in the case of an accrual basis U.S. Holder, a payment of accrued interest) on IRS Form 8886 (Reportable Transaction Disclosure Statement) if it recognizes foreign currency exchange loss of at least U.S.\$50,000 in a single taxable year from a single transaction, if such U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders. U.S. Holders are urged to consult their tax advisors in this regard.

Backup Withholding and Information Reporting

In general, payments of interest and accrued OID on, and the proceeds of a sale, redemption or other disposition of, the Notes, payable to a U.S. Holder will be reported to the IRS and to the U.S. Holder as may be required under applicable Treasury Regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders (including, among others, corporations) are not subject to backup withholding or information reporting. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

United States Aliens

Subject to the discussion of backup withholding below, interest (including OID, if any) is currently exempt from U.S. federal income tax, including withholding taxes, if paid to a holder of a Note that is a United States Alien (as defined above) unless the holder conducts a trade or business in the United States and such interest is effectively connected with that trade or business.

In addition, subject to the discussion of backup withholding below, a holder of a Note that is a United States Alien will not be subject to U.S. federal income tax on any gain realized on the sale or exchange of a Note, *provided* that such gain is not effectively connected with the conduct by the holder of a United States trade or business and, in the case of a holder who is an individual, the holder is not present in the United States for a total of 183 days or more during the taxable year in which the gain is realized and certain other conditions are met.

Payments of principal, interest and accrued OID on, and the proceeds of sale or other disposition of Notes, by a U.S. paying agent or other U.S. intermediary to a holder of a Note that is a United States Alien will not be subject to backup withholding tax and information reporting requirements if appropriate certification (Form W-8BEN or some other appropriate form) is provided by the holder to the payor and the payor does not have actual knowledge, or reason to know, that the certificate is false.

A Note held by an individual who is a United States Alien at the time of death will be subject to U.S. federal estate tax as a result of the individual's death. The United States has entered into estate tax treaties with several countries that may eliminate the U.S. federal estate tax on Notes held at an individual's death. United States Aliens should consult their tax advisors as to the possible effect of the U.S. federal estate tax and their eligibility for benefits under an estate tax treaty.

CERTAIN EMPLOYEE BENEFIT PLAN CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), impose certain requirements on employee benefit plans and certain other plans and arrangements, including individual retirement accounts and annuities, Keogh plans and certain collective investment funds and insurance company general or separate accounts in which such plans, accounts or arrangements are invested, that are subject to the fiduciary responsibility provisions and other requirements of ERISA and/or Section 4975 of the Code (collectively, “Plans”), and on persons who are fiduciaries with respect to Plans, in connection with the investment of “plan assets” of any Plan. ERISA generally imposes on Plan fiduciaries certain general fiduciary requirements, including those of investment prudence and diversification and the requirement that a Plan’s investments be made in accordance with the documents governing the Plan.

ERISA and Section 4975 of the Code prohibit a broad range of transactions involving plan assets of Plans and persons (“parties in interest” under ERISA and “disqualified persons” under Section 4975 of the Code, collectively, “Parties in Interest”) who have certain specified relationships to a Plan or its plan assets, unless a statutory or administrative exemption is available. Parties in Interest that participate in a prohibited transaction may be subject to excise taxes, penalties or other liabilities under ERISA or Section 4975 of the Code, unless a statutory or administrative exemption is available.

Employee benefit plans that are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA), while not subject to the requirements of ERISA or Section 4975 of the Code, may be subject to federal, state, local, non-U.S. or other laws or regulations that contain provisions that are similar to the fiduciary responsibility and prohibited transaction provisions of ERISA or Section 4975 of the Code (“Similar Laws”).

Subject to the considerations described below, the Notes are eligible for purchase by Plans or other employee benefit plans, or any person investing the assets of any Plan or other employee benefit plan.

Pan American, the Issuer, the Dealers, the Trustee, and other persons, as a result of their own activities or because of the activities of an affiliate, may be considered a Party in Interest with respect to Plans. Accordingly, the acquisition or holding of the Notes by or on behalf of a Plan could be considered to give rise to a prohibited transaction if Pan American, the Issuer, a Dealer, the Trustee or any of their respective affiliates, is or becomes a Party in Interest with respect to such Plan. Certain exemptions from the prohibited transaction rules could, however, be applicable to the purchase and holding of the Notes by a Plan depending on the type and circumstances of the Plan fiduciary making the decision to acquire such Notes. Included among these exemptions, each of which contains several conditions which must be satisfied before the exemption applies, are: Prohibited Transaction Class Exemption (“PTCE”) 90-1, regarding investments by insurance company pooled separate accounts; PTCE 91-38, regarding investments by bank collective investment funds; PTCE 84-14 as amended effective August 23, 2005, regarding transactions effected by “qualified professional asset managers;” PTCE 95-60, regarding investments by insurance company general accounts; and PTCE 96-23, regarding transactions effected by certain “in-house asset managers.” Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by such exemptions may not necessarily cover all acts that might be construed as prohibited transactions under ERISA or Section 4975 of the Code. If a purchase of the Notes were to be a non-exempt prohibited transaction, the purchase might have to be rescinded.

Because of the foregoing, the Notes, and any interest therein, may not be purchased or held by any Plan or any employee benefit plan subject to Similar Laws or any person investing assets of any Plan or such an employee benefit plan unless such purchase and holding will not constitute a non-exempt prohibited transaction under ERISA or the Code or a violation of any applicable Similar Law. Each purchaser or holder of the Notes or any interest therein will be deemed to have represented and agreed by its purchase and holding thereof that (a) either (1) it is not, and is not acting on behalf of, a Plan or a governmental, church or non-U.S. plan which is subject to Similar Laws, and no part of the assets to be used by it to purchase or hold such Notes or any interest therein constitutes the assets of any Plan or such a governmental, church or non-U.S. plan, or (2) its purchase, holding and disposition of such Notes does not and will not constitute or otherwise result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental, church or non-U.S. plan, a violation of Similar Laws); and (b) it will not sell or otherwise transfer such Notes or any interest therein otherwise than to a

purchaser or transferee that is deemed to represent and agree with respect to its purchase and holding of such Notes to the same effect as the purchaser's representation and agreement set forth in this sentence.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, prior to making an investment in the Notes, prospective Plan and other employee benefit plan investors should consult with their legal advisors concerning the impact of ERISA, the Code and applicable Similar Laws and the potential consequences of such investment with respect to their specific circumstances, including whether any prohibited transactions under ERISA or the Code or a violation of any Similar Laws may result from such investment and whether any exemption would be applicable, and determine on their own whether all conditions of any prohibited transaction exemption or exemptions have been satisfied such that the acquisition and holding of the Notes by such investor are entitled to full exemptive relief thereunder.

SUBSCRIPTION AND SALE

Unless otherwise provided in the applicable Pricing Supplement, the Dealers and their affiliates participating in an offering of Notes under the Program may engage in transactions that stabilize, maintain or otherwise affect the market price of the notes. Such transactions may include stabilization transactions effected in accordance with Rule 104 of Regulation M under the Securities Act, pursuant to which such persons may bid for or purchase notes for the purpose of stabilizing their market price. The Dealers also may create a short position for their respective accounts by selling more notes in connection with such an offering than they are committed to purchase from the Issuer, and in such case may purchase notes in the open market following completion of an offering of notes to cover all or a portion of such short position. Any of the transactions described in this paragraph may result in the maintenance of the price of the notes at a level above that which might otherwise prevail in the open market. None of the transactions described in this paragraph is required, and, if any is undertaken, it may be discontinued at any time.

United States

Offerings Outside the United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons unless the notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Dealer has agreed or will agree that, except as permitted by the Purchase Agreement, it will not offer, sell or deliver Notes of any Series within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Notes of a Series as certified to the Issuer, and that it will have sent to each Dealer to which it sells Notes prior to such 40th day a confirmation or other notice setting forth the restrictions on offers and sales of such Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the completion of the distribution of the Notes of a Series, an offer or sale of Notes of such Series within the United States by a Dealer that is not participating in the offering of such Series may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than under an applicable exemption from registration under the Securities Act.

Offerings Within the United States

The Notes offered and sold within the United States are not being registered under the Securities Act and are being offered and sold in reliance upon the exemption from registration provided by Section 4(2) hereof, which exempts transactions by an issuer not involving any public offering.

Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A, and each such purchaser of Notes is hereby notified that Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. To the extent that the Issuer and the Guarantor are not subject to or do not comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g-3-2(b) thereunder, they have agreed to furnish to holders of the Notes and to prospective purchasers designated by such holders, upon request thereby, such information as may be required by Rule 144A.

Any purchaser of Notes must have sufficient knowledge and experience in business matters to be capable of evaluating the merits and risks of investing in and holding Notes and be liable to bear the economic risk of the investment for an indefinite period of time because the Notes have not been registered under the Securities Act.

There is no undertaking to register the Notes, and they cannot be sold unless they are subsequently registered or an exemption from such registration requirement is available. There can be no assurance that the Notes will be sold, or that there will be a secondary market for the Notes.

Each Series will also be subject to such additional United States selling restrictions as we and the relevant Dealer or Dealers may agree to and as indicated in the applicable pricing supplement. Each of the Dealers has agreed or will agree that it will offer, sell or deliver such notes only in compliance with such additional selling restrictions.

Republic of Argentina

The Notes will constitute *obligaciones negociables* under the Negotiable Obligations Law, and are entitled to the benefits set forth therein and subject to the procedural requirements established in Decree No. 677/01. The notes may not be offered directly to the public in Argentina except by the Issuer or through individuals or entities authorized under the laws and regulations of Argentina to offer or sell the notes directly to the public in Argentina.

United Kingdom

Each Dealer has represented, warranted and agreed or will represent, warrant and agree and each further Dealer appointed under the Program will be required to consent and agree that:

(1) in relation to Notes which have a maturity of one year or more, (i) it has not offered or sold and prior to the expiry of a period of six months from the Issue Date of such Notes, any such notes, and (ii) will not offer or sell to persons in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);

(2) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, or the "FSMA", received by it in connection with the issue or sale of such Notes in circumstances in which Section 21(1) of the FSMA does not, or would not, apply to the Issuer;

(3) in relation to any Notes which must be redeemed before the first anniversary of the date of their issue, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business, and (b) it has not offered or sold and will not offer or sell any such Notes other than to persons:

- (a) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
- (b) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses;

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer; and

(4) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Other Jurisdictions

No action has been or will be taken in any other jurisdiction by the Issuer that would permit a public offering of Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer to comply with all applicable laws at their own expense.

Pursuant to the Argentine Federal Tax Procedure Law (Law No. 11,683, as amended by Law No. 25,795 published in the Official Gazette on November 17, 2003), any local entity receiving funds of whatsoever nature (i.e.

loans, capital contributions, etc.) from foreign entities located in low or non-tax jurisdictions are subject to income tax and value added tax, which taxes are calculated by reference to 110.0% of the funds so received, with no direct consequences to the investor in the Notes. This is as a consequence of a presumption that such amounts are profits for the local party who receives them. Certain limited restrictions apply, provided the Argentine party can irrefutably show that the funds so received are the result of activities performed in the low or non-tax jurisdiction by the foreign party from whom the funds were received. Although this amendment does not seem to reach *obligaciones negociables* placed by public offering, there is no specific assurance that this is the case.

Pursuant to the above, the Issuer may restrict the funding from low or non-tax jurisdictions, in respect of the placement of Notes, as it could impose on the Issuer the consequences described in the paragraph above. Low or non-tax jurisdictions under Argentine legislation are listed in Section 21.7 of the income tax law regulatory decree.

TRANSFER RESTRICTIONS

The Notes may be subject to restrictions on transfer in certain jurisdictions, including, but not limited to, the United States, where Notes may be sold only pursuant to an exemption from the registration requirements of the Securities Act or pursuant to an effective registration statement under the Securities Act. In view of such restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of any Notes.

Rule 144A Notes

Each purchaser of Notes within the United States purchasing the Notes pursuant to Rule 144A, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged that:

- (1) it is (a) a QIB buyer within the meaning of Rule 144A, (b) acquiring such Notes for its own account or for the account of a QIB and (c) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A;
- (2) it understands that the Notes and the Guarantee have not been registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) to the Issuer, (b) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (c) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (d) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) and (f) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any State of the United States;
- (3) it understands that such Notes, unless the Issuer determines otherwise in compliance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE GUARANTEE IN RESPECT HEREOF HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO THE ISSUER, (2) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATIONS UNDER THE SECURITIES ACT, (4) PURSUANT TO ANOTHER EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THIS NOTE;

- (4) it understands that the Issuer, the Trustee, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Notes for the account of one or more qualified institutional buyers it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account;

- (5) it understands that the Notes offered in reliance on Rule 144A will be represented by a Rule 144A Global Note. Before any interest in such Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the related Restricted Regulation S Global Note or Unrestricted Regulation S Global Note, it will be required to provide the Trustee with a written certification (the form of which certificate can be obtained from the Trustee) as to compliance with applicable securities laws; and
- (6) (a) either (i) it is not, and is not acting on behalf of, an employee benefit plan or other plan subject to the prohibited transaction provisions of the United States Employee Retirement Income Security Act of 1974, as amended (“ERISA”), or Section 4975 of the United States Internal Revenue Code of 1986, as amended (“Code”), or any entity which may be deemed to hold assets of any such plan, or a governmental, church or non-U.S. plan which is subject to any federal, state, local or non-U.S. law that is similar to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code, and no part of the assets to be used by it to purchase or hold the Notes or any interest therein constitutes the assets of any such employee benefit plan or plan, or (ii) its purchase, holding and disposition of the Notes does not and will not constitute or otherwise result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental, church or non-U.S. plan, a violation of any similar federal, state, local or non-U.S. law); and (b) it agrees not to sell or otherwise transfer any interest in the Notes otherwise than to a purchaser or transferee that is deemed to make these same representations, warranties and agreements with respect to its purchase and holding of such Notes.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Offering Circular and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate;
- (2) it understands that such Notes and the Guarantee have not been registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) to the Issuer, (b) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB, (c) to an IAI, if such IAI, prior to such transfer, furnishes to the Trustee a signed certificate containing representations and agreements relating to the restrictions on transfer of the Notes (the form of which certificate can be obtained from the Trustee), (d) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (e) if such Notes have been registered pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any State of the United States;
- (3) it understands that such Notes, unless the Issuer determines otherwise in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE GUARANTEE IN RESPECT THEREOF HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT (A) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES

ACT OR (B) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT;

- (4) it understands that the Issuer, the Trustee, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements; and
- (5) it understands that the Notes offered in reliance on Regulation S will initially be represented by a Restricted Regulation S Global Note. Prior to the expiration of the distribution compliance period, before any interest in the Restricted Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note, it will be required to provide the Trustee with a written certification (the form of which can be obtained from the Trustee) as to compliance with applicable securities laws.
- (6) (a) either (i) it is not, and is not acting on behalf of, an employee benefit plan or other plan subject to the prohibited transaction provisions of the United States Employee Retirement Income Security Act of 1974, as amended (“ERISA”), or Section 4975 of the United States Internal Revenue Code of 1986, as amended (“Code”), or any entity which may be deemed to hold assets of any such plan, or a governmental, church or non-U.S. plan which is subject to any federal, state, local or non-U.S. law that is similar to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code, and no part of the assets to be used by it to purchase or hold the Notes or any interest therein constitutes the assets of any such employee benefit plan or plan, or (ii) its purchase, holding and disposition of the Notes does not and will not constitute or otherwise result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental, church or non-U.S. plan, a violation of any similar federal, state, local or non-U.S. law); and (b) it agrees not to sell or otherwise transfer any interest in the Notes otherwise than to a purchaser or transferee that is deemed to make these same representations, warranties and agreements with respect to its purchase and holding of such Notes.

It is the intention of the Issuer to qualify all Notes issued under the Program (including those placed under Rule 144A and Regulation S) as publicly placed Notes in accordance with Law No. 17,811 and other applicable Argentine laws and regulations.

INDEPENDENT PUBLIC ACCOUNTANTS

Pan American's Financial Statements, which were prepared in accordance with U.S. GAAP, have been audited by Sibille, a partnership established under Argentine law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity, under auditing standards generally accepted in the United States as stated in their reports, included elsewhere in this Offering Circular, which include reference to other auditors. The independent auditors' report issued by KPMG regarding Pan American's Financial Statements, and only with respect to Pan American's financial statements as of and for the years ended December 31, 2008 and 2007, expressed a qualified opinion due to a scope limitation because the auditors were unable to obtain audited financial statements of Chaco as of and for the year ended December 31, 2008 and the update of such report for the year ended December 31, 2007.

The Branch's Financial Statements, which were prepared in accordance with Argentine GAAP, have been audited by Sibille, a partnership established under Argentine law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity, under auditing standards generally accepted in Argentina as stated in their reports included elsewhere in this Offering Circular.

The Branch's auditors for the years ended December 31, 2007, 2008 and 2009 were:

Year ended on December 31,	Auditor	Firm	Domicile
2007	Graciela Claudia Laso	Sibille	Bouchard 710 1° Piso
2008	Néstor Raúl García	Sibille	Bouchard 710 1° Piso
2009	Néstor Raúl García	Sibille	Bouchard 710 1° Piso

The auditor for the current period is Néstor Raúl García from Sibille, a partnership established under Argentine law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity.

LEGAL MATTERS

The validity of the Notes and certain matters in connection with Argentine law will be passed upon for the Branch by Gonzalo Fratini, Argentine in-house counsel to the Branch. Certain matters in connection with U.S. law and New York law in connection with this Program will be passed upon by Chadbourne & Parke LLP, New York counsel to the Branch and Pan American. Certain matters in connection with Delaware law will be passed upon by Richards, Layton & Finger, special Delaware counsel to Pan American.

LISTING AND GENERAL INFORMATION

Clearing Systems

The Notes represented by a Restricted Regulation S Global Note have been accepted for clearance through Euroclear and Clearstream Luxembourg. The ISIN number and the CUSIP and/or CINS numbers for each Tranche of Notes will be contained in the Pricing Supplement relating thereto. In addition, the Issuer will make an application for Notes to be accepted for trading in book-entry form by DTC. Acceptance by DTC of each Tranche of Notes will be confirmed in the applicable Pricing Supplement.

Listing

Application may be made to list the Notes on the Buenos Aires Stock Exchange. Application may be made to list or trade the Notes on any other stock exchange or over-the-counter market in Argentina or abroad, including the London Stock Exchange, the Luxembourg Stock Exchange and the Euro MTF Market of such exchange.

A copy of the Offering Circular (including the financial statements issued in Spanish) will be available upon request at the principal offices of the Issuer and the Paying Agent in Buenos Aires.

Authorization

The creation of the Program and the issuance of the Notes thereunder was authorized by a resolutions of the Legal Representative of the Issuer passed on November 27, 2007. The issue of the Guarantee was authorized by Pan American on November 26, 2007. The creation of the Program has been authorized by Resolution No. 16,064 of the CNV dated as of February 6, 2009.

EU Directive on the Taxation of Savings Income

The EU has adopted a Directive (the “Savings Tax Directive”) regarding the taxation of savings income. The Savings Tax Directive requires member states to provide to the tax authorities of other member states details of payments of interest and other similar income paid by a person to an individual in another member state, except that Austria, Belgium and Luxembourg (as described above) will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

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PAN AMERICAN ENERGY LLC

CONSOLIDATED

FINANCIAL STATEMENTS

DECEMBER 31, 2009

INDEPENDENT AUDITORS' REPORT



Sibille
Bouchard 710 - 1º piso - (C1106ABL)
Buenos Aires, República Argentina

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Independent Auditors' Report

To the Management Committee and Members of
Pan American Energy LLC:

We have audited the accompanying consolidated balance sheets of Pan American Energy LLC and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, members' equity and cash flows for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide us with a reasonable basis for our opinion.

We were unable to obtain audited financial statements of Empresa Petrolera Chaco S.A. ("Chaco") as of and for the year ended December 31, 2008, and the update of that for the year ended December 31, 2007, which statements reflect total assets representing approximately 13 % as of December 31, 2008, and 16 % and 13% of the related total revenues of Pan American Energy LLC for each of the years in the two-year period then ended; nor were we able to satisfy ourselves by other auditing procedures as to the amounts consolidated for Chaco.

In our opinion, except for the effects of the adjustments, if any, that might have been determined to be necessary on the consolidated financial statements as of December 31, 2008, had we been able to examine evidence regarding the amounts consolidated for Chaco, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pan American Energy LLC and subsidiaries as of December 31, 2009 and 2008, and the results of their operations, the changes in members' equity and their cash flows for each of the years in the three-year period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 22 to the consolidated financial statements, on January 23, 2009 the President of Bolivia issued Supreme Decree N° 29,888 nationalizing 8,049,660 shares of Chaco, almost all of the Company's holding, representing 50.00% of the total shares of such company. As a consequence of such nationalization, the Company has deconsolidated the assets and liabilities of Chaco and allocated the net balance to "Other non-current accounts receivable". Additionally, as disclosed in note 27, Pan American Energy LLC filed with the International Center for the Settlement of Investment Disputes a request for arbitration against Bolivia pursuant to the Treaty between the Government of the United States of America and the Government of Bolivia Concerning the Encouragement and Reciprocal Protection of Investments on March 12, 2010. The consolidated financial statements do not include any adjustments that might result from the outcome of this dispute.




In our report dated March 19, 2008, we expressed an unqualified opinion on the Company's consolidated financial statements as of and for the year ended December 31, 2007, based on our audit and the report of the auditors of Chaco. The financial statements of Chaco as of and for the year ended December 31, 2007 were audited by other auditors whose report, which expressed an unqualified opinion, was furnished to us. Due to the fact that the auditors of Chaco did not provide us with their report updated to the date of issuance of these consolidated financial statements, our present opinion on the consolidated financial statements as of December 31, 2007 is different from that expressed in our previous report.

We have also examined, in accordance with attestation standards established by the American Institute of Certified Public Accountants, Pan American Energy LLC's internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 23, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Buenos Aires, Argentina
March 23, 2010

SIBILLE

(Member firm of KPMG International)



Néstor R. García
Partner



Sibille
Bouchard 710 - 1º piso - (C1106ABL)
Buenos Aires, República Argentina

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Independent Auditors' Report

To the Management Committee and Members of
Pan American Energy LLC:

We have examined the effectiveness of Pan American Energy LLC's internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Pan American Energy LLC's management is responsible for maintaining effective internal control over financial reporting, and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on Pan American Energy LLC's internal control over financial reporting based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our examination included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our examination also included performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Pan American Energy LLC maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on Internal Control—Integrated Framework issued by COSO.



We also have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of Pan American Energy LLC and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, members' equity and cash flows for each of the years in the three-year period ended December 31, 2009, and our report dated March 23, 2010, which included an emphasis of a matter paragraph referred to the nationalization of the Company's investment in Empresa Petrolera Chaco S.A. ("Chaco"), expressed: i) an unqualified opinion on the financial statements as of December 31, 2009 and for the year then ended and ii) a qualified opinion on the financial statements as of December 31, 2008 and for the two-year period then ended, due to a scope limitation because we were unable to obtain audited financial statements of Chaco as of and for the year ended December 31, 2008 and the update of that for the year ended December 31, 2007, which statements reflect total assets representing approximately 13 % as of December 31, 2008, and 16 % and 13% of the related total revenues of Pan American Energy LLC for each of the years in the two-year period then; nor were we able to satisfy ourselves by other auditing procedures as to the amounts consolidated for Chaco.

March 23, 2010

SIBILLE

(Member firm of KPMG International)



Néstor R. García
Partner

PAN AMERICAN ENERGY LLC

Consolidated Balance Sheets
December 31, 2009 and 2008
(In thousand US Dollars)

<u>Assets</u>	<u>December 31,</u> <u>2009 (*)</u>	<u>December 31,</u> <u>2008 (*)</u>
Current assets:		
Cash and cash equivalents (note 2.3.)	\$ 221,262	\$ 283,267
Short-term investments	10,385	14,899
Trade accounts receivable	336,657	260,841
Other accounts receivable	64,172	180,673
Due from officers and employees	5,049	4,330
Inventories (notes 2.5. and 3)	119,765	124,854
Other current assets (note 2.6.)	9,716	9,990
Total current assets	<u>767,006</u>	<u>878,854</u>
Non-current assets:		
Other accounts receivable (note 4)	392,529	52,855
Investments in affiliated companies (note 2.2.)	68,217	68,415
Property, plant and equipment (notes 2.4. and 5)	5,999,847	6,289,326
Deferred income taxes (note 10)	943	-
Other non-current assets (note 2.6.)	13,240	11,309
Total non-current assets	<u>6,474,776</u>	<u>6,421,905</u>
Total assets	<u>\$ 7,241,782</u>	<u>\$ 7,300,759</u>
<u>Liabilities and Members' equity</u>		
Current liabilities:		
Trade payables and accrued expenses	\$ 316,839	\$ 330,719
Short-term debt (note 6)	211,748	336,116
Current portion of long-term debt (note 7)	149,610	157,720
Current portion of financial bonds (note 8)	-	100,000
Accrued interest on long-term financing	22,735	25,907
Accrued taxes and other	316,168	136,291
Deferred income taxes (note 10)	10,837	8,221
Total current liabilities	<u>1,027,937</u>	<u>1,094,974</u>
Non-current liabilities:		
Long-term debt (note 7)	919,436	920,679
Financial bonds (note 8)	250,000	250,000
Other creditors (notes 2.10. and 2.14.)	231,247	289,109
Total non-current liabilities	<u>1,400,683</u>	<u>1,459,788</u>
Deferred income taxes (note 10)	<u>203,078</u>	<u>345,940</u>
Total liabilities and deferred income taxes	<u>2,631,698</u>	<u>2,900,702</u>
Members' equity:		
Capital and additional paid-in capital	2,097,201	2,097,201
Accumulated other comprehensive income (note 2.17.)	-	(16,636)
Retained earnings	2,512,883	1,990,166
Total Members' equity	<u>4,610,084</u>	<u>4,070,731</u>
Noncontrolling interest (notes 22 and 26)	-	329,326
Total equity	<u>4,610,084</u>	<u>4,400,057</u>
Total	<u>\$ 7,241,782</u>	<u>\$ 7,300,759</u>

(*) In 2009, Empresa Petrolera Chaco S.A. ("Chaco") was deconsolidated. As of December 31, 2008, Chaco assets, included in the Pan American Energy LLC Consolidated Balance Sheet, amounted to \$ 937,034, liabilities amounted to \$ 188,111 and deferred income taxes amounted to \$ 90,263. (See note 22).

See accompanying notes to consolidated financial statements

PAN AMERICAN ENERGY LLC

Consolidated Statements of Income
December 31, 2009, 2008 and 2007
(In thousand US Dollars)

	2009 (*)	2008 (*)	2007 (*)
Revenues and gains			
Sales and other operating revenues (note 2.8.)	\$ 2,775,826	\$ 3,290,295	\$ 2,611,155
Interest income	4,390	10,838	20,348
Other income (note 20)	9,454	20,792	21,240
Third parties' hydrocarbons sales	-	-	2,262
Total revenues and gains	2,789,670	3,321,925	2,655,005
Costs and expenses			
Operating expenses	(515,748)	(450,901)	(327,689)
Transportation expenses	(26,734)	(27,387)	(28,962)
Gross production assessments (note 14)	(381,686)	(656,457)	(465,380)
Hydrocarbon exploration expenses, including exploratory dry holes (note 2.4.)	(35,129)	(51,377)	(14,314)
General and administrative expenses	(6,909)	(6,299)	(4,594)
Taxes other than income taxes, including export tariffs (note 14)	(218,161)	(862,191)	(378,978)
Depreciation, depletion, amortization and retirements and abandonments (notes 2.4. and 2.14.)	(429,526)	(423,122)	(396,773)
Interest expense	(110,214)	(106,807)	(78,636)
Other financial results	(18,924)	(10,866)	(8,290)
Other expenses	(104,583)	(45,581)	(35,071)
Third parties' hydrocarbons purchase cost	-	-	(1,848)
Total costs and expenses	(1,847,614)	(2,640,988)	(1,740,535)
Income before income tax and noncontrolling interest	942,056	680,937	914,470
Income tax (notes 2.15. and 10)	(311,847)	(188,090)	(322,906)
Net income	630,209	492,847	591,564
Less net income attributable to noncontrolling interest (notes 22 and 26)	-	(51,754)	(27,865)
Net income attributable to Pan American Energy LLC	\$ 630,209	\$ 441,093	\$ 563,699

(*) In 2009, Chaco was deconsolidated. In 2008 and 2007, Chaco's sales and other operating revenues included in the Pan American Energy LLC Consolidated Statements of Income, amounted to \$ 528,275 and \$332,704, respectively. In addition, in 2008 and 2007, Chaco's Net income included in the Pan American Energy LLC Consolidated Statements of Income was \$103,509 and \$ 55,730, respectively. (See note 22).

See accompanying notes to consolidated financial statements

PAN AMERICAN ENERGY LLC

Consolidated Statements of Members' Equity
December 31, 2009, 2008 and 2007
(In thousand US Dollars)

Members' Equity

	Capital and additional paid-in capital	Accumulated other comprehensive income (note 2.17.)	Retained earnings	Total Members' Equity	Nonc in (no
Balance on December 31, 2006	\$ 2,097,201	\$ (11,902)	\$ 1,477,040	\$ 3,562,339	\$
Cash dividends	-	-	(400,000)	(400,000)	
Other cash dividends (1)	-	-	(11,788)	(11,788)	
Other comprehensive income (note 2.10.) (2)	-	(455)	-	(455)	
Net income	-	-	563,699	563,699	
Balance on December 31, 2007	2,097,201	(12,357)	1,628,951	3,713,795	
Cash dividends	-	-	(70,000)	(70,000)	
Other cash dividends (1)	-	-	(9,878)	(9,878)	
Other comprehensive income (note 2.10.) (3)	-	(4,279)	-	(4,279)	
Net income	-	-	441,093	441,093	
Balance on December 31, 2008	\$ 2,097,201	\$ (16,636)	\$ 1,990,166	\$ 4,070,731	\$

(1), (2) and (3) see F-5 (2/2)

PAN AMERICAN ENERGY LLC

Consolidated Statements of Members' Equity (Continued)
December 31, 2009, 2008 and 2007
(In thousand US Dollars)

Members' Equity

	Capital and additional paid-in capital	Accumulated other comprehensive income (note 2.17.)	Retained earnings	Total Members' Equity	Non-
Balance on December 31, 2008	\$ 2,097,201	\$ (16,636)	\$ 1,990,166	\$ 4,070,731	\$
Elimination of noncontrolling interest due to the nationalization of the Company's shares in Chaco (note 22)	-	-	-	-	-
Cash dividends	-	-	(100,000)	(100,000)	-
Other cash dividends (1)	-	-	(7,492)	(7,492)	-
Other comprehensive income (note 2.10.) (4)	-	16,636	-	16,636	-
Net income	-	-	630,209	630,209	-
Balance on December 31, 2009	\$ 2,097,201	\$ -	\$ 2,512,883	\$ 4,610,084	\$

- (1) The Company paid cash dividends to one of its members, Bridas Corporation, in the amounts of \$ 11,788 in 2007; \$ 9,878 in 2008 and \$ 7,492 in 2009 pursuant to the Dividend Agreement entered into by the Members of Pan American Energy LLC.
- (2) Net of deferred income tax in the amount of \$ 296 (note 2.17).
- (3) Net of deferred income tax in the amount of \$ 2,428 (note 2.17).
- (4) Net of deferred income tax in the amount of (\$ 8,325) (note 2.17).

See accompanying notes to consolidated financial statements

PAN AMERICAN ENERGY LLC

Consolidated Statements of Cash Flows (1)
December 31, 2009, 2008 and 2007
(In thousand US Dollars)

	2009 (*)	2008 (*)	2007 (*)
Cash flows from operating activities:			
Net income	\$ 630,209	\$ 492,847	\$ 591,564
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion, amortization, retirements and abandonments	429,526	423,122	396,773
(Income) loss in equity method investment net of cash dividends received	(1,690)	5,211	(372)
Loss (gain) on the disposal of property	955	(1,834)	5,947
Net (decrease) increase in accrued interest on debt	(5,131)	3,334	2,891
Exploratory dry holes expense	-	43,312	11,770
(Increase) decrease in current accounts receivable	(75,360)	(100,295)	31,585
(Increase) decrease in inventories	(10,857)	44,449	(67,499)
(Increase) in other assets and non-current accounts receivable	(37,001)	(4,126)	(14,471)
Increase (decrease) in trade payables and accrued expenses, accrued taxes and other and other creditors	321,237	72,011	(11,023)
Net (decrease) increase in net deferred tax liabilities	(59,251)	(25,880)	47,206
Net cash provided by operating activities	<u>1,192,637</u>	<u>952,151</u>	<u>994,371</u>
Cash flows from investing activities:			
(Increase) decrease in short-term investments	(346)	(14,899)	40,023
Additions to property, plant and equipment	(873,611)	(1,238,685)	(1,023,424)
Proceeds from disposal of PP&E	-	9,082	5,954
Proceeds from disposal of other assets	1,858	-	-
(Decrease) in cash and cash equivalents of Chaco	(53,500)	-	-
Net cash used in investing activities	<u>(925,599)</u>	<u>(1,244,502)</u>	<u>(977,447)</u>
Cash flows from financing activities:			
Cash dividends paid	(107,492)	(79,878)	(411,788)
Dividends paid to noncontrolling interest	-	(27,208)	(14,006)
New long-term debt	183,000	351,445	442,333
Repayment of long-term debt	(282,142)	(58,074)	(163,073)
Net (decrease) increase in short-term debt, principal	(122,409)	154,196	52,777
Net cash (used in) provided by financing activities	<u>(329,043)</u>	<u>340,481</u>	<u>(93,757)</u>
(Decrease) increase in cash and cash equivalents	(62,005)	48,130	(76,833)
Cash and cash equivalents-beginning of year	283,267	235,137	311,970
Cash and cash equivalents-end of year	<u>\$ 221,262</u>	<u>\$ 283,267</u>	<u>\$ 235,137</u>
Interest paid	106,124	103,054	76,505
Income taxes paid	120,207	290,070	349,049

(*) In 2009, Chaco was deconsolidated. In 2008 and 2007, Chaco's Net cash flow - (Decrease) increase in cash and cash equivalents, included in Pan American Energy LLC Consolidated Statements of Cash Flows, amounted to (\$ 9,102) and \$ 41,393, respectively. (See note 22).

See accompanying notes to consolidated financial statements

PAN AMERICAN ENERGY LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
- Amounts expressed in thousand US Dollars -

NOTE 1 - THE COMPANY

Pan American Energy LLC ("Pan American Energy" and including its Argentine branch ("the Branch") and subsidiaries, the "Company") is a holding company that invests in entities involved in exploration and production, marketing and transportation of oil and natural gas, storage and shipment of oil, processing, compression and distribution of natural gas and power generation. Pan American Energy was incorporated on September 29, 1997, in Delaware, United States of America ("USA"), as a consequence of the strategic alliance (the "Transaction") between Amoco (now BP) and Bidas for their oil and gas activities in the Southern Cone of South America ("Southern Cone"). BP holds a 60% interest and Bidas a 40% interest in the Company.

On October 31, 2001, the Members of Pan American Energy contributed to the Company their combined 50% interest in Chaco a Bolivian hydrocarbons exploration and production company. On January 23, 2009, the Government of Bolivia, through Supreme Decree N° 29,888, nationalized almost all of the Company's shares in Chaco (see Notes 11, 22 and 27).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND PRESENTATION

2.1. Basis of presentation

The consolidated financial statements presented herein have been prepared in accordance with accounting principles generally accepted in the USA ("US GAAP").

The Company has evaluated events that occurred after December 31, 2009 and through the date of issuance of these consolidated financial statements on March 23, 2010. The effects of any material subsequent events that occurred during this period have been properly recognized or disclosed in these consolidated financial statements.

2.2. Investments, consolidation policies and joint ventures

The financial statements of Pan American Energy and its significant subsidiaries (ownership higher than 50%) and the Branch are included in the Consolidated Financial Statements. The Consolidated Financial Statements and footnotes as of December 31, 2009 reflect the effect of the deconsolidation of Chaco (see Notes 11 and 22). Investments in oil and gas exploration and production joint ventures are proportionately consolidated. Interests in companies in which ownership is between 20% and 50% are accounted for under the equity method of accounting. Interests in companies in which ownership is between 10% and 20% and significant influence is exercised are also accounted for under the equity method. Intercompany balances, transactions and profits are eliminated in the consolidation process.

The consolidated financial statements of the Company include the financial statements of the following directly and indirectly controlled subsidiaries for the year ended December 31, 2009:

<u>Companies</u>	<u>Main Activity</u>	<u>Capital (%)</u>	<u>Voting Rights (%)</u>
Pan American Fuego S.A. (1)	E & P (2)	100.00	100.00
Pan American Sur S.A. (1)	E & P	100.00	100.00
Barranca Sur Minera S.A. (1)	E & P	100.00	100.00
Amoco Bolivia Oil and Gas Aktiebolag (1)	E & P	100.00	100.00
PAE Oil & Gas Bolivia Ltda. (3)	E & P	100.00	100.00
PAE E & P Bolivia Limited (3)	E & P	100.00	100.00
Pan American Energy do Brasil Ltda. (3)	E & P	100.00	100.00
Pan American Energy Chile Limitada (3)	E & P	100.00	100.00
Pan American Energy Investments Ltd.	Investment	100.00	100.00
Pan American Energy Holdings Ltd. (3)	Investment	100.00	100.00
Pan American Energy Ibérica S.L. (1)	Investment	100.00	100.00
Pan American Energy Uruguay S.A. (1)	Investment	100.00	100.00

(1), (2) and (3) see next page.

PAN AMERICAN ENERGY LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
- Amounts expressed in thousand US Dollars -

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND PRESENTATION (Continued)

2.2. Investments, consolidation policies and joint ventures (Continued)

Directly and indirectly controlled subsidiaries for the period ended December 31, 2009 (Continued):

<u>Companies</u>	<u>Main Activity</u>	<u>Capital (%)</u>	<u>Voting Rights (%)</u>
Stonewall Resources Ltd. (1)	Investment	100.00	100.00
Gemalsur S.A.	Investment	100.00	100.00
Pan American Energy LNG LLC	Investment	100.00	100.00

- (1) Indirectly controlled company.
(2) E & P: exploration and production of hydrocarbons.
(3) Includes both direct and indirect participation.

Pan American Energy holds as of December 31, 2009 either directly or through subsidiaries a participation in: Oleoductos del Valle S.A. (11.90%), Terminales Marítimas Patagónicas S.A. (31.71%), Distribuidora de Gas de Montevideo S.A. – Grupo Petrobras (34%), Central Dock Sud S.A. (19.99%), Dinarel S.A. (40%), Gasoducto Cruz del Sur S.A. (30%) and Pacific LNG Bolivia S.R.L. (25%). These interests are the main components of Investments in affiliated companies as of December 31, 2009.

As required under US GAAP related to “Consolidation of Variable Interest Entities”, the Company also included in the consolidation a variable interest entity with exploration and production activities in the Southern Cone region, of which the Company was the primary beneficiary. As of December 31, 2009 such variable interest entity is no longer included in the consolidation, as a consequence of the acquisition by the Company on August 11, 2009 of three exploration blocks in relation with such variable interest entity.

The following table summarizes the main operations, blocks and joint ventures in which the Company is involved in, and the interest it has in each of them:

<u>Activity</u>	<u>Main Blocks/Operations</u>	<u>Company's Interest</u>	<u>Company's Role</u>	<u>Country</u>
Oil and Gas	Cerro Dragón	100.00%	Operator	Argentina
Production and Development	Anticlinal Funes	80.00%	Operator	Argentina
	Piedra Clavada	100.00%	Operator	Argentina
	Koluel Kaike	100.00%	Operator	Argentina
	Lindero Atravesado	62.50%	Operator	Argentina
	Tierra del Fuego	(*)		Argentina
	Acambuco	52.00%	Operator	Argentina
	Cuenca Austral	25.00%	Non-operator	Argentina
	Aguada Pichana	18.18%	Non-operator	Argentina
	San Roque	16.47%	Non-operator	Argentina
	Estancia La Escondida (**)	25.00%	Non-operator	Argentina
Caipipendi	25.00%	Non-operator	Bolivia	

(*) and (**) see page F-9

PAN AMERICAN ENERGY LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
- Amounts expressed in thousand US Dollars -

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND PRESENTATION (Continued)

2.2. Investments, consolidation policies and joint ventures (Continued)

Main operations, blocks and joint ventures in which the Company is involved in, and the interest it has in each of them (Continued):

<u>Activity</u>	<u>Main Blocks/Operations</u>	<u>Company's Interest</u>	<u>Company's Role</u>	<u>Country</u>
Oil and Gas Exploration and Development	Acambuco "B"	100.00%	Operator	Argentina
	Centro Golfo San Jorge Marina			
	Chubut	90.00%	Operator	Argentina
	Centro Golfo San Jorge Marina			
	Santa Cruz	90.00%	Operator	Argentina
	Paso de Indios	100.00%	Operator	Argentina
	Paso Moreno	100.00%	Operator	Argentina
	Nueva Lubecka	100.00%	Operator	Argentina
	Cuenca Marina Austral 2B	25.00%	Non-operator	Argentina
	Bandurria	18.18%	Non-operator	Argentina
	Costa Afuera Argentina B 40	33.50%	Non-operator	Argentina
	Costa Afuera Argentina B 46	33.50%	Non-operator	Argentina
	Coirón	50.00%	Operator	Chile
Gas Transportation	Gasoducto Cruz del Sur S.A.	30.00%	Non-operator	Argentina/ Uruguay
Oil Transportation	Oleoductos del Valle S.A.	11.90%	Non-operator	Argentina
Oil Storage and Loading	Terminales Marítimas Patagónicas S.A.	31.71%	Non-operator	Argentina
Gas Distribution	Distribuidora de Gas de Montevideo S.A. - Grupo Petrobras	34.00%	Non-operator	Uruguay
Power Generation	Central Dock Sud S.A.	19.99%	Non-operator	Argentina

(*) The Company has retained the right to receive 64,933 mmcf of gas production from this block, which have been booked as proved reserves. As of December 31, 2009, the remaining balance is 45,410 mmcf.

(**) According to the operating agreement, the Company has an average 50% interest on the rights on the area, regardless of the percentage interest on the title of the concession.

2.3. Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments or investments with original maturities of three months or less.

2.4. Property, plant and equipment

Measurement. Property, plant and equipment has been valued as follows:

- The Branch's assets acquired before November 14, 1997, and all assets acquired by the Company after such date, at cost.
- Assets acquired on November 14, 1997 in connection with the Transaction described in Note 1, at their fair value as of that date. This represents a step-up in the measurement of such assets due to the difference between historical cost and fair value.

PAN AMERICAN ENERGY LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
- Amounts expressed in thousand US Dollars -

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND PRESENTATION (Continued)

2.4. Property, plant and equipment (Continued)

Costs incurred in oil and gas producing activities. The Company follows the successful efforts method of accounting according to the FASB Accounting Standards Codifications (ASC) Topic 360 "Property, Plant and Equipment". Costs of property acquisitions, successful exploratory wells, all development costs (including carbon dioxide and certain other injected materials that benefit production over multiple years in enhanced recovery projects) and support equipment and facilities are capitalized. Unsuccessful exploratory wells are expensed when determined to be non-productive. Production costs, expenses related to overhead and all exploration costs other than exploratory drilling are charged against income as incurred.

The Company applies ASC Topic 932-360 which permits the continued capitalization of exploratory well costs beyond one year if: (a) the well found a sufficient quantity of reserves to justify its completion as a producing well and (b) the entity is making sufficient progress assessing the reserves and the economic and operating viability of the project (see Note 23).

Depreciation, depletion and amortization ("DD&A"). Depletion of oil and gas resources, amortization of related intangible drilling and development costs and depreciation of tangible lease and well equipment are recognized using the units-of-production method.

Depreciation of the rest of property, plant and equipment is computed on a straight-line basis over the estimated economic lives.

The portion of costs of unproved oil and gas properties estimated to be non-productive is charged to expense.

Long-lived assets with recorded values that are not expected to be recovered through future cash flows are written down to current fair value. Fair value is generally determined from estimated future net cash flows (see Note 2.7.).

Significant gains or losses from retirements or disposition of facilities are credited or charged to income.

Workover costs. Workover costs related to oil and gas properties are expensed, except for those costs incurred to establish levels of production from new completion intervals which are capitalized.

Capitalized interest costs. Interest capitalization is not required for the acquisition of unproved properties if its effect, compared with the effect of expensing interest, is not material. Accordingly, no interest costs have been capitalized as a part of the historical cost of unproved oil and gas properties. Capitalization of interest is evaluated only during the exploration and development activities and not for proved properties.

Exploratory dry holes. In 2007, four exploration wells were written off in the amount of \$ 10,977 in the San Roque block in Argentina, after the testing of the wells was completed and the non commercial recoverability of reserves from those wells was determined. In addition, one exploration well in the Bandurria block in Argentina was written off in the amount of \$ 793.

