THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in doubt about the content of this document, you should consult a person authorised for the purposes of the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. This document, which comprises an admission document has been prepared by and is the sole responsibility of the Directors of Rurelec PLC (the "Company") in connection with its proposed application for readmission of the Existing Ordinary Shares and Investor Warrants and the admission of the Placing Shares to trading on AIM, a market of London Stock Exchange plc. Copies of this document have not been delivered to the Registrar of Companies. This document is not a public offer nor is it a prospectus for the purposes of the Prospectus Rules.

The Directors, whose names appear on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application will be made for the Existing Ordinary Shares and the Investor Warrants to be readmitted to trading on AIM and for the Placing Shares to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority (the "Official List"). A prospective investor should be aware of the potential risks in investing in such securities and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The rules of AIM are less demanding than those of the Official List. It is emphasised that no application is being made or will be made for admission of the Existing Ordinary Shares, the Investor Warrants or the Placing Shares to the Official List. Further, neither the UKLA nor London Stock Exchange plc has examined or approved the contents of this document. Neither the Existing Ordinary Shares, the Investor Warrants nor the Placing Shares are traded on any other recognised investment exchange and no such applications have been or will be made for the Existing Ordinary Shares, the Investor Warrants or the Placing Shares to be admitted to trading on any such exchange. Investors should read the whole text of this document. The attention of investors is drawn in particular to the "Risk Factors" set out in Part II of this document. It is expected that admission to AIM will become effective and that dealings in the Existing Ordinary Shares, the Investor Warrants and the Placing Shares will commence on AIM on 1 August 2005.

RURELEC

RURELEC PLC

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 4812855)

Placing of 8,750,000 Ordinary Shares at 40 pence per share

Acquisition of 50% interest in Patagonia Energy Limited

Re-admission to trading on AIM

Notice of EGM

Nominated Adviser

Daniel Stewart & Co. plc

Broker

Hichens, Harrison & Co. plc

Ordinary share capital following Admission

Authorised			Issued and fully paid	
Number	*Amount*		*Number*	*Amount*
42,500,000	£850,000	Ordinary Shares of 2 pence each	21,350,000	£427,000

The Placing Shares will, on issue, rank *pari passu* with the Existing Ordinary Shares and will rank in full for all dividends and other distributions declared after their issue in respect of the ordinary share capital of the Company.

Daniel Stewart & Co plc, which is regulated by the Financial Services Authority, is acting as nominated adviser to the Company. It will not be responsible to any person other than the Company for providing the protections afforded to its customers or for advising any other person on the contents of any part this document. The responsibilities of Daniel Stewart & Co plc as the Company's nominated adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or any Director or Shareholder or to any other person, in respect of any decision to acquire Ordinary Shares in reliance on any part of this document or otherwise. Daniel Stewart & Co plc is not making any representation or warranty, express or implied, as to the contents of this document. Hichens, Harrison & Co. plc, which is regulated by the Financial Services Authority, is acting as broker to the Company. It will not be responsible to any person other than the Company for providing the protections afforded to its customers or for advising any other person on the contents of any part of this document. The responsibilities of Hichens, Harrison & Co. plc as the Company's broker under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or any Director or Shareholder or to any other person, in respect of any decision to acquire Ordinary Shares in reliance on any part of this document or otherwise. Hichens, Harrison & Co. plc is not making any representation or warranty, express or implied, as to the contents of this document.

The Placing described in this document is only being made in the United Kingdom. This document does not constitute an offer to sell, or the solicitation of an offer to buy, shares in any jurisdiction in which such offer or solicitation is unlawful and is not for distribution in or into Australia, Canada, Japan, the Republic of Ireland or the United States or to any resident, national or citizen of such countries. The Placing Shares have not been, and will not be, registered under the applicable securities laws of the United States, Canada, Japan, Australia or the Republic of Ireland. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

In making any investment decision in respect of the Placing, no information or representation should be relied upon in relation to the Placing or in relation to the Placing Shares other than as contained in this document. No person has been authorised to give any information or make any representation other than as contained in this document, and if given or made, any such information or representation must not be relied upon as having been authorised.

This document contains forward looking statements, including, without limitation, statements containing the words "believe", "anticipated", "expected" and similar expressions. Such forward looking statements involve unknown risk, uncertainties and other factors which may cause the actual results, financial condition, performance or achievement of the Company, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Risk Factors" set out in Part II of this document. Given these uncertainties, prospective investors are cautioned not to place any undue reliance on such forward looking statements. The Company disclaims any obligation to update any such forward looking statements in this document to reflect future events or developments.