In 2008, the exploration well Tuyunti x-2 in the Acambuco block was written off in the amount of \$ 42,671 and another well in the Aguada Pichana block was written off in the amount of \$ 641.

PAN AMERICAN ENERGY LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
- Amounts expressed in thousand US Dollars -

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND PRESENTATION (Continued)

2.5. Inventories

Inventories are stated at the lower of cost or market value. Cost is determined under the latest purchase cost method for the majority of the inventories including crude oil and petroleum products.

2.6. Other assets

Other assets consist principally of prepaid expenses, prepaid debt issuance fees and expenses and deferred charges and are amortized through the straight-line method over their economic life.

2.7. Impairment of long-lived assets

The Company applies ASC Topic 360-10, "Impairment or Disposal of Long-Lived Assets", which addresses the accounting for the recognition and measurement of impairment losses for long-lived assets, including oil and gas properties accounted for under the successful efforts method of accounting and certain identifiable intangibles to be held and used or disposed of.

The Company performs a review for impairment of proved oil and gas properties on a block-by-block basis when circumstances suggest there is a need for such a review. For each block determined to be impaired, an impairment loss equal to the difference between the carrying value and the fair value of the block is recognized.

Fair value, on a block-by-block basis, is estimated to be the present value of expected future cash flows computed by applying estimated future oil and gas prices, as determined by management, to estimated future production of oil and gas over the economic lives of the reserves.

The Company groups and evaluates other property, plant and equipment for impairment based on the ability to identify separate cash flows generated therefrom.

2.8. Revenue recognition

The Company uses the production method of accounting for crude oil revenues. To the extent that crude oil is produced but not sold, the oil in tanks, if material, is recorded as inventory at cost in the Consolidated Financial Statements.

The Company uses the sales method of accounting for natural gas revenues adjusted for over and under produced amounts associated with gas balancing arrangements. Under this method, revenues are recognized based on actual volumes of gas sold to purchasers.

2.9. Compensated absences and additional salaries

The Company accrues the liability for future compensation to employees for vacations and annual additional salaries (13th month payment) vested during the year.

PAN AMERICAN ENERGY LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
- Amounts expressed in thousand US Dollars -

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND PRESENTATION (Continued)

2.10. Pension plans and other post-retirement benefits

Contributions, based on salaries, were made to private pension funds responsible for the payment of pensions and other post retirement benefits up to November 2008 when the Argentine Congress passed a law by which all pension funds kept with private entities at the time of issuance of such law and those contributions to be made in the future for pension and other post retirement benefits will now be held and managed by a governmental agency. In this respect, there is no additional liability to the Company and its subsidiaries for future payments.

The Company applies ASC Topic 715 “Compensation-Retirement Benefits” to account for a defined benefit plan for its personnel denominated “Plan Puente”. US GAAP require the Company to recognize the overfunded or underfunded status of each of its defined benefit pension and other postretirement benefit plans as an asset or liability and to reflect changes in the funded status as a direct charge to “Accumulated other comprehensive income” (“AOCI”), as a separate component of Members’ equity, in the year in which they occur. As a consequence of the discontinuation described in the following paragraph, the AOCI balance was transferred to income on December 31, 2009 (see Note 2.17.).

As from July 1, 2009, the Company discontinued the “Plan Puente” with no significant impact on the Company’s financial position and results of operations. Consequently, up to the settlement thereof, such plan will not accrue further years of service and the liability will be adjusted as a result of Company-wide salary increases in Argentine pesos (“Pesos”). Some employees have already chosen to change the benefit accrued for a personal savings plan (defined Company contribution). Additionally, each employee is entitled to contribute a portion of his wages and salaries to such savings plan. The Company then provides its contribution and transfers such amounts to a fiduciary fund.

The accrued costs as of December 31, 2009 of the different plans amount to \$ 83,995 and are reflected under Other creditors (\$ 73,796) and under current liabilities (\$ 10,199).

2.11. Use of estimates in financial statements

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, revenues and expenses. Actual results may differ in some cases from the estimates.

2.12. Functional currency

The US Dollar has been determined to be the appropriate functional currency for essentially all operations. All of the Company’s activities are carried out outside the USA; however, the significant transactions of the Company are basically denominated in US Dollars.

PAN AMERICAN ENERGY LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
- Amounts expressed in thousand US Dollars -

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND PRESENTATION (Continued)

2.13. Environmental matters

The Company is subject to extensive federal, provincial and local environmental laws and regulations of each of the countries in the Southern Cone in which it operates. These laws regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of hydrocarbon substances at various sites.

Environmental expenditures are expensed or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefits are expensed.

Liabilities for expenditures of a non-capital nature are recorded when environmental assessment and/or remediation is probable and the costs can be reasonably estimated.

2.14. Asset retirement obligations

The Company applies ASC Topic 410-20, “Asset Retirement Obligations”, which requires the fair value of a liability for an asset retirement obligation to be recorded in the period in which it is incurred and a corresponding increase in the carrying amount of the related tangible long-lived asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation would be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The asset is depreciated over the remaining useful life of the related tangible long-lived asset.

As of December 31, 2009, the consolidated balance sheet shows \$ 38,461 capitalized in “Property, plant and equipment” and \$ 102,526 in accrued liability included under “Other creditors” in connection with the accounting for asset retirement obligations.

The following table presents the activity for the asset retirement obligations for the years 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	144,069	114,700
Chaco deconsolidation	(36,007)	-
Additional obligations incurred	2,235	2,014
Obligations settled in current year	(6,559)	(3,961)
Changes in estimates, including timing	(7,392)	25,159
Accretion expense	<u>6,180</u>	<u>6,157</u>
Balance at end of year	<u>102,526</u>	<u>144,069</u>

PAN AMERICAN ENERGY LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
- Amounts expressed in thousand US Dollars -

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND PRESENTATION (Continued)

2.15. Income tax

Pan American Energy is not subject to US income taxes pursuant to US regulations applicable to USA limited liability companies. The Argentine subsidiaries and the Branch are subject to Argentine income tax except for activities performed in the province of Tierra del Fuego, which is an exempt area. Taxation on income from operations through December 31, 2009 primarily reflects Argentine corporate income taxes.

The Company applies for income taxes under the provisions of ASC Topic 740, "Income Taxes". Under the asset and liability method of these rules, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to temporary differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income for the period that includes the enacted rate.

In addition, US GAAP sets forth the criteria for recognizing income tax benefits and requires additional financial statement disclosures about uncertain tax positions.

2.16. Derivative instruments and hedging activities

The Company accounts for derivative instruments and hedging activities under ASC Topic 815 "Derivatives and Hedging". These rules require qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about contingent features related to credit risk in derivative agreements.

As of December 31, 2008, the Branch was a party to four non-deliverable forward contracts for foreign currency (US Dollar) purchases in a total amount of \$ 25,410 with maturities between January 30, 2009 and March 31, 2009, which were settled in Pesos at their respective maturities. During the fiscal year ended December 31, 2009, the Company recognized gains of \$ 458 on these transactions. As of December 31, 2009, the Company has no outstanding transactions and balances related to forward contracts.

As of December 31, 2009, the Branch was a party to two financing agreements with outstanding notional amounts of \$ 67,500 and \$ 66,670 in which the six-month LIBOR interest rate payment obligation was effectively fixed through an interest rate swap with the International Finance Corporation ("IFC"), resulting in annual fixed rates of 6.97% and 7.56% respectively (see Note 7).

On August 14, 2009, the Branch entered into agreements with three financial institutions to swap (to fixed rates) its obligation to pay six month LIBOR (floating) in respect of the 2007 IFC loan described in Note 7. The notional amounts in relation to the swap agreements are \$ 129,700, \$ 204,300 and \$ 134,200. The fixed rates for the respective notional amounts are 4.13%, 4.49% and 5.46% respectively.

PAN AMERICAN ENERGY LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
- Amounts expressed in thousand US Dollars -

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND PRESENTATION (Continued)

2.17. Comprehensive income

Consolidated statement of comprehensive income is as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net income	630,209	492,847	591,564
Deferred pension plan obligation (*)	<u>16,636</u>	(4,279)	(455)
Total comprehensive income	646,845	488,568	591,109
Comprehensive income attributable to the noncontrolling interest	_____ -	(51,754)	(27,865)
Comprehensive income attributable to Pan American Energy	<u>646,845</u>	<u>436,814</u>	<u>563,244</u>

(*) Net of deferred income tax of (\$ 8,325), \$ 2,428 and \$ 296 respectively.

Accumulated other comprehensive income as of December 31, 2009, 2008 and 2007 is as follows:

	<u>December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Deferred pension plan obligation	_____ -	(16,636)	(12,357)
Accumulated other comprehensive income	_____ -	(16,636)	(12,357)

2.18. Reclassification

Certain amounts of the consolidated financial statements as of and for the years ended December 31, 2008 and 2007 were reclassified to conform to the presentation of the 2009 financial statements.

NOTE 3 - INVENTORIES

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Oil and refined products	87,557	73,767
Materials, supplies, spare parts and other	<u>32,208</u>	<u>51,087</u>
	<u>119,765</u>	<u>124,854</u>

NOTE 4 – OTHER NON-CURRENT ACCOUNTS RECEIVABLE

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
With fixed maturity	63,195	32,253
With no fixed maturity	<u>329,334 (*)</u>	<u>20,602</u>
	<u>392,529</u>	<u>52,855</u>

(*) See Note 22.

PAN AMERICAN ENERGY LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
- Amounts expressed in thousand US Dollars -

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

	Original value	Accumulated depreciation, depletion and amortization	Net
December 31, 2009			
Oil and gas activities:			
Production and development	8,752,606	(3,249,938)	5,502,668
Exploration and development (Note 23)	360,040	-	360,040
Others	<u>166,379</u>	<u>(108,052)</u>	<u>58,327</u>
	9,279,025	(3,357,990)	5,921,035
Other activities	<u>78,812</u>	-	<u>78,812</u>
	<u>9,357,837</u>	<u>(3,357,990)</u>	<u>5,999,847</u>

	Original value	Accumulated depreciation, depletion and amortization	Net
December 31, 2008			
Oil and gas activities:			
Production and development	8,773,284	(3,065,582)	5,707,702
Exploration and development (Note 23)	409,775	-	409,775
Others	<u>167,115</u>	<u>(104,376)</u>	<u>62,739</u>
	9,350,174	(3,169,958)	6,180,216
Power generation activity	40,383	(9,886)	30,497
Other activities	<u>78,613</u>	-	<u>78,613</u>
	<u>9,469,170</u>	<u>(3,179,844)</u>	<u>6,289,326</u>

NOTE 6 - SHORT-TERM DEBT

As of December 31, 2009, the Branch had various credit facilities available with banks and other financial institutions in Argentina against which it can borrow in US Dollars or Pesos up to the equivalent of \$ 500,675. As of the same date the Branch had borrowed \$ 211,748 of which \$ 48,694 were through Pesos denominated loans at an average annual interest rate in Pesos of 9.82% and \$ 163,054 through US Dollars loans at an average annual interest rate of 3.58%. Therefore, as of December 31, 2009 the Branch had unused borrowing capacity of \$ 288,927 available through various financial institutions in Argentina. As such credit lines are normally uncommitted, access to them can be restricted depending on market circumstances. However, Pan American Energy believes that its access to credit facilities is adequate to support its currently anticipated financial needs.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
- Amounts expressed in thousand US Dollars -

NOTE 7 - LONG-TERM DEBT

	<u>December 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
<u>% (1) Uncollateralized US\$ denominated</u>		
5.90 loan agreement due 2009	-	10,211
6.50 loan agreement due 2009	-	7,500
6.50 loan agreement due 2009	-	7,500
6.50 (2) loan agreement due 2012	58,676	110,409
6.97 (3) loan agreement due 2012	67,500	90,000
8.00 loan agreement due 2013	10,000	10,000
4.03 (5) loan agreement due 2013	200,000	200,000
(6) loan agreement due 2013	103,000	-
4.13 (4) loan agreement due 2014	129,700	158,500
7.56 (3) loan agreement due 2015	66,670	77,779
4.49 (4) loan agreement due 2015	204,300	241,500
(6) loan agreement due 2015	10,000	-
5.74 loan agreement due 2015	30,000	-
5.66 loan agreement due 2016	15,000	15,000
(6) loan agreement due 2017	40,000	-
5.46 (4) loan agreement due 2018	<u>134,200</u>	<u>150,000</u>
Total long-term debt	1,069,046	1,078,399
Less: Long-term debt maturing within one year	<u>149,610</u>	<u>157,720</u>
	<u>919,436</u>	<u>920,679</u>

- (1) Annual interest rates as of December 31, 2009 or, if fully paid, at final maturity. Of the total amount of \$ 1,069,046 as of December 31, 2009, \$ 343,000 bear interest at variable rates and \$ 726,046 bear interest at fixed rates or fixed through interest swap rate. The variable interest rates are primarily tied to the six-month LIBOR and are reset every six months.
- (2) Annual interest rate as per the financing agreement is the higher of 6.50% or US CPI, calculated on a quarterly basis.
- (3) The six-month LIBOR of these loans was fixed through an interest rate swap with the IFC, resulting in the above mentioned annual interest rates. (See Note 2.16.).
- (4) The six-month LIBOR of these loans was fixed through an interest rate swap with several financial institutions, resulting in the above mentioned annual interest rates. (See Note 2.16.).
- (5) Average annual interest rate of the loan granted by a syndicate of international banks. This average arises from a 4.25% annual interest rate on the amount of \$ 170,000 of this loan and a 2.75% annual interest rate on the amount of \$ 30,000 (see next page).
- (6) The weighted average annual interest rate of the three tranches of the 2009 IFC loan, as described in next page, is 7.44%.

The majority of these loan agreements contain covenants which include, among others, the obligation to maintain certain financial ratios, to adhere to limitation on the creation of liens on its main assets, to maintain adequate insurance, to provide financial information, to adhere to certain restrictions on the distribution of dividends and other customary covenants required for this type of loan agreements. As of December 31, 2009 and 2008, the Company was in compliance with the covenants assumed.

On July 11, 2005, the Branch entered into a loan agreement with the IFC to borrow an amount of \$ 250,000. This loan, which is guaranteed by Pan American Energy, consists of three tranches of \$ 135,000, \$ 100,000 and \$ 15,000 with final maturities in July 2012, July 2015 and July 2016, respectively. The outstanding balances at December 31, 2009 of such tranches are \$ 67,500, \$ 66,670 and \$ 15,000 respectively.

On July 13, 2007, the Branch entered into a loan agreement with the IFC in an amount of \$ 550,000. This loan agreement which is guaranteed by Pan American Energy consists of three tranches of \$ 158,500, \$ 241,500 and \$ 150,000 with final maturities of April 2014, April 2015 and April 2018, respectively. The outstanding balances as of December 31, 2009 of such tranches are \$ 129,700, \$ 204,300 and \$ 134,200 respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 7 - LONG-TERM DEBT (Continued)

On May 21, 2008, the Branch entered into a \$ 200,000 loan agreement with a syndicate of international banks, which is guaranteed by Pan American Energy. This loan was to be repaid in three equal installments with maturities in May 2010, November 2010 and May 2011. On December 30, 2009, the Branch entered into an agreement in respect of this loan which amended the maturities originally agreed upon. Pursuant to this amendment, the final maturity of \$ 170,000 of this loan was extended from its original maturity to two installments of \$ 85,000 each, payable in November 2012 and May 2013. The remaining balance of the loan, \$ 30,000, remains with its original maturities.

On September 1, 2009, the Branch entered into a loan agreement with the IFC in the amount of \$ 153,000. This loan agreement which is guaranteed by Pan American Energy consists of three tranches of \$103,000, \$ 10,000 and \$ 40,000 with final maturity in August 2013, August 2015 and August 2017, respectively.

On December 10, 2009, the Branch entered into a loan agreement with the Corporación Andina de Fomento (“CAF”) in the amount of \$ 30,000. This loan is guaranteed by Pan American Energy and its final maturity is in August 2015.

Payments due on long-term debt as of December 31, 2009 were as follows:

<u>Year</u>	<u>\$</u>
2010	149,610
2011	184,028
2012	261,962
2013	238,203
2014	87,372
Thereafter	<u>147,871</u>
Total	<u>1,069,046</u>

NOTE 8 – FINANCIAL BONDS

	<u>December 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
“Obligaciones Negociables” issued under the 2002 Program		
Series N° 3 – 7.125% notes due October 2009	-	100,000
“Obligaciones Negociables” issued under the 2002 Program		
Series N° 4 – 7.75% notes due February 2012	<u>250,000</u>	<u>250,000</u>
	250,000	350,000
Less: current portion	<u>-</u>	<u>100,000</u>
	<u>250,000</u>	<u>250,000</u>

The indentures governing the outstanding bonds as of December 31, 2009 contain covenants which require, among others, the obligation to maintain certain financial ratios, to adhere to limitations on the creation of liens against its main assets, to maintain adequate insurance, to provide financial information and to adhere to other customary covenants required for this type of bond issue. As of December 31, 2009 and 2008, the Company was in compliance with the covenants assumed.

In February 2002, the Branch registered with the “Comisión Nacional de Valores” (“CNV”) a One Billion US Dollar Global Medium-Term Note Program (the “2002 Program”) for 5 years, under which it issued from time to time one or more tranches of non-convertible Notes.

The “Obligaciones Negociables” (“ON”) due in October 2009, which have been fully paid, and those due in February 2012 were issued under the 2002 Program. These ON were issued by the Branch and guaranteed by Pan American Energy.

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NOTE 8 – FINANCIAL BONDS (Continued)

Payments due on financial bonds as of December 31, 2009 are as follows:

<u>Year</u>	<u>\$</u>
2010	-
2011	125,000
2012	<u>125,000</u>
Total	<u>250,000</u>

On February 6, 2009, the CNV authorized a new \$ 1,200,000 program under which the Branch can issue ON during a 5 year period commencing on the same date. Any bonds to be issued under this program will be guaranteed by Pan American Energy. As of the date of issuance of these Consolidated Financial Statements, the Company has not issued any ON under the February 6, 2009 program.

NOTE 9 – PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

The actuarial assumptions used to determine benefit obligations and net benefit costs for the Company's main pension plan for the years 2009 and 2008 were as follows:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Discount rate for service and interest cost	4.0%	4.0%
Discount rate for the projected benefit obligation	4.0%	4.0%
Rate of compensation increase, net of inflation	1.0%	1.0%

The components of net pension cost for the past three years were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Service cost	3,092	2,727	2,894
Interest cost	16,120	6,278	6,282
Recognized actuarial loss	12,262	4,814	1,878
Amortization of transitional obligation	-	-	490
Amortization of prior service cost	1,376	1,047	1,178
Amortization of net loss	<u>19,836</u>	<u>59</u>	<u>56</u>
Net periodic pension cost	<u>52,686</u>	<u>14,925</u>	<u>52,686</u>

Other changes in benefit obligations recognized in accumulated other comprehensive income and its effect in the Consolidated Statements of Income in the years 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Transition obligation	-	-
Net (loss)/gain	(3,749)	7,813
Prior service cost	-	-
Amortization of transitional obligation	-	-
Amortization of prior service cost	(1,376)	(1,047)
Amortization of net (loss)	<u>(19,836)</u>	<u>(59)</u>
Accumulated other comprehensive income (*)	<u>(24,961)</u>	<u>6,707</u>

(*) In 2009, this amount reflects the pretax amount recognition in the Consolidated Statement of Income as a consequence of the Plan Puente discontinuation (see Note 2.10).

PAN AMERICAN ENERGY LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 9 – PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS (Continued)

The following table shows the reconciliation of beginning and ending balances of the benefit obligation:

	December 31,	
	<u>2009</u>	<u>2008</u>
Benefit obligation at beginning of the year	71,329	56,296
Service cost	3,092	2,727
Interest cost	16,120	6,278
Actuarial loss	8,514	12,627
Benefits paid	(8,616)	(1,665)
Foreign exchange gain	(6,444)	(4,934)
Benefit obligation at year-end	<u>83,995</u>	<u>71,329</u>

The following table sets forth the plan's benefit obligations, fair value of plan assets and funded status as of December 31, 2009 and 2008:

	December 31,	
	<u>2009</u>	<u>2008</u>
Benefit obligation	83,995	71,329
Fair value of plan assets	<u>-</u>	<u>-</u>
Net benefit obligation	<u>83,995</u>	<u>71,329</u>

Amounts recognized in the balance sheet consist of:

	December 31,	
	<u>2009</u>	<u>2008</u>
Current liabilities	10,199	2,453
Non-current liabilities	73,796	68,876
Accumulated other comprehensive income (*)	-	(24,961)

(*) The amount net of deferred income tax is (\$ 16,636) in 2008.

The Company's best estimate of contributions expected to be paid in each year from 2010 to 2014 to the pension plan and other post retirement benefits approximates \$ 10,199, \$ 10,217, \$ 10,333, \$ 10,470 and \$ 7,208, respectively. The total aggregate benefit expected to be paid in the five years from 2015 through 2019 is \$ 31,608. The expected benefits payable amounts are based on the same assumptions used to measure the Company's pension obligation at fiscal year end and include estimated future employee service.

PAN AMERICAN ENERGY LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 10 - INCOME TAX

The expense for income taxes is composed of:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current tax of the Branch and Argentine subsidiaries	(369,047)	(174,580)	(275,700)
Current tax of Chaco	-	(36,487)	-
Current tax of other Bolivian companies	(2,051)	(2,903)	-
Deferred tax of the Branch and Argentine subsidiaries	59,251	22,063	(31,352)
Deferred tax of Chaco	<u>-</u>	<u>3,817</u>	<u>(15,854)</u>
TOTAL	<u>(311,847)</u>	<u>(188,090)</u>	<u>(322,906)</u>

The following is the reconciliation between the income tax expense and income tax determined by applying the Argentine and Bolivian statutory rates to income before income tax:

	<u>2009</u>		<u>2008</u>		<u>2007</u>	
	Amount (in million US Dollars)	Percent of Pre-tax income	Amount (in million US Dollars)	Percent of Pre-tax income	Amount (in million US Dollars)	Percent of Pre-tax income
Pre-tax income (*):						
Foreign source	<u>942</u>	<u>100.0 %</u>	<u>681</u>	<u>100.0 %</u>	<u>914</u>	<u>100.0%</u>
Theoretical foreign income tax (**)	<u>(330)</u>	<u>35.0 %</u>	<u>(224)</u>	<u>32.9 %</u>	<u>(313)</u>	<u>34.2%</u>
Increase (reduction) due to:						
Foreign exchange loss (gain)	24	(2.5 %)	38	(5.6 %)	(10)	1.1 %
Non (deductible) taxable income	(2)	0.2 %	1	(0.1 %)	9	(1.0 %)
All other (net)	<u>(4)</u>	<u>0.4 %</u>	<u>(3)</u>	<u>0.4 %</u>	<u>(9)</u>	<u>1.0 %</u>
Income tax expense	<u>(312)</u>	<u>33.1 %</u>	<u>(188)</u>	<u>27.6 %</u>	<u>(323)</u>	<u>35.3 %</u>

(*) Excluding gain on divestment of oil and gas assets, which is not taxable.

(**) Weighted average of 35% of Argentine income tax and 25% of Bolivian income tax.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 10 - INCOME TAX (Continued)

Significant components of the Company's deferred tax liabilities and assets as of December 31, 2009 and 2008 are as follows:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
<u>Current</u>		
Deferred tax liabilities:		
Difference in valuation of inventories of the Branch	(15,491)	(9,170)
Other temporary differences	<u>4,654</u>	<u>949</u>
Total current	<u>(10,837)</u>	<u>(8,221)</u>
 <u>Non-current</u>		
Deferred tax assets		
Net operating loss carry forwards	<u>943</u>	<u>-</u>
	<u>943</u>	<u>-</u>
Deferred tax liabilities:		
DD&A of the Branch	(238,375)	(258,196)
DD&A of Chaco	-	(90,738)
Pension plan liability of the Branch	-	8,325
Pension plans	30,036	-
Other temporary differences of the Branch	5,261	(5,806)
Other temporary differences of Chaco	<u>-</u>	<u>475</u>
	<u>(203,078)</u>	<u>(345,940)</u>
Total non-current (net)	<u>(202,135)</u>	<u>(345,940)</u>
Net deferred tax liability	<u>(212,972)</u>	<u>(354,161)</u>
	 <u>2009</u>	 <u>2008</u>
Charge in net deferred tax:		
Charged to income tax benefit	59,251	25,880
Charged to accumulated other comprehensive income	<u>(8,325)</u>	<u>2,428</u>
	<u>50,926</u>	<u>28,308</u>

Significant components of tax expense in 2009, 2008 and 2007 are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Deferred tax benefit (expense):			
Foreign exchange gain	24,593	25,792	6,800
Net operating loss carry forwards	943	(1,785)	(16,159)
DD&A	(3,505)	(16,514)	(12,022)
Differences in valuation of inventories	(7,149)	18,870	(18,367)
Pension plans	30,036	-	-
Other gains (losses)	<u>14,333</u>	<u>(483)</u>	<u>(7,458)</u>
Total deferred tax benefit (expense)	59,251	25,880	(47,206)
Current tax	<u>(371,098)</u>	<u>(213,970)</u>	<u>(275,700)</u>
Total tax expense	<u>(311,847)</u>	<u>(188,090)</u>	<u>(322,906)</u>

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NOTE 11 - PENDING LITIGATION AND OTHER RELATED MATTERS

The Company is a defendant in a number of legal matters and has certain labor disputes and unresolved claims against third parties arising in the ordinary course of business. Based on currently available information, the Company's management, based on its counsel's advice, believes that contingencies that might be sustained from such litigation or claims will not have a material adverse effect on the Company's operations and financial position.

On May 22, 2003, Pan American Energy and BP Argentina Exploration Company filed a request for arbitration against the Republic of Argentina before the International Center for the Settlement of Investment Disputes ("ICSID"). The request pertained to a dispute under a treaty entered into between the USA and the Republic of Argentina on November 14, 1991. As a part of the agreements mentioned in Note 24, entered into with the Provinces of Chubut and Santa Cruz and upon the other actions by the provincial and federal Argentine governments, the Company agreed to finalize the above mentioned arbitration proceedings filed before the ICSID. On June 18, 2008, the Company filed the request to finalize such proceedings before the ICSID. On August 20, 2008 the ICSID took note about the finalization of the proceedings.

As a consequence of the fact that several provisions of the Treaty between the Government of the United States of America and the Government of Bolivia Concerning the Encouragement and Reciprocal Protection of Investments ("Treaty"), which protects the contractual and legal rights of the Company, were breached by the Bolivian governmental agencies and the Government itself, on August 10, 2005, Pan American Energy delivered a letter to the Government of Bolivia in which it notified the existence of a dispute under the Treaty.

On January 23, 2009, the Government of Bolivia, through Supreme Decree N° 29,888, nationalized almost all of the Company's shares in Chaco, without providing Pan American Energy with prompt, adequate and effective compensation, in accordance with due process, and with the standards of Article III of the Treaty. The Government of Bolivia breached its obligations: (i) to accord Pan American Energy's investment fair and equitable treatment, full protection and security, and treatment no less than that required by international law as required under Article II(3)(a) of the Treaty and (ii) to refrain from impairing by arbitrary and discriminatory measures the management, conduct, operation and sale or other disposition of Pan American Energy's investment as required by Article II(3)(b) of the Treaty. Pursuant to the Treaty, Pan American Energy is entitled to submit any dispute arising directly out of their protected investments in Bolivia for settlement by binding arbitration proceedings. Pan American Energy may commence arbitration proceedings against Bolivia requesting full compensation for breaches of the above referred Treaty. See Notes 22 and 27.

The Company accounted for legal and other contingencies as per ASC Topic 450 "Contingencies". The resulting provision amounts to \$ 10,349 and \$ 39,075 as of December 31, 2009 and 2008 respectively.

The Company believes that payments required to settle the amounts related to these claims, in case of loss, will not vary significantly from the estimated costs, and thus will not have a material adverse effect on the results of operations or cash flows. In past periods, the difference between the actual payout and the amount of the provision liability, with respect to contingency estimation, has been insignificant, with no material income statement impact in the period of the payout.

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NOTE 12 - COMMITMENTS, CONTINGENCIES AND GUARANTEES

The Company assumed commitments and granted guarantees for the benefit of several parties that, as of December 31, 2009 amounted to approximately \$ 30,300. Such amounts were undertaken in the normal course of business in respect of certain activities carried out by the Company.

The Company and its partners in Central Dock Sud S.A. have pledged their shares of this company to guarantee the obligations related to the financing of the construction of its power generation plant.

See Notes 24 and 25 for additional commitments.

NOTE 13 - EXECUTIVE, ADMINISTRATIVE AND TECHNICAL SERVICES AND OTHER TRANSACTIONS

Executive and other services such as rent, administrative and technical services were contracted from outside sources in the normal course of business. Several of those service contracts were entered into by certain subsidiaries and the Branch with affiliated companies. In 2009, 2008 and 2007 the subsidiaries and the Branch paid in such years an aggregate amount of approximately \$ 21,959, \$ 12,617 and \$ 11,251 respectively, in connection with such services in the normal course of business.

Transactions such as drilling, well services and other services were entered into by certain subsidiaries and the Branch with related parties. In 2009, 2008 and 2007 the subsidiaries and the Branch paid a net aggregate of approximately \$ 234,320, \$ 185,139 and \$ 117,150, respectively, for such services in the normal course of business.

Certain crude oil sales were made by the Branch to related parties. In 2009, 2008 and 2007 the Branch sold an aggregate of approximately \$ 291,638, \$ 443,728 and \$ 239,592, respectively, to those related parties in the normal course of business.

In 2002, Pan American Energy entered into an agreement with BP in relation to the Company's interest in the Acambuco block, and pursuant to the obligation to provide substitute financing for the development of such block, assumed at the time of the formation of Pan American Energy.

The following table summarizes receivable and payable balances at December 31, 2009 and December 31, 2008 with related parties, arising from the transactions described above.

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Trade account receivable	856	856
Other accounts receivable	1,635	1,792
Trade payables and accrued liabilities	43,518	17,389

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NOTE 14 – GROSS PRODUCTION ASSESSMENTS, DUTIES AND EXPORT TARIFFS

Under current Argentine regulations governing production activities, the Company's subsidiaries operating in Argentina and the Branch pay gross production assessments at a rate of 12% of the wellhead price. Payments of gross production assessments are reflected in the Consolidated Statements of Income.

As per the agreements described in Note 24, upon compliance with certain conditions and the execution of certain contracts, the Company is obligated to pay to the Argentine provinces of Chubut and Santa Cruz an additional contribution of 3% of the net revenues generated by the concessions of the Company located in such provinces.

As per the agreements described in Note 25, the Company is obligated to pay to the province of Neuquén an extraordinary production assessment of 3% of the value of the production of the blocks, net of certain items.

In Argentina, no customs and excise duties used to be applied on hydrocarbon products, but with effect from April 2002 the government introduced through the Economic Emergency Law an export tariff of 20% on crude oil exports and 5% on LPG exports, except on exports from the province of Tierra del Fuego. In May 2004, these export tariffs were increased to 25% for oil, 20% for LPG and 20% for natural gas. In August 2004, export tariffs on crude oil were increased through the application of a sliding scale which went from 25% to 45%, linked to the levels of WTI price. In July 2006, export tariffs on gas exports were increased to an amount of \$ 2.25 per million BTU. Export tariff expense is included in "Taxes other than income taxes".

In October 2006, the Argentine government stated that the export tariffs put in place in 2002 are applicable on hydrocarbons exports from the province of Tierra del Fuego.

In January 2007, Law N° 26,217 was enacted in Argentina. This law, in addition to extending for another five years the application of export tariffs on exports of hydrocarbons in general, mandates the application of the above mentioned export tariffs on exports from Tierra del Fuego.

The oil and gas companies with operations in such province consider that based on the opinion of legal counsel and according to the existing special legal regime for the economic activities in Tierra del Fuego and other regulations such as those approving the oil and gas concessions, the application of such export tariffs on future exports can be legally disputed, while its retroactive application (ie. from the enactment date of the Economic Emergency Law) would have no legal basis at all. This led the affected companies to initiate administrative and judicial proceedings to challenge the application of these export tariffs. Because of the expected favorable final outcome of these proceedings at the date of issuance of these consolidated financial statements, the Company did not recognize any effects from such retroactive application of the new regulations.

Beginning in January 2007 and after the enactment of the mentioned law, the Company is paying under protest the export tariffs applicable on exports made from Tierra del Fuego since such month.

On December 11, 2007 the customs of Tierra del Fuego issued a number of resolutions which established that the retroactive claims are illegal and unconstitutional which is in line with the Company's position in this matter.

On November 15, 2007, the Ministry of Economy and Production of Argentina ("Ministry of Economy") issued Resolution 394/07 by which export tariffs on oil and by products exports were significantly increased for sales of oil above \$ 60.90 per barrel.

On March 10, 2008, the Ministry of Economy issued Resolution 127/08 by which export tariffs on gas exports were increased to a level equal to 100% of the reference of the highest import price of gas. As of December 31, 2009 such reference price was \$ 6.1590 per million BTU.

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NOTE 14 – GROSS PRODUCTION ASSESSMENTS, DUTIES AND EXPORT TARIFFS
(Continued)

In March 2008, the Secretary of Energy of Argentina established a program with the objective of increasing domestic gas production. This new regime establishes higher prices than those obtained currently in the domestic market for newly discovered gas or for gas obtained from high-cost investment projects. The Secretary of Energy approved seven projects filed by the Company under this program: three in operated areas and four in areas operated by partners.

On November 26, 2008, the Argentine government issued a decree instituting a program related to oil production and reserves. This program, which does not have an expiration date, provides fiscal relief in the form of fiscal credit certificates which can be used to offset export tariffs on oil, LPG and by-products. This program incentivizes investments in exploration and development projects for oil reserves replacement and production growth. On December 15, 2008, the Company made its first applications for fiscal credit certificates with the Secretary of Energy, October 1, 2008 being the effective date of the program. Having increased production and having more than replaced the reserves produced, the Company has qualified for the program and has been receiving fiscal credits since January 2009. These credits have been applied to the payment of oil and other products export tariffs. Such credits are deducted from export tariffs in the line “Taxes other than income taxes, including export tariffs” in the Consolidated Statement of Income for the year ended on December 31, 2009.

NOTE 15 - GROUP CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Company to concentration of credit risk, consist of temporary cash investments, trade receivables and interest rate swaps. The Company places its temporary cash investments with high credit quality financial institutions and investment funds. The Company does not significantly provide for credit losses from its customers because, based in its track record, in the opinion of management the collection of these receivables carries no material risk. The Company has entered into interest rate swap agreements with high credit quality financial institutions for the purpose of fixing the variable interest rate of its long term financings.

NOTE 16 - FAIR VALUE MEASUREMENTS

Note 16.1. Fair value of Financial Instruments

The Company applies ASC Topic 820 “Fair Value Measurements and Disclosures”. US GAAP defines fair value, establishes a consistent framework for measuring fair value, establishes a fair value hierarchy (Level 1, Level 2 or Level 3) based on the quality of inputs used to measure fair value, and expands disclosure requirements for fair value measurements.

Pursuant to the provisions of US GAAP, fair values determined by Level 1 inputs utilize quote prices in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs are based on quoted prices for similar assets or liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The Company uses appropriate valuation techniques based on the available inputs to measure the fair values of its applicable assets and liabilities. When available, the Company measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

The table below presents information about the Company’s assets and liabilities measured at fair value on a recurring basis and indicates the fair value hierarchy of the inputs utilized by the Company to determine the fair values as of December 31, 2009. These assets and liabilities have previously been measured at fair value in accordance with existing GAAP, and the accounting for these assets and liabilities was not impacted by the adoption of the above mentioned rules.

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NOTE 16 - FAIR VALUE MEASUREMENTS (Continued)

Note 16.1. Fair value of Financial Instruments (Continued)

The fair value of the Company's assets and liabilities measured and recorded at fair value as of December 31, 2009 are as follows:

	<u>Fair Value</u>	<u>Level</u>
Interest rate swap payable on Long-term debt (note 7)	9,250	2

The fair value of the Company's assets and liabilities measured and recorded at fair value as of December 31, 2008 are as follows:

	<u>Fair Value</u>	<u>Level</u>
Other accounts receivable (current)	2,178	1
Interest rate swap payable on Long-term debt	5,703	2

The following methods and assumptions were used by the Company in estimating its fair value disclosure for financial instruments:

Cash and cash equivalents: The carrying amount reported in the consolidated balance sheet for cash and cash equivalents approximates their fair value.

Long and short-term debt: The carrying amounts of the Company's borrowings under its short-term revolving credit agreements approximate their fair value. The fair value of the Company's long-term debt is determined by estimating the value at which such debt could be transferred to another independent party.

Financial bonds: The fair value of the Company's financial bonds is determined according to the market quotation of such obligations.

The carrying amount and fair value of the Company's financial instruments as of December 31, 2009 are as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and banks, time deposits and government securities	221,262	221,262
Short-term debt	211,748	211,748
Long-term debt	1,083,923	1,083,923
Financial bonds	257,858	262,708

The Company has not made any significant elections in respect of the fair value option granted by US GAAP for eligible assets and liabilities.

Note 16.2. Fair value of Derivative Instruments

The following table provides information about the fair values of the Company's derivative instruments as of December 31, 2009 and the line items in the consolidated balance sheet in which the fair values are reflected. See Note 16.1. for additional information related to the fair values of the Company's derivative instruments. The table below includes the information required by US GAAP.

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NOTE 16 - FAIR VALUE MEASUREMENTS (Continued)

Note 16.2. Fair value of Derivative Instruments (Continued)

Derivates not designated as hedging instruments as of December 31, 2009:

- Interest rate contracts:

Balance sheet item:	Accrued interest on long-term financing liabilities
Fair value:	9,250
Statement of income item:	Interest expense
Amount of loss recognized in income on derivative:	15,264 (*)

(*) Includes \$ 6,882 which is the loss recognized in income swapped rate item.

Note 16.3. Fair value of Non Financial Liabilities

The Company presents below, information about nonfinancial liabilities measured and recorded at fair value on a nonrecurring basis that arose on or after January 1, 2009 (the date of adoption of new US GAAP rules, currently ASC Topic 820 which indicates the fair value hierarchy of inputs utilized to determine the fair values as of December 31, 2009).

	<u>Fair Value</u>	<u>Level</u>
Asset retirement obligations (Other creditors) (see note 2.14.)	(2,235)	3

Asset retirement obligations above are calculated based on the present value of estimated disbursements calculated using the Company's credit-adjusted risk-free rate.

NOTE 17 - OPERATING LEASES

Pan American Energy's subsidiaries and the Branch rent office space and other facilities under operating leases with different terms of up to a maximum of 48 months. The approximate minimum annual rental commitment foreseen as of December 31, 2009, is \$ 4,000 for each of the next three years. Total rental expense for the years 2009, 2008 and 2007 was approximately \$ 4,713, \$ 3,517 and \$ 3,021, respectively.

NOTE 18 - BUSINESS ANALYSIS

The Company's principal operations are conducted in Argentina and consist of oil and gas activities. The Company also performs exploration and production activities in Bolivia and Chile.

Of the Company's \$ 7,241,782 total assets as of December 31, 2009, \$ 6,692,405 (92.4%) is located in Argentina, \$ 484,851 (6.7%) is located in Bolivia and \$ 64,526 (0.9%) is in other locations.

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NOTE 19 - ANALYSIS BY INDUSTRY SEGMENT

December 31, 2009	<u>Oil & Gas</u>	<u>Other (1)</u>	<u>Consolidated</u>
Sales and other operating revenues	2,775,826	-	2,775,826
Income (loss) before income tax	942,512	(456)	942,056
Income tax expense	(311,847)	-	(311,847)
Property, plant and equipment, net	5,921,035	78,812	5,999,847
Total assets	7,162,373	79,409	7,241,782
DD&A expense	(429,526)	-	(429,526)
Additions to fixed assets	873,412	199	873,611

December 31, 2008	<u>Oil & Gas</u>	<u>Other (1)</u>	<u>Consolidated</u>
Sales and other operating revenues	3,277,083	13,212	3,290,295
Income (loss) before income tax	683,298	(2,361)	680,937
Income tax expense	(187,557)	(533)	(188,090)
Property, plant and equipment, net	6,180,216	109,110	6,289,326
Total assets	7,185,188	115,571	7,300,759
DD&A expense	(421,459)	(1,663)	(423,122)
Additions to fixed assets	1,236,786	1,899	1,238,685

December 31, 2007	<u>Oil & Gas</u>	<u>Other (1)</u>	<u>Consolidated</u>
Sales and other operating revenues	2,601,942	9,213	2,611,155
Loss before income tax	914,877	(407)	914,470
Income tax expense	(322,906)	-	(322,906)
Property, plant and equipment, net	5,391,504	108,874	5,500,378
Total assets	6,276,016	119,790	6,395,806
DD&A expense	(394,350)	(2,423)	(396,773)
Additions to fixed assets	944,525	78,899	1,023,424

(1) Comprises assets and results of operations related to power generation and other activities in 2008 and 2007. In 2009, power generation activities are no longer carried out by the Company and therefore are not included in this column.

NOTE 20 – OTHER INCOME

One of the main recurring components of this item relates to certain tax refunds in connection with the gas sold to the continental Argentine market from the Cuenca Austral block in which Pan American Energy has a 25% interest and from the Tierra del Fuego block. In addition, this item includes income from several services carried out by Chaco in the years 2008 and 2007.

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NOTE 21 - SALES TO MAIN CUSTOMERS

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Oil and gas sales			
Vitol Inc.	643,107	60,064	-
Mercuria Energy Trading S.A.	329,361	509,053	552,596
BP West Coast Products LLC	291,638	443,728	239,592
Esso Petrolera Argentina S.R.L.	236,010	652,294	604,721
Unipet Asia Company Limited	208,974	-	-
Glencore Limited	147,733	-	-
Petrobras International Finance Co.	125,915	1,955	-
Shell C.A.P.S.A.	109,600	8,094	183,021
YPF S.A.	1,324	204,730	93,804
Sinochem International Oil London Co.	-	153,850	-
Others (1)	<u>682,164</u>	<u>1,243,315</u>	<u>928,208</u>
Subtotal oil and gas sales	2,775,826	3,277,083	2,601,942
Power generation sales	-	<u>13,212</u>	<u>9,213</u>
TOTAL	<u><u>2,775,826</u></u>	<u><u>3,290,295</u></u>	<u><u>2,611,155</u></u>

(1) Individually lower than 10% of total sales.

NOTE 22 – BOLIVIAN OPERATIONS

The regime applicable to hydrocarbons in Bolivia underwent a significant change with the enactment of the New Hydrocarbons Law on May 1, 2005. Subsequently, on May 1, 2006 through Supreme Decree N° 28,701 the Bolivian government assumed control of the country's hydrocarbon resources. Hydrocarbon producers are required to deliver the production to the customers on behalf of the state owned company Yacimientos Petrolíferos Fiscales Bolivianos ("YPFB") which previously performed the role of regulator and overseer of upstream contracts. YPFB is responsible for marketing all hydrocarbons produced in Bolivia and for determining the conditions and the volume and prices, to apply in the domestic and export markets as well as for production. The decree also provided for the nationalization of a percentage of shares of the privatized companies (including Chaco), so that YPFB achieved ownership of at least 50% plus one of the shares. In line with this purpose, the decree established that the portion of shares of such companies which were held by the Bolivian pension funds, totaling 48.96% in the case of Chaco, would be transferred to YPFB. The transfer was implemented and informed to Chaco in May 2006. In connection with that decree, on May 1, 2008 the Government of Bolivia issued a new decree by which it established the deadline of May 30, 2008 for the transfer of the shares to YPFB (such transfer involved 167,271 shares owned by the Company equivalent to 1.04% of the outstanding shares of Chaco in order to achieve such majority in the ownership of Chaco).

While Pan American Energy and the Government of Bolivia were discussing the terms and conditions of such transfer, as described in Note 11, on January 23, 2009, the President of Bolivia issued Supreme Decree N° 29,888 nationalizing 8,049,660 shares of Chaco, almost all of the Company's shares in Chaco, which represent 50.00% of the total shares of such company. Chaco's assets represented 13% of the total consolidated assets as of both, December 31, 2008 and 2007 and 16% and 13% of the consolidated revenues in the years ended December 31, 2008 and 2007, respectively. As a consequence of such nationalization, the Company has deconsolidated the assets and liabilities of Chaco and allocated the net balance to "Other non-current accounts receivable". The consolidated financial statements do not include any adjustments that the Company expects to result from the adequate compensation for the nationalized assets, reserves and current and future production of Chaco business sought by the Company as described in Note 11 (in addition, see Note 27).

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NOTE 23 – SUSPENDED EXPLORATORY WELL COSTS

In accordance with the ASC Topic 360 “Property, Plant and Equipment”, the Company evaluated all existing capitalized exploratory well costs under the provisions of these rules and determined that: a) it found sufficient quantity of reserves during the exploration to justify the completion of the wells as producing wells and b) sufficient progress has been made on assessing the reserves and the economic and operating viability of the projects to which the capitalized exploratory costs relate. Therefore, the Company concluded that as of the balance sheet date, the capitalized exploratory well costs should continue to be capitalized pending the determination of proved reserves.

Of the 13 projects for which the Company has had exploratory costs capitalized for a period greater than 12 months as of December 31, 2009, 12 projects will have drilling activities in the next 12 months and/or exploratory activity is planned for the next two years, while the remaining project has completed its exploratory activity and is being evaluated for development.

The following table reflects the net changes in capitalized exploratory well costs during the years ended on December 31, 2009 and 2008, and does not include amounts that were capitalized and subsequently expensed in the same period.

	December 31, <u>2009</u>	December 31, <u>2008</u>
Beginning balance	409,775	509,634
Chaco deconsolidation	(2,240)	-
Additions to capitalized exploratory well costs pending the determination of proved reserves	7,452	43,136
Reclassifications to wells, facilities and equipment based on the determination of proved reserves	(53,999)	(127,094)
Capitalized exploratory well costs charged to expense	(948)	(15,901)
Ending balance (note 5)	<u>360,040</u>	<u>409,775</u>

The following table provides an aging of capitalized exploratory well costs based on the date the drilling was completed and the number of projects for which exploratory well costs have been capitalized for a period greater than one year since the completion of drilling:

	December 31, <u>2009</u>	December 31, <u>2008</u>
Capitalized exploratory well costs that have been capitalized for a period of one year or less	7,452	43,136
Capitalized exploratory well costs that have been capitalized for a period greater than one year	<u>352,588</u>	<u>366,639</u>
Balance at the end of the fiscal year (note 5)	<u>360,040</u>	<u>409,775</u>
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	<u>13</u>	<u>12</u>

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NOTE 23 – SUSPENDED EXPLORATORY WELL COSTS (Continued)

The following chart describes the activity performed in and planned for the main exploration projects held by the Company:

Country/Project	Amount as of December 31, 2009	Comment
<u>ARGENTINA</u>		
Cuenca Austral block	90,946	The conceptual engineering study of the Vega Pléyade field development finished in September 2008 and the project was sanctioned by the partnership. Basic engineering will be completed in 2010. A rig will be contracted for a multi-well development campaign with drilling to begin in 2011 and finish in 2014. Upon completion of the drilling campaign in 2014 the field will be fully developed with all wells in production. The rig will then move on to drill an additional well for the Carina field phase I development. The full development for Cuenca Austral block will be completed with the Carina phase II development expected to happen by 2019. This will maintain the existing facilities at full capacity through 2026.
Acambuco block	146,392	After the x-1 well in the Tuyunti structure tested gas, a second well, Tuyunti x-2, total depth of 19,319 ft, completed in 2008, testing gas at noncommercial rates. Despite this unfavorable result, new data from the Tuyunti x-2 well supported a geological reinterpretation with reduced exploration risk on a nearby structure. This nearby structure is an anticline defined with 3D seismic. During 2010 new seismic and geological interpretation to define its potential will be completed. Work is also planned for 2010 and 2011 to evaluate the deeper Icla and Santa Rosa formations across the entire asset area as well as the non-traditional hydrocarbon potential (to the traditional deep Devonian gas) for shale gas production in Los Monos Formation and shallow oil in the Carboniferous section. Subject to the results of the technical studies, a well is under consideration for 2014 following the completion of development activity in Macueta field.
Golfo San Jorge exploration blocks	52,498	In October 2009, the Company acquired exploration permits for 3 frontier exploration areas located in the west and center of the Chubut province. All commitments for the first exploration period, which ended on October 31, 2009, have been completed. A two year extension of the first period was granted by Petrominera Chubut S.E. The data recorded by the previous operator (3,180 km reprocessed 2D lines, 9,200 km ² air borne gravity and magnetic survey and 1,570 geochemical samples) is being reinterpreted in order to define drilling locations for 2011.

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NOTE 23 – SUSPENDED EXPLORATORY WELL COSTS (Continued)

Country/Project	Amount as of December 31, 2009	Comment
<u>BOLIVIA</u>		
Caipipendi block	27,213	During 2009, the consortium applied for and received from YPFB an exploitation classification for the acreage associated with the Huacaya discovery. During 2009 an interference test was completed in the Margarita 3 well verifying reservoir connectivity with the Huacaya well which proves the presence of a continuous gas reservoir across the 20 kilometer distance between the wells. On November 26, 2009, the Operator, Repsol YPF E&P Bolivia S.A. (“Repsol YPF”) submitted to YPFB, a Field Development Plan (“FDP”) for the Margarita and Huacaya fields without the required approval of the Company. The Company will be ready to participate in phase I of the FDP (expansion of the production facilities to a total production capacity of 8.3 MMm3 per day = 293 mmcf per day), provided that phase II of the FDP (expansion of the production facilities to a total production capacity of 14 MMm3 per day = 495 mmcf per day) be conditional to further approval by the Company. See note 27.
<u>CHILE</u>		
Coirón block	5,000	An exploration and operation contract (“CEOP”), was awarded to Pan American Energy by the Chilean Ministry of Mining effective July 29, 2008 for the Coirón block. Empresa Nacional de Petróleo (“ENAP”) has a 50% interest and is carried during the exploration period by Pan American Energy without future reimbursement from ENAP. The first exploration period has a three year term with a minimum work commitment of 300 km2 of 3D seismic and two exploration wells. During the first quarter 2009, a 710 km2 3D seismic acquisition program was completed and currently is being processed. The wells are planned to spud during 2010 after the 3D seismic evaluation is completed.

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NOTE 24 – GOLFO SAN JORGE BLOCKS AGREEMENTS

On December 6, 2006, Law N° 26,197, known as “Hydrocarbons Short Law”, was passed. This law complied with the constitutional provision of transferring the original ownership of the natural resources contained in the subsurface from the Federal State to the producing provinces where oil and gas fields are located.

Under the provisions of this law, the Branch entered with the Argentine provinces of Chubut (on April 27, 2007) and Santa Cruz (on June 25, 2007) into two investment commitments and agreements for the extension of the concession term for hydrocarbon production for a ten-year period in the blocks known as Cerro Dragón, the area of which extends into the territories of both provinces, and Piedra Clavada and Koluel Kaike in the province of Santa Cruz. Before the extension, these concessions had an initial expiring date between 2016 and 2017.

These agreements provide for, among other obligations, minimum capital expenditures of \$ 2,000,000 in the province of Chubut and of \$ 500,000 in the province of Santa Cruz, to be made by the Company through 2016. Further expenditures of \$ 1,000,000 in the Province of Chubut and of \$ 300,000 in the province of Santa Cruz are to be made from 2017 through 2026.

Furthermore, the Company entered into two operation agreements executed with the state-owned companies, Petrominera Chubut S.E. (“Petrominera Chubut”) (in the case of Chubut) and Fomento Minero de Santa Cruz Sociedad del Estado (“Fomicruz”) (in the case of Santa Cruz) within the scope of the Hydrocarbons Law referred to above, and will come into effect as from the years 2026 and 2027 through 2046 and 2047, subject to the Company’s compliance with the investment requirements and to the exploration success, which will allow Pan American Energy to prove whether it has developed sufficient reserves to continue the field production in those areas as from 2026 and 2027.

The agreements also provided for a \$ 80,000 investment commitment for offshore exploration, at the sole risk of the Branch, through two joint ventures (“UTES”) with Petrominera Chubut and Fomicruz. If the Branch were to make commercial discoveries, an additional investment commitment would be required in the amount of \$ 500,000 for the development of such offshore fields.

The creation of the UTEs referred to in the preceding paragraph is consistent with the provisions of the Hydrocarbons Law, which allows state-owned companies to enter into agreements and create companies, partnerships or other associations with individuals or entities for the development of hydrocarbons activities.

As a consequence of said agreements the Branch undertook the obligation to pay during the remaining period of the concessions, to the respective provinces, an additional amount equivalent to 3% of the income, net of certain items indicated in the agreements. It will also disburse certain amounts for infrastructure development and economic diversification in the Provinces of Chubut and Santa Cruz, grant a certain number of scholarships, lend or be guarantor of loans, generate employment and carry out several other complementary actions.

The agreement with the province of Chubut was ratified by a provincial law passed by the Provincial Congress on May 24, 2007.

The agreement with the Province of Santa Cruz was ratified by a provincial Law passed by the Provincial Congress on March 13, 2008.

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NOTE 25 – AGREEMENTS WITH THE PROVINCE OF NEUQUEN

On January 28, 2009 the Province of Neuquén and the partners in the Aguada Pichana and San Roque blocks, in which the Branch has an interest of 18.18% and 16.47% respectively (see Note 2.2.), agreed on a 10 year extension of the concessions' terms for hydrocarbons production from 2017 to 2027.

The Company assumed a \$ 153,000 commitment to invest and incur in expenses in the Aguada Pichana and San Roque blocks from September 2008 through 2027, which includes \$ 23,000 in exploration, particularly for gas.

In addition, the Company committed to pay an initial concession bonus to the province in the amount of \$ 11,200 for Aguada Pichana and \$ 4,700 for San Roque payable from March 2009 through March 2010. The Company also agreed to pay a 3% extraordinary monthly production assessment applicable on the value of the production net of certain items.

The agreement also establishes the Company's commitment in terms of donations in the amount of \$ 1,300 for Aguada Pichana and \$ 500 for San Roque payable to the province in 2009 and 2010.

On May 22, 2009 the Province of Neuquén and the partners in the Lindero Atravesado block, in which the Branch has a 62.5% interest and is the operator (see Note 2.2.), agreed on a 10 year extension of the concession's term for hydrocarbons production from 2016 to 2026.

The Company assumed a \$ 82,400 commitment to invest and incur in expenses from 2009 to 2026, which includes \$ 12,600 in exploration, particularly for gas.

In addition, the Company agreed to an initial concession bonus payable to the province in the amount of \$ 4,900 from May 2009 through December 2010. The Company also agreed to pay a 3% extraordinary monthly production assessment applicable on the value of the production net of certain items.

The agreement also establishes the Company's commitment in terms of donations in the amount of \$ 600 payable to the province in 2009 and 2010.

Within the framework of these concessions extension negotiations with the Province of Neuquén, on January 28, 2009, the Company entered into a Settlement Agreement with the province with the purpose of terminating all administrative and judicial claims and controversies between them.

NOTE 26 - NEW ACCOUNTING STANDARDS

Financial Accounting Standards Board "Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" (Codification)

In June 2009, the FASB issued "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles", which has been established as the single source of authoritative GAAP recognized by the FASB, to be applied by nongovernmental entities in the preparation of financial statements in conformity with US GAAP. Commencing in the quarter ended September 30, 2009 all the references to US GAAP in these financial statements are the corresponding Codification Topic of Section rather than prior accounting and reporting standards. The adoption of these new rules did not affect the Company's financial position or results of operations.

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NOTE 26 - NEW ACCOUNTING STANDARDS (Continued)

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB modified ASC Topic 810 "Consolidation", effective January 1, 2009. This modification establishes new accounting and reporting standards for noncontrolling interests in a subsidiary and for the deconsolidation of subsidiaries. Specifically, requires the recognition of noncontrolling interests (formerly referred to as minority interests) as a component of total equity. Prior to the adoption of that modification, the share of a subsidiary's net assets allocable to minority investors was reported outside of equity. Since January 1, 2009, the topic above mentioned establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation. Dispositions of subsidiary stock are now required to be accounted for as equity transactions. The Company's adoption of the above mentioned modification resulted in the reclassification of the minority interests to noncontrolling interests as reflected on the Consolidated Financial Statements as of December 31, 2008. Finally, ASC Topic 810 requires consolidated net income and comprehensive income to include the amounts attributable to both noncontrolling interests. All prior periods have been conformed to the current-year presentation.

Fair Value Measurements and Disclosures

In February 2008, ASC Topic 820 "Fair Value Measurements and Disclosures" was modified to delay the effective date for applying fair value measurement disclosures for nonfinancial assets and nonfinancial liabilities, until fiscal years beginning after November 15, 2008. The implementation of this provision of Topic 820 for these assets and liabilities effective January 1, 2009 did not affect the Company's financial position or results of operations but resulted in additional disclosures, which are provided in Note 16.3.

In August 2009, the FASB modified Topic 820 to address the measurement of liabilities at fair value in circumstances in which a quoted price in an active market for the identical liability is not available. In such circumstances, a reporting entity is required to measure fair value using one or more of the following techniques: (i) a valuation technique that uses the quoted price of the identical liability when traded as an asset, or the quoted prices for similar liabilities or similar liabilities when traded as assets; or (ii) another valuation technique that is consistent with ASC Topic 820. The FASB also clarified that when estimating the fair value of the liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. This modification also clarified that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. This guidance is effective for the first reporting period (including interim periods) beginning after issuance. The adoption of such guidance in the fourth quarter of 2009 did not affect the financial position or results of operations of the Company.

Subsequent Events

In May 2009, the FASB issued ASC Topic 855 "Subsequent Events", which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, ASC Topic 855 provides guidance regarding (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet data. The provisions of ASC Topic 855 are to be applied prospectively and are effective for interim or annual financial periods ending after June 15, 2009. The adoption of ASC Topic 855 in the second quarter of 2009 did not affect the Company's financial position or results of operations but resulted in additional disclosures, which are provided in Note 2.1.

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NOTE 26 - NEW ACCOUNTING STANDARDS (Continued)

FASB Statement N° 166

In June 2009, the FASB issued SFAS 166 “Accounting for Transfers of Financial Assets – an amendment of FASB Statement N° 140”. According to ASC Topic 105, “Generally Accepted Accounting Principles”, SFAS 166 shall continue to represent authoritative guidance until it is integrated into the Codification. SFAS 166 amends and clarifies the provisions related to the transfer of financial assets, in order to address application and disclosure issues. In general, SFAS 166 clarifies the requirements for derecognizing transferred financial assets, removes the concept of a qualifying special-purpose entity and related exceptions, and requires additional disclosures related to transfers of financial assets. SFAS 166 is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2009, and earlier application is prohibited. The adoption of SFAS 166 effective January 1, 2010 will not affect the Company’s financial position or results of operations.

FASB Statement N° 167

In June 2009, the FASB issued SFAS 167 “Amendments to FASB Interpretation N° 46(R)”. According to ASC Topic 105, SFAS 167 shall continue to represent authoritative guidance until it is integrated into the Codification. SFAS 167 amends the provisions related to Variable Financial Entities to include entities previously considered qualifying special-purpose entities, as the concept of these entities was eliminated by SFAS 166. This statement also clarifies consolidation requirements and expands disclosure requirements related to variable interest entities. SFAS 167 is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2009, and earlier application is prohibited. The adoption of SFAS 167 effective January 1, 2010 will not affect the Company’s financial position or results of operations.

SEC Modernization of Oil and Gas Reporting (ASC 2010-3)

In December 2008, the SEC issued Release 33-8995, Modernization of Oil and Gas Reporting (ASC 2010-3), which amends the oil and gas disclosures for oil and gas producers contained in Regulations S-K and S-X, as well as adding a section to Regulation S-K (Subpart 1200) to codify the revised disclosure requirements in Securities Act Industry Guide 2, which is being eliminated. The goal of Release 33-8995 is to provide investors with a more meaningful and comprehensive understanding of oil and gas reserves. Energy companies affected by Release 33-8995 are now required to price proved oil and gas reserves using the unweighted arithmetic average of the price on the first day of each month within the 12-month period prior to the end of the reporting period, unless prices are defined by contractual arrangements, excluding escalations based on future conditions. SEC Release 33-8995 is effective beginning for financial statements for fiscal years ending on or after December 31, 2009. The effect of applying the new reserve estimation requirements did not significantly impact net proved reserve volumes, nor will the requirements have a natural impact on depletion expense in future periods. Additional disclosures were added to the accompanying notes to the consolidated financial statements for the Company's supplemental oil and gas disclosure. See Supplemental Oil and Gas Information for more details.

FASB Accounting Standards Update (ASU) 2010-03 Oil and Gas Estimations and Disclosures (ASU 2010-03)

In January 2010, the FASB issued FASB Accounting Standards Update (ASU) 2010-03 Oil and Gas Estimations and Disclosures (ASU 2010-03). This update aligns the current oil and natural gas reserve estimation and disclosure requirements of the Extractive Industries Oil and Gas topic of the FASB Accounting Standards Codification (ASC Topic 932) with the changes required by the SEC final rule ASC 2010-3, as discussed above, ASU 2010-03 expands the disclosures required for equity method investments, revises the definition of oil- and natural gas-producing activities to include nontraditional resources in reserves unless not intended to be upgraded into synthetic oil or natural gas, amends the definition of proved oil and natural gas reserves to require 12-month average pricing in estimating reserves, amends and adds definitions in the Master Glossary that is used in estimating proved oil and natural gas quantities and provides guidance on geographic area with respect to disclosure of information about significant reserves. ASU 2010-03 must be applied prospectively as a change in accounting principle that is inseparable from a change in accounting estimate and is effective for entities with annual reporting periods ending on or after a change in accounting estimate and is effective for entities with annual reporting periods ending on or after December 31, 2009.

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NOTE 26 - NEW ACCOUNTING STANDARDS (Continued)

FASB Accounting Standards Update (ASU) 2010-03 Oil and Gas Estimations and Disclosures (ASU 2010-03) (Continued)

The effect of applying the related aspects of the updated rules did not significantly impact 2009 net proved reserves volumes. The Company adopted ASU 2010-03 effective December 31, 2009. Additional disclosures were added to the accompanying notes to the consolidated financial statements for the Company's supplemental oil and gas disclosure. See Supplemental Oil and Gas Information for more details.

NOTE 27 - SUBSEQUENT EVENTS

Repsol YPF filed a Field Development Plan (“FDP”) with YPFB on November 26, 2009 for the Margarita and Huacaya fields without the required approval of the Company (see Note 23). The Company maintains that in making such filing of the FDP, Repsol YPF and BG Bolivia Corporation (“BG”) violated several provisions of the Joint Operating Agreement (“JOA”). In respect to such violations, on March 1, 2010, the Company invited Repsol YPF and BG to join a mediation process as provided in the JOA. As of the date of issuance of these Consolidated Financial Statements, Repsol YPF and BG have not responded.

On March 12, 2010, Pan American Energy filed with the ICSID a request for arbitration against Bolivia pursuant to the Treaty. Such arbitration request is based on several violations of the Treaty by the Bolivian government, among which included, the nationalization on January 23, 2009 of 50% of the outstanding share capital in Chaco held by the Company, constituting an “exacerbation of the dispute” notified to the Bolivian government on August 10, 2005 (see Notes 1, 11 and 22).

PAN AMERICAN ENERGY LLC

SUPPLEMENTARY OIL, GAS AND LPG INFORMATION (Unaudited)

DISCLOSURES RELATING TO OIL AND GAS EXPLORATION AND PRODUCTION ACTIVITIES

Pan American Energy estimates its proved oil and gas reserves as defined by the Security and Exchange Commission (“SEC”) and the FASB.

This section provides supplemental information on oil and gas exploration and production activities of the Company in accordance with ASC Topic 932 "Extractive Activities – Oil and Gas".

Capitalized Costs

The following table summarizes capitalized costs for oil and gas exploration and production activities, and the related accumulated depreciation, depletion and amortization.

	In thousand US Dollars		
	December 31,		
	2009	2008	2007
Mineral Interest Properties:			
Proved	1,831,146	2,400,769	2,280,354
Unproved	325,477	323,017	406,505
Wells & Related Equipment (1)	6,950,200	6,450,809	5,308,631
Support Equipment and Other Facilities	130,966	118,807	97,572
Total Gross Capitalized Costs (2)	9,237,789	9,293,402	8,093,062
Accumulated DD&A (2)	(3,322,848)	(3,124,919)	(2,714,712)
Net Capitalized Costs	5,914,941	6,168,483	5,378,350

(1) Includes uncompleted wells, equipment and related facilities.

(2) Gross capitalized costs and accumulated depreciation, depletion and amortization includes capitalized costs and depreciation for oil and gas exploration and production activities only.

	2009	2008	2007
Total amortization expense per BOE - In US Dollars	4.74	4.08	3.92

Costs incurred

The following table sets forth capitalized costs incurred in oil and gas property acquisition, exploration and development activities, excluding investments in support facilities.

	In thousand US Dollars		
	2009	2008	2007
Acquisitions of properties			
Proved	-	-	-
Unproved	3,498	43,500	44,862
Exploration	3,968	28,581	28,099
Development	840,682	1,163,983	829,418
Total Incurred	848,148	1,236,064	902,379

PAN AMERICAN ENERGY LLC

SUPPLEMENTARY OIL, GAS AND LPG INFORMATION (Unaudited)

DISCLOSURES RELATING TO OIL AND GAS EXPLORATION AND PRODUCTION ACTIVITIES (Continued)

Results of Operations

The following table sets forth the results of operations of oil and gas producing activities. The table includes revenues and expenses associated directly with the Company's oil and gas producing activities. It does not include any allocation of the Company's interest expense or corporate overhead and, therefore, is not necessarily indicative of the contributions to consolidated net earnings of the Company's oil and gas operations. All of the Company's oil and gas production and results of operations set forth in the table below are derived from the Company's operations in Argentina and Bolivia.

	In thousand US Dollars		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenues			
Third parties	2,775,826	3,277,083	2,599,237
Production costs	(515,748)	(443,035)	(321,963)
Transportation expenses	(26,734)	(27,387)	(28,962)
Gross production assessments (1)	(381,686)	(656,457)	(465,380)
Taxes other than income taxes, including export tariffs	(218,161)	(862,191)	(378,978)
DD&A	(429,526)	(421,459)	(394,350)
	(1,571,855)	(2,410,529)	(1,589,633)
Profit before taxation	1,203,971	866,554	1,009,604
Allocable taxes (2)	(420,613)	(286,596)	(344,454)
Results of operations	<u>783,358</u>	<u>579,958</u>	<u>665,150</u>

(1) Gross production assessments are equal to 12%, of the wellhead price of production payable in cash by the Company, pursuant to the concessions and the association agreements, to the Argentine provinces in which the properties covered thereby are located. As from July 2007 for the area of Cerro Dragón block located in the province of Chubut, as from April 2008 for the area of Cerro Dragón block located in the province of Santa Cruz and Piedra Clavada-Koluel Kaike blocks, as from April 2009 for the Aguada Pichana and San Roque blocks located in the province of Neuquén and as from August 2009 for the Lindero Atravesado block located in the province of Neuquén, this item also includes the additional 3% contribution as referred to in Notes 24 and 25.

(2) 35% in Argentina and 25% in Bolivia.

PAN AMERICAN ENERGY LLC

SUPPLEMENTARY OIL, GAS AND LPG INFORMATION (Unaudited)

ESTIMATED PROVED RESERVES

All figures relating to oil and gas exploration and production activities reported in this section are those of the Company's subsidiaries and the Branch.

As of December 31, 2009, all of the Company's proved reserves were located in the Southern Cone of South America region, mainly in Argentina (see Note 22). The table below sets forth the Company's proved developed and undeveloped crude oil and condensates, natural gas and LPG reserves as of January 1, 2007 and as of December 31, 2007, 2008 and 2009.

Proved Developed and Undeveloped (1)	Oil, Gas and LPG Proved Developed and Undeveloped Reserves			
	Oil (mdbl)	Gas (mmcf)	LPG (mdbl)	Total (mboe) (2)
As of January 1, 2007 (3) (4)	562,845	3,697,458	28,381	1,228,722
Revisions of previous estimates	668	(86,309)	(1,462)	(15,675)
Redetermination of interests	-	-	-	-
Extensions and discoveries	326,727	269,462	-	373,186
Acquisitions of reserves in place	-	-	-	-
Sales of reserves in place	-	-	-	-
Improved recovery	34,645	80,813	-	48,578
Production for the year (8)	(41,484)	(291,757)	(1,487)	(93,274)
As of December 31, 2007 (5) (9)	883,401	3,669,667	25,432	1,541,537
Revisions of previous estimates	3,806	(227,800)	651	(34,819)
Redetermination of interests	-	-	-	-
Extensions and discoveries	61,670	198,501	-	95,891
Acquisitions of reserves in place	-	-	-	-
Sales of reserves in place	-	-	-	-
Improved recovery	36,523	112,387	-	55,900
Production for the year (10)	(40,889)	(308,228)	(1,553)	(95,584)
As of December 31, 2008 (6) (11)	944,511	3,444,527	24,530	1,562,925
Revisions of previous estimates (17)	(16,013)	(563,580)	(11,190)	(124,372)
Redetermination of interests	-	-	-	-
Extensions and discoveries	5,210	79,919	-	18,988
Acquisitions of reserves in place	890	29,607	-	5,995
Sales of reserves in place	-	-	-	-
Improved recovery	69,474	560,777	-	166,160
Production for the year (12)	(42,671)	(273,000)	(810)	(90,550)
As of December 31, 2009 (7) (13) (18)	961,401	3,278,250	12,530	1,539,146

(1), (2), (3), (4), (5), (6), (7), (8), (9), (10), (11), (12), (13), (17) and (18) see page S-4

PAN AMERICAN ENERGY LLC

SUPPLEMENTARY OIL, GAS AND LPG INFORMATION (Unaudited)

Proved Developed Reserves (1)	Oil (mdbl)	Gas (mmcf)	LPG (mdbl)	Total (mboe) (2)
As of January 1, 2007 (3) (4)	319,478	2,100,812	18,675	700,362
As of December 31, 2007 (5) (14)	499,029	2,367,753	16,377	923,640
As of December 31, 2008 (6) (15)	513,905	1,930,020	16,046	862,713
As of December 31, 2009 (7) (16)	542,902	1,788,843	6,120	857,443

- (1) There is no deduction from the proved developed and undeveloped reserves for gross production assessments.
- (2) The Company has used a conversion of 1 barrel of oil equals 5,800 cubic feet of gas or 1 barrel of LPG.
- (3) Proved developed and undeveloped reserves at January 1, 2007 do not include volumes of gas for consumption.
- (4) As estimated by Ryder Scott in its report dated December 31, 2006, for Lindero Atravesado, Cuenca Austral, San Roque, Aguada Pichana and Estancia La Escondida blocks, as estimated by Gaffney & Cline for Cerro Dragón, Anticlinal Funes, Piedra Clavada, Koluel Kaike and Acambuco blocks in its report dated December 31, 2006 and as estimated by the Company for Caipipendi and Chaco blocks.
- (5) As estimated by Ryder Scott in its report dated December 31, 2007, for Lindero Atravesado, Cuenca Austral, San Roque, Aguada Pichana and Estancia La Escondida blocks, as estimated by Gaffney & Cline for Cerro Dragón, Anticlinal Funes, Piedra Clavada, Koluel Kaike, Acambuco and Caipipendi blocks in its report dated December 31, 2007 and as estimated by the Company for Chaco blocks.
- (6) As estimated by Ryder Scott in its report dated December 31, 2008, for Lindero Atravesado, Cuenca Austral, San Roque, Aguada Pichana and Estancia La Escondida blocks, as estimated by Gaffney & Cline for Cerro Dragón, Anticlinal Funes, Piedra Clavada, Koluel Kaike, Acambuco and Caipipendi blocks in its report dated December 31, 2008 and as estimated by the Company for Chaco blocks.
- (7) As estimated by Ryder Scott in its report dated December 31, 2009, for Lindero Atravesado, Cuenca Austral, San Roque, Aguada Pichana and Estancia La Escondida blocks, as estimated by RPS for Cerro Dragón, Anticlinal Funes, Piedra Clavada, Koluel Kaike and Acambuco blocks in its report dated December 31, 2009 and as estimated by the Company for Caipipendi block (see below number 18).
- (8) Includes 31 billion cubic feet of natural gas consumed in operations.
- (9) Includes 385 billion cubic feet of fuel gas.
- (10) Includes 35 billion cubic feet of natural gas consumed in operations.
- (11) Includes 451 billion cubic feet of fuel gas.
- (12) Includes 38 billion cubic feet of natural gas consumed in operations.
- (13) Includes 476 billion cubic feet of fuel gas.
- (14) Includes 260 billion cubic feet of fuel gas.
- (15) Includes 215 billion cubic feet of fuel gas.
- (16) Includes 255 billion cubic feet of fuel gas.
- (17) Includes the effect on proved reserves of the nationalization of the Company's shares in Chaco (see Notes 1, 11, 22 and 27 in "F" pages).
- (18) According to article 357 of the Political Constitution of Bolivia, in force since February 7, 2009, the Caipipendi block reserves included in the above proved reserves tables have not been registered in any stock exchange as property of the Company nor have been used as a collateral for financing transactions. According to the above mentioned constitutional provisions such registration and collateralization, can only be carried out by the Bolivian government. The volume of proved reserves that correspond to the Caipipendi block as of December 31, 2009 included in the table presented in Page S-3 are: 18,975 mdbl of oil and 521,786 mmcf of gas, which are equivalent to 108,937 mboe.

Proved Undeveloped Reserves

As of December 31, 2009 the Company had the following volumes of Proved Undeveloped Reserves ("PUD"):

Oil (mdbl):	418,499
Gas (mmcf):	1,489,407
LPG (mdbl):	6,410
Total (mboe):	681,703

The material changes in PUD that occurred during the year, were primarily related to the conversion of PUD into proved developed reserves as a result of development drilling and additions to PUD reserves related to the sanction of facilities expansion projects and development drilling advancing Non Proved volumes.

PAN AMERICAN ENERGY LLC

SUPPLEMENTARY OIL, GAS AND LPG INFORMATION (Unaudited)

Proved Undeveloped Reserves (Continued)

Material changes to PUD reserves were associated with development activity in the Cerro Dragón, Acambuco and Caipipendi blocks. There were no material changes between 2008 and 2009 to PUD reserves in the Austral and Neuquén basin blocks.

In the Cerro Dragón block, PUD oil decreased by 20 million barrels and PUD gas decreased by 73,000 mmcf as a result of volumes moved to proved producing partially offset by volumes moved from probable and possible reserves. The reserves movements were supported by the drilling and completion of some 190 new wells and the expansion and installment of 5 new waterflood projects. In addition, some 250 programmed wellwork jobs were completed in support of reserves additions through improved recovery in existing waterfloods.

In the Acambuco block, total PUD reserves increased by 60,000 mmcf of gas. In the San Pedrito field, the commissioning of compression facilities allowed moving 73,000 mmcf from PUD to proved developed producing. In the Macueta field, the sanction of compression facilities and the sanction to drill the Macueta 1006 well resulted in an addition to PUD of 133,000 mmcf.

In the Margarita field (Caipipendi block), total PUD reserves increased by 175,000 mmcf. These reserves are associated with the expansion of the production facilities to a capacity of 8.3 MMm³ per day (293 mmcf per day) to process production from the 3 Margarita wells and the Huacaya discovery well. In addition, interference tests conducted in 2009 verified full hydraulic connectivity between the Margarita field and the Huacaya discovery.

No PUD volumes as of December 31, 2009 have remained as such for five years or more after disclosure as proved undeveloped reserves, with the exception of Cuenca Austral block. In such block, the depletion plan and installed treatment capacity calls for a plateau of 14.5 MMm³ per day (512 mmcf per day) total production and a staged development of the proved reserves has been sanctioned by the partnership to obtain maximum efficiency of plateau production.

Standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves

The standardized measure of discounted future net cash flows related to proved oil and gas reserves is calculated in accordance with the requirements of ASC Topic 932 and uses reserve definitions as prescribed by the Financial Accounting Standards Board. Estimated future cash flows from production are computed by applying for oil, gas and LPG average, first-day-of-the-month price during the 12-month period before the ending date of the period covered by the report. Future price changes are limited to those provided by contractual arrangements in existence at the end of the reporting year and to the application of existing Argentine and Bolivian governments regulations. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end price levels and assuming the continuance of year-end economic conditions. Estimated future taxes are calculated by applying appropriate year-end statutory tax rates and reflect allowable deductions, tax credits and the tax basis of related assets. Discounted future net cash flows are calculated using 10% per annum discount factors and mid-year cash flows.

The information provided below does not represent management's estimate of the Company's expected future cash flows or value of proved reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available and, in particular, probable and possible reserves, which may become proved reserves in 2010, or later, are excluded from the calculations. Also, assumptions have been required regarding the timing of future production and the timing and amount of future development and production costs. The calculations assume that economic assumptions made at the end of the reporting year will take place. Other different but equally valid assumptions might lead to significantly different final results. Therefore, although calculated in accordance with ASC Topic 932, the Company cautions against the placing of unwarranted reliance on this information in view of the highly arbitrary nature of the assumptions on which it is based.

PAN AMERICAN ENERGY LLC

SUPPLEMENTARY OIL, GAS AND LPG INFORMATION (Unaudited)
Standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves (Continued)

	<u>In thousand US Dollars</u>		
	<u>December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Future cash inflows	46,989,892	46,128,372	47,812,299
Future production costs	(19,785,475)	(18,824,680)	(18,076,551)
Future development costs	(6,571,072)	(5,807,967)	(5,495,509)
Future income tax expense	(5,969,441)	(6,289,349)	(6,961,974)
Future net cash flows	14,663,904	15,206,376	17,278,265
10 % annual discount	(9,035,101)	(9,207,655)	(9,784,865)
Standardized measure of discounted future net cash flows	<u>5,628,803</u>	<u>5,998,721</u>	<u>7,493,400</u>

The following are the principal sources of change in the standardized measure of discounted future net cash flows for the years 2009, 2008 and 2007.

	<u>In thousand US Dollars</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Present value as of January 1	<u>5,998,721</u>	<u>7,493,400</u>	<u>6,391,221</u>
Current year operations	(985,732)	(927,228)	(826,254)
Extensions, discoveries less related costs	777,291	515,182	1,964,794
Other changes (1)	275,444	14,142	(125,839)
Net changes in prices and development and production costs	(995,615)	(2,514,877)	1,399,379
Revisions of previous quantity estimates (2)	(461,082)	(152,457)	(1,307,944)
Redetermination of interests	-	-	-
Changes in production timing	-	-	-
Acquisitions of reserves in place	-	-	-
Sales of reserves in place	-	-	-
Accretion of discount	880,870	1,070,451	871,030
Net changes in income taxes	<u>138,906</u>	<u>500,108</u>	<u>(872,987)</u>
Net change for the year	<u>(369,918)</u>	<u>(1,494,679)</u>	<u>1,102,179</u>
Present value as of December 31	<u>5,628,803</u>	<u>5,998,721</u>	<u>7,493,400</u>

- (1) This line includes differences between the projected and actual revenues, operating expenses and development costs of the first year projected.
- (2) In 2009, the effect on proved reserves of the nationalization of the Company's shares in Chaco is included (see Notes 1, 11, 22 and 27 in "F" pages).

PAN AMERICAN ENERGY LLC

SUPPLEMENTARY OIL, GAS AND LPG INFORMATION (Unaudited)

The following tables present operational and statistical information related to production, drilling, productive wells and acreage.

Oil and Gas Prices and Production Costs

The Company's average sales prices and production costs of oil and gas for 2009, 2008 and 2007 were as follows:

	In US Dollars		
	2009	2008	2007
Average sale prices			
Per barrel of oil	53.30	54.49	45.92
Per thousand cubic feet of gas	1.92	2.85	1.93
Per BOE	30.66	31.69	25.87
Average production cost per BOE	5.70	4.28	3.20
Average total costs and expenses per BOE	20.40	25.39	17.22
Net income per BOE	6.96	4.61	6.04

Productive Crude Oil and Natural Gas Wells and Acreage

The following tables show the number of gross and net productive oil and gas wells and total gross and net developed and undeveloped oil and gas acreage in which the Company had interests as of December 31, 2009. A "gross" well or acre is one in which a whole or fractional working interest is owned, while the number of "net" wells or acres is the sum of the whole or fractional working interests in gross wells or acres. Productive wells are producing wells and wells capable of production. Developed acreage is the acreage within the boundary of a field, on which development wells have been drilled, which could produce the reserves; while undeveloped acres are those on which wells have not been drilled or completed to a point that would permit the production of commercial quantities, whether or not such acres contain proved reserves.

Number of productive oil and gas wells (1)

As of December 31, 2009

Oil wells	
gross	3,252.0
net	3,168.5
Gas wells	
gross	426.0
net	180.9

Oil and Gas acreage

As of December 31, 2009

Developed	
gross	1,758,430
net	686,020
Undeveloped	
gross	9,906,192
net	8,508,858

(1) Substantially all the productive oil and gas wells are multiple completion wells (more than one formation producing into the same well bore). If one of the multiple completions in a given well is an oil completion, the well is classified as an oil well.

PAN AMERICAN ENERGY LLC

SUPPLEMENTARY OIL, GAS AND LPG INFORMATION (Unaudited)

Historical Drilling Activities

The following tables show the number of net productive and dry exploratory and development oil and gas wells drilled (either completed or abandoned) by the Company in the years indicated. Development wells include service wells completed for water injection. A dry well is an exploratory or development well found to be incapable of producing hydrocarbons in sufficient quantities to justify completion.

2009

Exploratory	
productive	3.5
dry	-
Development	
productive	206.4
dry	3.5

2008

Exploratory	
productive	7.3
dry	0.7
Development	
productive	194.3
dry	3.1

Present Drilling Activities

The following table shows the number of exploratory and development oil and gas wells in the process of being drilled as of December 31, 2009.

As of December 31, 2009

Gross	15.0
Net	14.2

Translation from the original prepared in Spanish for publication in Argentina

Final 21 de abril 2010 - 12 horas

**PAN AMERICAN ENERGY LLC
(ARGENTINE BRANCH)**

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009
COMPARATIVE WITH THE PRIOR FISCAL YEAR

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Translation from the original prepared in Spanish for publication in Argentina

INDEPENDENT AUDITORS' REPORT

To the Legal Representative of
Pan American Energy LLC (Argentine Branch)
Legal address: Av. Leandro N. Alem 1180 – 11th floor
Buenos Aires
Taxpayer identification (CUIT) No. 30-69554247-6

1. We have examined the balance sheet of Pan American Energy LLC (Argentine Branch) as of December 31, 2009, and the related statements of income and cash flows, notes 1 to 16 and exhibits A, B, C, D, E, F, G, H and I for the fiscal year then ended, comparatively presented with the prior year.
2. The Branch's Legal Representative and Management are responsible for the preparation and fair presentation of these financial statements in accordance with professional accounting standards in force in City of Buenos Aires, Argentina, and the related regulations of the National Securities Commission ("CNV"). This responsibility includes: (a) designing, implementing and maintaining internal control so that the financial statements are free from material misstatements, whether due to fraud or error, (b) selecting and applying appropriate accounting policies, and (c) making accounting estimates that are reasonable in the circumstances. Our responsibility is to express an opinion on these financial statements based on our audit.
3. We conducted our audit in accordance with auditing standards generally accepted in Argentina. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
4. The accompanying financial statements were translated into the English language from those issued in Spanish in conformity with the regulations of the CNV. Certain accounting practices applied by the Branch that conform to the accounting standards set forth by the CNV do not conform to accounting principles generally accepted in the United States. The effects of these differences have not been quantified by the Branch.
5. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the financial position of the Branch as of December 31, 2009, the results of its operations and the changes in cash flows for the year then ended, in conformity with professional accounting standards in force in the City of Buenos Aires.
6. In relation to the financial statements as of December 31, 2008 and for the year then ended, presented for comparative purposes, we issued an unqualified report dated March 11, 2009.

Translation from the original prepared in Spanish for publication in Argentina

7. In compliance with rules and regulations in force, we report that:
- a. the financial statements comply with the provisions of the Companies Law and the regulations on accounting documentation of the National Securities Commission, they are transcribed in the Inventory Book and they derive from the accounting records of the Branch which, in their formal aspects, are kept pursuant to legislation in force. The information systems used to process the data included in the financial statements are kept under the security and integrity conditions based on which they were duly authorized;
 - b. we read the information included in the reporting summary (sections “Balance sheet items”, “Income statement items” and “Ratios”) and in the supplementary information to the financial statements required by section 68 of the regulations of the Buenos Aires Stock Exchange, based on which, as far as it relates to our area of responsibility, we have no observations;
 - c. as of December 31, 2009, the accrued liability for pension contributions arising from the accounting records amounted to \$ 14,953,513.83, no amounts being due as of that date, and
 - d. as required by General Resolution No. 400 of the National Securities Commission:
 - the ratio between the total audit services invoiced to the Branch and the total amount invoiced to the Branch, including audit services, for the year ended December 31, 2009 is 0.71;
 - the ratio between the total audit services invoiced to the Branch and the total audit services invoiced to the Branch and its Head Office and Temporary Union of Enterprises is 0.76, and
 - the ratio between the total audit services invoiced to the Branch and the total amount invoiced to the Branch and its Head Office and Temporary Union Enterprises is 0.55.

Buenos Aires, March 11, 2010

SIBILLE

Néstor R. García
Partner

Translation from the original prepared in Spanish for publication in Argentina

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

FINANCIAL STATEMENTS as of December 31, 2009 for the fiscal year No. 13 beginning January 1, 2009 and ended December 31, 2009, comparatively presented with the prior fiscal year

Stated in pesos

Legal address of the Branch: Av. Leandro N. Alem 1180 - 11th floor - Buenos Aires

Main activity of the Branch: Oil and gas exploration and production

Date of registration with the Public Registry of Commerce: October 17, 1997

Registration number with the Inspection Board of Legal Entities: 1868, Book 54, Volume B of Foreign Companies

Subscribed capital (paid in full): \$ 221,779,007 (See Note 8)

HEAD OFFICE

Name: Pan American Energy LLC

Legal address: The Corporation Trust Company, Trust Corporation Center, 1209 Orange Street, Wilmington, Delaware - 19801 - United States of America

Main activity: Oil and gas exploration and production

Translation from the original prepared in Spanish for publication in Argentina

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

BALANCE SHEET as of December 31, 2009 comparative with the prior fiscal year (in pesos)

	<u>12/31/2009</u>	<u>12/31/2008</u>
ASSETS		
CURRENT ASSETS		
Cash and banks (Note 4 a)	26,188,313	11,410,757
Investments (Exhibit C)	741,623,699	635,833,232
Accounts receivable (Note 4 b)	1,156,824,402	556,925,263
Other receivables (Note 4 c)	223,138,351	451,785,772
Inventories (Note 4 d)	266,673,290	272,250,880
Total current assets	<u>2,414,448,055</u>	<u>1,928,205,904</u>
NON CURRENT ASSETS		
Other receivables (Note 4 e)	83,802,832	64,779,696
Investments (Exhibit C)	135,388,922	4,855,868
Property, plant and equipment (Exhibit A)	11,857,405,042	9,698,503,381
Intangible assets (Exhibit B)	326,988	356,808
Total non current assets	<u>12,076,923,784</u>	<u>9,768,495,753</u>
Total assets	<u>14,491,371,839</u>	<u>11,696,701,657</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable (Note 4 f)	831,656,938	872,239,553
Loans (Note 4 g)	1,405,333,320	2,039,963,665
Payroll and social security contributions	144,259,946	79,659,248
Taxes payable (Note 4 h)	1,110,850,180	135,612,971
Other liabilities (Note 3 2 j)	28,957,454	3,310,810
Provision for future compensation to personnel (Exhibit D)	4,464,598	2,417,779
Total current liabilities	<u>3,525,522,436</u>	<u>3,133,204,026</u>
NON CURRENT LIABILITIES		
Accounts payable (Note 4 i)	68,244,336	70,698,545
Loans (Note 4 j)	4,274,848,000	3,799,048,509
Taxes payable (Note 4 k)	61,503,316	-
Other liabilities (Note 3 2 j)	215,516,431	182,561,417
Deferred tax (Note 11)	155,749,038	359,424,575
Provision for future compensation to personnel (Exhibit D)	21,707,215	17,689,849
Provision for environmental remediation (Exhibit D)	250,732,619	123,870,043
Accruals (Exhibit D)	17,787,688	23,562,000
Total non current liabilities	<u>5,066,088,643</u>	<u>4,576,854,938</u>
Total liabilities	8,591,611,079	7,710,058,964
Account with Head Office (Note 7)	5,438,521,753	3,525,403,686
Capital allocated to the Branch (Note 8)	221,779,007	221,779,007
Capital adjustment	239,460,000	239,460,000
Total	<u>14,491,371,839</u>	<u>11,696,701,657</u>

The accompanying notes and exhibits are an integral part of these financial statements.