A notice convening an extraordinary general meeting of the Company to be held at the offices of Hammonds Solicitors, 7 Devonshire Square, Cutlers Gardens, London EC2M 4YH at 10.00 a.m. on 29 July 2005 is set out at the end of this document. To be valid the form of proxy accompanying this document must be completed and returned in accordance with the instructions printed thereon so as to be received by the Company's registrars as soon as possible but, in any event, not later than 48 hours before the time fixed for the meeting. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered in the register of members in order to have the right to attend and vote at the meeting is 48 hours prior to the time fixed for the meeting. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend and vote at the meeting. Completion of a form of proxy will not preclude a member from attending the meeting and voting in person.

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DIRECTORS, SECRETARY AND ADVISERS

Directors

James Glynn West (*Chairman and Non-Executive Director*)
Peter Richard Stephen Earl (*Managing Director*)
John Michael Eyre (*Director of Engineering*)
Elizabeth Ruth Shaw (*Director of Finance*)
Francis Mattos (*Non-Executive Director*)

Company Secretary Susan Angela Laker

Registered Office

5th Floor
Prince Consort House
27-29 Albert Embankment
London SE1 7TJ

Nominated Adviser

Daniel Stewart & Co plc
48 Bishopsgate
London EC2N 4AJ

Broker

Hichens, Harrison & Co. plc
Bell Court House
11 Blomfield Street
London EC2M 1LB

Solicitors to the Company

Hammonds
7 Devonshire Square
Cutlers Gardens
London EC2M 4YH

Auditors and Reporting Accountants

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London NW1 2EP

Solicitors to the Nominated Adviser

Eversheds LLP
Cloth Hall Court
Infirmary Street
Leeds LS1 2JB

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

"Acquisition"	the acquisition of Patagonia Energy pursuant to the Acquisition Agreement
"Acquisition Agreement"	the conditional agreement between Basic and Rurelec for the acquisition by Rurelec from Basic of fifty per cent. of the issued share capital of Patagonia Energy, details of which are set out in Part VI of this document
"Act" or "Companies Act"	the Companies Act 1985, as amended
"Admission"	the re-admission of the Existing Ordinary Shares and Investor Warrants to trading on AIM and the admission of the Placing Shares to trading on AIM becoming effective in accordance with the AIM Rules
"AIM"	the market known as "AIM" operated by the London Stock Exchange
"AIM Rules"	the rules for AIM companies in force at the date of this document issued by the London Stock Exchange
"Articles"	the articles of association of the Company
"Basic"	Basic Energy Limited, a company organised and existing under the laws of the Bahamas
"Board"	the board of directors of the Company, including a duly constituted committee of such directors
"BP plc"	BP plc a company registered in England under registration number 00102498 whose registered office is at 1 St James's Square, London SW1Y 4PD
"Broker" or "Hichens Harrison"	Hichens, Harrison & Co. plc
"Broker Warrants"	75,000 warrants issued to Hichens Harrison on 18 August 2004 to subscribe for 75,000 Ordinary Shares at a price of 40 pence per Share, further details of which are set out in paragraph 6(c) of Part VII of this document
"Camuzzi"	Camuzzi Argentina S.A. a company registered in Argentina whose principal office is at Sede Central, Buenos Aires, Argentina
"Capime"	Capime Ingenieria S.A. a company registered in Argentina whose principal office is at Talcahuano 736-7mo, Piso, Buenos Aires, Argentina
"Combined Code"	the "Combined Code on Corporate Governance" published in July 2003 by the Financial Reporting Council
"CREST"	the computerised settlement system (as defined in the CREST Regulations) operated by CRESTCo which facilitates the transfer of title to shares in uncertificated form (as defined in the CREST Regulations)
"CRESTCo"	CRESTCo Limited