Translation from the original prepared in Spanish for publication in Argentina

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

STATEMENT OF INCOME for the fiscal year ended December 31, 2009 comparative with the prior fiscal year
(in pesos)

	<u>2009</u>		<u>2008</u>
Sales (Note 4 I)	9,108,283,415		6,087,999,396
Cost of sales (Exhibit E)	<u>(4,493,900,459)</u>		<u>(3,554,843,788)</u>
Gross profit	4,614,382,956		2,533,155,608
Administrative expenses (Exhibit G)	<u>(339,046,364)</u>		<u>(322,284,782)</u>
Operating income	4,275,336,592		2,210,870,826
Financial results			
Generated by assets			
Interest	13,141,942		26,937,115
Exchange gains	84,060,090		92,316,420
Other financial results	<u>8,291,289</u>	105,493,321	<u>(1,915,293)</u>
117,338,242			
Generated by liabilities			
Interest	(422,042,216)		(312,838,220)
Exchange losses	(569,414,219)		(469,434,809)
Other financial results	<u>(87,447,076)</u>	(1,078,903,511)	<u>(70,935,100)</u>
(853,208,129)			
Other income and expenses – net	<u>19,401,517</u>		<u>23,405,830</u>
Income before income tax	3,321,327,919		1,498,406,769
Income tax expense - current (Note 11)	(1,369,505,178)		(551,629,967)
Income tax benefit - deferred (Note 11)	<u>203,675,537</u>		<u>30,272,746</u>
Net income (Note 7)	<u>2,155,498,278</u>		<u>977,049,548</u>

The accompanying notes and exhibits are an integral part of these financial statements.

Net income	2,155,498,278	977,049,548
Adjustment to reconcile net income with the cash provided by operations		
Depreciation of property, plant and equipment	1,071,008,680	850,918,589
Amortization of intangible assets	29,820	33,661
Income tax expense	1,369,505,178	551,629,967
Net (decrease) increase in allowances for bad debtors, for adjustments of prices, lawsuits and obsolescence of materials	(25,641,813)	35,638,550
Loss on property, plant and equipment	62,185	119,585,986
Increase in provision for future compensation to personnel	9,148,719	5,362,613
Net increase in the provision for environmental remediation	39,050,396	47,033,825
Other non-cash items (1)	619,534,741	742,423,951
Changes in assets, liabilities and account with Head Office:		
Increase in accounts receivable	(579,521,498)	(90,702,558)
Decrease (increase) in inventories	5,067,450	(83,025,294)
Decrease (increase) in other current receivables	228,647,421	(63,730,366)
Increase in other non current receivables	(19,023,136)	(11,640,467)
Increase in accounts payable, payroll and social security contributions, Taxes payable and other liabilities	189,943,956	207,392,006
Compensation paid to personnel for benefit plans	(3,084,534)	(2,958,154)
Payments related to lawsuits	-	(378,466)
Use of provisions	(24,607,239)	(12,620,921)
Income tax paid	(442,543,077)	(851,225,521)
Net cash provided by operations	<u>4,593,075,527</u>	<u>2,420,786,949</u>
Cash used in investing activities:		
(Increase) decrease in long-term investments	(131,478,880)	4,703,876
Acquisition of property, plant and equipment	(3,119,149,783)	(3,308,295,696)
Collection due to the sale of property, plant and equipment	<u>1,596,676</u>	<u>13,298,349</u>
Cash used in investing activities	<u>(3,249,031,987)</u>	<u>(3,290,293,471)</u>
Cash (used in) provided by financing activities		
(Decrease) increase in loans (net)	(982,041,132)	1,352,964,060
Net activity with Head Office	(242,380,211)	(321,268,736)
Cash (used in) provided by financing activities	<u>(1,224,421,343)</u>	<u>1,031,695,324</u>
Net increase in cash	119,622,197	162,188,802
Cash at the beginning of the year	<u>646,520,586</u>	<u>484,331,784</u>
Cash at year-end	<u>766,142,783</u>	<u>646,520,586</u>
(1) It is made up of:		
Exchange gains/losses and other financial results relating to loans and other	823,210,278	772,696,697
Deferred income tax benefit	(203,675,537)	(30,272,746)
Total	<u>619,534,741</u>	<u>742,423,951</u>

The accompanying notes and exhibits are an integral part of these financial statements.

Translation from the original prepared in Spanish for publication in Argentina

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2009 comparative with the prior fiscal year (in pesos)

NOTE 1 - THE BRANCH

Pan American Energy LLC (Argentine Branch) is engaged in the exploration, development and production of hydrocarbons.

NOTE 2 - OPERATIONS OF THE BRANCH

The following table summarizes the main operations, blocks and joint ventures in which the Branch is or was involved during the fiscal year ended December 31, 2009.

<u>Activity</u>	<u>Operations</u>	<u>Interest</u>	<u>Participation</u>
Oil and gas production and development	Cerro Dragón (1)	100.00%	Operator
	Piedra Clavada (1)	100.00%	Operator
	Koluel Kaike (1)	100.00%	Operator
	Lindero Atravesado (2)	62.50%	Operator
	Anticlinal Funes	80.00%	Operator
	Acambuco	52.00%	Operator
	Aguada Pichana (2)	18.18%	Non operator
	San Roque (2)	16.47%	Non operator
	Estancia La Escondida (3)	25.00%	Non operator
Oil and gas exploration and development	Acambuco "B" (4)	100.00%	Operator
	Bandurria	18.18%	Non operator
	Costa Afuera Argentina "CAA-40" (5)	33.50%	Non operator
	Costa Afuera Argentina "CAA-46" (5)	33.50%	Non operator
	Centro Golfo San Jorge Marina Chubut	90.00%	Operator
	Centro Golfo San Jorge Marina Santa Cruz	90.00%	Operator
	Nueva Lubecka	100.00%	Operator
	Paso de Indios	100.00%	Operator
	Paso Moreno	100.00%	Operator

Explanations:

- (1) See Note 15.1.
- (2) See Note 15.2.
- (3) Joint Venture agreement (UTE) governing the relationships between the holders of concession states that their participating interests in rights, obligations and interests inherent in the property including production, will be distributed based on the depth from which production is obtained: in the deep area, the Branch has a 75% interest and the co-holder has the remaining 25%; in the shallow area from which current total production is obtained, the Branch has a 25% interest and the co-holder the remaining 75%; and in the area "Descubrimiento El Zanjón", both parties hold a 50% interest. The average interest described grants the Branch a 50% interest in the rights over the property, regardless the percentage thereof in the concession.
- (4) Corresponds to the Macueta Oeste and San Pedrito Sur fields.
- (5) On October 22, 2008, the Branch and YPF S.A. assigned Petrobras Energía S.A. 33.00% (16.50% each) of their ownership interests in the blocks known as Costa Afuera Argentina "CAA-40" and "CAA-46" and, therefore, the Branch's ownership interests in those blocks changed from 50.00% to 33.50%.

Translation from the original prepared in Spanish for publication in Argentina

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2009 comparative with the prior fiscal year (in pesos)

NOTE 3 - ACCOUNTING PRINCIPLES

3.1 Reporting currency

In accordance with Decree 664/2003 and General Resolution No. 441/2003 of the National Securities Commission (“Comisión Nacional de Valores” or CNV), the Branch discontinued the application of inflation accounting as from March 1, 2003.

From January 1, 2002 to February 28, 2003, the Branch applied the inflation accounting methodology set forth by Technical Resolution No. 6, amended by Technical Resolutions Nos. 17 and 19 of the Argentine Federation of Professional Councils of Economic Sciences (FACPCE) and by the Professional Council of Economic Sciences of the City of Buenos Aires (CPCECABA), using indexes derived from the Internal Wholesale Price Index.

3.2 Valuation and presentation principles

a) Presentation

The financial statements are presented in accordance with the presentation principles established by the accounting standards generally accepted in the Republic of Argentina and pursuant to the provisions of the CNV.

The accompanying financial statements were translated into the English language from those issued in Spanish in conformity with the regulations of the National Securities Commission (“CNV”) of Argentina. Certain accounting practices applied by the Branch that conform to the accounting standards set forth by the CNV do not conform to accounting principles generally accepted in the United States. The effects of these differences have not been quantified by the Company.

Investments to become due or to be realized in the short term (within 3 months of fiscal year-end) are considered a cash equivalent in the statement of cash flows.

Certain reclassifications were made to the financial statements presented as comparative information to conform them to the presentation used in this fiscal year.

b) Participating interest in joint ventures

The Branch is engaged in exploration and production activities in certain areas through its participation in joint ventures with other companies. The account balances reflecting the joint ventures’ assets, liabilities, income and expenses are proportionately consolidated in these financial statements.

c) Foreign currency

Assets and liabilities denominated in foreign currency as listed in Exhibit F have been stated in Argentine Pesos at the exchange rate prevailing at the end of each fiscal year. The resulting exchange gains/losses are presented in the financial results line (provided by either assets or liabilities, as applicable) of the Statement of Income.

Translation from the original prepared in Spanish for publication in Argentina

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2009 comparative with the prior fiscal year (in pesos)

NOTE 3 - ACCOUNTING PRINCIPLES (Cont.)

3.2 Valuation and presentation principles (Cont.)

d) Inventories

Crude oil is stated at reproduction cost. Spare parts, materials and raw materials are stated at the latest acquisition cost. Goods in transit are stated at acquisition cost plus import expenses. Advances to suppliers are valued at the amounts actually incurred.

The carrying value of inventories, taken as a whole and after considering the allowance for obsolescence (see Note 3 2 g), does not exceed their recoverable value.

e) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost as indicated in Note 3.1., less the related accumulated depreciation. The acquisition cost includes all the necessary costs incurred in order to put the assets in working condition.

Depreciation is calculated by applying the straight-line method over the estimated useful lives of the assets and/or the duration of the contracts, as applicable, except for production wells, equipment and services, which are depreciated as per the units of production method.

The pre-operating costs of the properties in the exploration stage, except for geology and geophysics related expenses that are charged to the Statement of Income as incurred, remain capitalized for a given period based on the characteristics of each property, without exceeding five years considered as from the completion of the exploration stage or, if applicable, as from production interruption, unless:

1. it is expected that explored areas will proceed to the commercial production stage, in which case the referred costs remain capitalized, or
2. during the referred five year period, management estimates that commercial production will not be feasible, in which case, the referred costs are expensed.

For Property, plant and equipment existing as of January 6, 2002, the acquisition or construction of which resulted in outstanding liabilities denominated in foreign currency - exchange gains/losses resulting from restating such liabilities totaling \$1,832,303,600 through July 28, 2003 were capitalized pursuant to specific accounting principles, based on the determination of the direct or indirect ratio between the assets subject to capitalization and the outstanding liabilities in foreign currency. The assets or group of assets eligible for the capitalization of exchange gains/losses have remained unchanged. Such capitalization of exchange gains/losses was performed in proportion to the balance of the original value of the referred assets not subject to depreciation. Additionally, exchange gains and losses were capitalized up to the limit arising from the comparison between the replacement or reproduction cost of the assets and their recoverable value.

For the purposes of presenting the financial statements in constant currency (see Note 3.1), the capitalized exchange gains/losses amounting to \$ 1,832,303,600 are considered an anticipated inflation adjustment until such differences are absorbed thereby. The excess of capitalized exchanges losses over the amounts in constant currency totals \$ 85,358,131 as of December 31, 2009.

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2009 comparative with the prior fiscal year (in pesos)

NOTE 3 - ACCOUNTING PRINCIPLES (Cont.)

3.2 Valuation and presentation principles (Cont.)

e) Property, plant and equipment (Cont.)

The net carrying value of property, plant and equipment, taken by group of assets of similar characteristics, does not exceed their estimated value in use based on the information available as of the date of issuance of the financial statements.

f) Intangible assets

These are pre-production geological expenditures and acquisition cost of blocks valued at restated cost as indicated in Note 3.1, less the related accumulated amortization. Amortization is calculated as per the units of production method.

g) Allowances, Accruals and Provisions

Allowances deducted from assets:

- For bad debtors: they are determined following the detailed analysis of the credit status of each customer.
- For price adjustments for receivables in foreign currency: they are determined taking into consideration the stage of negotiations with certain customers.
- For obsolescence of materials: the Branch creates an allowance for those assets evidencing significant slow movement based on a specific analysis.

Provisions and accruals:

- For lawsuits: they are determined considering the potential costs of those lawsuits filed against the Branch based on the opinion of the legal counsels.
- For future compensation to personnel: they are estimated as a percentage of compensation paid, calculated in terms of actuarial methods, and can be applied to compensate employees of the Branch who have complied with certain seniority requirements defined by the Branch. Payments are debited from the related provision.
- For environmental remediation: calculated on the basis of well-abandonment forecasts until the expiration of agreements, at present values.

h) Income tax

The Branch applies the deferred tax method to account for income tax. Based on the referred method, the current income tax is calculated by applying the rates prevailing as of December 31, 2009 and 2008 on taxable income; and the future tax effect of the temporary differences in the book and tax values of assets and liabilities and the tax loss carryforwards, if any, are recognized as deferred tax assets or liabilities. The adjustment for inflation of property, plant and equipment is considered to be a temporary difference for deferred tax computations making use of the option established in the General Resolution No. 487/06 of the CNV.

The deferred tax assets are recognized only to the extent of their recoverability.

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2009 comparative with the prior fiscal year (in pesos)

NOTE 3 - ACCOUNTING PRINCIPLES (Cont.)

3.2 Valuation and presentation principles (Cont.)

i) Use of estimates

The preparation of the financial statements in accordance with generally accepted accounting principles requires that the Branch management makes estimates about the value of certain assets and liabilities, including contingent liabilities, as well as the amounts informed of certain income and expenses generated during the fiscal year.

The final amounts may differ from the estimates used in the preparation of the financial statements.

j) Defined benefit and contributions plans

As from July 1, 2009, the Branch discontinued the pension plan for the benefit of its personnel called "Plan Puente" with no significant impact on the Branch's financial position and the results of operations. Consequently, up to the settlement thereof, such plan will not accrue further years of service and the liability will only be increased as a result of general salary increases in pesos. Some employees have already chosen to change the benefit accrued for a personal savings plan (defined Branch contribution). Additionally, each employee is entitled to contribute a portion of their salaries to such savings plan. The Branch then makes its own contribution and transfers such amounts to a trust fund.

The accrued cost as of December 31, 2009 of the different defined benefit plans amounts to \$ 304,653,429 (\$ 234,535,530 as of December 31, 2008).

As of December 31, 2009 and 2008, the relevant actuarial information related to the pension plans for the benefit of personnel included herein and in Note 3.2.g under Accounts payable, Other liabilities and Provisions for future compensation to personnel is as follows:

	<u>2009</u>	<u>2008</u>
Cost of benefits accrued at beginning of fiscal year	234,535,530	166,833,663
Services cost (1)	11,741,542	9,417,215
Interest (2)	57,641,917	20,213,710
Benefits paid	(32,426,213)	(5,522,686)
Actuarial losses (1)	48,924,997	43,593,628
Effect of the discontinuance of "Plan Puente" (1)	(15,764,344)	-
Obligations at fiscal year-end	<u>304,653,429</u>	<u>234,535,530</u>

(1) Included under Cost of sales and Administrative expenses of the statement of income (See Exhibit G).

(2) Included under Other financial results provided by liabilities of the statement of income.

Main actuarial assumptions used:

Actual rate of long term salaries increase (net of inflation)	1%	1%
Interest discount rate	4%	4%

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2009 comparative with the prior fiscal year (in pesos)

NOTE 3 - ACCOUNTING PRINCIPLES (Cont.)

3.2 Valuation and presentation principles (Cont.)

k) Revenue recognition

Revenue derived from the sale of hydrocarbons is recognized when the significant risks and rewards of ownership have been transferred to the purchaser. Sales thus determined are presented net of export tariffs and tax credit certificates related to the program set forth by Decree 2014/08 (see Note 13) created for the purposes of incentivizing the production and addition of oil reserves.

The Branch uses the production method to recognize revenues from the sale of oil. In those cases where the Branch has a shared interest with other producers, revenues are recorded upon the basis of the interest held in each joint venture.

In order to recognize revenues from the sale of gas, the Branch uses the sales method, whereby these revenues are recorded on the basis of the actual volumes delivered to purchasers irrespective of whether they result from the Branch's own output or from the output shared with other producers.

l) Lease agreements

The Branch leases the space occupied by its offices, which agreements are of an operating nature and, therefore, the expenses incurred are recognized in the Statement of income to the extent they are accrued.

The amount of the present agreements, broken down by maturity dates, is reported below:

	<u>Nominal value</u>	
Up to one year	U\$\$ 398,400	\$ 1,663,708
Over one year and up to five years	U\$\$ 646,800	\$ 695,200

During the fiscal year ended December 31, 2009, the Branch recognized an expense of \$ 17,725,361 related to such lease agreements presented in the line Buildings Rentals, Maintenance and others in Exhibit G.

m) Foreign exchange forward contracts

As of December 31, 2008, the Branch was a party to four non-deliverable forward contracts for the purchase of foreign currency (US Dollar) in a total amount of US\$ 25,410,000 with maturities between January 30, 2009 and March 31, 2009, which were settled in Pesos at their respective maturities. During the fiscal year ended December 31, 2009, the Branch recognized gains of \$ 1,614,175 on these transactions. As of December 31, 2009, the Branch has no outstanding transactions and balances related to foreign exchange forward contracts.

Translation from the original prepared in Spanish for publication in Argentina

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2009 comparative with the prior fiscal year (in pesos)

NOTE 4 - BREAKDOWN OF CERTAIN BALANCE SHEET AND STATEMENT OF INCOME ITEMS

	<u>12/31/2009</u>	<u>12/31/2008</u>
ASSETS		
CURRENT ASSETS		
a) Cash and banks		
Cash on hand in local currency	200,839	218,935
Cash on hand in foreign currency (Exhibit F)	213,779	185,523
Cash in banks in local currency	6,460,769	10,796,970
Cash in banks in foreign currency (Exhibit F)	<u>19,312,926</u>	<u>209,329</u>
Total	<u>26,188,313</u>	<u>11,410,757</u>
b) Accounts receivable		
Accounts receivable in local currency	98,135,951	196,022,162
Accounts receivable in foreign currency (Exhibit F)	1,057,052,626	349,762,289
Allowance for bad debtors in local currency (Exhibit D)	(13,287,657)	(9,676,553)
Allowance for bad debtors in foreign currency (Exhibits D and F)	(8,193,859)	(9,361,633)
Notes receivable in foreign currency (Exhibit F)	19,898,849	4,293,502
Allowance for adjustments of prices in foreign currency (Exhibits D and F)	-	(22,820,971)
Affiliated companies in foreign currency (Note 9 and Exhibit F)	<u>3,218,492</u>	<u>48,706,467</u>
Total	<u>1,156,824,402</u>	<u>556,925,263</u>
c) Other receivables		
Loans to personnel	19,149,201	14,148,421
Tax credits	81,659,003	267,655,432
Expenses recoverable in local currency	6,493,751	9,032,946
Expenses recoverable in foreign currency (Exhibit F)	1,043,702	3,333,343
Prepaid expenses in local currency	24,695,908	19,281,616
Miscellaneous in local currency	59,644,859	84,106,370
Miscellaneous in foreign currency (Exhibit F)	14,834,946	38,352,886
Affiliated companies in foreign currency (Note 9 and Exhibit F)	<u>15,616,981</u>	<u>15,874,758</u>
Total	<u>223,138,351</u>	<u>451,785,772</u>

Translation from the original prepared in Spanish for publication in Argentina

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2009 comparative with the prior fiscal year (in pesos)

NOTE 4 - BREAKDOWN OF CERTAIN BALANCE SHEET AND STATEMENT OF INCOME ITEMS (Cont.)

	<u>12/31/2009</u>	<u>12/31/2008</u>
ASSETS (Cont.)		
CURRENT ASSETS (Cont.)		
d) Inventories		
Crude oil in stock	161,726,211	151,768,790
Spare parts, materials and raw materials	<u>77,387,035</u>	<u>79,680,571</u>
Subtotal (Exhibit E)	239,113,246	231,449,361
Allowance for obsolescence of materials (Exhibit D)	(<u>4,073,169</u>)	(<u>3,563,029</u>)
Subtotal	235,040,077	227,886,332
Goods in transit	26,976,178	38,431,306
Advances to suppliers in local currency	4,657,035	5,621,206
Advances to suppliers in foreign currency (Exhibit F)	<u>-</u>	<u>312,036</u>
Total	<u>266,673,290</u>	<u>272,250,880</u>
NON CURRENT ASSETS		
e) Other receivables		
Loans to personnel	18,104,169	20,105,876
Prepaid expenses in local currency	16,013,244	2,247,128
Miscellaneous in local currency	35,285,847	27,938,354
Miscellaneous in foreign currency (Exhibit F)	<u>14,399,572</u>	<u>14,488,338</u>
Total	<u>83,802,832</u>	<u>64,779,696</u>

Translation from the original prepared in Spanish for publication in Argentina

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2009 comparative with the prior fiscal year (in pesos)

NOTE 4 - BREAKDOWN OF CERTAIN BALANCE SHEET AND STATEMENT OF INCOME ITEMS (Cont.)

	<u>12/31/2009</u>	<u>12/31/2008</u>
LIABILITIES		
CURRENT LIABILITIES		
f) Accounts payable		
Trade payables in local currency	554,780,388	634,080,265
Trade payables in foreign currency (Exhibit F)	218,388,785	207,906,479
Notes payable in foreign currency (Exhibit F)	29,069,812	-
Expenses payable in local currency	22,126,651	14,610,713
Miscellaneous in local currency	-	10,375,999
Personnel compensation (Note 3.2.j)	4,355,145	2,680,223
Affiliated companies in foreign currency (Note 9 and Exhibit F)	<u>2,936,157</u>	<u>2,585,874</u>
Total	<u>831,656,938</u>	<u>872,239,553</u>
g) Loans		
Unsecured notes payable in local currency	188,528,381	371,393,731
Unsecured notes payable in foreign currency (Exhibit F)	1,128,258,000	1,227,230,731
Interest accrued on notes payable in foreign currency (Exhibit F)	88,546,939	95,256,508
Affiliated companies in local currency (Note 9)	-	329,666
Affiliated companies in foreign currency (Note 9 and Exhibit F)	-	453,029
Bonds in foreign currency (Exhibit F)	<u>-</u>	<u>345,300,000</u>
Total	<u>1,405,333,320</u>	<u>2,039,963,665</u>
h) Taxes payable		
Income tax provision net of advanced payments	844,170,462	-
Tax on sales and production	121,044,614	67,336,294
Installment plan (Law No. 26476)	7,380,398	-
Other	<u>138,254,706</u>	<u>68,276,677</u>
Total	<u>1,110,850,180</u>	<u>135,612,971</u>
NON CURRENT LIABILITIES		
i) Accounts payable		
Miscellaneous liabilities in local currency	17,653,188	25,796,553
Miscellaneous liabilities in foreign currency (Exhibit F)	20,938,562	19,026,540
Personnel compensation (Note 3.2.j)	<u>29,652,586</u>	<u>25,875,452</u>
Total	<u>68,244,336</u>	<u>70,698,545</u>

Translation from the original prepared in Spanish for publication in Argentina

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2009 comparative with the prior fiscal year (in pesos)

NOTE 4 - BREAKDOWN OF CERTAIN BALANCE SHEET AND STATEMENT OF INCOME ITEMS (Cont.)

	<u>12/31/2009</u>	<u>12/31/2008</u>
LIABILITIES (Cont.)		
CURRENT LIABILITIES (Cont.)		
j) Loans		
Bonds in foreign currency (Exhibit F)	950,000,000	863,250,000
Unsecured notes payable in foreign currency (Exhibit F)	3,324,848,000	2,856,908,609
Affiliated companies in local currency (Note 9)	-	15,700,000
Affiliated companies in foreign currency (Note 9 and Exhibit F)	<u>-</u>	<u>63,189,900</u>
Total	<u>4,274,848,000</u>	<u>3,799,048,509</u>
k) Taxes payable		
Installment plan (Law No. 26476)	<u>61,503,316</u>	<u>-</u>
Total	<u>61,503,316</u>	<u>-</u>
	<u>2009</u>	<u>2008</u>
STATEMENT OF INCOME		
l) Net sales		
Gross sales	9,643,938,680	8,252,008,202
Export tariffs – net	<u>(535,655,265)</u>	<u>(2,164,008,806)</u>
Total	<u>9,108,283,415</u>	<u>6,087,999,396</u>

NOTE 5 - FINANCIAL BONDS

In February 2002, the CNV authorized the Branch's Global Program for the Issuance of Bonds in the medium term (the "2002 Program") for a five-year term, in the total amount of US\$ 1,000,000,000. Under this program, the Branch issued four series of non-convertible bonds.

The bonds with final maturity in October 2009 (US\$ 100,000,000 at an annual fixed interest rate of 7.125%), settled on due date, and February 2012 (US\$ 250,000,000 at an annual fixed interest rate of 7.75, payable in two equal installments of US\$ 125,000,000 each and becoming due in 2011 and 2012) were issued under the 2002 Program by the Branch and are guaranteed by Pan American Energy LLC.

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2009 comparative with the prior fiscal year (in pesos)

NOTE 5 – FINANCIAL BONDS (Cont.)

On February 6, 2009, the CNV authorized a new program in the amount of US\$ 1,200,000,000, whereby the Branch is authorized to issue bonds during a 5-year period commencing on that same date. Any bonds to be issued under this program will be guaranteed by Pan American Energy LLC. As of the date of issuance of these financial statements, the Branch has not issued any bonds under this program.

NOTE 6 - OTHER FINANCIAL LIABILITIES

On July 11, 2005, the Branch entered into a loan agreement with the International Finance Corporation (“IFC”) in the total amount of US\$ 250,000,000. This loan, which is guaranteed by Pan American Energy LLC, consists of three tranches of US\$ 135,000,000, US\$ 100,000,000 and US\$ 15,000,000, with final maturities in July 2012, July 2015 and July 2016, respectively. The outstanding balances as of December 31, 2009 of such tranches are US\$ 67,500,000, US\$ 66,670,000 and US\$ 15,000,000, respectively. In relation to the outstanding balances of the first two tranches of the loan, the LIBOR interest rate payable every 6 months (floating rate) was effectively fixed through an interest rate swap agreed with IFC, thus resulting in annual fixed rates of 6.97% and 7.56%, respectively. A fixed interest rate was set for the third tranche.

On July 13, 2007, the Branch entered into a loan agreement with IFC in the amount of US\$ 550,000,000 (at a floating LIBOR rate payable every 6 months). This loan, which is guaranteed by Pan American Energy LLC, consists of three tranches of US\$ 158,500,000, US\$ 241,500,000 and US\$ 150,000,000, with final maturities in April 2014, April 2015 and April 2018, respectively. The outstanding balances as of December 31, 2009 of the referred tranches amounted to US\$ 129,700,000, US\$ 204,300,000 and US\$ 134,200,000, respectively.

In relation to the tranches of this loan, with outstanding balances as of December 31, 2009 in the amounts of US\$ 129,700,000, US\$ 204,300,000 and US\$ 134,200,000, the LIBOR interest rate payable every 6 months (floating rate) was effectively fixed through an interest rate swap agreed by the Branch on August 14, 2009 with three financial institutions, thus resulting in annual fixed rates of 4.13%, 4.49% and 5.46%.

On May 21, 2008, the Branch entered into a US\$ 200,000,000 loan agreement with an international bank syndicate, which is guaranteed by Pan American Energy LLC. This loan was to be repaid in three equal installments with maturities in May 2010, November 2010 and May 2011. On December 30, 2009, the Branch entered into an agreement in respect of this loan which amended the maturities originally agreed upon. Pursuant to this amendment, the final maturity of US\$ 170,000,000 of this loan was extended from its original maturity to two installments of US\$ 85,000,000 each, payable in November 2012 and May 2013. The remaining balance of the loan in the amount of US\$ 30,000,000 keeps its original maturities.

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2009 comparative with the prior fiscal year (in pesos)

NOTE 6 - OTHER FINANCIAL LIABILITIES (Cont.)

On September 1, 2009, the Branch entered into a loan agreement with IFC in the amount of US\$ 153,000,000. This loan, which is guaranteed by Pan American Energy LLC, consists of three tranches of US\$ 103,000,000, US\$ 10,000,000 and US\$ 40,000,000 with final maturities in August 2013, August 2015 and August 2017, respectively.

On December 10, 2009, the Branch entered into a loan agreement with Corporación Andina de Fomento (“CAF”) in the amount of US\$ 30,000,000. This loan is guaranteed by Pan American Energy LLC and its final maturity is in August 2015.

The Branch considers that its access to credit lines is appropriate in order to meet its commercial and financial obligations, even though it presents a negative working capital.

NOTE 7 - ACCOUNT WITH HEAD OFFICE

The changes in the account with Head Office during the fiscal years ended December 31, 2009 and 2008 are as follows:

	<u>Fiscal year ended</u>	
	<u>12/31/2009</u>	<u>12/31/2008</u>
Balance at beginning of fiscal year of the account with Head Office	3,525,403,686	2,869,622,874
Net activity with Head Office	(242,380,211)	(321,268,736)
Net income	<u>2,155,498,278</u>	<u>977,049,548</u>
Net changes for the fiscal year	<u>1,913,118,067</u>	<u>655,780,812</u>
Balance at year-end of the account with Head Office (1)	<u>5,438,521,753</u>	<u>3,525,403,686</u>

(1) As of December 31, 2009 and 2008, balances are in local currency.

NOTE 8 - CAPITAL ALLOCATED TO THE BRANCH

Pan American Energy LLC allocated capital to the Branch in the amount of \$ 221,779,007. Such capital is registered with the Public Registry of Commerce.

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2009 comparative with the prior fiscal year (in pesos)

NOTE 9 - TRANSACTIONS AND BALANCES WITH AFFILIATED COMPANIES

The transactions and balances with Pan American Energy LLC, the Branch's Head Office, are disclosed in Note 7.

The transactions and balances with affiliated companies are detailed below:

	<u>2009</u>	<u>2008</u>
TRANSACTIONS		
Pan American Fuego S.A.		
Financing	-	79,672,595
Payments of loans	(79,672,595)	-
Pan American Sur S.A.		
Purchases of gas	9,961,128	13,152,859
Financing	10,290,919	-
PAE E & P Bolivia Ltd. (Bolivian Branch)		
Contracted services	436,220	7,799,673
PAE Oil & Gas Bolivia Ltda.		
Contracted services	1,576,368	3,335,752
Pan American Energy Chile Limitada		
Contracted services	3,854,729	2,452,614
BP West Coast Products LLC		
Sales	1,081,065,246	1,463,241,409
BP America Production Company		
Contracted services	5,071,006	3,941,904
	<u>12/31/2009</u>	<u>12/31/2008</u>
BALANCES		
BP West Coast Products LLC		
Current accounts receivable	3,218,492	48,706,467
PAE E & P Bolivia Ltd. (Bolivian Branch)		
Other current receivables	3,276,076	8,964,950

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2009 comparative with the prior fiscal year (in pesos)

NOTE 9 - TRANSACTIONS AND BALANCES WITH AFFILIATED COMPANIES (Cont.)

BALANCES	<u>12/31/2009</u>	<u>12/31/2008</u>
PAE Oil & Gas Bolivia Ltda. Other current receivables	6,033,562	4,457,194
Pan American Energy Chile Limitada Other current receivables	6,307,343	2,452,614
BP America Production Company Current accounts payable	2,209,069	771,189
Pan American Sur S.A. Current accounts payable	727,088	1,814,685
Pan American Fueguina S.A. Short-term loans	-	782,695
Long-term loans	-	78,889,900

NOTE 10 - GUARANTEES AND OTHER COMMITMENTS

In terms of investment commitments, the Branch has not granted any guarantees as of December 31, 2009.

The terms agreed in certain loan agreements include commitments assumed by the Branch referring to the maintenance of certain indebtedness and debt service ratios. As of December 31, 2009 and 2008, the Branch complied with all the commitments assumed in loan agreements.

On October 14, 2008, the Branch, as other companies in the industry, entered into a debt securities payment and subscription agreement with Nación Fideicomiso S.A. for the purpose of obtaining funds in pesos up to the amount equivalent to US\$ 30,000,000 to finance the construction and laying of a new gas pipeline at the Strait of Magellan. The referred gas pipeline will run parallel to the existing one and will join Cape Holy Spirit, in the Province of Tierra del Fuego, with Cape Virgins, in the Province of Santa Cruz, thus increasing the transportation capacity of the General San Martín pipeline. As of December 31, 2009, the Branch made the contributions in the total amount mentioned above.

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2009 comparative with the prior fiscal year (in pesos)

NOTE 11 - INCOME TAX

The breakdown of the main deferred tax assets and liabilities is as follows:

	<u>12/31/2009</u>	<u>12/31/2008</u>
Deferred tax assets		
Allowance for obsolescence of materials	1,425,609	1,247,060
Provision for future personnel compensation	16,003,090	13,875,669
Accrual for lawsuits	6,334,009	8,355,203
Provision for environmental remediation	43,214,415	29,737,386
Other provisions and allowances	19,287,224	19,260,841
Defined benefit pension plan	85,666,349	-
Inventories - materials and spare parts	<u>492,063</u>	<u>-</u>
Total deferred tax assets	<u>172,422,759</u>	<u>72,476,159</u>
Deferred tax liabilities		
Inventories - materials and spare parts	-	2,607,892
Property, plant and equipment and intangible assets	328,171,797	393,684,684
Others	<u>-</u>	<u>35,608,158</u>
Total deferred tax liabilities	<u>328,171,797</u>	<u>431,900,734</u>
Net deferred tax liabilities	<u>155,749,038</u>	<u>359,424,575</u>

The reconciliation between the income tax expense for the fiscal years ended December 31, 2009 and 2008 and that resulting from applying the prevailing tax rate to income before tax is as follows:

	<u>2009</u>	<u>2008</u>
Net income before taxes	3,321,327,919	1,498,406,769
Prevailing tax rate	<u>35%</u>	<u>35%</u>
Net income prevailing tax rate	(1,162,464,772)	(524,442,369)
Permanent differences at the tax rate:		
Miscellaneous - net	(3,364,869)	(9,641,839)
Subtotal permanent differences at the tax rate	(3,364,869)	(9,641,839)
Subtotal	(1,165,829,641)	(534,084,208)
Overstatement of provision	<u>-</u>	<u>12,726,987</u>
Income tax expense - total	<u>(1,165,829,641)</u>	<u>(521,357,221)</u>
Current income tax expense	(1,369,505,178)	(551,629,967)
Deferred income tax benefit	<u>203,675,537</u>	<u>30,272,746</u>
	<u>(1,165,829,641)</u>	<u>(521,357,221)</u>

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2009 comparative with the prior fiscal year (in pesos)

NOTE 12 - RESTRICTED ASSETS

There are no restricted assets as of December 31, 2009.

NOTE 13 - PROGRAMS ESTABLISHED FOR BY RESOLUTION No. 24/2008 ISSUED BY THE SECRETARY OF ENERGY (as amended by Resolutions Nos. 1031/2008 and 695/2009) AND DECREE No. 2014/2008

In March 2008, the Secretary of Energy established a program aimed at increasing domestic gas production. This new regime sets higher prices than those currently obtained in the domestic market for the natural gas obtained in newly discovered areas or through high-cost investment projects. The Secretary of Energy approved seven projects filed by the Branch under this program: three in Branch operated areas and four in partner operated areas.

On November 26, 2008, Decree No. 2014/2008 issued by the Argentine Executive was published in the Official Bulletin, whereby a program relating to oil production and reserves was created. This program, which does not have an expiration date, provides for a tax relief by means of tax credit certificates, which may be used to offset tariffs on the export of oil, LPG and by products. This program incentivizes investments in exploration and development projects for oil reserve replacement and production growth. On December 15, 2008, the Branch filed its first applications for tax credit certificates with the Secretary of Energy. Having increased production and having more than replaced the reserves produced, the Company has qualified for the program and has been receiving tax credit certificates since January 2009. These credits have been applied to the payment of oil and LPG export tariffs.

NOTE 14 - INFORMATION ON LITIGATION AND OTHER SUPPLEMENTARY MATTERS

Lawsuits were filed against the Branch, particularly with in labor and commercial matters. Besides, there are some administrative proceedings pending. Based on the information available, the Branch's Management and legal advisors consider that the contingent liability that might arise from such lawsuits and administrative proceedings would not have a material adverse effect on the financial position of the Branch or the results of its operations.

NOTE 15 - AGREEMENTS WITH THE PROVINCES

15.1) Agreements with the Provinces of Chubut and Santa Cruz

On December 6, 2006, Law N° 26,197, known as "Hydrocarbons Short Law", was passed. This law complied with the constitutional provision of transferring the original ownership of the natural resources contained in the subsurface from the Federal State to the producing provinces where oil and gas fields are located.

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2009 comparative with the prior fiscal year (in pesos)

NOTE 15 - AGREEMENTS WITH THE PROVINCES (Cont.)

15.1) Agreements with the Provinces of Chubut and Santa Cruz (Cont.)

Under the provisions of this law, the Branch entered into with the Argentine provinces of Chubut (on April 27, 2007) and Santa Cruz (on June 25, 2007) two investment commitments and agreements for the extension of the concession term for hydrocarbon production for a ten-year period in the blocks known as Cerro Dragón, the area of which extends into the territories of both provinces, and Piedra Clavada and Koluel Kaike in the province of Santa Cruz. Before the extension, these concessions had an initial expiring date between 2016 and 2017.

These agreements provide for, among other obligations, minimum capital expenditures of US\$ 2,000,000,000 in the province of Chubut and of US\$ 500,000,000 in the province of Santa Cruz, to be made by the Branch through 2016. Further expenditures of US\$ 1,000,000,000 in the Province of Chubut and of US\$ 300,000,000 in the province of Santa Cruz are to be made from 2017 through 2026. Further expenditures of US\$ 1,000,000,000 in the Province of Chubut and US\$ 300,000,000 in the Province of Santa Cruz are to be made from 2017 through 2026.

Furthermore, the Branch entered into two operation agreements executed with the state-owned companies Petrominera Chubut S.E. ("Petrominera Chubut") (in the case of Chubut) and Fomento Minero de Santa Cruz Sociedad del Estado ("Fomicruz") (in the case of Santa Cruz) within the scope of the Hydrocarbons Law referred to above, which will come into effect as from the years 2026 and 2027 through 2046 and 2047, subject to the Branch's compliance with the investment requirements and to the exploration success, which will allow Pan American Energy to prove whether it has developed sufficient reserves to continue with the field production in those areas as from 2026 and 2027.

The agreements also provide for a US\$ 80,000,000 investment commitment for offshore exploration, at the sole risk of the Branch, through two joint ventures ("UTES") with Petrominera Chubut and Fomicruz. If the Branch were to make commercial discoveries, an additional investment commitment would be required in the amount of US\$ 500,000,000 for the development of such offshore fields.

The creation of the UTEs referred to in the preceding paragraph is consistent with the provisions of the Hydrocarbons Law, which allows state-owned companies to enter into agreements and create companies, partnerships or other associations with individuals or entities for the development of hydrocarbons activities.

As a consequence of said agreements, the Branch undertook the obligation to pay during the remaining period of the concessions, to the respective provinces an additional amount equivalent to 3% of its revenues from sales, net of certain items indicated in the agreements.

It will also disburse certain amounts for infrastructure development and economic diversification in the Provinces of Chubut and Santa Cruz, grant a certain number of scholarships, lend or be guarantor of loans, generate employment and carry out several other complementary actions.

The agreement with the province of Chubut was ratified by a provincial law passed by the Provincial Congress on May 24, 2007.

The agreement with the Province of Santa Cruz was ratified by a provincial Law passed by the Provincial Congress on March 13, 2008.

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2009 comparative with the prior fiscal year (in pesos)

NOTE 15 - AGREEMENTS WITH THE PROVINCES (Cont.)

15.2) Agreements with the Province of Neuquén

On January 28, 2009, the Province of Neuquén and the partners in the Aguada Pichana and San Roque blocks, in which the Branch has an interest of 18.18% and 16.47%, respectively (see Note 2), agreed on a 10-year extension of the terms of the concessions for hydrocarbon production from 2017 to 2027.

The Branch assumed a US\$ 153,000,000 commitment to invest and incur expenses in the Aguada Pichana and San Roque blocks, as a whole, from September 2008 through 2027, which includes US\$ 23,000,000 between both blocks in exploration, particularly for gas.

In addition, the Branch committed to pay to the province the amounts of US\$ 11,200,000 for Aguada Pichana and US\$ 4,700,000 for San Roque payable from March 2009 through March 2010. The Branch also agreed to make an extraordinary payment equivalent to 3% of the monthly production, net of certain items.

The agreement also establishes the Branch's commitment in terms of donations in the amount of US\$ 1,300,000 for Aguada Pichana and US\$ 500,000 for San Roque, payable to the province in 2009 and 2010.

On May 22, 2009, the Province of Neuquén and the partners in the Lindero Atravesado block, in which the Branch has a 62.5% interest and is the operator (see Note 2), agreed on a 10-year extension of the terms of the concessions for hydrocarbon production from 2016 to 2026.

The Branch assumed a US\$ 82,400,000 commitment to invest and incur expenses from 2009 through 2026, which includes US\$ 12,600,000 in exploration, particularly for gas.

In addition, the Branch committed to pay to the province an amount of US\$ 4,900,000 payable from May 2009 through December 2010. The Branch also agreed to make an extraordinary payment equivalent to 3% of the monthly production, net of certain items.

The agreement also establishes the Branch's commitment in terms of donations in the amount of US\$ 600,000 payable to the province in 2009 and 2010.

Within the framework of these negotiations to extend the terms of the concessions in the Province of Neuquén, on January 28, 2009, the Branch entered into a Settlement Agreement with the province for the purpose of terminating all administrative and judicial claims and controversies between them.

NOTE 16 - SUBSEQUENT EVENTS

No events or transactions have occurred from year-end through the date of issuance of these financial statements that would have a material effect on the financial position of the Branch or the results of its operations as of the fiscal year-end date.

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

PROPERTY, PLANT AND EQUIPMENT (in pesos)

as of December 31, 2009 and 2008

Main account	Original values				At fiscal year-end	Accumulated at beginning of the fiscal year
	At beginning of the fiscal year	Increases for the fiscal year	Transfers	Decreases		
Land and buildings	73,864,288	-	23,846,132	40,902	97,669,518	31,953,247
Plants, wells and exploration and production facilities	16,750,830,847	355,292,039	2,971,364,927	25,530,643	20,051,957,170	8,383,128,543
Furniture and office supplies	8,886,245	48,897	181,755	-	9,116,897	8,352,772
Equipment	186,400,184	265	29,396,433	246,477	215,550,405	143,426,205
Vehicles	48,892,626	-	10,710,495	270,849	59,332,272	34,660,541
Work in progress	1,187,914,407	2,877,138,908	(2,993,220,098)	3,241,441	1,068,591,776	-
Advances to suppliers	<u>43,236,092</u>	<u>18,128,497</u>	<u>(42,279,644)</u>	<u>-</u>	<u>19,084,945</u>	<u>-</u>
Total as of 12/31/2009	<u>18,300,024,689</u>	<u>3,250,608,606</u>	<u>-</u>	<u>29,330,312</u>	<u>21,521,302,983</u>	<u>8,601,521,308</u>
Total as of 12/31/2008	<u>15,152,740,514</u>	<u>3,321,422,483</u>	<u>-</u>	<u>174,138,308</u>	<u>18,300,024,689</u>	<u>7,769,489,101</u>

(1) See Exhibit G.

(2) See depreciation policies in Note 3.2.e.

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

INTANGIBLE ASSETS (in pesos)

as of December 31, 2009 and December 31, 2008

<u>Main account</u>	<u>Original values</u>			<u>Amortization</u>	
	<u>At beginning of the fiscal year</u>	<u>Increases for the fiscal year</u>	<u>At fiscal year-end</u>	<u>Accumulated at beginning of the fiscal year</u>	<u>For the fiscal year</u> (1) (2)
Pre-operating expenses	48,740,915	-	48,740,915	48,384,107	29,820
Acquisition cost of blocks	6,487,247	-	6,487,247	6,487,247	-
Deferred charges	<u>63,488,027</u>	<u>-</u>	<u>63,488,027</u>	<u>63,488,027</u>	<u>-</u>
Total as of 12/31/2009	<u>118,716,189</u>	<u>-</u>	<u>118,716,189</u>	<u>118,359,381</u>	<u>29,820</u>
Total as of 12/31/2008	<u>118,716,189</u>	<u>-</u>	<u>118,716,189</u>	<u>118,325,720</u>	<u>33,661</u>

(1) See Exhibit G.

(2) See amortization policies in Note 3 2 f.