"CREST Regulations"	the Uncertificated Securities Regulations 2001 (SI 2001/3755)
"Daniel Stewart"	Daniel Stewart & Co plc, the Company's nominated adviser
"Development Funding"	funding provided for the purpose of financing a development programme either in the form of a grant, or as a loan at a concessionary rate of interest and/or with a longer term, than would normally be achieved on a commercial basis
"Directors"	the directors of the Company, whose names are set out on page 3 of this document
"EGM" or "Extraordinary General Meeting"	the extraordinary general meeting of the Company convened for 10.00 a.m. on 29 July 2005, notice of which is set out at the end of this document
"EGM Resolutions"	the resolutions set out in the Notice of the EGM attached to this document
"Enlarged Share Capital"	the Ordinary Shares in issue immediately following Admission (excluding any Ordinary Shares that may be issued pursuant to the exercise of any Warrants prior to Admission)
"ESA"	Energía para Sistemas Aislados S.A., a company registered in Bolivia under registration number 107752 whose principal office is at Av. Brasil, Esquina 3_ Anillo, Santa Cruz, Bolivia
"EDS"	Energía del Sur S.A, a corporation duly incorporated and existing under the laws of the Republic of Argentina, domiciled at Alicia Moreau de Justo 2050, 3rd floor, office 307, City of Buenos Aires, Republic of Argentina
"Eléctrica"	Eléctrica del Sur, S.A., a corporation duly incorporated and existing under the laws of the Republic of Argentina, domiciled at Alicia Moreau de Justo 2050, 3rd floor, office 307, City of Buenos Aires, Republic of Argentina
"Executive Directors"	Peter Earl, Mike Eyre and Elizabeth Shaw
"Existing Ordinary Shares"	the 12,600,000 Ordinary Shares in the capital of the Company in issue at the date of this document
"FSMA"	the Financial Services and Markets Act 2000
"GDP"	gross domestic product
"Grant Thornton"	Grant Thornton UK LLP of Grant Thornton House, Melton Street, Euston Square, London NW1 2EP
"Group"	the Company and its subsidiary undertaking as at the date of this document
"Guaracachi"	Empresa Eléctrica Guaracachi, S.A., a company registered in Bolivia under registration number 08-035910-03 whose principal office is at Av. Brasil, Esquina 3_ Anillo, Santa Cruz, Bolivia
"Investor Warrants"	1,000,000 warrants issued by the Company, on 18 August 2004 to subscribe for 1,000,000 Ordinary Shares, further details of which are set out in paragraph 6(m) of Part VII of this document

"IPC"	Independent Power Corporation PLC a company registered in England under registration number 3097552, whose principal office is at 5th Floor, Prince Consort House, 27-29 Albert Embankment, London SE1 7TJ
"IPOL"	Independent Power Operations Limited, a company registered in England under registration number 4288901, whose registered office is at 5th Floor, Prince Consort House, 27-29 Albert Embankment, London SE1 7TJ
"Lock-In Agreements"	the conditional agreements governing the disposal of Ordinary Shares by the Directors and others, details of which are set out in paragraph 6(g) of Part VII of this document
"London Stock Exchange"	London Stock Exchange plc
"Non-Executive Directors"	Jimmy West and Frank Mattos
"Official List"	the Official List of the UKLA
"Ordinary Shares"	ordinary shares of 2 pence each in the capital of the Company
"Patagonia Energy"	Patagonia Energy Limited a company registered in the British Virgin Islands under registration number 620522, whose registered office is at the offices of Walker (BVI) Limited, Walkers Chambers, P.O. Box 92, Road Town, Tortola, British Virgin Islands
"Patagonia Group"	Patagonia Energy and its subsidiary undertakings as at the date of this document
"Patagonia Shareholders' Agreement"	the conditional agreement between Basic, Rurelec and Patagonia Energy relating to certain rights and obligations in respect of the shares in the capital of Patagonia Energy, the details of which are set out in Part VI of this document
"Placees"	the subscribers of Placing Shares pursuant to the Placing
"Placing"	the conditional placing by Hichens Harrison on behalf of the Company of the Placing Shares pursuant to the Placing Agreement
"Placing Agreement"	the conditional placing agreement dated 6 July 2005 between the Company, the Directors, Daniel Stewart and Hichens Harrison further details of which are set out in paragraph 6(e) of Part VII of this document
"Placing Price"	40 pence per Placing Share
"Placing Shares"	the 8,750,000 new Ordinary Shares which are the subject of the Placing
"Power Purchase Agreement"	a long-term agreement to purchase power
"Prospectus Rules"	the Prospectus Rules of the UKLA
"Rurelec" or the "Company"	Rurelec PLC
"Services Agreement"	the shared services agreement dated 23 July 2004 between the Company and IPC, further details of which are set out in paragraph 6(n) of Part VII of this document
"Shareholders"	holders of Ordinary Shares