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

OTHER INVESTMENTS (in pesos)

as of December 31, 2009 and December 31, 2008

<u>Main account</u>	<u>Book value 12/31/2009</u>	<u>Book value 12/31/2008</u>
Short-term investments		
Mutual funds in		
foreign currency (Exhibit F)		
Class: Citi Institutional Liquid Reserves		
Quantity: 384 units	1,444	1,307
Government securities		
Certificates evidencing payment of tax liability (Government of the Province of Chubut)		
Coupons Nos. 22 and 23	1,726,968	1,678,294
Fiduciary fund (Exhibit F)		
Fideicomiso Central Termoeléctrica Manuel Belgrano and Central Termoeléctrica Timbúes		
Debt Securities – Fiduciary, Class A US\$		
Quantity: 332,031	1,248,436	-
Time deposits (Exhibit F)	12,417,936	6,266,092
Special deposit account (Exhibit F)	<u>726,228,915</u>	<u>627,887,539</u>
Total short-term investments	<u>741,623,699</u>	<u>635,833,232</u>
Long-term investments		
Government securities:		
Bonos de la República Argentina - Discount bonds in pesos 5.83% final maturity in 2033		
Quantity: 4,821,350		
Face value: \$ 1		
Quoted: \$ 1.12	5,399,912	2,820,489
GDP coupon pesos		
Quantity: 14,306,676		
Face value: \$ 1		
Quoted: \$ 0.0464	663,830	586,574
Certificates evidencing payment of tax liability (Government of the Province of Chubut)		
	-	1,446,805
Fiduciary fund		
Fideicomiso Central Termoeléctrica Manuel Belgrano and Central Termoeléctrica Timbúes		
Debt Securities – Fiduciary, Class A US\$		
Quantity: 2,756,757 (Exhibit F)	10,365,406	-
Nación Fideicomiso S.A.		
Debt securities – “VRDA OBRA – 4 Estrecho Provisorios” Supplementary agreement to “Fideicomiso Financiero de Obra Gasoducto Sur 2006-2008”		
Quantity: 118,957,774	118,957,774	-
Shares:		
Garantizar S.A.		
Quantity: 2000		
Class: B		
Face value: \$ 1	<u>2,000</u>	<u>2,000</u>
Total long-term investments	<u>135,388,922</u>	<u>4,855,868</u>
Total investments	<u>877,012,621</u>	<u>640,689,100</u>

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

ALLOWANCES, PROVISIONS AND ACCRUALS (in pesos)

as of December 31, 2009 and December 31, 2008

Main account	Balances at beginning of the fiscal year	Increases for the fiscal year	Decreases for the fiscal year	Balances as of 12/31/09
Deducted from current assets:				
Allowance for bad debtors in local currency	9,676,553	3,611,104	(1) -	13,287,657
Allowance for bad debtors in foreign currency	9,361,633	756,189	(2) 1,923,963 (3)	8,193,859
Allowance for price adjustments for receivables in foreign currency	22,820,971	-	22,820,971 (4)	-
Allowance for obsolescence of materials	<u>3,563,029</u>	<u>510,140</u>	(5) -	<u>4,073,169</u>
Total deducted from assets	<u>45,422,186</u>	<u>4,877,433</u>	<u>24,744,934</u>	<u>25,554,685</u>
Included in current liabilities:				
Provision for future compensation to personnel	<u>2,417,779</u>	<u>5,131,353</u>	(6) <u>3,084,534</u> (7)	<u>4,464,598</u>
Subtotal current liabilities	<u>2,417,779</u>	<u>5,131,353</u>	<u>3,084,534</u>	<u>4,464,598</u>
Included in non current liabilities:				
Accrual for lawsuits	23,562,000	6,530,838	(8) 12,305,150 (3)	17,787,688
Provision for environmental remediation	123,870,043	170,509,219	(9) 43,646,643 (10)	250,732,619
Provision for future compensation to personnel	<u>17,689,849</u>	<u>9,148,719</u>	(11) <u>5,131,353</u> (12)	<u>21,707,215</u>
Subtotal non current liabilities	<u>165,121,892</u>	<u>186,188,776</u>	<u>61,083,146</u>	<u>290,227,522</u>
Total included in liabilities	<u>167,539,671</u>	<u>191,320,129</u>	<u>64,167,680</u>	<u>294,692,120</u>

- (1) Charges for the fiscal year included in Administrative expenses (see Exhibit G) of the Statement of Income.
- (2) Charges for the fiscal year included in Financial results provided by assets, exchange gains/losses of the Statement of Income.
- (3) Recoveries for the fiscal year included in Other income and expenses of the Statement of Income.
- (4) Recoveries for the fiscal year included in Sales.
- (5) Charges for the fiscal year included in Cost of Sales (see Exhibit G) of the Statement of Income.
- (6) Transfer from non current provisions for future compensation to personnel.
- (7) Compensations paid during the fiscal year.
- (8) Charges for the fiscal year. It is made up of \$ 5,593,789 included in Production costs (see Exhibit G) and \$ 937,049 included in Administrative expenses (see Exhibit G) of the Statement of Income.
- (9) Charges for the fiscal year. It is made up of \$ 17,052,204 included in Financial results provided by liabilities - other financial results, \$ 21,998,192 included in Other income and expenses and \$ 131,458,823 included in Property, plant and equipment.
- (10) It is made up of a decrease in property, plant and equipment of \$ 19,039,404 and utilizations for the fiscal year of \$ 24,607,239.
- (11) Charges for the fiscal year. It is made up of \$ 6,927,525 included in Administrative expenses - Defined benefit plans for personnel (see Exhibit G), and \$ 2,221,194 included in Other financial results generated by liabilities of the Statement of Income.
- (12) Transfers to current provision for future compensation to personnel for the fiscal year.

Translation from the original prepared in Spanish for publication in Argentina

EXHIBIT E

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

COST OF SALES (in pesos)

for the fiscal year beginning January 1, 2009 and ended December 31, 2009, comparative with the prior fiscal year

	<u>2009</u>	<u>2008</u>
Inventories at the beginning of fiscal year	231,449,361	172,961,162
Purchases	293,831,066	225,280,828
Production costs (Exhibit G)	4,207,733,278	3,388,051,159
Inventories at year-end	(239,113,246)	(231,449,361)
Cost of sales	<u>4,493,900,459</u>	<u>3,554,843,788</u>

Translation from the original prepared in Spanish for publication in Argentina

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

ASSETS AND LIABILITIES IN FOREIGN CURRENCY

as of December 31, 2009 and December 31, 2008

Item	Amount and type of foreign currency as of 12/31/2009		Exchange rate \$		Amount in Argentine currency as of 12/31/2009		Amount and type of foreign currency as of 12/31/2008	
	US\$	Euros			US\$	Euros		
ASSETS								
CURRENT ASSETS								
Banks								
Cash on hand	-	4,370	5.3952	23,577	-	-	-	4.37
	50,586		3.760	<u>190,202</u>	213,779	48,295	-	0
Cash in banks	5,136,416		3.760		19,312,926	61,333		
Investments								
Time deposits	3,302,643		3.760		12,417,936	1,835,948		
Mutual funds	384		3.760		1,444	383		
Special deposit account	193,145,988		3.760		726,228,915	183,969,393		
Fiduciary Fund	332,030		3.760		1,248,436	-		
Accounts receivable								
Accounts receivable	281,131,018		3.760		1,057,052,626	102,479,428		
Allowance for bad debts	(2,179,218)		3.760		(8,193,859)	(2,742,934)		
Notes receivable	5,292,247		3.760		19,898,849	1,257,985		
Allowance for price adjustments	-		-		-	(6,686,484)		
Affiliated companies	855,982		3.760		3,218,492	14,270,866		
Other receivables								
Expenses recoverable	277,580		3.760		1,043,702	976,661		
Miscellaneous	3,945,464		3.760		14,834,946	11,237,294		
Affiliated companies	4,153,452		3.760		15,616,981	4,651,265		
Inventories								
Advances to suppliers	-		-		-	91,425		
Total current assets	<u>495,444,572</u>	<u>4,370</u>			<u>1,862,895,173</u>	<u>311,450,858</u>		<u>4.37</u>
NON CURRENT ASSETS								
Other receivables								
Miscellaneous	3,829,673		3.760		14,399,572	4,245,045		
Investments								
Fiduciary Fund	<u>2,756,757</u>		3.760		<u>10,365,406</u>	-		
Total non current assets	<u>6,586,430</u>				<u>24,764,978</u>	<u>4,245,045</u>		
Total assets	<u>502,031,002</u>	<u>4,370</u>			<u>1,887,660,151</u>	<u>315,695,903</u>		<u>4.37</u>

US\$ = US dollar

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

ASSETS AND LIABILITIES IN FOREIGN CURRENCY

as of December 31, 2009 and December 31, 2008

<u>Item</u>	Amount and type of foreign currency as of 12/31/2009 US\$	Exchange rate \$	Amount in Argentine currency as of 12/31/2009	Amount and type of foreign currency as of 12/31/2008 US\$
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable				
Trade	57,470,733	3.800	218,388,785	60,210,391
Notes payable	7,649,951	3.800	29,069,812	-
Affiliated companies	772,673	3.800	2,936,157	748,878
Loans				
Affiliated companies	-	-	-	131,199
Bonds	-	-	-	100,000,000
Unsecured notes payable	296,910,000	3.800	1,128,258,000	355,410,000
Interest accrued on bonds and notes payable	<u>23,301,826</u>	3.800	<u>88,546,939</u>	<u>27,586,594</u>
Total current liabilities	<u>386,105,183</u>		<u>1,467,199,693</u>	<u>544,087,062</u>
NON CURRENT LIABILITIES				
Accounts payable				
Miscellaneous liabilities	5,510,148	3.800	20,938,562	5,510,148
Loans				
Affiliated companies	-	-	-	18,300,000
Bonds	250,000,000	3.800	950,000,000	250,000,000
Unsecured notes payable	<u>874,960,000</u>	3.800	<u>3,324,848,000</u>	<u>827,370,000</u>
Total non current liabilities	<u>1,130,470,148</u>		<u>4,295,786,562</u>	<u>1,101,180,148</u>
Total liabilities	<u>1,516,575,331</u>		<u>5,762,986,255</u>	<u>1,645,267,210</u>

US\$ = US dollar

EXHIBIT G

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

INFORMATION REQUIRED BY ART. 64, CLAUSE 1b) OF LAW 19550, for the fiscal year ended December 31, 2009, comparative with the prior fiscal year

Items	Production costs	Administrative expenses	Total 2009	Total 2008
Fees and compensation for services	45,703,511	19,142,699	64,846,210	45,601,188
Salaries, wages and benefits to personnel	316,076,100	54,420,586	370,496,686	274,708,568
Defined benefit plans to personnel (Note 3 2 j)	7,213,883	37,688,312	44,902,195	53,010,843
Social security contributions	52,496,467	11,498,534	63,995,001	41,481,791
Taxes, assessments and other contributions	1,332,387,867	132,097,037	1,464,484,904	1,288,061,271
Depreciation of property, plant and equipment (Exhibit A)	1,063,923,437	7,085,243	1,071,008,680	850,918,589
Intangible asset amortization (Exhibit B)	29,820	-	29,820	33,661
Transportation, freight and storage expenses	157,866,855	29,114	157,895,969	142,217,247
Contracted services	881,487,537	20,763,702	902,251,239	595,209,466
Travel and accommodation expenses	9,347,315	7,554,041	16,901,356	20,825,007
Building rentals and maintenance	49,733,206	40,201,447	89,934,653	60,316,414
Environmental remediation and rights of way	58,981,410	-	58,981,410	48,784,490
Bad debtors ((Exhibit D)	-	3,611,104	3,611,104	8,841,000
Lawsuits (Exhibit D)	5,593,789	937,049	6,530,838	3,722,968
Obsolescence of materials (Exhibit D)	510,140	-	510,140	268,043
Dry wells	3,396,526	-	3,396,526	135,835,246
Geology and geophysics related expenses	82,391,583	-	82,391,583	1,953,844
Production and administrative general expenses	<u>140,593,832</u>	<u>4,017,496</u>	<u>144,611,328</u>	<u>138,546,305</u>
Total 2009	<u>4,207,733,278</u>	<u>339,046,364</u>	<u>4,546,779,642</u>	
Total 2008	<u>3,388,051,159</u>	<u>322,284,782</u>		<u>3,710,335,941</u>

Translation from the original prepared in Spanish for public use

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

Balance sheet as of December 31, 2009 and December 31, 2008

TERMS, INTEREST RATES AND ADJUSTMENT CLAUSES OF SHORT-TERM INVESTMENTS, LOANS AND RECEIVABLES

	<u>Investments</u>		<u>Receivables</u>		
	<u>12/31/2009</u>	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/2008</u>	
Total amount without any established term	665,830	588,574	231,281,825 (1)	129,553,604	7
To become due:					
Up to 3 months	739,954,470	635,109,829	1,185,468,019	833,482,014	1,2
From 3 to 6 months	304,865	-	3,365,224	104,095,389	8
From 6 to 9 months	1,059,499	723,403	3,270,529	2,922,548	
From 9 to 12 months	304,865	-	3,048,183	2,869,817	
From 1 to 2 years	13,115,236	1,446,805	9,960,797	9,880,415	
From 2 to 3 years	17,080,495	-	4,908,219	6,428,476	
From 3 to 4 years	17,080,495	-	2,210,106	2,339,788	
From 4 to 5 years	17,080,495	-	861,909	1,803,445	
From 5 to 6 years	17,080,495	-	163,138	445,648	
From 6 to 7 years	17,080,495	-	-	-	
From 7 to 8 years	17,080,495	-	-	-	
From 8 to 9 years	13,115,240	-	-	-	
From 9 to 10 years	609,734	-	-	-	
Over 10 years	<u>5,399,912</u>	<u>2,820,489</u>	-	-	
Subtotal	877,012,621	640,689,100	1,444,537,949	1,093,821,144	2,8
Other items that are not to be collected or paid in cash	-	-	<u>40,709,152</u>	<u>21,528,744</u>	
Total	<u>877,012,621</u>	<u>640,689,100</u>	<u>1,485,247,101</u>	<u>1,115,349,888</u>	2,8

(1) It includes the overdue receivables detailed in item 3.a of the supplementary information.

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

Balance sheet as of December 31, 2009 and December 31, 2008

TERMS, INTEREST RATES AND ADJUSTMENT CLAUSES OF SHORT-TERM INVESTMENTS, LOANS, RECEIVABLES

	Investments				Receivables				12/31/2008	12/31/2009
	12/31/2009		12/31/2008		12/31/2009		12/31/2008			
	Rate	Pesos	Rate	Pesos	Rate	Pesos	Rate	Pesos		
Annual fixed rate in US\$	-	-	-	-	-	-	-	-	-	-
Annual fixed rate in US\$	-	-	-	-	-	-	-	-	-	-
Annual fixed rate in US\$	-	-	-	-	-	-	-	-	-	-
Annual fixed rate in US\$	-	-	-	-	-	-	-	-	-	-
Annual fixed rate in US\$	-	-	-	-	-	-	-	-	-	-
Annual fixed rate in US\$	14.00	11,613,842	-	-	-	-	-	-	-	-
Annual fixed rate in US\$	-	-	-	-	-	-	-	-	-	-
Annual fixed rate in US\$	-	-	-	-	-	-	-	-	-	-
Annual fixed rate in US\$	-	-	-	-	-	-	-	-	-	-
Annual fixed rate in US\$	-	-	-	-	-	-	-	-	-	-
Annual fixed rate in US\$	-	-	-	-	-	-	-	-	-	-
CER plus annual fixed rate in \$	4.00	1,726,968	4.00	3,125,099	-	-	-	-	-	-
Average annual variable rate in \$	-	-	-	-	8.00	31,646,092	8.00	28,458,878	-	-
Annual fixed rate in US\$	-	-	-	-	-	-	8.50	1,283,368	-	-
Average annual variable rate in US\$	-	-	-	-	-	-	-	-	-	-
Average annual fixed rate in US\$	-	-	-	-	-	-	-	-	-	-
Average annual variable rate in US\$	0.15	738,648,295	0.19	634,154,938	-	-	-	-	-	-
Annual fixed rate in \$	15.00	118,957,774	-	-	-	-	-	-	-	9.00
Annual fixed rate in \$ plus CER	5.83	5,399,912	5.83	2,820,489	-	-	-	-	-	-
Non-interest bearing	-	665,830	-	588,574	-	1,453,601,009	-	1,085,607,642	-	2
Total		<u>877,012,621</u>		<u>640,689,100</u>		<u>1,485,247,101</u>		<u>1,115,349,888</u>		<u>2</u>

(1) It only includes principal at face value.

(2) Plus additional interest calculated in relation to the economic performance of Pan American Energy LLC.

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

Balance sheet as of December 31, 2009 and December 31, 2008

PARTICIPATION IN JOINT VENTURES (in pesos)

	Lindero Atravesado		Aguada Pichana		San Roque		Acambuco		Estancia La Escondida	
	62,50% 12/31/2009	62,50% 12/31/2008	18,18% 12/31/2009	18,18% 12/31/2008	16,47 % 12/31/2009	16,47 % 12/31/2008	52,00 % 12/31/2009	52,00 % 12/31/2008	25,00% 12/31/2009	25,00% 12/31/2008
Balance sheet										
ASSETS										
CURRENT ASSETS										
Cash and banks	161,756	167,761	351,878	252,757	129,004	46,808	1,197,400	992,129	28,465	22,769
Other receivables	2,009,703	608,105	9,293,265	10,799,621	6,868,665	6,638,296	4,471,493	842,307	822,717	51,378
Inventories	<u>7,379,376</u>	<u>7,030,776</u>	<u>11,904,216</u>	<u>11,499,202</u>	<u>6,744,552</u>	<u>5,993,575</u>	<u>4,117,891</u>	<u>5,661,318</u>	<u>94,961</u>	<u>82,088</u>
Total current assets	<u>9,550,835</u>	<u>7,806,642</u>	<u>21,549,359</u>	<u>22,551,580</u>	<u>13,742,221</u>	<u>12,678,679</u>	<u>9,786,784</u>	<u>7,495,754</u>	<u>946,143</u>	<u>156,225</u>
NON CURRENT ASSETS										
Other receivables	-	40,738	-	-	-	-	193,894	207,947	-	-
Property, plant and equipment	<u>138,954,407</u>	<u>144,901,449</u>	<u>306,707,586</u>	<u>245,427,586</u>	<u>171,707,344</u>	<u>178,405,542</u>	<u>683,083,674</u>	<u>660,183,034</u>	<u>5,273,526</u>	<u>5,240,188</u>
Total non current assets	<u>138,954,407</u>	<u>144,942,187</u>	<u>306,707,586</u>	<u>245,427,586</u>	<u>171,707,344</u>	<u>178,405,542</u>	<u>683,277,568</u>	<u>660,390,981</u>	<u>5,273,526</u>	<u>5,240,188</u>
Total assets	<u>148,505,242</u>	<u>152,748,829</u>	<u>328,256,945</u>	<u>267,979,166</u>	<u>185,449,565</u>	<u>191,084,221</u>	<u>693,064,352</u>	<u>667,886,735</u>	<u>6,219,669</u>	<u>5,396,413</u>

(a) See Note 2 – Explanation 5 – Operations of the Branch.

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

Balance sheet as of December 31, 2009 and December 31, 2008

PARTICIPATION IN JOINT VENTURES (in pesos)

	<u>Lindero Atravesado</u>		<u>Aguada Pichana</u>		<u>San Roque</u>		<u>Acambuco</u>		<u>Estancia La Escondida</u>	
	62,50%	62,50%	18,18%	18,18%	16,47%	16,47%	52,00%	52,00%	25,00%	25,00%
	<u>12/31/2009</u>	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/2008</u>
Balance sheet										
LIABILITIES										
CURRENT										
LIABILITIES										
Accounts payable	8,411,959	3,212,849	47,119,869	48,042,599	9,576,516	14,012,481	22,138,837	44,347,411	1,583,846	480,714
Payroll and social security contributions	1,221,601	1,013,290	-	-	-	-	3,087,195	1,319,328	-	-
Taxes payable	85,667	38,867	1,627,432	2,538,256	1,466,121	1,351,812	199,443	876,997	107,729	64,932
Provision for future compensation to personnel	<u>1,130,000</u>	<u>40,836</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>290,200</u>	<u>21,052</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>10,849,227</u>	<u>4,305,842</u>	<u>48,747,301</u>	<u>50,580,855</u>	<u>11,042,637</u>	<u>15,364,293</u>	<u>25,715,675</u>	<u>46,564,788</u>	<u>1,691,575</u>	<u>545,646</u>
NON CURRENT										
LIABILITIES										
Accounts payable	3,935,755	6,184,528	219,132	219,132	876,528	876,528	4,579,757	3,564,189	-	-
Provision for environmental remediation	5,537,881	9,466,948	16,545,405	12,144,261	9,639,949	7,341,867	16,175,585	4,613,532	172,832	117,082
Accruals	<u>1,532,345</u>	<u>7,534,510</u>	<u>61,052</u>	<u>66,571</u>	<u>182,065</u>	<u>177,075</u>	<u>3,634,430</u>	<u>3,198,879</u>	<u>-</u>	<u>-</u>
Total non current liabilities	<u>11,005,981</u>	<u>23,185,986</u>	<u>16,825,589</u>	<u>12,429,964</u>	<u>10,698,542</u>	<u>8,395,470</u>	<u>24,389,772</u>	<u>11,376,600</u>	<u>172,832</u>	<u>117,082</u>
Total liabilities	<u>21,855,208</u>	<u>27,491,828</u>	<u>65,572,890</u>	<u>63,010,819</u>	<u>21,741,179</u>	<u>23,759,763</u>	<u>50,105,447</u>	<u>57,941,388</u>	<u>1,864,407</u>	<u>662,728</u>
Owner's equity	<u>126,650,034</u>	<u>125,257,001</u>	<u>262,684,055</u>	<u>204,968,347</u>	<u>163,708,386</u>	<u>167,324,458</u>	<u>642,958,905</u>	<u>609,945,347</u>	<u>4,355,262</u>	<u>4,733,678</u>
Total	<u>148,505,242</u>	<u>152,748,829</u>	<u>328,256,945</u>	<u>267,979,166</u>	<u>185,449,565</u>	<u>191,084,221</u>	<u>693,064,352</u>	<u>667,886,735</u>	<u>6,219,669</u>	<u>5,396,406</u>

(a) See Note 2 – Explanation 5 – Operations of the Branch.

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

Statement of income for the fiscal year beginning January 1 and ended December 31, 2009, comparative with the prior year

PARTICIPATION IN JOINT VENTURES (in pesos)

	Lindero Atravesado		Aguada Pichana		San Roque		Acambuco		Estancia La Escondida	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
INCOME STATEMENT										
Sales (b)	-	-	-	-	-	-	-	-	-	-
Cost of sales	(66,508,751)	(77,369,460)	(192,596,120)	(184,769,461)	(114,196,049)	(104,362,902)	(247,389,449)	(325,184,847)	(4,195,390)	(4,056,479)
Gross result	(66,508,751)	(77,369,460)	(192,596,120)	(184,769,461)	(114,196,049)	(104,362,902)	(247,389,449)	(325,184,847)	(4,195,390)	(4,056,479)
Administrative expenses	-	-	-	-	-	-	-	-	-	-
Operating result	(66,508,751)	(77,369,460)	(192,596,120)	(184,769,461)	(114,196,049)	(104,362,902)	(247,389,449)	(325,184,847)	(4,195,390)	(4,056,479)
Financial results - net	756,699	(869,260)	(4,500,370)	151,904	(1,860,950)	(520,228)	(389,625)	318,273	(5,134)	(3,756)
Other income and expenses - net	(635,475)	665,774	248,542	175,813	172,645	120,309	777,407	1,355,877	-	-
Net results	(66,387,527)	(77,572,946)	(196,847,948)	(184,441,744)	(115,884,354)	(104,762,821)	(247,001,667)	(323,510,697)	(4,200,524)	(4,060,235)

(a) See Note 2 – Explanation 5 – Operations of the Branch.

(b) No sales were recorded in the joint ventures because production is directly assigned to each participant.

Translation from the original prepared in Spanish for publication in Argentina

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

REPORTING SUMMARY REQUIRED BY RESOLUTION No. 290/97 OF THE NATIONAL SECURITIES COMMISSION

1. Comment on the Branch's activity

Operating activities:

Pan American Energy LLC Argentine Branch (“The Branch”) is mainly engaged in the exploration, development and production of hydrocarbons. The Head Office of the Branch is Pan American Energy LLC.

During the fiscal year ended December 31, 2009, with a daily average production of 234.09 thousand barrels of oil, the Branch together with the subsidiaries of the Head Office that develop their activities in the country rank second in the production of natural gas and oil in Argentina.

2. Balance sheet items as of December 31, 2009 (in pesos)

	Balance sheet as of <u>12/31/2009</u>	Balance sheet as of <u>12/31/2008</u>	Balance sheet as of <u>12/31/2007</u>	Balance sheet as of <u>12/31/2006</u>	Balance sheet as of <u>12/31/2005</u>
Current assets	2,414,448,055	1,928,205,904	1,260,904,810	1,235,627,955	1,193,228,984
Non current assets	<u>12,076,923,784</u>	<u>9,768,495,753</u>	<u>7,446,314,957</u>	<u>5,910,041,926</u>	<u>4,879,105,847</u>
Total	<u>14,491,371,839</u>	<u>11,696,701,657</u>	<u>8,707,219,767</u>	<u>7,145,669,881</u>	<u>6,072,334,831</u>
Current liabilities	3,525,522,436	3,133,204,026	1,706,399,649	2,038,446,446	1,384,514,484
Non current liabilities	<u>5,066,088,643</u>	<u>4,576,854,938</u>	<u>3,669,958,237</u>	<u>2,989,464,507</u>	<u>2,164,983,591</u>
Subtotal	<u>8,591,611,079</u>	<u>7,710,058,964</u>	<u>5,376,357,886</u>	<u>5,027,910,953</u>	<u>3,549,498,075</u>
Account with Head Office	5,438,521,753	3,525,403,686	2,869,622,874	1,656,519,921	2,061,597,749
Capital allocated to the Branch	221,779,007	221,779,007	221,779,007	221,779,007	221,779,007
Capital adjustment	<u>239,460,000</u>	<u>239,460,000</u>	<u>239,460,000</u>	<u>239,460,000</u>	<u>239,460,000</u>
Total	<u>14,491,371,839</u>	<u>11,696,701,657</u>	<u>8,707,219,767</u>	<u>7,145,669,881</u>	<u>6,072,334,831</u>

Translation from the original prepared in Spanish for publication in Argentina

3. Income statement items as of December 31, 2009 (in pesos)

	Fiscal year ended <u>12/31/2009</u>	Fiscal year ended <u>12/31/2008</u>	Fiscal year ended <u>12/31/2007</u>	Fiscal year ended <u>12/31/2006</u>	Fiscal year ended <u>12/31/2005</u>
Ordinary operating income	4,275,336,592	2,210,870,826	2,573,221,966	2,743,659,781	1,892,940,989
Financial results	(973,410,190)	(735,869,887)	(334,318,829)	(157,229,580)	(111,002,384)
Other income and expenses - net	<u>19,401,517</u>	<u>23,405,830</u>	<u>(24,199,544)</u>	<u>(41,522,382)</u>	<u>(100,766,855)</u>
Income before income tax	3,321,327,919	1,498,406,769	2,214,703,593	2,544,907,819	1,681,171,750
Income tax expense - current	(1,369,505,178)	(551,629,967)	(831,214,623)	(896,407,452)	(609,797,133)
Income tax - deferred	<u>203,675,537</u>	<u>30,272,746</u>	<u>52,253,813</u>	<u>(3,463,245)</u>	<u>14,847,018</u>
Net income	<u>2,155,498,278</u>	<u>977,049,548</u>	<u>1,435,742,783</u>	<u>1,645,037,122</u>	<u>1,086,221,635</u>

4. Statistical data

	Fiscal year ended <u>12/31/2009</u> in cubic meters	Fiscal year ended <u>12/31/2008</u> in cubic meters	Fiscal year ended <u>12/31/2007</u> in cubic meters	Fiscal year ended <u>12/31/2006</u> in cubic meters	Fiscal year ended <u>12/31/2005</u> in cubic meters
Production of crude oil (1)	6,638,078	6,145,708	6,150,764	6,123,609	5,899,233
Sale of crude oil	6,703,275	6,009,932	6,135,234	6,146,250	5,688,359
	in thousand cubic meters	in thousand cubic meters	in thousand cubic meters	in thousand cubic meters	in thousand cubic meters
Production of natural gas (2)	5,305,594	5,635,655	5,229,944	4,887,081	4,447,626
Sale of natural gas	5,252,619	5,655,867	5,310,947	4,777,025	4,457,984
Transportation of natural gas	-	-	2,756	15,159	307,242
	in tons	in tons	in tons	in tons	in tons
Production of L.P.G.	159,944	138,904	75,337	104,647	66,910
Sale of L.P.G.	160,954	126,354	62,342	105,810	60,480

(1) Includes gasoline from the gas processing plants of Transportadora de Gas del Sur S.A. (Gral. Cerri) and Refinería del Norte S.A.

(2) The production of natural gas is disclosed net of the amounts reinjected into the reservoir and used up in the operations and processed in the gas processing plants.

5. Ratios

	Financial statements as of <u>12/31/2009</u>	Financial statements as of <u>12/31/2008</u>	Financial statements as of <u>12/31/2007</u>	Financial statements as of <u>12/31/2006</u>	Financial statements as of <u>12/31/2005</u>
Liquidity (1)	0.68	0.62	0.74	0.61	0.86
Indebtedness (2)	1.46	1.93	1.60	2.37	1.41
Tied -up funds (3)	0.83	0.83	0.86	0.83	0.80
Solvency (4)	0.69	0.52	0.62	0.42	0.71
Ordinary profitability before income tax / minimum deemed income tax (5)	0.83	0.45	1.05	1.01	0.81
Net profitability (6)	0.54	0.29	0.68	0.65	0.52

(1) Total current assets / Total current liabilities

(2) Total liabilities / Account with Head Office plus Capital allocated to the Branch plus Capital adjustment

(3) Non current assets / Total assets

(4) Account with Head Office plus Capital allocated to the Branch plus Capital adjustment / Total liabilities

(5) Income before income tax / Account with Head Office plus Capital allocated to the Branch plus Capital Adjustment - at beginning of fiscal year

(6) Net income / Account with Head Office plus Capital allocated to the Branch plus Capital Adjustment - at beginning of fiscal year

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6. Supplementary Information to the Financial Statements as of December 31, 2008

Information on oil and gas reserves

In compliance with General Resolution N° 541/2008 of the Argentine Securities and Exchange Commission, below are the proved reserves of oil and gas of the Issuer as of December 31, 2009:

The Branch's reserves are located in the geographic area of Argentina.

The information on reserves is based on the estimates prepared by the international technical consultants RPS and Ryder Scott Company Petroleum Consultants.

Developed and undeveloped proved reserves

	<u>Crude oil, condensed and liquid natural gas (in m3)</u>	<u>Natural gas (in thousands of m3)</u>	<u>Total combined (in m3 of equivalent oil)</u>
Reserves as of December 31, 2008	<u>144,201,648</u>	<u>47,791,311</u>	<u>191,992,959</u>
Addition of reserves for the year	9,951,410	14,064,950	24,016,360
Production for the year	(6,557,919)	(6,320,501)	(12,878,420)
Reserves as of December 31, 2009	<u>147,595,139</u>	<u>55,535,760</u>	<u>203,130,899</u>

7. Business prospects

The Branch is working to maintain and increase its operating efficiency in connection with the oil and gas exploration and production, to continue increasing its share in hydrocarbon production and additional reserves in Argentina, satisfying in this way the energy needs of the country as well as to comply with its existing contractual obligations. The Branch strives to provide its personnel and contractors with healthy and safe working conditions while preserving the environment.

The Branch is strongly engaged with the communities where it operates, by developing different social responsibility programs (CSR).

In the fiscal year ended December 31, 2009, the Branch's total production of hydrocarbons grew by 1.8% as compared to the prior fiscal year. The active investment program successfully implemented by the Branch in the last years has allowed it to double its production of hydrocarbons from 1999 to 2009.

During 2008, the World's economy went through a major financial crisis that extended to the goods and services production economy. Governments of different countries were to intervene to mitigate these effects, seeking to inspire confidence and reinstate credit-granting levels, especially restricted in emerging countries. Such effects also extended to the capital markets all over the world, including the Latin American countries, and Argentina was not an exception.

The impact of the crisis, compelled the governments of many countries, including Argentina, to take actions intended to stimulate the global demand and the maintenance of employment.

During the fiscal year ended December 31, 2009, the governments and international organizations went on devoting their efforts by injecting cash in the markets, aimed at stimulating consumption and maintaining the employment level to the extent possible. During the last quarter of 2009, the first recovering signs were evidenced in the financial markets and in the production of goods and services both at a worldwide level and in our country.

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As a result of the referred crisis, there were also significant reductions in the price of commodities, including oil prices: the WTI type decreased from a maximum amount of US\$ 145.31 per barrel in July 2008 to less than one third of such amount in the first quarter of 2009 (US\$ 43.10 per barrel). In the fiscal year ended December 31, 2009, the average price of WTI was US\$ 61.82 per barrel.

At a sector level, the increased costs in the oil industry are a matter of concern. As they broadly exceeded the general rise in prices in the recent past, such costs were not properly in line with current changes in both the international and domestic macroeconomic variables.

The revenues from sales of the exploration and production of oil and gas sectors have been affected as in the last years by the amendments to the regulations in force. In the case of oil, as from March 2002, an export tariffs has been applied, which has also affected the prices in the domestic market. On November 15, 2007, the Ministry of Economy and Production issued Resolution 394/07 by which such export tariffs were increased. On the other hand, Resolution N° 1679/2004 of the Secretary of Energy, which established the mandatory registration of export transactions with Gas Oil and Crude Oil Export Transactions Registry, remains effective.

The changes in exploration and production costs incurred in relatively low-production and mature fields, as in the case of Argentina, demand a level of crude oil prices in the domestic market and a net export price which have not been yet validated under the rules governing the supply and demand law for this product in the country, particularly considering the replacement of reserves which must give the activity a proper sustainability level in the long term.

In the case of natural gas, after a four-year period (from 2002) in which the domestic market prices were successively redenominated into pesos and frozen, export tariffs and restrictions were imposed an exports, and in addition, an agreement named “regularization of wellhead prices” was signed between the Secretary of Energy and the natural gas producers, which expired on December 31, 2006. At the request of the related authorities, a new agreement was entered into which will be in force until December 31, 2011 (confirmed by Resolution 599/07 issued by the Secretary of Energy), compelling producers (including the Branch) to satisfy the domestic demand up to the levels reached in 2006 plus the growth of the residential market during the validity thereof by setting out new guidelines for price changes. On July 28, 2009 the national and provincial authorities, the representatives of main industry unions, together with the gas producers, entered into an agreement – currently in force – tending to restore the balance of the oil and gas.

Regarding government programs to encourage domestic hydrocarbon production, in March 2008 the Secretary of Energy, through Resolution No. 24/2008, as amended by Resolutions Nos. 1031/2008 and 695/2009, created a program aimed at increasing gas production, as described in Note 13 to the financial statements.

On September 19, 2008, the Secretary of Energy issued Resolution 1070/2008, by which the wellhead price of gas was restructured for certain residential segments, CNG and power generation plants. This Resolution has been extended to December 31, 2010 as a result of the addendum signed on January 13, 2010 by producers and the Argentine Government. At the same time, the Branch and other producers signed with the Secretary of Energy a “Supplementary Agreement with Natural Gas Producers” for the purposes of defining the contribution to the fiduciary fund created by Law No. 26020 – aimed at reaching the liquefied natural gas needs (LPG or bottled gas) of the poorest sectors.

The Branch has begun to receive fiscal credit certificates issued under the program set forth by Decree No. 2014/2008 as described in Note 13 to the Financial Statements.

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In April 2009, the Hydrocarbon Exploration and Production Chamber (C.E.P.H.) agreed to pay a salary increase of 4.5% to the hierarchy employees represented by the Southern Patagonia Union (provinces of Chubut and Santa Cruz) pending from the prior year. The agreement provided for a retroactive payment including the months of April 2008 - March 2009. From April - June, and in the framework of the round tables held in the provinces, the labor discussion was focused on maintaining employment and avoiding dismissals, negotiating with each contractor the instrumentation of the production conversion processes in place in each jurisdiction. By the end of June, just before the elections, the Private Oil Workers Union of Santa Cruz started to take action measures including some standstills in the North (Las Heras) and South (Río Gallegos) of the province, which ended upon the issuance of a resolution by the Ministry of Labor (ST No.725), whereby the companies were instructed to pay \$ 2,000 to each worker falling within the scope of the oil union collective bargaining agreement, either hierarchy employees or oil workers, from the whole country. The resolution also sets forth July 31 as a deadline to terminate the pending salary negotiations and begin to discuss the new collective bargaining agreements. Based on the aforementioned, in July and August, there was a salary negotiation for the industry at a national level that was finalized with the following agreement: for the period July 2009 - June 2010, a 20% raise based on June 2009 remunerations, apportioned as follows: 10% in July 2009; 5% as from September 2009 and the remaining 5% as from December 2009. Furthermore, it was agreed that the additional values under collective bargaining agreements be increased. Meanwhile, the negotiation of the collective bargaining agreement between the CEPH and the Private Oil Workers Union of Chubut was closed. In early March, the overall review of the referred Collective Bargaining Agreement was initiated and its effective date will be set accordingly. In December, the CEPH and the Union of Hierarchy and Professional Employees of the Southern Patagonia began negotiating the related Collective Bargaining Agreement. The negotiations were discontinued in the last fortnight of December due to year-end recess and the impending holidays to be resumed in early March 2010.

In the fiscal year ended December 31, 2009, the Branch continued with its investment plans.

Buenos Aires, March 11, 2010

Daniel Grinstein
Attorney-in-fact

Translation from the original prepared in Spanish for publication in Argentina

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009 REQUIRED BY SECTION 68 OF THE REGULATIONS OF THE BUENOS AIRES STOCK EXCHANGE

Overall issues about the Branch's activity:

1. Specific and significant legal requirements which imply contingent suspensions or changes of benefits provided for by such regulations:

The Branch is not subject to specific and significant legal requirements, which may imply the contingent suspension or change of benefits provided for by such regulations, except as disclosed in notes to the financial statements.

2. Significant changes in the Branch's activities or other similar circumstances that affect the comparison of the financial statements with prior years, or with those to be presented in future years.

There are no changes in the Branch's activities that significantly affect the comparison of the financial statements as of December 31, 2009.

3. Breakdown of receivables and payables as per section 68, subsection 3.

3.a) The breakdown of receivables and payables based on the maturity thereof is disclosed in Exhibit H to the financial statements.

The following receivables without any established term included in the referred Exhibit H are overdue:

	Current receivables \$
Due from October through December 2009	22,483,765
Due from July to September 2009	16,478,446
Due from April to June 2009	28,594,070
Due from January to March 2009	26,349,926
Due from January to December 2008	60,021,641
Due from January to December 2007	26,551,260
Due from January to December 2006	765,953
Due from January to December 2005	114,846
Due from January to December 2004	3,172
Due from January to December 2003	95,406
Due from January to December 2002	28,109
Due from January to December 2001	21,660
Due from January to December 2000	88,152
Total	<u>181,596,406</u>

There are no overdue payables.

3.b) In connection with the receivables and payables in foreign currency, see Exhibit F to the financial statements. There are no significant receivables and payables to be cancelled in kind.

3.c) There are no receivables and payables subject to adjustment clauses.

3.d) In connection with the receivables and payables that accrue interest as of December 31, 2009, see Exhibit H to the financial statements.

4. Participation in Art. 33 Corporations Law No. 19550

None.

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5. Trade accounts receivables or loans with directors, statutory auditors, and relatives including up to the second degree:

None as of the date of issuance of these financial statements.

6. Physical counts of inventories

Based on the nature of the activity, the Branch carries out physical counts of most of its inventories. There are no significant slow-moving inventories as of December 31, 2009 for which an allowance has not been set up.

7. Current values

The valuation method of inventories is disclosed in Note 3.2.d) to the financial statements.

8. Property, plant and equipment

No items of property, plant and equipment have been subject to technical revaluations.

To date, there are no property, plant and equipment items that are not in use due to obsolescence.

9. Interests in other companies

None. The Branch's participating interests in joint operations are disclosed in Note 2 to the financial statements.

10. Recoverable value

The recoverable value of inventories and fixed assets, used as a limit to their valuation for financial reporting purposes, have been determined based on the net realizable values and values in use, the latter defined as the expected net cash flows that would result from both the use of the assets and the disposal thereof at the end of their useful life.

11. Insurance

As of December 31, 2009, the insurance taken in relation to the Branch's goods and activities are as follows:

<u>Insured assets</u>	<u>Insured risks</u>	<u>Covered amount</u> Thousand US\$
Equipment, facilities and pipelines applied to exploitation and transportation	Physical damage	2,644,657 (*)
Third party damage caused by the Branch's activities or by the equipment, facilities and pipelines used for exploration and production purposes	Liability insurance	10,000
Wells	Control, re-drilling, spill	(**)
Goods	Transportation	10,000

In addition, the Branch has taken out workers' compensation and car insurance against liabilities to third parties.

(*) This is the total amount declared in the policy. The indicated amount is subject to limits and deductible amounts which vary according to each covered risk.

(**) According to the limits and deductible amounts applied to the different oilfields.

12. Negative and positive contingencies

To calculate the related accruals, all available elements of judgment and probability of occurrence have been considered (see Notes 3.2 g, 10, 14 and Exhibit D to the basic financial statements).

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13. Contingencies as of the date of the financial statements with non remote likelihood of occurrence, the financial effects of which have not been fully recorded as of December 31, 2009

None.

Irrevocable advances for future subscriptions

14. As of December 31, 2009 there are no irrevocable advances for future subscriptions.

15. There are no preferred shares as of December 31, 2009.

16. As of December 31, 2009 the Branch has no restrictions on the distributions of earnings, except as indicated in Note 10 to the financial statements.

Buenos Aires, March 11, 2010

Daniel Grinstein
Attorney-in-fact

Translation from the original prepared in Spanish for publication in Argentina

FINAL

**PAN AMERICAN ENERGY LLC
(ARGENTINE BRANCH)**

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2008
COMPARATIVE WITH THE PRIOR FISCAL YEAR

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INDEPENDENT AUDITORS' REPORT

To the Legal Representative of
Pan American Energy LLC (Argentine Branch)
Av. Leandro N. Alem 1180 – 11th floor
Buenos Aires, Argentina

1. We have audited the accompanying balance sheet of Pan American Energy LLC (Argentine Branch) as of December 31, 2008, and the related statements of income and cash flows, notes 1 to 16 and exhibits A, B, C, D, E, F, G, H and I for the year then ended, comparative with the financial statements as of December 31, 2007.
2. The legal representative and management are responsible for the preparation and fair presentation of these financial statements in accordance with the professional accounting principles in force in the City of Buenos Aires, Argentina, and the related regulations of the National Securities Commission (“CNV”). This responsibility includes: (a) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, (b) selecting and applying appropriate accounting policies, and (c) making accounting estimates that are reasonable in the circumstances. Our responsibility is to express an opinion on these financial statements based on our audit.
3. We conducted our audit in accordance with auditing standards generally accepted in Argentina. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of the accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
4. The accompanying financial statements were translated into the English language from those issued in Spanish in conformity with the regulations of the CNV. Certain accounting practices applied by the Branch that conform to the accounting standards set forth by the CNV do not conform to accounting principles generally accepted in the United States. The effects of these differences have not been quantified by the Company.

5. In relation to the financial statements as of December 31, 2007, and for the year then ended, presented for comparative purposes, we issued an unqualified opinion report dated March 7, 2008.
6. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the financial position of the Branch as of December 31, 2008, and the results of its operations and cash flows for the year then ended, in conformity with professional accounting principles in force in the City of Buenos Aires.

In compliance with rules and regulations in force, we report that:

- a. the financial statements comply with the provisions of the Corporations Law and the regulations on accounting documentation of the National Securities Commission, they are transcribed in the Inventory Book and they derive from the accounting records of the Branch maintained in Argentina which, in their formal aspects, are kept pursuant to legislation in force. The information systems used to process the data included in the financial statements are kept under the security and integrity conditions based on which they were authorized;
- b. we read the information included in the reporting summary (sections “Balance sheet items”, “Income statement items” and “Indexes”) and in the supplementary information to the financial statements required by section 68 of the regulations of the Buenos Aires Stock Exchange, based on which, as far as it relates to our area of responsibility, we have no observations;
- c. as of December 31, 2008, the accrued liability for pension contributions arising from the accounting records amounted to \$ 9,114,258, no amounts being due as of that date, and
- d. as required by General Resolution No. 400 of the National Securities Commission:
 - the ratio between the total audit services invoiced to the Branch and the total amount invoiced to the Branch, including audit services, is 0.48%;
 - the ratio between the total audit services invoiced to the Branch and the total audit services invoiced to the Branch and its Head Office and Temporary Union of Enterprises is 0.79%, and
 - the ratio between the total audit services invoiced to the Branch and the total amount invoiced to the Branch and its Head Office and Temporary Union Enterprises is 0.43%.

Buenos Aires (Argentina), March 11, 2009

SIBILLE

Néstor R. García
Partner

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

FINANCIAL STATEMENTS as of December 31, 2008 for the fiscal year N° 12 beginning January 1, 2008 and ended December 31, 2008 comparatively presented with the prior fiscal year

Stated in pesos

Legal address of the Branch: Av. Leandro N. Alem 1180 - 11th floor - Buenos Aires

Main activity of the Branch: Oil and gas exploration and production

Date of registration with the Public Registry of Commerce: October 17, 1997

Registration number with the Inspection Board of Legal Entities: 1868, Book 54, Volume B of Foreign Companies

Capital registered with the Inspection Board of Legal Entities: \$ 200,000,000 under number 1257, Book 57, Volume B of Foreign Companies, and \$ 21,779,007 under number 2106, Book 58, Volume B of Foreign Companies (Note 8)

Date of registration of capital with the Inspection Board of Legal Entities: \$ 200,000,000 on July 11, 2003 and \$ 21,779,007 on December 12, 2005

Subscribed capital (paid in full): \$ 221,779,007

HEAD OFFICE

Name: Pan American Energy LLC

Legal address: The Corporation Trust Company, Trust Corporation Center, 1209 Orange Street, Wilmington, Delaware - 19801 - United States of America

Main activity: Oil and gas exploration and production

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

BALANCE SHEET as of December 31, 2008 comparative with the prior fiscal year (in pesos)

	<u>12/31/2008</u>	<u>12/31/2007</u>
ASSETS		
CURRENT ASSETS		
Cash on hand and in banks (Note 4 a)	11,410,757	33,987,608
Investments (Exhibit C)	635,833,232	451,093,477
Accounts receivable (Note 4 b)	556,925,263	497,884,676
Other receivables (Note 4 c)	451,785,772	88,459,852
Inventories (Note 4 d)	<u>272,250,880</u>	<u>189,479,197</u>
Total current assets	<u>1,928,205,904</u>	<u>1,260,904,810</u>
NON CURRENT ASSETS		
Other receivables (Note 4 e)	64,779,696	53,139,229
Investments (Exhibit C)	4,855,868	9,533,846
Property, plant and equipment (Exhibit A)	9,698,503,381	7,383,251,413
Intangible assets (Exhibit B)	<u>356,808</u>	<u>390,469</u>
Total non current assets	<u>9,768,495,753</u>	<u>7,446,314,957</u>
Total assets	<u>11,696,701,657</u>	<u>8,707,219,767</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable (Note 4 f)	872,239,553	646,905,368
Loans (Note 4 g)	2,039,963,665	745,307,677
Payroll and social security contributions	79,659,248	40,571,422
Taxes payable (Note 4 h)	135,612,971	271,153,439
Other liabilities (Note 3 2 j)	3,310,810	-
Provision for future compensation to personnel (Exhibit D)	<u>2,417,779</u>	<u>2,461,743</u>
Total current liabilities	<u>3,133,204,026</u>	<u>1,706,399,649</u>
NON CURRENT LIABILITIES		
Accounts payable (Note 4 i)	70,698,545	49,129,413
Loans (Note 4 j)	3,799,048,509	2,984,559,219
Other liabilities (Note 3 2 j)	182,561,417	128,930,896
Deferred tax (Note 11)	359,424,575	389,697,321
Provision for future compensation to personnel (Exhibit D)	17,689,849	15,241,426
Provision for environmental remediation (Exhibit D)	123,870,043	82,182,464
Accruals (Exhibit D)	<u>23,562,000</u>	<u>20,217,498</u>
Total non current liabilities	<u>4,576,854,938</u>	<u>3,669,958,237</u>
Total liabilities	7,710,058,964	5,376,357,886
Account with Head Office (Note 7)	3,525,403,686	2,869,622,874
Capital allocated to the Branch (Note 8)	221,779,007	221,779,007
Capital adjustment	<u>239,460,000</u>	<u>239,460,000</u>
Total	<u>11,696,701,657</u>	<u>8,707,219,767</u>

The accompanying notes and exhibits are an integral part of these financial statements.

Translation from the original prepared in Spanish for publication in Argentina

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

STATEMENT OF INCOME for the fiscal year ended December 31, 2008 comparative with the prior fiscal year (in pesos)

	<u>2008</u>	<u>2007</u>
Sales (Note 4 k)	6,087,999,396	5,529,608,286
Cost of sales (Exhibit E)	<u>(3,554,843,788)</u>	<u>(2,690,291,924)</u>
Gross profit	2,533,155,608	2,839,316,362
Administrative expenses (Exhibit G)	<u>(322,284,782)</u>	<u>(266,094,396)</u>
Operating income	2,210,870,826	2,573,221,966
Financial results		
Generated by assets		
Interest	26,937,115	35,470,760
Exchange gains (losses)	92,316,420	19,684,649
Other financial results	<u>(1,915,293)</u>	<u>(1,001,993)</u>
	117,338,242	54,153,416
Generated by liabilities		
Interest	(312,838,220)	(262,155,875)
Exchange gains (losses)	(469,434,809)	(74,320,337)
Other financial results	<u>(70,935,100)</u>	<u>(51,996,033)</u>
	(853,208,129)	(388,472,245)
Other income and expenses - net	<u>23,405,830</u>	<u>(24,199,544)</u>
Income before income tax	1,498,406,769	2,214,703,593
Income tax expense - current (Note 11)	<u>(551,629,967)</u>	<u>(831,214,623)</u>
Income tax benefit - deferred (Note 11)	<u>30,272,746</u>	<u>52,253,813</u>
Net income (Note 7)	<u><u>977,049,548</u></u>	<u><u>1,435,742,783</u></u>

The accompanying notes and exhibits are an integral part of these financial statements.

Net income	977,049,348	1,433,742,783
Adjustment to reconcile net income with the cash provided by operations		
Depreciation of Property, Plant and Equipment	850,918,589	769,123,691
Amortization of intangible assets	33,661	1,528,298
Income tax expense	551,629,967	831,214,623
Net increase (decrease) in allowances for bad debtors, lawsuits and obsolescence of materials	35,638,550	(7,678,801)
Gain on property, plant and equipment	119,585,986	45,388,175
Increase in provision for future compensation to personnel	5,362,613	8,281,606
Net increase in the provision for environmental remediation	47,033,825	8,063,797
Other non-cash items (1)	742,423,951	214,691,173

Changes in assets, liabilities and account with Head Office:

(Increase) decrease in accounts receivable	(90,702,558)	248,450,322
Increase in inventories	(83,025,294)	(59,114,874)
(Increase) decrease in other current receivables	(63,730,366)	29,431,946
Increase in other non current receivables	(11,640,467)	(24,223,784)
Increase in accounts payable, payroll and social security contributions, taxes payable and other liabilities	207,392,006	65,114,075
Compensation paid to personnel for benefit plans	(2,958,154)	(2,343,863)
Payments related to lawsuits	(378,466)	(377,888)
Use of provisions	(12,620,921)	(1,429,428)
Income tax paid	(851,225,521)	(1,048,710,185)
Net cash provided by operations	<u>2,420,786,949</u>	<u>2,513,151,666</u>

Cash used in investing activities:

Decrease (increase) in long-term investments	4,677,978	(814,288)
Acquisition of property, plant and equipment	(3,308,295,696)	(2,391,212,746)
Collection due to the sale of property, plant and equipment	<u>13,298,349</u>	<u>16,932,468</u>
Cash used in investing activities	<u>(3,290,319,369)</u>	<u>(2,375,094,566)</u>

Cash provided by financing activities:

Increase in loans (net)	1,352,964,060	320,256,578
Net activity with Head Office	(321,268,736)	(222,639,830)
Cash provided by financing activities	<u>1,031,695,324</u>	<u>97,616,748</u>

Net increase in cash 162,162,904 235,673,848

Cash at beginning of year (2) 485,081,085 249,407,237

Cash at the year-end (2) 647,243,989 485,081,085

(1) It is made up of:

Exchange gains/losses and other financial results relating to loans and other	772,696,697	266,944,986
Deferred income tax benefit	(30,272,746)	(52,253,813)
Total	<u>742,423,951</u>	<u>214,691,173</u>

(2) Cash and banks plus investments becoming due in a period not exceeding three months.

The accompanying notes and exhibits are an integral part of these financial statements.

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2008 comparative with the prior fiscal year (in pesos)

NOTE 1 - THE BRANCH

Pan American Energy LLC (Argentine Branch) is engaged in the exploration, development and production of hydrocarbons.

On October 30, 1997, a definitive agreement for the transfer of assets and liabilities was entered into between Amoco Argentina Oil Company (Argentine Branch) and Pan American Energy LLC (Argentine Branch) hereinafter “the Branch”, whereby Amoco Argentina Oil Company (Argentine Branch) transferred its business consisting of assets and liabilities to the Branch, effective on October 8, 1997.

On May 1, 1998 a definitive agreement for the transfer of assets and liabilities was entered into between Pan American Continental S.R.L. and the Branch, whereby Pan American Continental S.R.L. transferred to the Branch its business consisting of the assets and liabilities except for the name Pan American Continental.

NOTE 2 - OPERATIONS OF THE BRANCH

The following table summarizes the main operations, blocks and joint ventures in which the Branch is or was involved during the fiscal year ended December 31, 2008.

<u>Activity</u>	<u>Operations</u>	<u>Interest</u>	<u>Participation</u>
Oil and gas production and development	Cerro Dragón	100.00%	Operator
	Piedra Clavada	100.00%	Operator
	Koluel Kaike	100.00%	Operator
	Lindero Atravesado	62.50%	Operator
	Anticlinal Funes	80.00%	Operator
	Acambuco	52.00%	Operator
	Aguada Pichana (4)	18.18%	Non operator
	San Roque (4)	16.47%	Non operator
	Estancia La Escondida (1)	25.00%	Non operator
Oil and gas exploration and development	Acambuco "B" (2)	100.00%	Operator
	Bandurria	18.18%	Non operator
	Costa Afuera Argentina “CAA-40” (3)	33.50%	Non operator
	Costa Afuera Argentina “CAA-46” (3)	33.50%	Non operator
	Centro Golfo San Jorge Marina Chubut	90.00%	Operator
	Centro Golfo San Jorge Marina Santa Cruz	90.00%	Operator

Explanations:

- (1) The Joint Venture agreement (UTE) governing the relationships between the holders of concession states that their participating interests in rights, obligations and interests inherent in the property including production, will be distributed based on the depth from which production is obtained: in the deep area, the Branch has a 75% interest and the co-holder has the remaining 25%; in the shallow area from which current total production is obtained, the Branch has a 25% interest and the co-holder the remaining 75%; and in the area “Descubrimiento El Zanjón”, both parties hold a 50% interest. The average interest described grants the Branch a 50% interest in the rights over the property, regardless the percentage thereof in the concession.
- (2) Corresponds to the Macueta Oeste and San Pedrito Sur fields.
- (3) On October 22, 2008, the Branch and YPF S.A. assigned Petrobras Energía S.A. 33.00% (16.50% each) of their ownership interests in the blocks known as Costa Afuera Argentina “CAA-40” and “CAA-46” and, therefore, the Branch’s ownership interests in those blocks changed from 50.00% to 33.50%.
- (4) See subsequent events (Note 16).

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2008 comparative with the prior fiscal year (in pesos)

NOTE 3 - ACCOUNTING PRINCIPLES

3.1 Reporting currency

In accordance with Decree 664/2003 and General Resolution No. 441/2003 of the National Securities Commission (“Comisión Nacional de Valores” or CNV), the Branch discontinued the application of inflation accounting as from March 1, 2003.

From January 1, 2002 to February 28, 2003, the Branch applied the inflation accounting methodology set forth by Technical Resolution No. 6, amended by Technical Resolutions Nos. 17 and 19 of the Argentine Federation of Professional Councils of Economic Sciences (FACPCE) and by the Professional Council of Economic Sciences of the City of Buenos Aires (CPCECABA), using indexes derived from the Internal Wholesale Price Index.

3.2 Valuation and presentation principles

a) Presentation

The financial statements are presented in accordance with the presentation principles established by the accounting standards generally accepted in the Republic of Argentina and pursuant to the provisions of the CNV.

Investments to become due or to be realized in the short term (within 3 months of year end) are considered a cash equivalent in the statement of cash flows.

Certain reclassifications were made to the financial statements presented as comparative information to conform them to the presentation used in this fiscal year.

b) Participating interest in joint ventures

The Branch is engaged in exploration and production activities in certain areas through its participation in joint ventures with other companies. The account balances reflecting the joint ventures’ assets, liabilities, income and expenses are proportionately consolidated in these financial statements.

c) Foreign currency

Assets and liabilities denominated in foreign currency as listed in Exhibit F have been stated in Argentine Pesos at the exchange rate prevailing at the end of each fiscal year. The resulting exchange gains/losses are presented in the financial results line (provided by either assets or liabilities, as applicable) of the Statement of Income.

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2008 comparative with the prior fiscal year (in pesos)

NOTE 3 - ACCOUNTING PRINCIPLES (Cont.)

3.2 Valuation and presentation principles (Cont.)

d) Inventories

Crude oil is stated at reproduction cost. Spare parts, materials and raw materials are stated at the latest acquisition cost. Goods in transit are stated at acquisition cost plus import expenses. Advances to suppliers are valued at the amounts actually incurred.

The carrying value of inventories, taken as a whole and after considering the allowance for obsolescence (see Note 3 2 g), does not exceed their recoverable value.

e) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost as indicated in Note 3.1., less the related accumulated depreciation. The acquisition cost includes all the necessary costs incurred in order to put the assets in working condition.

Depreciation is calculated by applying the straight-line method over the estimated useful lives of the assets and/or the duration of the contracts, as applicable, except for production wells, equipment and services, which are depreciated as per the units of production method.

The pre-operating costs of the properties in the exploration stage, except for geology and geophysics related expenses that are charged to the Statement of Income as incurred, remain capitalized for a given period based on the characteristics of each property, without exceeding five years considered as from the completion of the exploration stage or, if applicable, as from production interruption, unless:

1. it is expected that explored areas will proceed to the commercial production stage, in which case the referred costs remain capitalized, or
2. during the referred five year period, management estimates that commercial production will not be feasible, in which case, the referred costs are expensed.

For Property, plant and equipment existing as of January 6, 2002, the acquisition or construction of which resulted in outstanding liabilities denominated in foreign currency - exchange gains/losses resulting from restating such liabilities totaling \$1,832,303,600 through July 28, 2003 were capitalized pursuant to specific accounting principles, based on the determination of the direct or indirect ratio between the assets subject to capitalization and the outstanding liabilities in foreign currency. The assets or group of assets eligible for the capitalization of exchange gains/losses have remained unchanged. Such capitalization of exchange gains/losses was performed in proportion to the balance of the original value of the referred assets not subject to depreciation. Additionally, exchange gains and losses were capitalized up to the limit arising from the comparison between the replacement or reproduction cost of the assets and their recoverable value.

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2008 comparative with the prior fiscal year (in pesos)

NOTE 3 - ACCOUNTING PRINCIPLES (Cont.)

3.2 Valuation and presentation principles (Cont.)

e) Property, plant and equipment (Cont.)

For the purposes of presenting the financial statements in constant currency (see Note 3.1), the capitalized exchange gains/losses amounting to \$ 1,832,303,600 are considered an anticipated inflation adjustment until such differences are absorbed thereby. The excess of capitalized exchanges losses over the amounts in constant currency totals \$ 85,358,131 as of December 31, 2008.

In October 2008 the Tuyuntí X-2 in Acambuco Area, was definitively abandoned, producing a loss of \$ 133.622.445 (Included under "Dry well", Exhibit G).

The net carrying value of property, plant and equipment, taken by group of assets of similar characteristics, does not exceed their estimated value in use based on the information available as of the date of issuance of the financial statements.

f) Intangible assets

These are pre-production geological expenditures and acquisition cost of blocks valued at restated cost as indicated in Note 3.1, less the related accumulated amortization. Amortization is calculated as per the units of production method.

g) Allowances, Provisions and Accruals

Allowances deducted from assets:

- For bad debtors: they are determined following the detailed analysis of the credit status of each customer.
- For price adjustments for receivables in foreign currency: they are determined taking into consideration the stage of negotiations with certain customers.
- For obsolescence of materials: the Branch creates an allowance for those assets evidencing significant slow movement based on a specific analysis.

Accruals:

- For lawsuits: they are determined considering the potential costs of those lawsuits filed against the Branch based on the opinion of the legal counsels.

Provisions:

- For future compensation to personnel: they are estimated as a percentage of compensation paid, calculated in terms of actuarial methods, and can be applied to compensate employees of the Branch who have complied with certain seniority requirements defined by the Branch. Payments are debited from the related provision.
- For environmental remediation: calculated on the basis of well-abandonment forecasts until the expiration of agreements, at present values.

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2008 comparative with the prior fiscal year (in pesos)

NOTE 3 - ACCOUNTING PRINCIPLES (Cont.)

3.2 Valuation and presentation principles (Cont.)

h) Income tax

The Branch applies the deferred tax method to account for income tax. Based on the referred method, the current income tax is calculated by applying the rates prevailing as of December 31, 2008 and 2007 on taxable income; and the future tax effect of the temporary differences in the book and tax values of assets and liabilities and the tax loss carryforwards, if any, are recognized as deferred tax assets or liabilities. The adjustment for inflation of property, plant and equipment is considered to be a temporary difference for deferred tax computations.

The deferred tax assets are recognized only to the extent of their recoverability.

i) Use of estimates

The preparation of the financial statements in accordance with generally accepted accounting principles requires that the Branch management makes estimates about the value of certain assets and liabilities, including contingent liabilities, as well as the amounts informed of certain income and expenses generated during the fiscal year.

The final amounts may differ from the estimates used in the preparation of the financial statements.

j) Defined benefit pension plans

The Branch implemented a pension plan for the benefit of its personnel called "Plan Puente" or "Bridge Plan". The amount accrued upon the implementation of such plan amounts to \$ 185,872,227 (\$ 128,930,896 as of December 31, 2007) presented under Other current liabilities and Other non current liabilities, out of which the amount of \$ 57,451,802 accrued in the fiscal year ended December 31, 2008. The amount of \$ 185,872,227 is made up of nominal value of \$ 328,036,579 less \$ 141,350,042 corresponding to the financial effect from the discount to present value and payments in the amount of \$ 814,310.

In the fiscal year ended December 31, 2007, the amount accrued in connection with the referred "Plan Puente" was \$ 32,152,231. The amount of \$ 128,930,896 was made up of nominal value of \$ 244,526,834 less \$ 115,292,099 corresponding to the financial effect from the discount to present value and payments in the amount of \$ 303,839.

As of December 31, 2008 and 2007, the relevant actuarial information related to the pension plans for the benefit of personnel included herein and in Note 3.2.g under Accounts payable, Other liabilities and Provisions for future compensation to personnel is as follows:

	<u>2008</u>	<u>2007</u>
Cost of benefits accrued at beginning of fiscal year	166,833,663	130,160,026
Services cost (1)	9,417,215	9,119,269
Interest (2)	20,213,710	18,435,178
Benefits paid	(5,522,686)	(4,278,590)
Actuarial losses (1)	<u>43,593,628</u>	<u>13,397,780</u>
Obligations at fiscal year-end	<u>234,535,530</u>	<u>166,833,663</u>

(1) Included under Cost of sales and Administrative expenses of the statement of income (See Exhibit G)

(2) Included under Other financial results provided by liabilities of the statement of income

Main actuarial assumptions used:

Actual rate of long term salaries increase (net of inflation)	1%	1%
Interest rate	4%	4%

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2008 comparative with the prior fiscal year (in pesos)

NOTE 3 - ACCOUNTING PRINCIPLES (Cont.)

3.2 Valuation and presentation principles (Cont.)

k) Revenue recognition

Revenue derived from the sale of hydrocarbons is recognized when the significant risks and rewards of ownership have been transferred to the purchaser.

The Branch uses the production method to recognize revenues from the sale of oil. In those cases where the Branch has a shared interest with other producers, revenues are recorded upon the basis of the interest held in each joint venture.

In order to recognize revenues from the sale of gas, the Branch uses the sales method, whereby these revenues are recorded on the basis of the actual volumes delivered to purchasers irrespective of whether they result from the Branch's own output or from the output shared with other producers.

l) Lease agreements

The Branch leases the space occupied by its offices, which agreements are of an operating nature and, therefore, the expenses incurred are recognized in the Statement of income to the extent they are accrued.

The amount of the leases, broken down by maturity dates, is reported below:

	<u>Nominal value</u>
Up to one year	US\$ 386,000 and \$ 2,039,487
Over one year and up to five years	US\$ 440,000 and \$ 1,963,980

During the fiscal year ended December 31, 2008, the Branch recognized an expense of \$ 11,115,977 related to such lease agreements presented in the line Buildings Rentals and Maintenance in Exhibit G.

m) Foreign exchange forward contracts

As of December 31, 2008, Pan American Energy LLC Sucursal Argentina has four foreign exchange forward contracts in the total amount of US\$ 25,410,000 (twenty five million four hundred and ten thousand US dollars), due between January 30, 2009 and March 31, 2009, being the resulting differences paid in pesos.

NOTE 4 - BREAKDOWN OF CERTAIN BALANCE SHEET ACCOUNTS AND THE STATEMENT INCOME

	<u>12/31/2008</u>	<u>12/31/2007</u>
ASSETS		
CURRENT ASSETS		
a) Cash and banks		
Cash on hand in local currency	218,935	219,522
Cash on hand in foreign currency (Exhibit F)	185,523	185,683
Cash in banks in local currency	10,796,970	33,403,569
Cash in banks in foreign currency (Exhibit F)	<u>209,329</u>	<u>178,834</u>
Total	<u>11,410,757</u>	<u>33,987,608</u>

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2008 comparative with the prior fiscal year (in pesos)

NOTE 4 - BREAKDOWN OF CERTAIN BALANCE SHEET ACCOUNTS AND THE STATEMENT OF INCOME (Cont.)

	<u>12/31/2008</u>	<u>12/31/2007</u>
ASSETS (Cont.)		
CURRENT ASSETS (Cont.)		
b) Accounts receivable		
Accounts receivable in local currency	196,022,162	120,830,313
Allowance for bad debtors in local currency (Exhibit D)	(19,038,186)	(10,197,186)
Allowance for adjustments of prices in foreign currency (Exhibits D and F)	(22,820,971)	-
Accounts receivable in foreign currency (Exhibit F)	354,055,791	387,251,549
Affiliated companies in foreign currency (Note 9 and Exhibit F)	<u>48,706,467</u>	<u>-</u>
Total	<u>556,925,263</u>	<u>497,884,676</u>
c) Other receivables		
Loans to personnel	14,148,421	9,436,752
Tax credits	267,655,432	11,845,980
Expenses recoverable in local currency	9,032,946	5,105,747
Expenses recoverable in foreign currency (Exhibit F)	3,333,343	1,923,308
Prepaid expenses in local currency	19,281,616	14,164,348
Miscellaneous in local currency	84,106,370	34,220,853
Miscellaneous in foreign currency (Exhibit F)	40,805,500	9,476,145
Affiliated companies in foreign currency (Note 9 and Exhibit F)	<u>13,422,144</u>	<u>2,286,719</u>
Total	<u>451,785,772</u>	<u>88,459,852</u>
d) Inventories		
Crude oil in stock	151,768,790	116,679,969
Spare parts, materials and raw materials	<u>79,680,571</u>	<u>56,281,193</u>
Subtotal (Exhibit E)	231,449,361	172,961,162
Allowance for obsolescence of materials (Exhibit D)	(3,563,029)	(3,309,418)
Subtotal	227,886,332	169,651,744
Goods in transit	38,431,306	14,921,350
Advances to suppliers in local currency	5,621,206	4,333,388
Advances to suppliers in foreign currency (Exhibit F)	<u>312,036</u>	<u>572,715</u>
Total	<u>272,250,880</u>	<u>189,479,197</u>

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2008 comparative with the prior fiscal year (in pesos)

NOTE 4 - BREAKDOWN OF CERTAIN BALANCE SHEET ACCOUNTS AND THE STATEMENT OF INCOME (Cont.)

	<u>12/31/2008</u>	<u>12/31/2007</u>
ASSETS (Cont.)		
NON CURRENT ASSETS		
e) Other receivables		
Loans to personnel	20,105,876	11,037,708
Prepaid expenses in local currency	2,247,128	1,377,539
Miscellaneous in local currency	27,938,354	26,419,281
Miscellaneous in foreign currency (Exhibit F)	<u>14,488,338</u>	<u>14,304,701</u>
Total	<u>64,779,696</u>	<u>53,139,229</u>
LIABILITIES		
CURRENT LIABILITIES		
f) Accounts payable		
Trade payables in local currency	634,080,265	440,920,083
Trade payables in foreign currency (Exhibit F)	207,906,479	159,701,798
Expenses payable in local currency	14,610,713	39,244,409
Affiliated companies in foreign currency (Note 9 and Exhibit F)	2,585,874	5,183,546
Miscellaneous in local currency	<u>13,056,222</u>	<u>1,855,532</u>
Total	<u>872,239,553</u>	<u>646,905,368</u>
g) Loans		
Affiliated companies in local currency (Nota 9)	329,666	-
Affiliated companies in foreign currency (Note 9 and Exhibit F)	453,029	-
Bonds in foreign currency (Exhibit F)	345,300,000	-
Unsecured notes payable in local currency	371,393,731	263,824,044
Unsecured notes payable in foreign currency (Exhibit F)	1,227,230,731	405,650,487
Interest accrued on bonds and notes payable in foreign currency (Exhibit F)	<u>95,256,508</u>	<u>75,833,146</u>
Total	<u>2,039,963,665</u>	<u>745,307,677</u>
h) Taxes payable		
Income tax provision net of advanced payments	-	174,142,115
Tax on sales and production	67,336,294	87,217,728
Other	<u>68,276,677</u>	<u>9,793,596</u>
Total	<u>135,612,971</u>	<u>271,153,439</u>

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2008 comparative with the prior fiscal year (in pesos)

NOTE 4 - BREAKDOWN OF CERTAIN BALANCE SHEET ACCOUNTS AND THE STATEMENT OF INCOME (Cont.)

	<u>12/31/2008</u>	<u>12/31/2007</u>
LIABILITIES (Cont.)		
NON CURRENT LIABILITIES		
i) Accounts payable		
Miscellaneous liabilities in local currency	51,672,005	31,777,958
Miscellaneous liabilities in foreign currency (Exhibit F)	<u>19,026,540</u>	<u>17,351,455</u>
Total	<u>70,698,545</u>	<u>49,129,413</u>
j) Loans		
Affiliated companies in local currency (Nota 9)	15,700,000	-
Affiliated companies in foreign currency (Note 9 and Exhibit F)	63,189,900	-
Bonds in foreign currency (Exhibit F)	863,250,000	1,102,150,000
Unsecured notes payable in foreign currency (Exhibit F)	<u>2,856,908,609</u>	<u>1,882,409,219</u>
Total	<u>3,799,048,509</u>	<u>2,984,559,219</u>
STATEMENT OF INCOME		
	<u>2008</u>	<u>2007</u>
k) Sales		
Gross sales	8,252,008,202	6,325,389,608
Export tariffs	<u>(2,164,008,806)</u>	<u>(795,781,322)</u>
Total	<u>6,087,999,396</u>	<u>5,529,608,286</u>

NOTE 5 - ISSUANCE OF BONDS

On February 11, 1997, Amoco Argentina Oil Company (Argentine Branch) issued the Second Series of bonds in the amount of US\$ 100,000,000 due in ten years, at an annual 6.75% rate. The bonds were paid upon maturity on February 1, 2007. Such issuance was made under the short and medium term bond program for a total maximum amount of US\$ 200,000,000 authorized by the CNV through Resolution No. 10982 on July 13, 1995.

As a result of the transfer of assets and liabilities referred to in the second paragraph of Note 1 to these financial statements, Amoco Argentina Oil Company (Argentine Branch) transferred the above mentioned bonds to Pan American Energy LLC (Argentine Branch). Such bonds were guaranteed by BP Company North America Inc. until repayment in February 2007.

On February 21, 2002, through Resolution No. 14123, the CNV authorized the Global Program for the Issuance of Bonds of Pan American Energy LLC (Argentine Branch) (the "Global Program") in the total amount of US\$ 1,000,000,000 and for a five-year term.

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2008 comparative with the prior fiscal year (in pesos)

NOTE 5 - ISSUANCE OF BONDS (Cont.)

On October 27, 2004, the Branch issued the Bonds Class 3 in the amount of US\$100,000,000 under the Global Program. The bonds become due in five years (October 27, 2009) with a 7.125% annual fixed interest rate to be paid on a half-yearly basis. The price of the issuance was 99.483% of the nominal value. The funds obtained from this issuance were allocated to investments in property, plant and equipment and repayment of loans.

On August 9, 2006, the Branch issued the Bonds Class 4 in the amount of US\$ 250,000,000 under the Global Program, to be repaid in two equal installments becoming due on February 9, 2011 and February 9, 2012, with interest accruing at an annual fixed interest rate of 7.75% to be paid on a half-yearly basis. The price of the issuance was 100.00% of the nominal value. The funds obtained from this issuance were allocated to investments in property, plant and equipment and repayment of loans.

The Bonds Class 3 and Class 4 are guaranteed by Pan American Energy LLC.

NOTE 6 - OTHER FINANCIAL LIABILITIES

On July 11, 2005, the Branch obtained from the International Finance Corporation (IFC) a loan in the amount of US\$ 250,000,000 guaranteed by Pan American Energy LLC and consisting of three tranches:

- "A" in the amount of US\$ 100,000,000, with interest accruing at an annual fixed rate of 7.56%, through an interest rate swap with IFC, amortizable on a six-month installments basis and becoming due in July 2015;
- "B" in the amount of US\$ 135,000,000, at an annual fixed rate of 6.97%, through an interest rate swap with IFC, amortizable on a six-month installments basis, and becoming due in July 2012, and
- "C" in the amount of US\$ 15,000,000, at an annual fixed base rate of 5.66% plus additional interest calculated in relation to Pan American Energy LLC's economic performance, becoming due in July 2016.

The first repayment of principal for tranches "A" and "B" was made on January 15, 2007.

The funds obtained were used to partially fund the 2005 investment program in San Jorge Gulf.

On July 13, 2007, the Branch obtained from IFC a loan in the amount of US\$ 550,000,000, consisting of two tranches that accrue interest at a variable rate:

- "A" in the amount of US\$ 150,000,000 amortizable on a six-month installments basis and becoming due in April 2018; and
- "B", Sub-tranch "1" in the amount of US\$ 158,500,000 amortizable on a six-month installments basis and becoming due in April 2014 and Sub-tranch "2" in the amount of US\$ 241,500,000 amortizable on a six-month installments basis and becoming due in April 2015.

The loan is guaranteed by Pan American Energy LLC and the funds obtained are being applied to partially fund the investment program (including exploration and development) that the Company will undertake in the Cerro Dragón area in San Jorge Gulf basin located in the provinces of Santa Cruz and Chubut.

By December 31, 2007, the amount of US\$ 400,000,000 of such loan had been disbursed while the remaining amount of US\$ 150,000,000 was disbursed in January 2008.

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2008 comparative with the prior fiscal year (in pesos)

NOTE 6 - OTHER FINANCIAL LIABILITIES (Cont.)

On May 21, 2008, the Branch, obtained a loan from an international bank syndicate in the amount of U\$S 200,000,000, the final maturity of which is on May 23, 2011. The loan will be repaid in 3 semiannual principal installments as from the second year, accruing interest at a variable Libor rate payable every six months.

The bank syndicate was led by Calyon New York Branch, JP Morgan Securities Inc. and ABN AMRO Bank N.V., whereas Banco Itaú Buen Ayre S.A. acts as the local intermediary bank. Rabobank Nederland New York Branch, Natixis and Export Development Canada participated as well.

As of December 31, 2008, this loan had been fully disbursed.

The loan is guaranteed by Pan American Energy LLC and the funds obtained were applied to exploration investments and property, plant and equipment and inventories.

The Branch considers that its access to credit lines is appropriate in order to meet its commercial and financial obligations, even though it presents a negative working capital.

NOTE 7 - ACCOUNT WITH HEAD OFFICE

The changes in the account with Head Office during the fiscal year ended December 31, 2008 and 2007 are as follows:

	Fiscal year ended <u>12/31/2008</u>	Fiscal year ended <u>12/31/2007</u>
Balance at beginning of fiscal year with Head Office	2,869,622,874	1,656,519,921
Net activity with Head Office	(321,268,736)	(222,639,830)
Net income	<u>977,049,548</u>	<u>1,435,742,783</u>
Net changes for the fiscal year	<u>655,780,812</u>	<u>1,213,102,953</u>
Balance at fiscal year-end of the account with Head Office (1)	<u>3,525,403,686</u>	<u>2,869,622,874</u>

(1) As of December 31, 2008 and December 31, 2007, the balances are in local currency.

NOTE 8 - CAPITAL ALLOCATED TO THE BRANCH

Pursuant to the Consent Action taken by the members on December 27, 2001, Pan American Energy LLC allocated capital to the Branch in the amount of \$ 200,000,000. Such capital is registered with the Public Registry of Commerce. In accordance with the Consent Action dated February 1, 2005, Pan American Energy LLC allocated capital to the Branch in the amount of \$ 21,779,007. Such capital contribution represents the contribution of assets and liabilities of the areas Anticlinal Funes and Río Barrancas made by Head Office within the scope of the corporate reorganization registered in the State of Delaware, USA and in the Public Registry of Commerce of the City of Buenos Aires on December 12, 2005 under number 2106, Book 58, Volume B of Foreign Companies.

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2008 comparative with the prior fiscal year (in pesos)

NOTE 9 - TRANSACTIONS AND BALANCES WITH AFFILIATED COMPANIES

The transactions and balances with Pan American Energy LLC, the Branch's Head Office, are disclosed in note 7.

The transactions and balances with affiliated companies are detailed below:

	<u>2008</u>	<u>2007</u>
TRANSACTIONS		
Pan American Fueguina S.A. Financing	79,672,595	(446.709.189)
Pan American Sur S.A, Lending of LPG	-	(8,181,231)
Purchases of gas	13,152,859	5,247,826
PAE E & P Bolivia Ltd. Purchases and hiring of services	7,799,673	871,594
PAE Oil & Gas Bolivia Ltd. Purchases and hiring of services	3,335,752	1,015,843
BP West Coast Products LLC Sales	1,463,241,409	749,493,336
BP America Production Company Contracted services	3,941,904	2,425,167
	<u>12/31/2008</u>	<u>12/31/2007</u>
BALANCES		
BP West Coast Products LLC Accounts receivable	48,706,467	-
PAE E & P Bolivia Ltd. Other receivables	8,964,950	1,165,277
PAE Oil & Gas Bolivia Ltd. Other receivables	4,457,194	1,121,442
BP America Production Company Accounts payable	771,189	1,910,240
Pan American Sur S.A. Accounts payable	1,814,685	3,273,306
Pan American Fueguina S.A. Short-term loans	782,695	-
Long-term loans	78,889,900	-

NOTE 10 - GUARANTEES AND OTHER COMMITMENTS

In terms of investment commitments, the Branch has not granted any guarantees as of December 31, 2008.

The terms agreed in certain loan agreements include commitments assumed by the Branch referring to the maintenance of certain indebtedness and debt service ratios. As of December 31, 2008, the Branch complied with all the commitments assumed in loan agreements.

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2008 comparative with the prior fiscal year (in pesos)

NOTE 10 - GUARANTEES AND OTHER COMMITMENTS (Cont.)

The Branch signed the agreement entered into between producers and refineries on January 2, 2003 for the stability of the prices of crude oil, gasoline and gas oil (Resolution No. 85/2003 of the Energy Department), in force until April 30, 2004. The Branch has complied with the quotas set forth in the crude oil agreement. Such deliveries were stated at spot price upon carrying out the transaction, giving rise to a contingent receivable of \$ 12,276,001 as of December 31, 2008, in favor of the Branch, which has not been recorded. Such receivable will be collected when the crude oil WTI price be lower than US\$28.50 per barrel. The price thereof was US\$ 44,61 as of December 31, 2008.

Additionally, in September 2007, the Branch executed an agreement with ESSO Petrolera Argentina S.R.L., whereby such company agreed a total negotiated price of \$ 7,966,366 in connection with deliveries of crude oil made in 2003 and 2004 also under the price stabilization agreement referred to above and \$ 2,445,974 as interest. The Branch agreed to waive further claims in connection with said deliveries. The related revenue was recognized in the fiscal year ended December 31, 2007.

On October 14, 2008, the Branch, as other industry-related companies, entered into an Agreement for the Payment and Subscription of contributions to a trust fund with Nación Fideicomiso S.A. for the purpose of providing financing in pesos up to the amount equivalent to US\$ 30,000,000, to finance the construction and laying of a new gas pipeline at the Strait of Magellan. The referred gas pipeline will run parallel to the existing one and will join Cabo Espiritu Santo, in the Province of Tierra del Fuego, with Cabo Virgenes, in the Province of Santa Cruz. Thus, increasing the transportation capacity of the General San Martín pipeline.

NOTE 11 - INCOME TAX

The breakdown of the main deferred tax assets and liabilities is as follows:

	<u>12/31/2008</u>	<u>12/31/2007</u>
Deferred tax assets		
Allowance for materials obsolescence	1,247,060	1,158,296
Provision for future compensation to personnel	13,875,669	6,093,622
Accrual for lawsuits	8,355,203	7,278,725
Provision for environmental remediation	29,737,386	11,231,039
Other provisions and allowances	<u>19,260,841</u>	<u>18,656,518</u>
Total deferred tax assets	<u>72,476,159</u>	<u>44,418,200</u>
Deferred tax liabilities		
Inventories - materials and spare parts	2,607,892	890,517
Property, plant and equipment and intangible assets	393,684,684	392,076,489
Other	<u>35,608,158</u>	<u>41,148,515</u>
Total deferred tax liabilities	<u>431,900,734</u>	<u>434,115,521</u>
Net deferred tax liabilities	<u>359,424,575</u>	<u>389,697,321</u>

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2008 comparative with the prior fiscal year (in pesos)

NOTE 11 - INCOME TAX (Cont.)

The reconciliation between the income tax expense for the fiscal year and that resulting from applying the prevailing tax rate to income before tax is as follows:

	<u>2008</u>	<u>2007</u>
Net income before taxes	1,498,406,769	2,214,703,593
Prevailing tax rate	<u>35%</u>	<u>35%</u>
Net income prevailing tax rate	(524,442,369)	(775,146,258)
Permanent differences at the tax rate:		
Miscellaneous - net	(9,641,839)	(3,814,552)
Subtotal permanent differences at the tax rate	(9,641,839)	(3,814,552)
Subtotal	(534,084,208)	(778,960,810)
Overstatement of prior fiscal-year provision	<u>12,726,987</u>	<u>-</u>
Income tax expense - total	(521,357,221)	(778,960,810)
Current income tax expense	(551,629,967)	(831,214,623)
Deferred income tax benefit	<u>30,272,746</u>	<u>52,253,813</u>
	(521,357,221)	(778,960,810)

NOTE 12 - RESTRICTED ASSETS

In August 2007, the Branch collected a bank deposit made in its own name as collateral for a loan from a foreign bank in fiscal year 2005. Such bank deposit amounted to US\$ 1,764,705.

In August 2007, the pledge of two generators was settled in the amount of US\$ 7,483,776. Such equipment was granted as collateral for outstanding accounts payable that were paid in June 2007.

Therefore, there are no restricted assets as of December 31, 2008.

NOTE 13 – “PETRÓLEO PLUS” PROGRAM

Decree No. 2014/2008, whereby the “Petróleo Plus” and “Refinación Plus” programs were created for the purposes of encouraging the increase in oil production and reserves, the expansion and growth in activities related to the production and operation of hydrocarbons and their derivatives and the construction of new oil refineries and/or enlargement of the existing ones, was published in the Official Bulletin on November 25, 2008. On December 1, 2008 the Secretary of Energy issued Resolution No. 1312/2008 and regulated these Programs.

Pursuant to these programs, companies that meet the Programs requirements are eligible by the Secretary of Energy to receive transferrable tax credit certificates to be applied to the payment of tariffs on the export of oil and other products. In addition, the resolution regulated section 7, subsection b) of Law No. 26360, by providing for that any works performed by the companies for the exploration and exploitation of new oilfields, increase in the production capacity and addition of new technologies for the production of existing fields shall be deemed as "Critical Infrastructure Works" and shall be granted the benefits set forth by such law.

Since both production and the replacement of reserves increased, Pan American Energy was eligible for the Petr leo Plus Program and, since 2009, it receives tax credit certificates issued under this regime.

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2008 comparative with the prior fiscal year (in pesos)

NOTE 14 - INFORMATION ON LITIGATION AND OTHER SUPPLEMENTARY MATTERS

Lawsuits were filed against the Branch, particularly with courts in labor and commercial matters. Based on the information available, the Branch's Management and legal advisors consider that the contingent liability that might arise from such lawsuits would not have a material adverse effect on the financial position of the Branch or the results of its operations.

NOTE 15 - AGREEMENTS WITH THE PROVINCES OF CHUBUT AND SANTA CRUZ

The Branch entered into two investment commitments and agreements with the Argentine Provinces of Chubut (April 27, 2007) and Santa Cruz (June 25, 2007) for the extension of the term of the concession for hydrocarbon exploitation for a ten-year period in the blocks known as Cerro Dragón, the area of which is extended in the territory of both provinces, and Piedra Clavada and Koluel Kaike in the province of Santa Cruz. The original term of the agreements expired between 2016 and 2017.

These agreements provided for, among other obligations, minimum investments of US\$ 2,000,000,000 in the Province of Chubut and US\$ 500,000,000 in the Province of Santa Cruz to be made before 2017.

Furthermore, other investments of US\$ 1,000,000,000 in the Province of Chubut and US\$ 300,000,000 in the Province of Santa Cruz are to be made before 2027 as a condition for PAE to be granted the operation agreements referred to below.

The agreements also provided for a US\$ 80,000,000 investment commitment for off-shore exploration, at the Branch's own risk, by means of two joint ventures (UTEs) with the state-owned companies Petrominera (in the case of Chubut) and Fomicruz (in the case of Santa Cruz). The potential exploration success and future business activity imply that, an additional investment commitment in the amount of US\$ 500,000,000 be required for the development of the offshore fields.

The creation of the UTEs referred to in the preceding paragraph is consistent with the provisions of sections 11 and 95 of the Hydrocarbon Law, which allows state-owned companies to enter into agreements and create companies, partnerships or other associations with individuals or entities for the development of their activities.

The operation agreements executed with state-owned companies also fall within the scope of the referred legislation, which will be enforced as from the year 2027, subject to compliance with the investment commitments and Pan American Energy's exploration success, in developing sufficient reserves to continue with the production of the fields of those areas as from that year.

Based on these agreements, during the remaining term of the concessions, the Branch agreed to pay to the respective provinces an additional amount of 3% of the net revenues for certain items described in the agreements. The Branch will also provide money for the development of infrastructure and the economic diversification of the Provinces of Chubut and Santa Cruz. A number of grants will be awarded, loans given or guaranteed, job opportunities offered, and supplementary actions will be performed by the Branch as well. In addition, Pan American Energy LLC agreed to dismiss the claims filed against the Argentine Government with the International Centre for Settlement of Investment Disputes (ICSID), once the agreements referred to in the previous paragraphs are finally approved. On June 18, 2008, the Company filed such dismissal with the ICSID. On June 18, 2008, the Company filed such dismissal with the ICSID. On August 20, 2008, the Arbitration tribunal placed on record the termination of the proceedings.

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

NOTES TO THE FINANCIAL STATEMENTS as of December 31, 2008 comparative with the prior fiscal year (in pesos)

NOTE 15 - AGREEMENTS WITH THE PROVINCES OF CHUBUT AND SANTA CRUZ (Cont.)

The agreement with the province of Chubut was ratified by provincial law No. 5616 passed by the Provincial Congress on May 24, 2007, enacted by decree No. 500/2007 and published in the Official Bulletin on May 28, 2007.

The agreement with the province of Santa Cruz was ratified by provincial law No. 3009 issued by the Provincial Congress on March 13, 2008, enacted by decree No. 545/2008 and published in the Official Bulletin on March 27, 2008.

NOTE 16 - SUBSEQUENT EVENTS

On February 6, 2009, the CNV issued Resolution No. 16064 by which Pan American Energy LLC (Argentine Branch) was authorized to create a Global Program for a 5 years term for the Issuance of Bonds in a maximum outstanding amount not exceeding the nominal value of US\$ 1,200,000,000. Bonds will be guaranteed by Pan American Energy LLC.

On February 9, 2009, the government of the province of Neuquén and the operator partner of the blocks Aguada Pichana and San Roque, in which Pan American Energy LLC Argentine Branch has an ownership interest, agreed to extend the term of the concessions for exploitation in such blocks for 10 years up to November 2027. These companies shall pay US\$ 98,380,000 in 20 monthly installments, allocated to infrastructure works and regional development programs, and a monthly extraordinary rental payment of 3% over the production of the blocks. In addition, such companies agreed to make investments and incur in expenses for a total amount of US\$ 883,000,000 from 2009 to 2027. The amount of US\$ 133,000,000 out of which will be allocated to gas exploration mainly. The agreement also provides for the companies' commitment in terms of environmental protection, hiring of workforce and companies from Neuquén, payment of the stamp tax and the rights for the use of public water and review of the use of aggregates in public land. To support the industrialization of hydrocarbons and new projects for electric energy generation in the province, the renegotiation set forth that the companies should make available gas quotas of their own output for the conduction of any such activities.