"UKLA"	the Financial Services Authority, acting through the United Kingdom Listing Authority, in its capacity as the competent authority for the purposes of Part VI of FSMA
"USA" or "United States"	the United States of America, its territories and possessions, any State of the United States of America and the District of Columbia
"Warrants"	the Broker Warrants and the Investor Warrants

GLOSSARY AND TECHNICAL BACKGROUND INFORMATION

"CAMMESA"	Compañía Administradora del Mercado Mayorista Eléctrico S.A., the Wholesale Power Market Administrative Partnership which is the partnership in charge of the administration and coordinated operation of MEM and MEMSP according to established guidelines. Its members are the national government of Argentina and four associations representing the generators, the transmission companies, the distributors and the marketers.
"carbon credit"	carbon credit is a generic term which generally refers to the right to emit one tonne of CO2 (or CO2 equivalent). Such a right will generally derive from a national or international initiative (for instance the Kyoto Protocol and the EU Emission Trading Scheme) to limit volumes of carbon emissions. Credits are generally granted by governments to emitters of carbon within the relevant jurisdiction pursuant to provisions of local law and are often tradeable between entities including states.
"combined cycle"	a combined cycle generator passes the hot exhaust gas from a gas turbine through a heat exchanger which produces steam to drive a secondary turbine
"ENDE"	Empresa Nacional de Electricidad, the former integrated electricity utility owned by the Bolivian state
"interconnected system"	a national electricity transmission network covering part or all of a country
"isolated electricity system"	a local electricity network which is not connected to the Interconnected System
"Jenbacher"	GE Jenbacher 616 gas engines capable of generating 2 MW of continuous power
"MEM"	the MEM is the wholesale electricity market in the Argentine electricity market and is administered by CAMMESA. The participants in the MEM are the generators, the distributors, the transmission companies, the large consumers (more than 50 KW) and the marketers. The MEM consists of both a contract and a spot market.
"MEMSP"	the MEMSP is the Southern Patagonian wholesale electricity market which is administered by CAMMESA. The participants in the MEMSP are the generators, the distributors, the transmission companies, the large consumers (more than 50 KW) and the marketers active within the isolated southern system. The MEMSP consists of both a contract and a spot market.
"MW"	mega watt, a measure of power (in this document electric power)
"open cycle"	a gas turbine in open cycle discharges the hot exhaust gas into the atmosphere (see combined cycle)
"Resolution"	Resolution 406/2003 issued by the Argentine Secretariat of Energy in September 2003
"thermal generator"	a generator whose source of energy is the combustion of hydrocarbons

Supply of Electricity in Argentina

Argentina's electricity industry was restructured in 1992, and now comprises over 35 individual generating companies formed from the break-up of the former state-owned entities. The table below provides a breakdown of electricity generating capacity in the MEMSP as at 31 December 2004:

Type	*Installed Capacity (MW)*	*Participation (%)*
Hydro	519	66.7%
Combined Cycle	63	8.1%
Gas	196	25.2%
Total	778	100.00

Source: CAMMESA

Wholesale Electricity Market

Generators can sell electricity at contract prices negotiated directly with distributors and large users or at spot, stabilised or seasonal prices established in the MEMSP.

The Spot Market

The dispatch of generating units into the MEMSP is managed by CAMMESA based on the marginal cost of each unit in the system. CAMMESA formulates weekly dispatch schedules based upon information supplied by the generators. Generally, units are dispatched in inverse order of marginal cost until system demand is fulfilled.

CAMMESA makes the optimum dispatch arrangements without taking into account the existence of long-term and medium-term agreements between generators, distributors and large users. The result is that any particular generating unit may be dispatched to provide power to the system which is more or less than its contractual commitment. Under such circumstances, the generator will be obliged to buy or sell excess power from or to the MEMSP at the spot price.

Pooling and Settlement

Generators can receive the following payments as participants in the MEMSP:

- energy payments for actual output at the price that generators are paid for electricity sold in the MEMSP (the "spot price").
- capacity payments during hours of normal demand when a generator is accepted for dispatch by CAMMESA.
- cold reserve capacity payments during periods when a generator has been scheduled to provide a reserve (normally only thermal plants are used to provide the cold reserve).
- availability incentive payments for energy generated during peak demand in certain circumstances determined by CAMMESA.
- ancillary service payments for the provision of additional services such as frequency regulation and voltage control which are incremental to the services a generator is required to provide as a MEMSP participant.

The Term Contract Market

Generators can enter into term contracts to supply electricity directly to distributors, large users and other generators and are free to negotiate conditions, duration, volume and price. CAMMESA is not responsible for the flow of funds and settlement in such direct contracts. Contracts must have a minimum duration of two six-month seasonal periods. Details of each contract are required to be made public.

Generators are only permitted to contract the energy that they are able to produce and for thermal plants, the quantity is determined based on actual energy available after planned down time due to maintenance. Large

users who want to participate in the term contract market must contract at least 50 per cent. of their estimated demand. Distributors are able to contract all or part of their estimated demand or to purchase at the relevant seasonal price in the MEMSP.

If a generator dispatches power at a level below the level of power it has contracted to supply it must buy the difference at the spot price. If the power dispatched is higher than the contracted power, the generator will sell the excess to the market and receive the relevant spot price.

Transmission Charges

CAMMESA levies a connection charge on all MEMSP participants and in addition makes a variable charge based on their usage of the transmission network.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Latest time and date for receipt of Proxy cards	10.00 a.m. on 27 July 2005
Extraordinary General Meeting	10.00 a.m. on 29 July 2005
Admission effective and dealings recommence in the Existing Ordinary Shares and Investor Warrants on AIM and dealings commence in the Placing Shares on AIM	8.00 a.m. on 1 August 2005
CREST accounts credited with Ordinary Shares in uncertificated form	8.00 a.m. on 1 August 2005
Despatch of definitive certificates in respect of the Placing Shares	4 August 2005

ADMISSION AND PLACING STATISTICS

Placing Price per Placing Share	40 pence
Number of Placing Shares being issued	8,750,000
Estimated proceeds of the Placing to be received by the Company, net of expenses (excluding VAT)	£3,020,000
Number of Ordinary Shares in issue prior to the Placing	12,600,000
Number of Ordinary Shares in issue following the Placing	21,350,000
Number of Warrants in issue (both before and after the Placing)	1,075,000
Market capitalisation of the Company following the Placing at the Placing Price	£8,540,000

Notes:

The above assumes that no Warrants have been exercised prior to or on Admission

PART I

LETTER FROM THE CHAIRMAN OF RURELEC

RURELEC PLC

(incorporated and registered in England and Wales, registered number 4812855)

Directors:

James Glynn West (*Chairman and Non-Executive Director*)
Peter Richard Stephen Earl (*Managing Director*)
John Michael Eyre (*Director of Engineering*)
Elizabeth Ruth Shaw (*Director of Finance*)
Francis Mattos (*Non-Executive Director*)

Registered Office:

5th Floor
Prince Consort House
27-29 Albert Embankment
London SE1 7TJ

6 July 2005

To Shareholders and, for information purposes only, to holders of Warrants

Dear Shareholder

Proposed Placing, Acquisition and re-admission to trading on AIM

1. Introduction

The Company has entered into an agreement to purchase for cash a 50 per cent. interest in Patagonia Energy, a company incorporated in the British Virgin Islands, from Basic. Patagonia Energy wholly owns directly (and indirectly through Eléctrica) EDS, which owns and operates a generating plant supplying electricity in the isolated electricity system of Southern Patagonia, Argentina. The proposed Acquisition will be financed by a placing of up to 8,750,000 Ordinary Shares. Owing to its size, the transaction constitutes a "reverse takeover" for the purpose of the AIM Rules and is conditional on shareholder approval, which is being sought at an Extraordinary General Meeting of the Company to be held on 29 July 2005.

This document, which comprises an admission document, sets out the background to and reasons for the Acquisition and the Placing and explains why the Board considers that the proposed Acquisition and the Placing are in the best interests of the Company and recommends that Shareholders vote in favour of the EGM Resolutions.

2. Background information on Rurelec

Rurelec was established specifically to develop rural electrification projects and isolated generation projects in Latin America and was admitted to trading on AIM on 18 August 2004. Rurelec's management team has experience in developing international power projects and specifically in the electricity sector in Latin America.

Acquisition of ESA

Following flotation, Rurelec embarked on a programme of acquisitions of power plant equipment, the first of which was the purchase of ESA from Guaracachi in October 2004. The consideration for the transaction was US$550,000 in cash.