No others events or transactions have occurred from year-end to the date of issuance of these financial statements that would have a material effect on the financial position of the Branch or the results of its operations as of that date.

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

PROPERTY, PLANT AND EQUIPMENT (in pesos)
as of December 31, 2008 and December 31, 2007

Main account	Original values				At year-end	Accumulated at beginning of the year
	At beginning of the year	Increases for the year	Transfers	Decreases		
Land and buildings	63,181,291	-	10,682,997	-	73,864,288	28,155,5
Plants, wells and exploration and production facilities	14,032,607,241	135,207,434	2,616,025,394	33,009,222	16,750,830,847	7,584,535,9
Furniture and office supplies	8,149,389	25,888	721,611	10,643	8,886,245	7,981,5
Equipment	155,628,892	-	30,771,292	-	186,400,184	121,482,0
Vehicles	48,081,219	-	1,111,399	299,992	48,892,626	27,334,0
Work in progress	804,921,605	3,149,944,252	(2,626,132,999)	140,818,451	1,187,914,407	
Advances to suppliers	<u>40,170,877</u>	<u>36,244,909</u>	<u>(33,179,694)</u>	<u>-</u>	<u>43,236,092</u>	
Total as of 12/31/2008	<u>15,152,740,514</u>	<u>3,321,422,483</u>	<u>-</u>	<u>174,138,308</u>	<u>18,300,024,689</u>	<u>7,769,489,1</u>
Total as of 12/31/2007	<u>12,909,726,416</u>	<u>2,398,016,058</u>	<u>-</u>	<u>155,001,960</u>	<u>15,152,740,514</u>	<u>7,039,238,2</u>

(1) See Exhibit G.

(2) See depreciation policies in Note 3.2.e.

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

INTANGIBLE ASSETS (in pesos)

as of December 31, 2008 and December 31, 2007

<u>Main account</u>	<u>Original values</u>			<u>Amortization</u>		
	<u>At beginning of the year</u>	<u>Increases for the year</u>	<u>At year-end</u>	<u>Accumulated at beginning of the year</u>	<u>For the year (1) (2)</u>	<u>Accumulated at year-end</u>
Pre-operating expenses	48,740,915	-	48,740,915	48,353,074	31,033	48,384,107
Acquisition cost of blocks	6,487,247	-	6,487,247	6,484,619	2,628	6,487,247
Deferred charges	<u>63,488,027</u>	<u>-</u>	<u>63,488,027</u>	<u>63,488,027</u>	<u>-</u>	<u>63,488,027</u>
Total as of 12/31/2008	<u>118,716,189</u>	<u>-</u>	<u>118,716,189</u>	<u>118,325,720</u>	<u>33,661</u>	<u>118,359,381</u>
Total as of 12/31/2007	<u>118,716,189</u>	<u>-</u>	<u>118,716,189</u>	<u>116,797,422</u>	<u>1,528,298</u>	<u>118,325,720</u>

(1) See Exhibit G.

(2) See amortization policies in Note 3.2.f.

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

OTHER INVESTMENTS (in pesos)

as of December 31, 2008 and December 31, 2007

<u>Main account</u>	Book value <u>12/31/2008</u>	Book value <u>12/31/2007</u>
Short-term investments		
Mutual funds in foreign currency (Exhibit F)	1,307	1,138
Class: Citi Institutional Liquid Reserves		
Quantity: 383 units		
Government securities		
“Certificados de cancelación de deuda impositiva” (Certificates evidencing payment of tax liability, Government of the Province of Chubut) Coupons Nos. 20 and 21	1,678,294	1,500,411
Time deposits (Exhibit F)	6,266,092	218,595,022
Special deposit account (Exhibit F)	<u>627,887,539</u>	<u>230,996,906</u>
Total short-term investments	<u>635,833,232</u>	<u>451,093,477</u>
Long-term investments		
Government securities:		
Bonos de la República Argentina - Discount bonds in pesos 5.83% final maturity in 2033 Quantity: 4,821,350 Face value: \$ 1 Quoted: \$ 0.585	2,820,489	5,592,766
GDP coupon pesos Quantity: 14,306,676 Face value: \$ 1 Quotation value: \$ 0.041	586,574	1,258,987
“Certificados de cancelación de deuda impositiva” (Certificates evidencing payment of tax liability, Government of the Province of Chubut) Coupons Nos. 22 and 23	1,446,805	2,680,093
Shares:		
Garantizar S.A. Quantity: 2000 Class: B Face value: \$ 1	<u>2,000</u>	<u>2,000</u>
Total long-term investments	<u>4,855,868</u>	<u>9,533,846</u>
Total investments	<u>640,689,100</u>	<u>460,627,323</u>

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

ALLOWANCES, PROVISIONS AND ACCRUALS (in pesos)

as of December 31, 2008 and December 31, 2007

Main account	Balances at beginning of the year	Increases for the year		Decreases for the year	Balances as of 12/31/08
Deducted from current assets:					
Allowance for bad debtors in local currency	10,197,186	8,841,000	(1)	-	19,038,186
Allowance for price adjustments for receivables in foreign currency	-	22,820,971	(2)	-	22,820,971
Allowance for obsolescence of materials	<u>3,309,418</u>	<u>268,043</u>	(3)	<u>14,432</u>	<u>3,563,029</u>
Total deducted from assets	<u>13,506,604</u>	<u>31,930,014</u>		<u>14,432</u>	<u>45,422,186</u>
Included in current liabilities:					
Provision for future compensation to personnel	<u>2,461,743</u>	<u>2,958,154</u>	(5)	<u>3,002,118</u>	<u>2,417,779</u>
Subtotal current liabilities	<u>2,461,743</u>	<u>2,958,154</u>		<u>3,002,118</u>	<u>2,417,779</u>
Included in non current liabilities:					
Accrual for lawsuits	20,217,498	3,722,968	(7)	378,466	(8) 23,562,000
Provision for environmental Remediation	82,182,464	60,160,612	(9)	18,473,033	(10) 123,870,043
Provision for future compensation to personnel	<u>15,241,426</u>	<u>8,357,586</u>	(11)	<u>5,909,163</u>	(12) <u>17,689,849</u>
Subtotal non current liabilities	<u>117,641,388</u>	<u>72,241,166</u>		<u>24,760,662</u>	<u>165,121,892</u>
Total included in liabilities	<u>120,103,131</u>	<u>75,199,320</u>		<u>27,762,780</u>	<u>167,539,671</u>

- (1) Charges for the fiscal year included in Administrative expenses (see Exhibit G) of the Statement of Income.
- (2) Charges for the fiscal year deducted from Sales of the Statement of Income.
- (3) Charges for the fiscal year included in Production Cost of the Statement of Income (see Exhibit G).
- (4) Recoveries for the year.
- (5) Transfer from the non current provision for future compensation to personnel.
- (6) It is made up of compensations paid during the fiscal year in the amount of \$ 2,958,154 and a transfer to the provisions for future compensation to personnel - non current in the amount of \$ 43,964.
- (7) Charges for the fiscal year. It is made up of \$ 3,315,137 included in Production costs (see Exhibit G) and \$ 407,831 included in Administrative expenses (see Exhibit G) of the Statement of Income.
- (8) Payments for the fiscal year.
- (9) Charges for the fiscal year. It is made up of \$ 35,596,271 included in financial results provided by liabilities, \$ 11,437,554 included in other income and expenses and \$ 13,126,787 included in property, plant and equipment.
- (10) Decrease in the amounts capitalized in property, plant and equipment (in plants, wells and exploration and production facilities) amounting to \$ 5,852,112 and uses for the fiscal year of \$ 12,620,921.
- (11) It is made up of charges for the fiscal year in the amount of \$ 8,313,622 (out of which \$ 5,241,408 are included in Administrative expenses (Defined benefit plans to Personnel) and \$ 3,072,214 are included in Other financial results provided by liabilities of the Statement of Income) and in the amount of \$ 43,964 corresponding to the transfer referred to in explanation 3.
- (12) It is made up of transfers to the provisions for future compensation to personnel – current for the fiscal year in the amount of \$ 2,958,154 and recoveries for the fiscal year in the amount of \$ 2,951,009.

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EXHIBIT E

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

COST OF SALES (in pesos)

for the fiscal year beginning January 1, 2008 and ended December 31, 2008, comparative with the prior fiscal year

	<u>2008</u>	<u>2007</u>
Inventories at the beginning of fiscal year	172,961,162	117,701,356
Purchases	225,280,828	210,238,684
Production costs (Exhibit G)	3,388,051,159	2,535,313,046
Inventories at fiscal year-end	(231,449,361)	(172,961,162)
Cost of sales	<u>3,554,843,788</u>	<u>2,690,291,924</u>

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

ASSETS AND LIABILITIES IN FOREIGN CURRENCY

as of December 31, 2008 and December 31, 2007

Item	Type and amount of foreign currency as of 12/31/2008		Exchange rate	Amount in Argentine currency as of 12/31/2008	Type and amount of foreign currency as of 12/31/2007
	US\$	Euros			
ASSETS					
CURRENT ASSETS					
Cash on hand and in banks					
Cash on hand	-	4,370	4,7349	20.692	-
	48,295		3,413	<u>164.831</u>	53,298
Cash in banks	61,333		3,413	209,329	57,521
Investments					
Time deposits	1,835,948		3,413	6,266,092	70,310,396
Mutual funds	383		3,413	1,307	366
Special deposit account	183,969,393		3,413	627,887,539	74,299,423
Accounts receivable					
Common	103,737,413		3,413	354,055,791	124,558,233
Allowance for price adjustments	(6,686,484)		3,413	(22,820,971)	-
Affiliated companies	14,270,866		3,413	48,706,467	-
Other receivables					
Expenses recoverable	976,661		3,413	3,333,343	618,626
Miscellaneous	11,955,905		3,413	40,805,500	3,047,972
Affiliated companies	3,932,653		3,413	13,422,144	735,516
Inventories					
Advances to suppliers	<u>91,426</u>		3,413	<u>312,036</u>	<u>184,212</u>
Total current assets	<u>314,193,792</u>	<u>4,370</u>		<u>1,072,364,100</u>	<u>273,865,563</u>
NON CURRENT ASSETS					
Other receivables					
Miscellaneous	<u>4,245,045</u>		3,413	<u>14,488,338</u>	<u>4,601,062</u>
Total non current assets	<u>4,245,045</u>			<u>14,488,338</u>	<u>4,601,062</u>
Total assets	<u>318,438,837</u>	<u>4,370</u>		<u>1,086,852,438</u>	<u>278,466,625</u>

US\$ = US dollar

Translation from the original prepared in Spanish for publication in Argentina

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

ASSETS AND LIABILITIES IN FOREIGN CURRENCY

as of December 31, 2008 and December 31, 2007

Item	Type and amount of foreign currency as of 12/31/2008 US\$	Exchange Rate \$	Amount in Argentine currency as of 12/31/2008	Type and amount of foreign currency as of 12/31/2007 US\$
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable				
Trade	60,210,391	3.453	207,906,479	50,715,083
Affiliated companies	748,878	3.453	2,585,874	1,646,093
Loans				
Affiliated companies	131,199	3.453	453,029	-
Bonds	100,000,000	3.453	345,300,000	-
Unsecured notes payable	355,410,000	3.453	1,227,230,731	128,818,827
Interest accrued on bonds and notes payable	<u>27,586,594</u>	3.453	<u>95,256,508</u>	<u>24,081,660</u>
Total current liabilities	<u>544,087,062</u>		<u>1,878,732,621</u>	<u>205,261,663</u>
NON CURRENT LIABILITIES				
Accounts payable				
Miscellaneous liabilities	5,510,148	3.453	19,026,540	5,510,148
Loans				
Affiliated companies	18,300,000	3.453	63,189,900	-
Bonds	250,000,000	3.453	863,250,000	350,000,000
Unsecured notes payable	827,370,000	3.453	2,856,908,609	597,780,000
Total non current liabilities	<u>1,101,180,148</u>		<u>3,802,375,049</u>	<u>953,290,148</u>
Total liabilities	<u>1,645,267,210</u>		<u>5,681,107,670</u>	<u>1,158,551,811</u>

US\$ = US dollar

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

INFORMATION REQUIRED BY ART. 64, CLAUSE 1b) OF LAW 19550, for the fiscal year beginning January 1, 2008 and ended December 31, 2008, comparative with the prior fiscal year (in pesos)

<u>Items</u>	<u>Production costs</u>	<u>Administrative expenses</u>	<u>Total 2008</u>	<u>Total 2007</u>
Fees and compensation for services	22,486,562	23,114,626	45,601,188	42,620,697
Salaries, wages and benefits to Personnel	225,160,845	49,547,723	274,708,568	206,934,128
Defined benefit plans to personnel (Note 3 2 j)	18,278,641	34,732,202	53,010,843	22,517,049
Social security contributions	32,982,671	8,499,120	41,481,791	25,303,266
Taxes, assessments and other contributions	1,124,539,762	163,521,509	1,288,061,271	969,321,144
Depreciation of property, plant and equipment (Exhibit A)	843,866,389	7,052,200	850,918,589	769,123,691
Intangible asset amortization (Exhibit B)	33,661	-	33,661	1,528,298
Transportation, freight and storage expenses	142,157,038	60,209	142,217,247	109,228,573
Contracted services	589,065,015	6,144,451	595,209,466	402,621,974
Travel and accommodation expenses	14,982,267	5,842,740	20,825,007	16,105,509
Building rentals, maintenance and others	47,302,112	13,014,302	60,316,414	35,020,269
Environmental remediation and rights of way	48,784,490	-	48,784,490	41,795,578
Bad debtors (Exhibit D)	-	8,841,000	8,841,000	5,903,164
Lawsuits (Exhibit D)	3,315,137	407,831	3,722,968	1,160,565
Obsolescence of materials (Exhibit D)	268,043	-	268,043	445,288
Dry wells	135,835,246	-	135,835,246	36,989,971
Production, exploration and administrative general expenses	<u>138,993,280</u>	<u>1,506,869</u>	<u>140,500,149</u>	<u>114,788,278</u>
Total 2008	<u>3,388,051,159</u>	<u>322,284,782</u>	<u>3,710,335,941</u>	
Total 2007	<u>2,535,313,046</u>	<u>266,094,396</u>		<u>2,801,407,442</u>

Translation from the original prepared in Spanish for publication in Argentina

PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

Balance sheet as of December 31, 2008 and December 31, 2007

TERMS, INTEREST RATES AND ADJUSTMENT CLAUSES OF SHORT-TERM INVESTMENTS, LOANS AND PAYABLES (in pesos)

	<u>Investments</u>		<u>Receivables</u>		<u>Payables</u>	
	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
Total amount without any established term	588,574 (1)	1,260,987	129,553,604 (3)	101,806,117	754,002,626	664,952,180
To become due:						
Up to 3 months	635,109,829	450,344,176	833,482,014	515,078,238	1,087,102,026	754,732,040
From 3 to 6 months	-	-	104,095,389	1,718,540	604,445	174,757,550
From 6 to 9 months	723,403	670,023	2,922,548	1,674,756	604,445	615,430
From 9 to 12 months	-	79,278	2,869,817	1,610,016	4,929,445	30,986,930
From 1 to 2 years	1,446,805	1,340,047	9,880,415	5,651,924	241,803	229,330
From 2 to 3 years	-	1,340,046	6,428,476	3,793,343	-	-
From 3 to 4 years	-	-	2,339,788	1,574,957	-	-
From 4 to 5 years	-	-	1,803,445	848,516	-	-
From 5 to 6 years	-	-	445,648	382,649	-	-
From 6 to 7 years	-	-	-	-	-	-
From 7 to 8 years	-	-	-	-	-	-
From 8 to 9 years	-	-	-	-	-	-
From 9 to 10 years	-	-	-	-	-	-
From 10 to 11 years	-	-	-	-	-	-
Over 11 years	<u>2,820,489 (2)</u>	<u>5,592,766 (2)</u>	-	-	-	-
Subtotal	640,689,100	460,627,323	1,093,821,144	634,139,056	1,847,484,790	1,626,273,490
Other items that are not to be collected or paid in cash	-	-	<u>21,528,744</u>	<u>15,541,887</u>	-	-
Total	<u>640,689,100</u>	<u>460,627,323</u>	<u>1,115,349,888</u>	<u>649,680,943</u>	<u>1,847,484,790</u>	<u>1,626,273,490</u>

(1) It includes \$ 586,574 relating to GDP coupons in pesos. The government securities linked to the GDP become due on 12/31/2035. However, in the event the country, the bondholders shall be entitled to annual payments.

(2) It is amortized as from 06/30/2024 in 20 semiannual installments (on 06/30 and 12/31 of each year), the final maturity of which is on 12/31/2033.

(3) It includes the overdue receivables detailed in item 3.a of the supplementary information.

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PAN AMERICAN ENERGY LLC (SUCURSAL ARGENTINA)

Balance sheet as of December 31, 2008 and December 31, 2007

TERMS, INTEREST RATES AND ADJUSTMENT CLAUSES OF SHORT-TERM INVESTMENTS, LOANS AND RECEIVABLES

	Investments				Receivables				12/31/2007
	12/31/2008		12/31/2007		12/31/2008		12/31/2007		
	Rate	Pesos	Rate	Pesos	Rate	Pesos	Rate	Pesos	Rate
Annual fixed rate in US\$	-	-	-	-	-	-	-	-	-
Annual fixed rate in US\$	-	-	-	-	-	-	-	-	-
Annual fixed rate in US\$	-	-	-	-	-	-	-	-	-
Annual fixed rate in US\$	-	-	-	-	-	-	-	-	-
Annual fixed rate in US\$	-	-	-	-	-	-	-	-	-
Annual fixed rate in US\$	-	-	-	-	-	-	-	-	-
Annual fixed rate in US\$	-	-	-	-	-	-	-	-	-
Annual fixed rate in US\$	-	-	-	-	-	-	-	-	-
CER plus annual fixed rate in \$	4,00	3,125,099	4,00	4,180,504	-	-	-	-	-
Average annual variable rate in \$	-	-	-	-	8,00	28,458,878	8,00	15,196,646	-
Annual fixed rate in US\$	-	-	-	-	8,50	1,283,368	8,50	1,654,064	-
Average annual variable rate in US\$	-	-	-	-	-	-	-	-	-
Average annual fixed rate in US\$	-	-	-	-	-	-	-	-	-
Average annual variable rate in US\$	0,19	634,154,938	4,62	449,593,066	-	-	4,50	14,286	-
Annual fixed rate in \$ plus CER	5,83	2,820,489	5,83	5,592,766	-	-	-	-	-
Non-interest bearing	-	588,574	-	1,260,987	-	1,085,607,642	-	632,815,947	1,84
Total		<u>640,689,100</u>		<u>460,627,323</u>		<u>1,115,349,888</u>		<u>649,680,943</u>	<u>1,84</u>

(1) It only includes principal at face value.

(2) Plus additional interest calculated in relation to the economic performance of Pan American Energy LLC.

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

Balance sheet as of December 31, 2008 and December 31, 2007

PARTICIPATION IN JOINT VENTURES (in pesos)

	Lindero		Aguada		San		Acambuco		Estancia	
	Atravesado		Pichana		Roque				La Escondida	
	62.50%	62.50%	18.18%	18.18%	16.47 %	16.47 %	52.00 %	52.00 %	25.00%	25.00%
Balance sheet	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
ASSETS										
CURRENT ASSETS										
Cash on hand and in banks	167,761	6,737	252,757	162,872	46,808	21,005	992,129	115,536	22,769	28,033
Other receivables	608,105	1,022,484	10,799,621	9,917,410	6,638,296	5,035,286	842,307	611,434	51,375	1,171,815
Inventories	<u>7,030,776</u>	<u>6,518,514</u>	<u>11,499,202</u>	<u>8,773,323</u>	<u>5,993,575</u>	<u>8,886,765</u>	<u>5,661,318</u>	<u>2,632,499</u>	<u>82,081</u>	<u>80,115</u>
Total current assets	<u>7,806,642</u>	<u>7,547,735</u>	<u>22,551,580</u>	<u>18,853,605</u>	<u>12,678,679</u>	<u>13,943,056</u>	<u>7,495,754</u>	<u>3,359,469</u>	<u>156,225</u>	<u>1,279,963</u>
NON CURRENT ASSETS										
Other receivables	40,738	-	-	-	-	-	207,947	-	-	-
Property, plant and equipment	144,901,449	132,339,618	245,427,586	253,948,755	178,405,542	189,303,216	660,183,034	673,640,204	5,240,181	5,587,925
Intangible assets	-	-	-	-	-	-	-	-	-	2,628
Total non current assets	<u>144,942,187</u>	<u>132,339,618</u>	<u>245,427,586</u>	<u>253,948,755</u>	<u>178,405,542</u>	<u>189,303,216</u>	<u>660,390,981</u>	<u>673,640,204</u>	<u>5,240,181</u>	<u>5,590,553</u>
Total assets	<u>152,748,829</u>	<u>139,887,353</u>	<u>267,979,166</u>	<u>272,802,360</u>	<u>191,084,221</u>	<u>203,246,272</u>	<u>667,886,735</u>	<u>676,999,673</u>	<u>5,396,406</u>	<u>6,870,516</u>

(a) See Note 2 – Explanation 3 – Operations of the Branch.

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

Balance sheet as of December 31, 2008 and December 31, 2007

PARTICIPATION IN JOINT VENTURES (in pesos)

	<u>Lindero Atravesado</u>		<u>Aguada Pichana</u>		<u>San Roque</u>		<u>Acambuco</u>		<u>Estancia La Escondida</u>	
	62.50%	62.50%	18.18%	18.18%	16.47 %	16.47 %	52.00 %	52.00 %	25.00%	25.00%
<u>Balance sheet</u>	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
<u>LIABILITIES</u>										
<u>CURRENT LIABILITIES</u>										
Accounts payable	3,212,849	3,747,969	48,042,599	44,692,923	14,012,481	14,300,600	44,347,411	31,815,503	480,714	1,201,226
Payroll and social security contributions	1,013,290	754,526	-	-	-	-	1,319,328	659,944	-	-
Taxes payable	38,867	123,464	2,538,256	215	1,351,812	-	876,997	275,367	64,932	111,921
Provision for future compensation to personnel	<u>40,836</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,052</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>4,305,842</u>	<u>4,625,959</u>	<u>50,580,855</u>	<u>44,693,138</u>	<u>15,364,293</u>	<u>14,300,600</u>	<u>46,564,788</u>	<u>32,750,814</u>	<u>545,646</u>	<u>1,313,147</u>
<u>NON CURRENT LIABILITIES</u>										
Accounts payable	6,184,528	3,261,912	219,132	219,132	876,528	876,528	3,564,189	1,741,273	-	-
Provision for environmental remediation	9,466,948	10,608,086	12,144,261	6,401,074	7,341,867	8,873,866	4,613,532	3,459,737	117,082	83,641
Accruals	<u>7,534,510</u>	<u>6,147,461</u>	<u>66,571</u>	<u>76,201</u>	<u>177,075</u>	<u>436,293</u>	<u>3,198,879</u>	<u>2,458,378</u>	<u>-</u>	<u>-</u>
Total non current liabilities	<u>23,185,986</u>	<u>20,017,459</u>	<u>12,429,964</u>	<u>6,696,407</u>	<u>8,395,470</u>	<u>10,186,687</u>	<u>11,376,600</u>	<u>7,659,388</u>	<u>117,082</u>	<u>83,641</u>
Total liabilities	<u>27,491,828</u>	<u>24,643,418</u>	<u>63,010,819</u>	<u>51,389,545</u>	<u>23,759,763</u>	<u>24,487,287</u>	<u>57,941,388</u>	<u>40,410,202</u>	<u>662,728</u>	<u>1,396,788</u>
Owner's equity	<u>125,257,001</u>	<u>115,243,935</u>	<u>204,968,347</u>	<u>221,412,815</u>	<u>167,324,458</u>	<u>178,758,985</u>	<u>609,945,347</u>	<u>636,589,471</u>	<u>4,733,678</u>	<u>5,473,728</u>
Total	<u>152,748,829</u>	<u>139,887,353</u>	<u>267,979,166</u>	<u>272,802,360</u>	<u>191,084,221</u>	<u>203,246,272</u>	<u>667,886,735</u>	<u>676,999,673</u>	<u>5,396,406</u>	<u>6,870,516</u>

(a) See Note 2 – Explanation 3 – Operations of the Branch.

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

Statement of income for fiscal year ended December 31, 2008, comparative with the prior fiscal year

PARTICIPATION IN JOINT VENTURES (in pesos)

	<u>Lindero Atravesado</u>		<u>Aguada Pichana</u>		<u>San Roque</u>		<u>Acambuco</u>		<u>Estancia La Escondida</u>	
	62.50% 2008	62.50% 2007	18.18% 2008	18.18% 2007	16.47% 2008	16.47% 2007	52.00% 2008	52.00% 2007	25.00% 2008	25.00% 2007
STATEMENT OF INCOME										
Sales (b)										
Cost of sales	(77,369,460)	(56,512,537)	(184,769,460)	(108,140,572)	(104,362,902)	(115,530,238)	(325,184,847)	(172,222,135)	(4,056,479)	(3,360,000)
Gross result	(77,369,460)	(56,512,537)	(184,769,460)	(108,140,572)	(104,362,902)	(115,530,238)	(325,184,847)	(172,222,135)	(4,056,479)	(3,360,000)
Administrative expenses	-	-	-	-	-	-	-	-	-	-
Operating result	(77,369,460)	(56,512,537)	(184,769,460)	(108,140,572)	(104,362,902)	(115,530,238)	(325,184,847)	(172,222,135)	(4,056,479)	(3,360,000)
Financial results - net	(869,260)	(900,646)	151,904	(214,864)	(520,228)	(413,880)	318,273	(184,017)	(3,756)	-
Other income and expenses - net	<u>665,774</u>	<u>1,928,395</u>	<u>175,813</u>	<u>4,874,844</u>	<u>120,309</u>	<u>371,953</u>	<u>1,355,877</u>	<u>1,246,341</u>	-	-
Net results	<u>(77,572,946)</u>	<u>(55,484,788)</u>	<u>(184,441,744)</u>	<u>(103,480,592)</u>	<u>(104,762,821)</u>	<u>(115,572,165)</u>	<u>(323,510,697)</u>	<u>(171,159,811)</u>	<u>(4,060,235)</u>	<u>(3,360,000)</u>

(a) See Note 2 – Explanation 3 – Operations of the Branch.

(b) No sales were recorded in the joint ventures because production is directly assigned to each participant.

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

FINANCIAL STATEMENTS as of December 31, 2008

REPORTING SUMMARY REQUIRED BY RESOLUTION No. 290/97 OF THE NATIONAL SECURITIES COMMISSION

1. Comment on the Branch's activity

1.1. Operating activities

Pan American Energy LLC (Argentine Branch) is mainly engaged in the exploration, development and production of hydrocarbons. The Head Office of the Branch is Pan American Energy LLC, which also has various subsidiaries and affiliates that carry out activities in Argentina and other Mercosur countries. BP and Bridas Corporation hold interests that account for 60% and 40%, respectively of the Branch's ownership.

During the fiscal year 2008, with a daily average production of 226.5 thousand barrels of oil, the Branch together with subsidiaries of Head Office that develop their activities in the country rank second in the production of natural gas and oil in Argentina.

1.2. Issuance of bonds

On February 11, 1997, Amoco Argentina Oil Company (Argentine Branch) issued the Second Series of bonds in the amount of US\$ 100,000,000 due in ten years at a rate of 6.75%. The bonds were paid upon maturity on February 1, 2007. Such issuance was made under a short and medium term bond program in the amount of US\$ 200,000,000, authorized by Resolution No. 10982 issued by the CNV on July 13, 1995.

As a result of the transfer of assets and liabilities referred to in the second paragraph of note 1 to these financial statements, Amoco Argentina Oil Company (Argentine Branch) transferred the above mentioned bonds to Pan American Energy LLC (Argentine Branch). Such bonds were guaranteed by BP Company North America Inc. until repayment in February 2007.

On February 21, 2002, through Resolution No. 14123, the CNV authorized the Global Program for the Issuance of Bonds of Pan American Energy LLC (Argentine Branch) (the "Global Program") in the total amount of US\$ 1,000,000,000 and for a five-year term.

On October 27, 2004, the Branch issued Bonds Class 3 in the amount of US\$ 100,000,000 under the Global Program. The bonds become due in five years (October 27, 2009) with a 7.125% annual fixed interest rate to be paid on a half-yearly basis. The price of the issuance was 99.483% of the nominal value. The funds derived from this issuance were allocated to investments in property, plant and equipment and repayment of loans.

On August 9, 2006, the Branch issued Bonds Class 4 in the amount of US\$ 250,000,000 under the Global Program, to be repaid in two equal installments becoming due on February 9, 2011 and February 9, 2012, with interest accruing at an annual fixed interest rate of 7.75% to be paid on a half-yearly basis. The price of the issuance was 100.00% of the nominal value. The funds obtained from this issue were allocated to investments in property, plant and equipment and repayment of loans.

Bonds Class 3 and Class 4 are guaranteed by Pan American Energy LLC.

On February 6, 2009, the CNV issued Resolution No. 16064 by which Pan American Energy LLC (Argentine Branch) was authorized to create a Global Program for a 5 years term for the Issuance of Bonds in a maximum outstanding amount not exceeding the nominal value of US\$ 1,200,000,000. Bonds will be guaranteed by Pan American Energy LLC.

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1.3. Loan agreements

On July 11, 2005, the Branch obtained from the International Finance Corporation (IFC) a loan in the amount of US\$ 250,000,000 guaranteed by Pan American Energy LLC and consisting of three tranches:

- “A” in the amount of US\$ 100,000,000 with interest accruing at an annual fixed rate of 7.56%, through an interest rate swap with IFC, amortizable on a six-month installments basis, and becoming due in July 2015,
- “B” in the amount of US\$ 135,000,000, at an annual fixed rate of 6.97%, through an interest rate swap with IFC, amortizable on a six-month installments basis, and becoming due in July 2012, and
- “C” in the amount of US\$ 15,000,000, at an annual fixed base rate of 5.66% plus additional interest calculated in relation to Pan American Energy LLC’s economic performance, becoming due in July 2016.

The first repayment of principal for tranches “A” and “B” was made on January 15, 2007.

The funds obtained were used to partially fund the 2005 investment program in San Jorge Gulf.

On July 13, 2007, the Branch obtained from the International Finance Corporation (IFC) a loan in the amount of US\$ 550,000,000, consisting of two tranches which accrue interest at a variable rate:

- “A” in the amount of US\$ 150,000,000, amortizable on a six-month installments basis and becoming due in April 2018; and
- “B”, Sub-tranch “1” in the amount of US\$ 158,500,000, amortizable on a six-month installments basis and becoming due in April 2014, and “B”, Sub-tranch “2” in the amount of US\$ 241,500,000, amortizable on a six-month installments basis and becoming due in April 2015.

The loan is guaranteed by Pan American Energy LLC and the funds obtained are being applied to partially fund the investment program (including exploration and development) that the Company will undertake in the Cerro Dragón area, in the San Jorge Gulf basin, located in the provinces of Santa Cruz and Chubut.

As of December 31, 2007, the amount of US\$ 400,000,000 of such loan had been disbursed and in January 2008, the remaining amount of US\$ 150,000,000 was disbursed.

On May 21, 2008, Pan American Energy, Argentine Branch, obtained a loan from an international bank syndicate in the amount of US\$ 200,000,000, the final maturity of which is on May 23, 2011. The loan will be repaid in 3 semiannual principal installments as from the second year, accruing interest at a variable Libor rate payable every six months.

The bank syndicate was led by Calyon New York Branch, JP Morgan Securities Inc. and ABN AMRO Bank N.V., whereas Banco Itaú Buen Ayre S.A. acts as the local intermediary bank. Rabobank Nederland New York Branch, Natixis and Export Development Canada participated as well.

As of December 31, 2008, this loan had been fully disbursed.

The loan is guaranteed by Pan American Energy LLC and the funds obtained were applied to exploration investments and property, plant and equipment and inventories.

The Branch considers that its access to credit lines is appropriate in order to meet its commercial and financial obligations, even though it presents a negative working capital.

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2. Balance sheet items as of December 31, 2008 (in pesos)

	Balance sheet as of <u>12/31/2008</u>	Balance sheet as of <u>12/31/2007</u>	Balance sheet as of <u>12/31/2006</u>	Balance sheet as of <u>12/31/2005</u>	Balance sheet as of <u>12/31/2004</u>
Current assets	1,928,205,904	1,260,904,810	1,235,627,955	1,193,228,984	659,203,025
Non current assets	<u>9,768,495,753</u>	<u>7,446,314,957</u>	<u>5,910,041,926</u>	<u>4,879,105,847</u>	<u>4,198,334,101</u>
Total	<u>11,696,701,657</u>	<u>8,707,219,767</u>	<u>7,145,669,881</u>	<u>6,072,334,831</u>	<u>4,857,537,126</u>
Current liabilities	3,133,204,026	1,706,399,649	2,038,446,446	1,384,514,484	1,416,818,735
Non current liabilities	<u>4,576,854,938</u>	<u>3,669,958,237</u>	<u>2,989,464,507</u>	<u>2,164,983,591</u>	<u>1,367,102,560</u>
Subtotal	<u>7,710,058,964</u>	<u>5,376,357,886</u>	<u>5,027,910,953</u>	<u>3,549,498,075</u>	<u>2,783,921,295</u>
Account with Head Office	3,525,403,686	2,869,622,874	1,656,519,921	2,061,597,749	1,634,155,831
Capital allocated to the Branch	221,779,007	221,779,007	221,779,007	221,779,007	200,000,000
Capital adjustment	<u>239,460,000</u>	<u>239,460,000</u>	<u>239,460,000</u>	<u>239,460,000</u>	<u>239,460,000</u>
Total	<u>11,696,701,657</u>	<u>8,707,219,767</u>	<u>7,145,669,881</u>	<u>6,072,334,831</u>	<u>4,857,537,126</u>

3. Income statement items as of December 31, 2008 (in pesos)

	Fiscal year ended <u>12/31/2008</u>	Fiscal year ended <u>12/31/2007</u>	Fiscal year ended <u>12/31/2006</u>	Fiscal year ended <u>12/31/2005</u>	Fiscal year ended <u>12/31/2004</u>
Ordinary operating income	2,210,870,826	2,573,221,966	2,743,659,781	1,892,940,989	1,345,594,475
Financial results	(735,869,887)	(334,318,829)	(157,229,580)	(111,002,384)	(162,139,929)
Other income and expenses - net	<u>23,405,830</u>	<u>(24,199,544)</u>	<u>(41,522,382)</u>	<u>(100,766,855)</u>	<u>(95,409,580)</u>
Income before taxes	1,498,406,769	2,214,703,593	2,544,907,819	1,681,171,750	1,088,044,966
Income tax current	(551,629,967)	(831,214,623)	(896,407,452)	(609,797,133)	(409,943,143)
Deferred income tax	<u>30,272,746</u>	<u>52,253,813</u>	<u>(3,463,245)</u>	<u>14,847,018</u>	<u>86,414,740</u>
Net income	<u>977,049,548</u>	<u>1,435,742,783</u>	<u>1,645,037,122</u>	<u>1,086,221,635</u>	<u>764,516,563</u>

4. Statistical data

	Fiscal year ended <u>12/31/2008</u>	Fiscal year ended <u>12/31/2007</u>	Fiscal year ended <u>12/31/2006</u>	Fiscal year ended <u>12/31/2005</u>	Fiscal year ended <u>12/31/2004</u>
Production of crude oil (1)	<u>6,145,708</u>	<u>6,150,764</u>	<u>6,123,609</u>	<u>5,899,233</u>	<u>5,721,813</u>
Sale of crude oil	6,009,932	6,135,234	6,146,250	5,688,359	5,534,021
Production of natural gas (2)	<u>5,635,655</u>	<u>5,229,944</u>	<u>4,887,081</u>	<u>4,447,626</u>	<u>4,187,349</u>
Sale of natural gas	5,655,867	5,310,947	4,777,025	4,457,984	3,972,402
Transportation of natural gas	-	2,756	15,159	307,242	358,903
	<u>in tons</u>	<u>in tons</u>	<u>in tons</u>	<u>in tons</u>	<u>in tons</u>
Production of L.P.G.	138,904	75,337	104,647	66,910	64,577
Sale of L.P.G.	126,354	62,342	105,810	60,480	69,597

(1) Includes gasoline from the gas processing plants of Gral. Cerri and Refinor.

(2) The production of natural gas is disclosed net of the amounts reinjected into the reservoir and used up in the operations and processed in the gas processing plants.

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5. Indexes

	Financial statements as of 12/31/2008	Financial statements as of 12/31/2007	Financial statements as of 12/31/2006	Financial statements as of 12/31/2005	Financial statements as of 12/31/2004
Liquidity	0.62	0.74	0.61	0.86	0.47
Indebtedness	1.93	1.60	2.37	1.41	1.34
Tied –up funds	0.83	0.86	0.83	0.80	0.86
Solvency	0.52	0.62	0.42	0.71	0.74
Return before income tax / minimum deemed income tax	0.45	1.05	1.01	0.81	0.65
Net return	0.29	0.68	0.65	0.52	0.45

6. Supplementary Information to the Financial Statements as of December 31, 2008

Information on oil and gas reserves

In compliance with General Resolution N° 541/2008 of the Argentine Securities and Exchange Commission, below are the proved reserves of oil and gas of the issuer as of December 31, 2008:

The Branch's reserves are located in the geographic area of Argentina.

The information on the reserves is based on the estimates prepared by the international technical consultants Gaffney, Cline & Associates and Ryder Scott Company Petroleum Consultants.

Developed and undeveloped proved reserves

	Crude oil, condensed and liquid natural gas (in m3)	Natural gas (in thousands of m3)	Total combined (in m3 of equivalent oil)
Reserves as of December 31, 2007	<u>134,566,403</u>	<u>51,591,358</u>	<u>186,157,761</u>
Net increase for the year	15,733,780	2,691,114	18,424,894
Production for the year	(6,098,535)	(6,491,161)	(12,589,696)
Reserves as of December 31, 2008	<u>144,201,648</u>	<u>47,791,311</u>	<u>191,992,959</u>

7. Business prospects

Pan American Energy LLC (Argentine Branch) is working to maintain and increase its operating efficiency in connection with the oil and gas exploration and production, to continue increasing its share in hydrocarbon production in Argentina, satisfying in this way the needs derived from a sustained growth rate of the country's economy as well as to comply with its existing contractual obligations. The Branch strives to provide its personnel and contractors with healthy and safe working conditions while preserving the environment.

The Branch is strongly engaged with the concerns and challenges posed by the communities where it operates, by developing different social responsibility programs (CSR).

The Branch's total production of hydrocarbons grew by 4.7% in 2008 compared with the prior year. The production of natural gas rose by 7.7% and the production of oil evidenced a slight decrease of 0.1% in 2008 compared with the prior year. The active investment program successfully implemented by Pan American Energy in the last years has allowed it to double its production of hydrocarbons from 1999 to 2008.

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During this year and particularly over the third and fourth quarter, the world's economy displayed disturbing signs both in the banking and financial sector and in the so-called real economy. The subprime mortgage crisis reached banks, mainly in the United States and Europe, thus, giving rise to a public sense of unrest that triggered running on banks and deposit flight. Governments of different countries were to intervene to mitigate these effects, seeking to inspire confidence and reinstate credit-granting levels, especially restricted in emerging countries. Such anxiety also extended to the capital markets all over the world, including the Latin American countries, and Argentina was not an exception. The emerging countries' shares and governmental bonds evidenced a considerable fall in quoted prices.

In addition, the crisis is affecting the real economy, which recorded lower levels of activity and employment, significant reductions in the price of commodities (including oil prices: the WTI type decreased from a maximum amount of US\$ 145.31 per barrel in July 2008 to less of a third of this value in the last days of December 2008) and falls consumption and investment. As a consequence, the governments of many countries, including Argentina, took actions intended to stimulate the global demand and the maintenance of employment. The severity and duration of the emerging crisis is still an unanswerable question.

After the 2002 crisis, the country has managed to achieve high gross domestic product (GDP) growth with relatively low inflation rates though growing recently and, a stable currency, with unemployment rates that have been significantly reduced.

In 2008, the GDP grew by 7.0% compared with the prior fiscal year, which indicates that a growing trend – initiated 27 quarters ago – continues.

In the fiscal year 2008, the fiscal surplus totaled 32,528 million pesos, thus disclosing a 26.4% increase compared to the prior fiscal year. The level of foreign indebtedness as of September 30, 2008 increased with respect to the same date of the prior fiscal year and amounted to US\$ 127,919 million. The country's international reserves amounted US\$ 46,386 million as of December 31, 2008, 0.5% higher than those for a year before.

At a sector level, the increased costs in the oil industry is a matter of concern as they exceed the general rise in prices.

As previously informed, revenues from the exploration and production of oil and gas have been affected in the last years by the amendments to the regulations in force. In the case of oil, as from March 2002, an increasing rate of export tariffs on exports has been applied, which has also affected the sales prices in the domestic market. On November 15, 2007, the Ministry of Economy and Production of Argentina issued Resolution 394/07 by which export tariffs on oil and by products exports were significantly increased for sales of oil above US\$ 60.9 / barrel.

In the case of natural gas, in January 2002, the wellhead price of natural gas was redenominated into pesos and frozen for sales to the domestic market and, afterwards, export tariffs on exports and quantitative restrictions to them were established. In April 2004, the Secretary of Energy and the natural gas producers signed an agreement named "regularization of wellhead prices". This agreement had a term that had expired on December 31, 2006, after which, and at the request of the related authorities, a new agreement was signed that will be in force until December 31, 2011.

The new agreement, approved in June 2007 by Resolution 599/07 of the Secretary of Energy, compels producers (including the Branch) to satisfy the domestic demand up to the levels reached in 2006 plus the growth of the residential market during the validity thereof by setting out new guidelines for price changes.

On September 19, 2008, the Secretary of Energy issued Resolution 1070/2008 by which the wellhead price of gas was restructured applicable to certain residential segments, CNG and gas plants. At the same time, PAE and other producers signed with the Secretary of Energy a "Supplementary Agreement with Natural Gas Producers" for the purpose of defining the contribution to the fiduciary fund created by Law No. 26020 – aimed at meeting the liquefied natural gas needs (LPG or bottled gas) of the poorest sectors.

In March 2008, the Secretary of Energy issued Resolution No. 24/2008 whereby it created the "Gas Plus" program intended to increase the production of gas. Gas Plus is defined as a program by which preferred selling terms are granted to the natural gas coming from fields which, because they

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have been recently discovered or due to their geological conditions, require a higher level of investment and, therefore, a higher price than that currently agreed in the domestic market of natural gas. In order to apply for this regime, producers must file eligible projects with the Secretary of Energy for its approval. The Secretary of Energy approved the three Gas Plus Projects filed by Pan American Energy - two exploration projects, one in Acambuco and the other one in Cerro Dragón and one tight sands project in Lindero Atravesado – and the four Aguada Pichana projects filed by Total Austral S.A. (operator).

Decree No. 2014/2008, whereby the “Petróleo Plus” and “Refinación Plus” programs were created for the purposes of encouraging the increase in oil production and reserves, the expansion and growth in activities related to the production and operation of hydrocarbons and their derivatives and the construction of new oil refineries and/or enlargement of the existing ones, was published in the Official Bulletin on November 25, 2008. On December 1, 2008 the Secretary of Energy issued Resolution No. 1312/2008 and regulated these Programs.

Pursuant to these programs, companies that meet the Programs requirements are eligible by the Secretary of Energy to receive transferrable tax credit certificates to be applied to the payment of tariffs on the export of oil and its derivatives. In addition, the resolution regulated section 7, subsection b) of Law No. 26360, by providing for that any works performed by the companies for the exploration and exploitation of new oilfields, increase in the production capacity and addition of new technologies for the production of existing fields shall be deemed as "Critical Infrastructure Works" and shall be granted the benefits set forth by such law.

Since both production and the replacement of reserves increased, Pan American Energy was eligible for the Petr leo Plus Program and, since 2009, it receives tax credit certificates issued under this regime.