ESA is the owner of two 3 MW Worthington dual fuel motors. These are small machines which are suitable for rural generation. It is planned to redeploy them to Trinidad in Central Bolivia to supply electricity to the

local isolated electricity system. These machines have been overhauled, dismantled and prepared for installation in Trinidad utilising gas condensate.

Acquisition of 9 Jenbachers

In January 2005 Rurelec announced that it had acquired for cash nine Jenbacher engines, each with a gross generation capacity of 2 MW, for a total of £1 million. Simultaneously, the Company sold six of these engines for the sum of £1 million which left Rurelec with the three remaining Jenbachers, and gross profit on the transaction of £333,000. The remaining three Jenbachers are intended to be installed in Yacuiba, Southern Bolivia, where gas supplies are available and shortages of power exist. Negotiations leading to the deployment of these machines are ongoing.

3. Background information on Patagonia Energy

The proposed Acquisition

Subject to the passing of the proposed EGM Resolutions, Rurelec will acquire 50 per cent. of the issued share capital of Patagonia Energy for consideration of up to US $6 million in cash. The consideration is payable in two or more tranches depending on the profitability of EDS. The first tranche is fixed at US$4.5 million and is due upon Admission. The timing of subsequent payments of up to a further US$1.5 million will vary according to the future profits of EDS. As a result Rurelec and Basic will be joint venture partners in Patagonia Energy. A summary of the Acquisition Agreement is set out in Part VI of this document.

The Patagonia Shareholders' Agreement determines how Patagonia Energy will be managed. Neither party will have control of Patagonia Energy. Both partners are able to appoint two directors to the board of Patagonia Energy and subsidiaries: Basic will retain the roles of Chairman and CEO of Patagonia Energy, and Rurelec will appoint the Deputy Chairman and the Finance Director. A summary of the Patagonia Shareholders' Agreement is set out in part VI of this document.

Patagonia Energy directly (and indirectly through Eléctrica) wholly owns EDS, a generating company located in Comodoro Rivadavia, whose only asset is Central Térmica Patagonia, a gas-fired power plant located near the centre of the isolated electricity system in southern Patagonia. Eléctrica is a non-trading intermediate holding company, which directly owns 60 per cent. of EDS.

Patagonia Energy is currently owned by Basic, a Bahamian company with electricity interests in the Dominican Republic. Patagonia Energy acquired EDS and Eléctrica in October 2004 from Xcel Energy, a large United States electricity utility.

EDS

The generating plant was built in 1995 and comprises two General Electric MS6001B gas turbines in open cycle, capable of generating up to 77MW. On acquisition in October 2004 by Basic the generators were not operating having been taken offline and mothballed on 15 June 2002 and 4 January 2003 respectively. Financial information relating to the last three years of EDS, including the period when the units were mothballed, is set out in Part IV of this document.

Patagonia Energy started recommissioning the units in November 2004 and both units are now in full service, dispatching into the MEMSP.

EDS has a forward contract of supply to sell 35MW of electricity to a distribution company, Sociedad Cooperativa Popular Limitada de Comodoro Rivadavia. The contract is renewable annually, the first anniversary falling on 1 May 2006. EDS sells the remainder of its output at the spot price into the MEMSP. A more detailed explanation of the supply of electricity in the Argentine market is set out in the glossary section of this document.

Gas is supplied to the plant under a contract with Camuzzi expiring on 30 September 2006, through a pipeline, which is also operated by Camuzzi. The cost of gas is billed to EDS in Argentine Pesos and the price is regulated by Ente Nacional Regulador del Gas (ENARGAS), the gas regulator. The gas industry in Argentina is in the process of reorganisation, splitting the activities of supply and distribution/transmission and this may lead to an increase in gas prices. EDS is obliged to seek an alternative gas supplier with effect

from 1 October 2006. However, a new contract with Pan-American Energy, an Argentine subsidiary of BP plc, for the supply of gas is under negotiation and the Directors do not anticipate difficulties in finding new gas suppliers as Patagonia is an area rich in gas. EDS envisage that it will continue to contract with Camuzzi for the transport of gas even though it will be using an alternative gas supplier.

From June 2005, routine maintenance is undertaken by Capime, under an 18 year contract payable in US dollars. In addition to the provision of spare parts for planned outages, Capime is also obliged to provide spares at cost on a just in time basis for forced outages. EDS pays a flat monthly fee plus a usage fee based on the number of hours each generating unit operates. Capime guarantees certain operating performance parameters.