In the first half of 2008, the various unions gathering workers who perform tasks in the oil fields operated by the Branch made several claims for salary increases, reclassifications, labor continuity (for UOCRA personnel), enforcement of the collective bargaining agreements and other labor benefits. Such claims were supported by various action measures particularly affecting the province of Santa Cruz and, as a result, the Piedra Clavada and Koluel Kaike blocks came to a complete standstill in May and the drilling, completion and pulling activities were partially interrupted in the province of Chubut. Compensation agreements were signed with the Private Oil Workers Union of Chubut, the Oil Workers Union of Santa Cruz, the Union of Hierarchy Employees of the Southern Patagonia and the Argentine Federation of Private Oil and Gas Workers (FASP y GP). In addition, the Business Chambers reached collective bargaining agreements with the Workers Unions of Neuqu n, both Private Oil Workers and Hierarchy Employees. In November 2008, promoted by the Ministries of Labor and Social Security and Federal Planning, Public Investment and Services, a “social peace agreement” was signed with Workers Unions (oil workers and hierarchy employees) to postpone negotiations until March 31, 2009. The agreement was signed by the main operators and the governments of the provinces of Neuqu n, Santa Cruz and Chubut, and the FASP y GP acted as guarantor.

During 2008, the Branch has continued with its investment plans with a view to expanding its business and contributing to satisfying the growing energy demand. The commitments assumed referred to in the following paragraphs strengthen these expansion plans.

On December 6, 2006, Law No. 26197, known as “Hydrocarbons Short Law”, was passed. This law complied with the constitutional provision of transferring the original ownership of the natural resources contained in the subsurface from the Federal State to the producing provinces where oil fields are located.

Within this framework, the Branch entered into with the Argentine provinces of Chubut (04/27/2007) and Santa Cruz (06/25/2007) two investment commitments and agreements for the extension of the term of the concession for hydrocarbon exploitation for a ten-year period in the blocks known as Cerro Drag n, the area of which is extended in the territory of both provinces, and Piedra Clavada and Koluel Kaike in the province of Santa Cruz. The agreements expired between 2016 and 2017.

These agreements provided for, among other obligations, minimum investments of US\$2,000,000,000 in the Province of Chubut and of US\$ 500,000,000 in the Province of Santa Cruz to be made before 2017.

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Furthermore, other investments of US\$ 1,000,000,000 in the Province of Chubut and US\$ 300,000,000 in the Province of Santa Cruz are to be made before 2027 as a condition for PAE to be granted the operation agreements referred to below.

The agreements also provided for a US\$ 80,000,000 investment commitment for off-shore exploration, at the Branch's own risk, by means of two joint ventures (UTEs) with the state-owned companies Petrominera (in the case of Chubut) and Fomicruz (in the case of Santa Cruz). The potential exploration success and future business activity imply that, an additional investment commitment in the amount of US\$ 500,000,000 be required for the development of the offshore fields.

The creation of the UTEs referred to in the preceding paragraph is consistent with the provisions of sections 11 and 95 of the Hydrocarbon Law, which allows state-owned companies to enter into agreements and create companies, partnerships or other associations with individuals or entities for the development of their activities.

The operation agreements executed with state-owned companies also fall within the scope of the referred legislation, which will be enforced as from the year 2027, subject to compliance with the investment commitments and Pan American Energy's exploration success, in developing sufficient reserves to continue with the production of the fields of those areas as from that year.

Based on these agreements, during the remaining term of the concessions, the Branch agreed to pay to the respective provinces an additional amount of 3% of the net revenues for certain items described in the agreements. The Branch will also provide money for the development of infrastructure and the economic diversification of the Provinces of Chubut and Santa Cruz. A number of grants will be awarded, loans given or guaranteed, job opportunities offered, and supplementary actions will be performed by the Branch as well. In addition, Pan American Energy LLC agreed to dismiss the claims filed against the Argentine Government with the International Centre for Settlement of Investment Disputes (ICSID), once the agreements referred to in the previous paragraphs are finally approved. On June 18, 2008, the Company filed such dismissal with the ICSID. On June 18, 2008, the Company filed such dismissal with the ICSID. On August 20, 2008, the Arbitration tribunal placed on record the termination of the proceedings.

The agreement with the province of Chubut was ratified by provincial law No. 5616 passed by the Provincial Congress on May 24, 2007, enacted by decree No. 500/2007 and published in the Official Bulletin on May 28, 2007.

The agreement with the province of Santa Cruz was ratified by provincial law No. 3009 issued by the Provincial Congress on March 13, 2008, enacted by decree No. 545/2008 and published in the Official Bulletin on March 27, 2008.

The execution of these agreements proposes a new horizon to sustain the increase in production and reserves maintained by Pan American Energy in the Golfo San Jorge basin. This new horizon and other regulatory and market conditions will allow addressing long-term projects requiring sound investments, new technologies and teams working for the future.

On January 28, 2008, Pan American Energy communicated that, as a result of its permanent exploration activities in the Cerro Dragón block, it has been able to find new oil and natural gas reserves which were identified in the Northern and Central areas of such block in the Province of Chibut, totaling for one hundred million equivalent oil barrels (boe).

On February 9, 2009, the government of the province of Neuquén and the operator partner of the blocks Aguada Pichana and San Roque, in which Pan American Energy LLC Argentine Branch has an ownership interest, agreed to extend the term of the concessions for exploitation in such blocks for 10 years up to November 2027. These companies shall pay US\$ 98,380,000 in 20 monthly installments, allocated to infrastructure works and regional development programs, and a monthly extraordinary rental payment of 3% over the production of the blocks. In addition, such companies agreed to make investments and incur in expenses for a total amount of US\$ 883,000,000 from 2009 to 2027. The amount of US\$ 133,000,000 out of which will be allocated to gas exploration mainly. The agreement also provides for the companies' commitment in terms of environmental protection, hiring of workforce and companies from Neuquén, payment of the stamp tax and the rights for the use of public water and review of the use of aggregates in public land. To support the industrialization of hydrocarbons and new projects for electric energy generation in the province,

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the renegotiation set forth that the companies should make available gas quotas of their own output for the conduction of any such activities.

Furthermore, the Branch is currently holding negotiations with the government of the province of Neuquén to extend the term of the concession for exploitation in the block known as Lindero Atravesado, of which it is operator, for 10 years since its present expiry up to 2026. The agreement is expected to be signed by the end of this month.

Buenos Aires, March 11, 2009

Daniel Grinstein
Attorney-in-fact

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PAN AMERICAN ENERGY LLC (ARGENTINE BRANCH)

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2008

SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2008 REQUIRED BY SECTION 68 OF THE REGULATIONS OF THE BUENOS AIRES STOCK EXCHANGE

Overall issues about the Branch's activity:

1. Specific and significant legal requirements which imply contingent suspensions or changes of benefits provided for by such regulations:

The Branch is not subject to specific and significant legal requirements, which may imply the contingent suspension or change of benefits provided for by such regulations, except as disclosed in notes to the financial statements.

2. Significant changes in the Branch's activities or other similar circumstances that affect the comparison of the financial statements with prior years, or with those to be presented in future years.

There are no changes in the Branch's activities that significantly affect the comparison of the financial statements as of December 31, 2008.

3. Breakdown of receivables and payables as per section 68, subsection 3.

3.a) The breakdown of receivables and payables based on the maturity thereof is disclosed in Exhibit H to the financial statements.

The following receivables without any established term included in the referred Exhibit H are due:

	Current receivables
	\$
Due from October to December 2008	17,143,970
Due from July to September to 2008	31,510,125
Due from April to June 2008	22,562,212
Due from January to March 2008	8,087,123
Due from January to December 2007	3,802,978
Due from January 2006 to December 2006	2,124,926
Due from January 2005 to December 2005	2,046,011
Due from January 2004 to December 2004	309,684
Due from January 2003 to December 2003	22,709
Due from January 2002 to December 2002	86,436
Due from January 2001 to December 2001	135,366
Due from January 2000 to December 2000	87,268
Total	<u>87,918,808</u>

There are no overdue payables.

3.b) In connection with the receivables and payables in foreign currency, see Exhibit F to the financial statements. There are no significant receivables and payables represented by securities.

3.c) There are no receivables and payables subject to adjustment clauses.

3.d) In connection with the receivables and payables that accrue interest as of December 31, 2008, see Exhibit H to the financial statements.

4. Corporations Art. 33 Law 19550

None.

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5. Receivables or loans with directors, statutory auditors, and relatives including up to the second degree:

None as of the date of issuance of these financial statements.

6. Physical counts of inventories

Based on the nature of the activity, the Branch carries out physical counts of most of its inventories. There are no significant slow-moving inventories as of December 31, 2008 for which an allowance has not been set up.

7. Current values

The valuation method of inventories is disclosed in Note 3.2.d) to the financial statements.

8. Property, plant and equipment

No items of property, plant and equipment have been subject to appraisal.

To date, there are no property, plant and equipment items that are not in use due to obsolescence.

9. Interests in other companies

None. The Branch's participating interests in joint operations and other entities are disclosed in Note 2 to the financial statements.

10. Recoverable value

The recoverable value of inventories and fixed assets, used as a limit to their valuation for financial reporting purposes, have been determined based on the net realizable values and values in use, the latter defined as the expected net cash flows that would result from both the use of the assets and the disposal thereof at the end of their useful life.

11. Insurance

As of December 31, 2008, the insurance taken on the Branch's assets are as follows:

<u>Insured assets</u>	<u>Insured risks</u>	<u>Covered amount</u> Thousand US\$
Equipment, facilities and pipelines applied to exploitation and transportation	Physical damage	2,263,658 (*)
Equipment, facilities and pipelines applied to exploitation and transportation	Liability insurance	10,000
Wells	Control, re-drilling, spill	(**)
Goods	Transportation	10,000

Additionally, the Branch has taken out workers compensation insurance and automobile liability insurance.

(*) This is the total appearing in the policy.

(**) According to the limits and deductible amounts applied to the different oilfields.

12. Negative and positive contingencies

To calculate the related accruals, all available elements of judgment and probability of occurrence have been considered (see Notes 3 2 g, 10, 14 and Exhibit D to the basic financial statements).

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13. Contingent events as of the date of issuance of the financial statements with moderate likelihood of occurrence, the financial effects of which have not been fully recorded as of December 31, 2008.

None.

Irrevocable advances for future subscriptions

14. As of December 31, 2008 there are no irrevocable advances for future subscriptions.
15. There are no preferred shares as of December 31, 2008.
16. As of December 31, 2008 the Branch has no restrictions on the distributions of earnings, except as indicated in Note 10.

Buenos Aires, March 11, 2009

Daniel Grinstein
Attorney-in-fact

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ANNEX A

SUMMARY OF PRINCIPAL DIFFERENCES BETWEEN ARGENTINE GAAP AND U.S. GAAP

The financial information included herein related to the Branch is prepared and presented in accordance with Argentine GAAP. Certain differences between Argentine GAAP and U.S. GAAP may be material to the financial information contained herein. Such differences are summarized below. The Branch is responsible for preparing this summary. A reconciliation of the financial statements of the Branch and related footnote disclosures between Argentine GAAP and U.S. GAAP has not been prepared, nor have such differences been quantified. Accordingly, no assurance is provided that the following summary of differences between Argentine GAAP and U.S. GAAP is complete. In making an investment decision, investors must rely upon their own examination of the Branch, the terms of this Offering Circular and the financial information included herein. Potential investors should consult their own professional advisors for an understanding of the differences between Argentine GAAP and U.S. GAAP, and how those differences might affect the financial information contained herein.

Recently, Argentine GAAP has been modified as a result of the issuance of new accounting pronouncements by the Argentine Federation of Professional Councils in Economic Sciences (*Federación Argentina de Consejos Profesionales de Ciencias Económicas*), or FACPCE. Since each professional organization in Argentina has approved these new accounting standards with a variety of amendments, different accounting treatments currently exist within Argentine GAAP between companies located in different jurisdictions. Argentine GAAP, as described in the summary of significant differences, relates to the guidance applicable to entities under the jurisdiction of the Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires.

The financial statements prepared in accordance with Argentine GAAP are established by the FACPCE, and are approved (with or without amendments) by the respective professional organization in each province or in the Federal District of Argentina. These accounting principles and standards are also applicable to companies under the jurisdiction of the CNV, to the extent that the CNV has decided that such accounting principles and standards should apply to the companies under its jurisdiction. In addition, the CNV and other regulatory entities, such as the Inspection Board of Legal Entities (*Inspección General de Justicia*), or IGJ, the Insurance Sector Supervisory Board (*Superintendencia de Seguros de la Nación*), or SSN, and the Central Bank, provide additional, more specific and, at times, separate guidelines.

In December 2009, the CNV issued a Resolution by which it adopted International Financial Reporting Standard (“IFRS”) which will be fully in effect as from January 1, 2012 for all the companies registered with the CNV.

The following summary of certain differences between Argentine GAAP and U.S. GAAP does not purport to be complete and is subject and is qualified in its entirety by reference to the respective pronouncements of the Argentine and U.S. accounting professional standards.

The summary does not include differences in generally accepted accounting principles that relate to financial institutions and other industry specific accounting and reporting matters. The U.S. accounting principles do not include any additional accounting adjustments that might be required by the SEC or disclosure-only items.

A-I. Accounting Differences

Adjustment for Inflation of Financial Statements

Under Argentine GAAP and the provisions of the Argentine Law No. 19,550 regarding commercial entities, financial statements were adjusted for inflation until August 31, 1995 to account for the effect of the variations in the purchasing power of local currency. Monetary items were maintained at their nominal value at the ending date of the fiscal period for which financial statements were being prepared. Non-monetary assets were adjusted by the variation of the Argentine WPI between the beginning date and ending date of the fiscal period. Holding gains or losses arising as a result of inflation were credited or charged to income. To facilitate inter-period comparisons,

prior-period financial statements were adjusted for inflation to the ending date of the most recent fiscal period covered.

In August 1995, the Argentine Executive Branch issued Decree No. 316/1995, which established that financial statements could no longer be adjusted for inflation as from September 1, 1995. As a result, many regulatory authorities issued revised rules and suspended adjustment for inflation as from such date. Balances on August 31, 1995, adjusted for inflation at that date, became the historical cost basis for subsequent accounting and reporting.

As a result of the economic environment in 2002, the regulatory authorities and professional organizations issued various resolutions reinstating the application of adjustment for inflation in financial statements as from January 1, 2002. These resolutions provided that all recorded amounts adjusted for inflation through August 31, 1995, as well as those arising between that date and December 31, 2001, were to be considered stated in currency as of December 31, 2001.

On March 25, 2003, after considering inflation levels for the second half of 2002 and the first months of 2003, the Argentine government instructed the regulatory authorities to issue the necessary regulations to preclude companies under their supervision from filing financial statements adjusted for inflation. Therefore, the regulatory authorities (CNV and IGJ) issued resolutions providing for the discontinuance of adjustment for inflation as from March 1, 2003. The professional organizations suspended adjustment for inflation as from October 1, 2003.

Under U.S. GAAP, adjustment for inflation of financial statements is not permitted. Account balances and transactions are generally stated in the units of currency of the period/year when the transactions were originated. This accounting model is commonly known as the historical cost basis of accounting.

Provided below is an analysis of the different alternatives in presenting financial statements (under or reconciled to U.S. GAAP) and the appropriate consideration of adjustment for inflation:

Consolidation

Under both Argentine and U.S. GAAP, when a company has a controlling interest in an entity (either through a majority voting interest or through the existence of other control factors such as the power to govern), such entity's financial statements should be consolidated with those of the parent company. Under both Argentine and U.S. GAAP, voting rights also need to be taken into consideration.

Under U.S. GAAP, the consolidation model also focuses on identifying entities for which a controlling financial interest is achieved through means other than voting rights. Under this interpretation, special purpose entities ("SPE") must be consolidated if certain consolidation requirements are met, namely if an enterprise has a variable interest in an entity that will absorb a majority of an entity's expected losses, receive a majority of an entity's expected residual returns, or both. Under Argentine GAAP, consolidation of SPE is required when the substance of the relationship indicates control.

Under Argentine GAAP, consolidation is not required when (i) the subsidiary is acquired and held for resale (defined as temporary control), (ii) control does not rest with the majority owner or (iii) the investment in the subsidiary is not recoverable (the investment has been fully written down in the parent company's books). Under U.S. GAAP, consolidation is not required only when control does not rest with the majority owner. U.S. GAAP no longer has an exclusion based on temporary control.

Under Argentine GAAP, the consolidated financial statements are presented as a supplement to the parent company's financial statements. Under U.S. GAAP, the consolidated financial statements are presented as the primary rather than supplemental financial statements.

Equity Method of Accounting for a Significant Investment

Under Argentine GAAP, investments in which a company exercises significant influence are accounted for by the equity method, except for investments acquired and held for resale (in this case, ownership is considered

“temporary”). Under U.S. GAAP, the equity method of accounting is used when a company exercises significant influence regardless of the temporary or definitive nature of the investment.

Under both Argentine and U.S. GAAP, a 20% or more interest by an investor in an entity’s voting rights leads to a presumption of significant influence. Participation in the entity’s financial and operating policies and/or representation on the entity’s board of directors may demonstrate significant influence. In the event there is not significant influence over the investee in which ownership is less than 20%, both Argentine and U.S. GAAP require the cost method of accounting. The Branch has no interests in any other companies.

The equity method of accounting is calculated based on underlying financial statements. For purposes of reconciling local financial statements to U.S. GAAP, a company should assess the impact of U.S. GAAP adjustments on the Argentine GAAP financial statements of its consolidated companies and equity investees.

Accounting for Joint Ventures

Under Argentine GAAP, jointly controlled entities are consolidated on a proportionate basis. U.S. GAAP does not permit proportionate consolidation for corporate joint ventures except EITF Issue 00-01. Venturers apply the equity method to recognize the investment in a jointly controlled entity. Equity accounting is also appropriate for investments in unincorporated joint ventures. All participations of the Branch are in unincorporated joint ventures.

Business Combinations and Purchase Accounting

Under Argentine GAAP, business combinations are accounted for as either purchases or pooling of interests. However, these two methods are not alternatives for the same transaction. All facts and circumstances should be carefully evaluated in order to determine the appropriate method of accounting. Business combinations are generally treated as the acquisition of one company by another and therefore accounted for by the purchase method. A pooling of interests occurs where it is not possible to identify an acquirer; instead, the shareholders of the combining entities join in substantially equal arrangements to share control. Specific Argentine GAAP guidance about business combinations excludes from its scope transactions among entities under common control.

U.S. GAAP requires the use of the purchase method of accounting for all business combinations. Transfers of net assets or shares of entities under common control are accounted for at predecessor book basis.

Under Argentine GAAP, the pooling of interests method, the recorded assets and liabilities of the separate enterprises generally become the recorded assets and liabilities of the combined enterprise. Additionally, the capital stock and capital in excess of par or stated value of outstanding stock of the separate enterprises are recorded as capital. Similarly, retained earnings or deficits of the separate enterprises are combined and recognized as retained earnings or deficits of the combined enterprise. Any assets or liabilities exchanged to effect the transfer are accounted for as a capital dividend to, or capital contribution by, the transferor. Under the pooling of interests method, the financial statements of the combined enterprise for periods prior to the combination are restated to present the previously separate enterprises as if they had always been combined.

Under the purchase method of accounting for both Argentine and U.S. GAAP, the purchase price is allocated to the assets acquired and liabilities assumed based on their respective estimated fair values at the date of acquisition. Additionally, in certain circumstances, a liability should also be recorded for the costs of a plan to exit an activity and terminate/relocate employees of an acquired business. Under U.S. GAAP, an intangible asset acquired must be recognized separately from goodwill if it represents contractual or legal rights or is capable of being separated or divided and sold, transferred, licensed, rented or exchanged. Under Argentine GAAP, an intangible asset acquired must be recognized separately from goodwill if it qualifies for capitalization under the accounting guidance for intangible assets and its fair value can be measured on a confidence basis. See “Accounting for Goodwill” below for a description of the different accounting treatment of goodwill and negative goodwill originated in business acquisitions.

Revenue Recognition

U.S. GAAP provides highly prescriptive revenue recognition guidance, containing industry-specific accounting standards. Argentine GAAP has broad principles which are generally applied without exceptions for specific industries.

Accounting for Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. Under Argentine GAAP, goodwill is carried at cost less accumulated amortization. There is a rebuttable presumption that the useful life of goodwill does not exceed 20 years. Goodwill may not be amortized if it has an indefinite life. Argentine GAAP requires an impairment review of goodwill whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and annually if the estimated useful life exceeds 20 years. Under U.S. GAAP, goodwill should not be amortized but must be reviewed for impairment at least annually at the reporting unit level following a two-step test.

Negative goodwill represents the excess of the fair value of the net assets acquired over the purchase price. Under Argentine GAAP, negative goodwill relating to expected future losses or expenses identified in the acquirer's plan for the acquisition must be recognized in the income statement when those losses/expenses occur. Otherwise, negative goodwill not exceeding the fair value of acquired, identifiable non-monetary assets must be recognized in the income statement on a systematic basis over the weighted-average remaining useful life of such assets. Where negative goodwill exceeds the fair value of non-monetary assets, such an excess should be immediately recognized in the income statement. Under U.S. GAAP, any excess of fair value over the purchase price must be allocated on a pro rata basis to all assets other than current assets, financial assets, assets to be sold, prepaid pension assets and deferred taxes. Any negative goodwill remaining is recognized as an extraordinary gain. Neither Pan American nor the Branch carries goodwill amounts on its Balance Sheets and no purchase transactions had resulted in recording goodwill.

Foreign Currency Translation

Under Argentine GAAP, there are two methods for translating foreign currency financial statements. Where a foreign operation is integral to the reporting entity, its accounts are translated as if all the transactions had been earned out by the reporting entity itself. Once translated, and only if inflation accounting is required, balances are then restated for inflation to the end of the period. Translation gains and losses are recognized within financial results in the income statement. Where a foreign operation is largely independent of the investing entity's reporting currency, the financial statements are adjusted for inflation to the end of the period using the inflation index in the foreign subsidiary's country of operations (if required) and then translated using the period-end exchange rate. Alternatively, a largely independent foreign operation may be translated into pesos applying the method described for integral entities.

Under U.S. GAAP, where the operations of a foreign operation are largely independent of the investing entity's reporting currency (i.e., the local currency is the functional currency), the current method of translation is used. Under this method, amounts in the foreign operations' balance sheet are translated using the closing rate, with the exception of equity balances where the historical rate is used. Amounts in the income statement are usually translated using the average rate for the accounting period. Where a foreign operation is integral to the reporting entity (i.e., the functional currency is the reporting currency), the monetary/non-monetary method of translation is used. This method involves the translation of monetary assets and liabilities at the exchange rate in effect at the end of each period and non-monetary assets and liabilities and equity at historical exchange rates (i.e., the exchange rates in effect when the transactions occur). Average exchange rates are applied for the translation of the accounts that make up the results of the periods, except for those charges related to non-monetary assets and liabilities, which are translated using historical exchange rates. Translation adjustments are included in the statement of income. This method is also required when the subsidiary operates in a highly inflationary environment (i.e., when the cumulative inflation rate is approximately 100% or more over a three-year period). The Branch and Pan American's main subsidiaries carry both sets of books, one in pesos and according to Argentine GAAP and the other in U.S. dollars and according to U.S. GAAP. As a consequence, foreign currency translation is applied for converting transactions from pesos to U.S. dollars and vice versa rather than to convert foreign currency financial statements.

Present-Value Accounting

Argentine GAAP requires that certain other receivables and liabilities be measured at their present value at each balance sheet date. Under U.S. GAAP, present valuing or discounting of these assets and liabilities is precluded.

Investments in Debt and Equity Securities

Under Argentine GAAP, current and non-current investments in government or private sector securities listed on stock exchanges or securities markets are valued at their listed price at the closing date, net of estimated selling expenses (*i.e.*, carried at net realizable value). Related unrealized gains and losses are included in earnings. Investments in government or private sector securities held to maturity are valued at cost, increased exponentially on the basis of the internal rate of return at the time of incorporation to assets and the time elapsed since then.

Under U.S. GAAP concerning enterprises in industries not having specialized accounting practices, the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities is as follows:

- debt securities that the enterprise has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and are reported at amortized cost;
- debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings; and
- debt and equity securities not classified as either held-to-maturity or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity (other comprehensive income).

For individual securities classified as either held-to-maturity or available-for-sale, a company should determine whether a decline in fair value below the amortized cost basis is other than temporary. If the decline is other than temporary, the cost basis of the individual security should be written down to fair value as a new cost basis and the amount of the write-down should be included in earnings as a realized loss. The new cost basis should not be changed for subsequent recoveries in fair value.

Inventories

Under Argentine GAAP, inventories are classified into four groups for valuation purposes:

- Fungible inventories with transparent market values that can be traded without significant sales effort: valued at net realizable value (*i.e.*, the respective quotations at the period-end date, net of estimated selling expenses).
- Inventories for which the company has received advances that fix the selling price and the contract conditions assure the realization of both the sale and gain: valued at net realizable value.
- Inventories produced or constructed in a production or long-term construction process: valued at their net realizable value on a percentage of completion basis if certain conditions are met. Otherwise, inventories are valued at their replacement or reproducing value.
- Inventories in general (*i.e.*, inventories not classified in the above-mentioned categories): valued at replacement or reproducing cost. If replacement or reproducing cost cannot be determined or valued, the original cost (adjusted for inflation if required) is used.

Under U.S. GAAP, inventories are valued at the lower of cost or market value. Market value is defined as being current replacement cost subject to an upper limit of net realizable value (*i.e.*, estimated selling price less reasonable predictable costs of completion and disposal) and a lower limit of net realizable value less a normal profit

margin. Reversal of a write-down is prohibited, as a write-down creates a new cost basis (i.e., inventory's write-downs must be charged against cost of sales).

Property, Plant and Equipment Held for Use or Rent

Under both Argentine GAAP and U.S. GAAP, property, plant and equipment are carried at their original cost less accumulated depreciation. Under Argentine GAAP, the original cost and accumulated depreciation are adjusted for inflation at the end of the period if adjustment for inflation is required. Under U.S. GAAP, revaluations are not permitted.

Under both Argentine GAAP and U.S. GAAP, property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recovered.

Prior to January 1, 2006, under Argentine GAAP, the carrying value of a long-lived asset was considered to be impaired when the expected cash flows, undiscounted and without interest, from such asset were separately identifiable and less than its carrying value. In that event, a loss was recognized based on the amount by which the carrying value exceeded the fair market value of the long-lived asset. Fair market value was determined primarily using projected cash flows discounted at a rate commensurate with the risk involved or independent appraisals, as appropriate.

Effective January 1, 2006, as a result of the adoption of new accounting standards by the CNV, under Argentine GAAP applicable to companies entitled to make public offering of shares or debt securities the carrying value of a long-lived asset is considered to be impaired when the expected cash flows from such asset are separately identifiable and less than its net carrying value. Expected cash flows are determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

For US GAAP purposes, the carrying value of a long-lived asset is considered impaired when the expected undiscounted cash flows from such asset are separately identifiable and less than its carrying value. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined using the anticipated cash flows discounted at a rate commensurate with the risk involved or based on independent appraisals.

The following are the principal differences between both Argentine and U.S. GAAP related to the accounting for impairments:

- Under U.S. GAAP, a long-lived asset or assets should be grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Argentine GAAP requires the impairment analysis be made at business segment levels (e.g., business line, activity, etc.).
- Argentine GAAP permits restoration of previously recognized impairment losses as a result of a change in estimates. In that event, the asset should be measured at the lower of its (i) carrying amount before the impairment, adjusted for any depreciation expense that would have been recognized had the asset not been impaired, or (ii) its new recoverable value (i.e., fair value). U.S. GAAP prohibits reversals of impairment losses for assets to be held and used. When an impairment loss is recognized under U.S. GAAP, the adjusted carrying amount of the asset becomes the new cost basis, which is amortized over the remaining useful life of the asset.

Property, Plant and Equipment Retired from Production and Held for Sale

Under Argentine GAAP, property, plant and equipment retired from the production process and held for sale are reported at their net realizable value (i.e., fair market value less selling expenses). Where the net realizable value exceeds the previous carrying value, a gain should be recognized only if either of the following two conditions is met: (a) there is an active sales market and the net realizable value is based on similar transactions closed to the year-end; or (b) the sales price is fixed by contract. Otherwise, property, plant and equipment retired from the

production process and held for sale should be reported at its carrying amount (original cost net of accumulated depreciation). Argentine GAAP does not provide specific criteria to be met in order to be classified as held for sale.

Under U.S. GAAP, property, plant and equipment held for sale must be reported at the lower of its carrying amount or fair value less cost to sell. Assets held for sale are not depreciated. U.S. GAAP establishes criteria to determine when a long-lived asset is held for sale. Among other things, those criteria specify that (a) the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and (b) the sale of the asset must be probable, and its transfer expected to qualify for recognition as a completed sale, within one year, with certain exceptions. U.S. GAAP provides guidance on the accounting for a long-lived asset if the criteria for classification as held for sale are met after the balance sheet but before the issuance of the financial statements. That guidance prohibits retroactive reclassification of the asset as held for sale on the balance sheet. U.S. GAAP also provides guidance on the accounting for a long-lived asset classified as held for sale if the asset is reclassified as held and used. The reclassified asset should be measured at the lower of its (a) carrying amount before being classified as held for sale, adjusted for any depreciation expense that would have been recognized had the asset been continuously classified as held and used, or (b) fair value at the date the asset is reclassified as held and used.

U.S. GAAP requires that a long-lived asset which is to be abandoned, exchanged for a similar productive asset, or distributed to owners in a spin-off remain considered held and used until it is disposed of. This statement requires that the depreciable life of a long-lived asset which is to be abandoned be revised periodically and also requires that an impairment loss be recognized at the date a long-lived asset is exchanged for a similar productive asset or distributed to owners in a spin-off if the carrying amount of the assets exceeds its fair value.

Acquired and Internally Generated Intangible Assets

Under Argentine GAAP, acquired and internally-generated intangible assets are capitalized if future economic benefits attributable to the assets are probable and the cost of the assets can be measured reliably. However, Argentine GAAP provides certain exceptions to this rule. Research and development costs, certain internally-generated intangible assets (such as goodwill, trademarks and customer lists), advertising expenses and training costs should be expensed as incurred even though the above-mentioned criteria are met. Capitalizable costs under Argentine GAAP include organization and pre-operating costs and other acquired intangible assets. Such capitalizable intangible assets are carried at cost (adjusted for inflation if required) less accumulated amortization. Argentine GAAP provides specific guidance to be considered in determining the appropriate useful life and also states that an intangible asset may not be amortized if it has an indefinite life. However, Argentine GAAP has established an un rebuttable presumption that the useful life of organization and pre-operating costs is five years. Under Argentine GAAP, intangible assets are reviewed for impairment (at business segment levels) whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recovered.

U.S. GAAP requires research and development costs and start-up costs to be expensed as incurred, making the recognition of internally generated intangible assets rare. However, separate rules apply to development costs for computer software that is to be sold, computer software developed for internal use and website development costs. Capitalization (and amortization) applies once technological feasibility is established. Capitalization ceases when the product is available for general release to customers. U.S. GAAP specifies which costs should be expensed and which costs should be capitalized with respect to software developed or obtained for internal use and costs incurred in the development of the company's website, respectively. U.S. GAAP provides guidance in reporting and accounting for advertising expenses. The costs of other than direct-response advertising should either be: (i) expensed as incurred or (ii) deferred and then expensed the first time the advertising takes place. The accounting principle selected from these two options should be applied consistently to similar types of advertising. The costs of direct-response advertising that are potentially capitalizable are the eligible costs relating to the specific campaign that is expected to result in future economic benefits. U.S. GAAP provides guidance regarding the subsequent accounting for acquired intangible assets (both intangible assets acquired in a business combination or acquired independently). Amortizable intangible assets are carried at cost less accumulated amortization and are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recovered. Acquired intangible assets with an indefinite life are not amortized but rather are tested at least annually for impairment.

Capitalization of Financial Costs During Construction or Production

Both Argentine and U.S. GAAP require the capitalization of borrowing costs attributable to the production, construction or assembly of an asset if certain conditions are met. There are specific criteria for each GAAP. Under Argentine GAAP, foreign exchange losses are considered borrowing costs and, therefore, are subject to capitalization. Argentine GAAP also permits capitalization of interest costs related to shareholders' financing. Under U.S. GAAP, foreign exchange losses are not subject to capitalization and capitalization of interest costs related to shareholders' financing is not permitted.

Income taxes

Under both Argentine and U.S. GAAP, the liability method is used to calculate the income tax provision. Under the liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are also recognized for tax loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recorded or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Generally, companies may not consider forecast net income in assessing valuation allowance if they have had cumulative losses in recent years.

Prior to January 1, 2006, under Argentine GAAP, the differences between the price-level restated amounts of assets and liabilities and their historical basis were treated as permanent differences for deferred income tax calculation purposes. Effective January 1, 2006, as a result of the adoption of CNV accounting rules, Argentine GAAP is now applicable to companies entitled to make public offering of shares or debt securities and requires companies to treat these differences as temporary, but permits a one-time accommodation to continue treating these differences as permanent at the time of adoption of the accounting standard. In addition, the new standards provide for the recognition of deferred income taxes on a non-discounted basis.

Under U.S. GAAP, such differences are required to be treated as temporary differences in calculating deferred income taxes.

Uncertain Tax Positions

Under US GAAP, to determine if benefits from uncertain tax positions can be recognized entities must determine if such recognition is appropriate and subsequently measure such position. The tax position is measured by using a cumulative probability model: the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. Tax benefits from uncertain tax positions can be recognized only if it is more likely than not that the tax position is sustainable based on its technical merits.

Accounting for uncertain tax positions is not specifically addressed under Argentine GAAP. The tax consequences of events should follow the manner in which an entity expects the tax position to be resolved (through either payment or receipt of cash) with the taxation authorities at the balance sheet date. An acceptable method by which to measure tax positions is the single best-outcome/most-likely-outcome method. Use of the cumulative probability model required by US GAAP is not supported by Argentine GAAP.

Financial Instruments with Characteristics of both Liabilities and Equity

Where a company issues a financial instrument with characteristics of both liabilities and equity, as a general rule Argentine GAAP requires that both elements be segregated and treated separately. The classification of each component of the financial instrument as liabilities or shareholders' equity should be based on the substance of the transaction. However, except for redeemable preferred stock, no specific or detailed guidance exists for the different types of financial instruments that a company may issue. Argentine GAAP requires the classification of redeemable preferred stock as a liability when either redemption is mandatory or the stock is redeemable at the option of the holder, and the redemption price and date are fixed or determinable. Preferred dividends are considered financial

costs unless the preferred stock is classified as shareholders' equity. Preferred stock redeemable at the option of the issuer is classified within shareholders' equity.

U.S. GAAP establishes standards for how an issuer should classify and measure certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity under U.S. GAAP. This statement requires an issuer to classify the following instruments as liabilities (or assets in some circumstances) if certain conditions are met:

- A financial instrument issued in the form of shares that is mandatorily redeemable or that embodies an unconditional obligation requiring the issuer to redeem it by transferring its assets at a specified or determinable date (or dates) or upon an event that is certain to occur;
- A financial instrument, other than an outstanding share, that, at inception, embodies an obligation to repurchase the issuer's equity shares, or is indexed to such an obligation, and that requires or may require the issuer to settle the obligation by transferring assets (for example, a forward purchase contract or written put option on the issuer's equity shares that is to be physically settled or net cash settled); and
- A financial instrument that embodies an unconditional obligation, or a financial instrument other than an outstanding share that embodies a conditional obligation that the issuer must or may settle by issuing a variable number of its equity shares.

The requirements of this statement apply to issuers' classification and measurement of freestanding financial instruments, including those that comprise more than one option or forward contract. This statement does not apply to features that are embedded in a financial instrument that is not a derivative in its entirety. For example, it does not change the accounting treatment of conversion features, conditional redemption features, or other features embedded in financial instruments that are not derivatives in their entirety. It also does not affect the classification or measurement of convertible bonds, puttable stock, or other outstanding shares that are conditionally redeemable. This statement also does not address certain financial instruments indexed partly to the issuer's equity shares and partly, but not predominantly, to something else. Financial instruments with characteristics of both liabilities and equity not addressed in this statement will be addressed in the next phase of the project. Guidance currently in effect for those instruments continues to apply. In applying the classification provisions of this statement, nonsubstantive or minimal features are to be disregarded.

Derivatives and Hedging Activities

Under both Argentine and U.S. GAAP, all derivatives are recognized on the balance sheet as either financial assets or liabilities. They are initially measured at cost defined as the fair value on the acquisition date and include directly related transaction costs. Both Argentine and U.S. GAAP require subsequent measurement of all derivatives at their fair value, regardless of any hedge relationship that might exist. Changes in a derivative's value are recognized in the income statement as they arise, unless they satisfy the criteria for hedge accounting. Under Argentine and U.S. GAAP, detailed guidance is set out in the respective standards dealing with hedge accounting. For derivatives classified as fair value hedges, both Argentine and U.S. GAAP require that gains and losses on fair value hedges (for both the hedging instrument and the item being hedged) be recognized in the income statement. For derivatives classified as cash flow hedges, Argentine GAAP requires gains and losses on the hedging instrument, where they are effective, be reported on a separate caption between liabilities and shareholders' equity-denominated "temporary measurement differences related to effective-hedge financial instruments." Such gains and losses are subsequently released to the income statement concurrent with the deferred recognition of the hedged item. Under U.S. GAAP, such effective gains and losses are temporarily reported as a separate component of other comprehensive income. Under both Argentine and U.S. GAAP, the ineffective portion is reported in the income statement. For derivative instruments classified as hedges of net investments in foreign operations, both Argentine and U.S. GAAP require that gains and losses on the hedging instrument, where they are effective, be reported in a manner similar to translation adjustments (See "—Foreign Currency Translation"). The ineffective portion is reported in the income statement under both Argentine and U.S. GAAP.

A-II. Presentation and Disclosure Differences.

Oil and Gas Accounting

U.S. GAAP provides very detailed rules to be applied by oil and gas exploration and production companies. These comprise rules that determine when each expenditure should be capitalized and when it should be expensed, rules governing abandonment and retirement obligations, booking of reserves depletion, depreciation and amortization and so forth for each of the activities normally performed in the exploration and production business. Argentine GAAP contains few specific accounting rules for the oil and gas activities. As a consequence, a large part of the accounting of such activities is governed by general Argentine GAAP rules. However, to the extent that no Argentina GAAP rule is contradictive, the Branch applies the same rules applied by Pan American, i.e., US GAAP rules for oil and gas accounting.

Accounting Changes

Under Argentine GAAP, the cumulative effect of changes in accounting principles is generally applied as an adjustment to the current year's opening equity balance and prior period retained earnings are restated for comparative purposes.

Under U.S. GAAP, changes in accounting principles related to the adoption of a newly issued accounting pronouncement should follow the specific transition provisions of such pronouncement. For other changes in accounting principles, an entity shall report such changes through retrospective application of the new accounting principles to all prior periods, unless it is impracticable to do so.

Statement of Cash Flows

Under both Argentine and U.S. GAAP, a statement of cash flows describing the cash flows provided by or used in operating, investing and financing activities is required. However, under Argentine GAAP, the effect of exchange rate changes and the effect of inflation on cash and cash equivalents are not disclosed by presenting additional cash flow statement categories as required by U.S. GAAP. As a result, certain differences exist between cash flows prepared under Argentine GAAP and cash flows prepared following U.S. GAAP. In addition, U.S. GAAP provides specific and more detailed guidance regarding the classification and presentation of particular transactions.

Earnings Per Share (EPS)

Both Argentine and U.S. GAAP require public companies to disclose EPS information in their financial statements. Even though guidance set forth in *both, Argentine and U.S. GAAP* are similar in their matter to the basic principles set forth in SFAS No. 128, certain differences exist between Argentine GAAP and U.S. GAAP. Under Argentine GAAP, there is no specific guidance on how to compute the dilutive effect of any outstanding stock options and warrants. Under U.S. GAAP, the treasury-stock method is required.

In addition, under U.S. GAAP there is a more detailed guidance for computing basic and diluted EPS.

Other Income (Expenses)

Certain amounts classified as other income (expenses) in Argentine GAAP financial statements may not qualify as other income (expenses) under U.S. GAAP. Such items are generally reflected as a deduction from operating income (loss).

Discontinued Operations

Under both Argentine and U.S. GAAP, companies are required to separately disclose information with respect to discontinued operations. However, certain differences may exist regarding the timing, measurement and presentation of discontinued operations between Argentine and U.S. GAAP.

Comprehensive Income

Under Argentine GAAP, there are no specific regulations regarding the presentation of comprehensive income.

Under U.S. GAAP, guidelines are established for the reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general purpose financial statements. U.S. GAAP requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. U.S. GAAP provides three alternative formats for reporting comprehensive income.

Advances to Suppliers

Under Argentine GAAP, funds advanced to suppliers are included in the appropriate asset account (i.e., inventory, fixed asset, etc.) to which the advance relates.

Under U.S. GAAP, these funds are treated as a deposit until the actual property or equipment procured by such funds has been purchased and specifically identified. Accordingly, such funds are generally classified as “other assets.”

Financial Statement Disclosures

Argentine GAAP in general requires less information to be disclosed in financial statement footnotes than U.S. GAAP. Also, classification of items in the balance sheet and income statement between both Argentine and U.S. GAAP may differ.

Supplementary Oil, Gas and LPG Information

U.S. GAAP requires, in very specific regulations, several disclosures for oil and gas exploration and production companies. Such disclosures comprise a three-years proved reserves table showing the main factors that explain the evolution of such reserves from the beginning to the end of each of such three years. There are also disclosures showing the discounted measurement of future net cash flows related to proved oil and gas reserves, explaining the situation of proved undeveloped reserves, oil and gas prices and production costs, number and status of wells and developed and undeveloped acreage. Both the SEC and the FASB, have recently issued new rules in terms of accounting and disclosures referred to oil and gas exploration and production companies. Argentine GAAP requirements are much less detailed for oil and gas exploration and production companies.

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ANNEX B

GLOSSARY OF CERTAIN HYDROCARBON AND OTHER TERMS

Unless the context indicates otherwise, the following terms have the meanings shown below:

“API”	American Petroleum Institute.
“bbl”	Barrel.
“bcf”	Billion cubic feet.
“block”	An oil and gas exploration or production area. A block may include one or more fields.
“boe”	Barrels of oil equivalent.
“bpd”	Barrels of oil per day.
“Btu”	British thermal unit.
“cf”	Cubic feet.
“condensate”	Liquid hydrocarbons, which are produced with gas, and liquids derived from gas.
“developed acreage”	Acreage within the boundary of a field, on which development wells have been drilled which produce hydrocarbons.
“development well”	A well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive.
“dry well”	An exploratory or development well found to be incapable of producing hydrocarbons in sufficient quantities to justify completion.
“E&P”	Exploration and production of hydrocarbons.
“exploration well”	A well drilled to find an undiscovered reservoir of oil or gas. This definition reflects Pan American’s historical records and differs from the definition of the U.S. Securities and Exchange Commission, which considers an exploration well to be any well that is not a development well.
“G&C”	Gaffney, Cline & Associates Inc.
“gas”	Any hydrocarbons or mixture of hydrocarbons and other gases consisting primarily of methane which at normal atmospheric conditions is in a gaseous state.
“gross well” or “gross acreage”	A well or acreage in which a whole or fractional working interest is owned.
“GWh”	Gigawatt.
“hp”	Horsepower.
“LNG”	Liquefied natural gas.

“LPG”	Liquefied petroleum gas-light hydrocarbons consisting mainly of propane and butane which are liquid under pressure at normal temperature.
“m”	Thousand.
“mm”	Million.
“MW”	Megawatt.
“net wells” or “net acres”	The sum of the whole or fractional working interests in gross wells or gross acres.
“oil”	Oil, including condensate.
“operator”	The company appointed by a consortium or a joint venture to conduct operations.
“pd”	Per day.
“productive well”	An exploration or development well that is not a dry well.
“proved developed reserves”	The oil and gas reserves expected to be produced through existing wells with existing equipment and operating methods (additional oil and gas reserves expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved).
“proved reserves”	The estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., on the basis of prices and costs as of the date the estimate is made and any price changes provided for by contractual arrangements, but not escalation based upon future conditions.
“proved undeveloped reserves”	The oil and gas reserves expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for completion, but not including reserves attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir (reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled; proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing formation).
“pulling”	Oil well servicing activity.
“reserves”	The estimated quantities of oil and gas which geological and engineering data demonstrate to be economically recoverable under existing operating practices and current economic conditions.

“RPS”	RPS Group plc
“Ryder Scott”	Ryder Scott Company Petroleum Engineers.
“tcf”	Trillion cubic feet.
“undeveloped acreage”	Acreage within the boundary of a block on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas whether or not such acreage contains proved reserves.
“WTI”	West Texas Intermediate.
“workover”	Major repair work performed on oil and/or gas wells. Workover may include repair of casing or tubing, cement squeezes, plugback or stimulation (fracturing, acidizing or other).

CONVERSION TABLE

1 barrel	= 42 U.S. gallons
	= 0.159 cubic meters
1 barrel of oil	= 1 barrel of oil equivalent
1 barrel of oil equivalent	= 5,800 cubic feet of gas
Prior to January 1, 2005:	
1 barrel of oil equivalent	= 1.446 barrels of LPG
As from January 1, 2005:	
1 barrel of oil equivalent	= 1 barrel of LPG

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