Financial information relating to EDS

Financial information relating to EDS is set out in part IV of this document.

The Argentine electricity market

CAMMESA, the regulator for the wholesale electricity market is involved in the settlement of electricity charges as follows:

(a) Withholdings by CAMMESA of profits generated in the spot market

Pursuant to the Resolution, EDS is paid for its operating cost (the regulated fuel price plus an allowance for operations and maintenance determined by CAMMESA) but the revenue that exceeds this pre-determined operating cost is withheld by CAMMESA and settled as described in paragraph (c) below. In addition, EDS receives a capacity fee.

(b) Withholdings by CAMMESA of profits generated under forward contracts

Under the forward supply contract with Sociedad Cooperativa Popular Limitada de Comodoro Rivadavia, EDS invoices the customer and is paid directly. However, the transaction is still subject to the Resolution and EDS is responsible for paying over to CAMMESA an amount equivalent to the difference between its operating cost and the spot price. Such amount paid over to CAMMESA again is settled as described in paragraph (c) below.

(c) Use of CAMMESA retention

Retentions by CAMMESA are divided into two tranches. 65 per cent. of the retention will only be released for investment in new generating capacity. EDS is analysing the feasibility of converting its units to combined cycle. If this investment is undertaken before July 2007, this should result in the release of withheld funds to EDS, allowing it to recognise profits and benefit from more efficient generation.

The remaining 35 per cent. of the funds are withheld pending repayment at a date as yet unspecified.

(d) CAMMESA loan

EDS has drawn down an interest bearing loan of Arg $4,760,000 from CAMMESA to fund recent maintenance and overhaul of the two generators.

This loan will be repayable in 12 monthly installments commencing in June 2006.

4. Assets owned on Admission

On Admission Rurelec will own:

- ESA, which in turn owns two Worthington dual fuel motors, 6 MW in aggregate;
- three Jenbachers, 6 MW in aggregate; and
- a 50 per cent. indirect interest in Central Térmica Patagonia, a 77 MW gas-fired power plant in Patagonia, described above.

5. Investment strategy

The Directors' strategy is to continue to acquire, or invest in, companies with established electricity generating operations or generating assets suitable for redeployment in the rural electrification and isolated generation sectors in Latin America. The investment strategy of the Company may be extended in the future if appropriate opportunities to acquire or invest in generating assets operating on an interconnected system within Latin America are available.

Furthermore, the Directors have identified opportunities to manage the implementation phase of rural electrification projects as well as investing in the generation assets that are required to satisfy the increased demand associated with that expansion.

Any generating capacity deployed by the Company will, wherever possible, be supported by Power Purchase Agreements expected to incorporate payments for both capacity and energy production.

The Directors are keen to promote sustainable projects based on locally-produced fuel supplies and will, where practicable, promote the use of renewable fuels for electricity generation.

6. Current trading and prospects

ESA has commenced negotiations with fuel suppliers and ENDE in connection with deploying the Worthington dual fuel motors to Trinidad in Central Bolivia. The motors are in the process of being overhauled, dismantled and prepared for transportation. Contracts for transporting the engines and for site preparation will be signed only when fuel and offtake terms are known.

Rurelec has also entered into a contract to dismantle the three Jenbacher units currently located on the Isle of Wight with a view to their re-installation in Yacuiba, Southern Bolivia and work has started. Negotiations for the fuel and offtake contracts have commenced. Further commitments will be delayed pending agreement of the principal terms.

Rurelec is also actively exploring expansion opportunities in areas of northern Argentina and is in negotiations with EDESA, the Salta electricity distribution company, for the provision of new small power units to meet the electricity shortages in Salta.

7. Relationship with IPC

Peter Earl, Mike Eyre and Elizabeth Shaw, the Executive Directors of the Company, are all members of the management team of IPC an independent power developer with international experience in building, owning and operating approximately 4,000 MW of power generation plants. Peter Earl and Elizabeth Shaw are also directors of IPC. Under the Services Agreement IPC provides Rurelec with administrative support (described in paragraph 6(n) of Part VII of this document). IPC through its wholly owned subsidiary IPOL may also provide engineering assistance to Rurelec for specific projects.

In the opinion of the Directors, there is no conflict or overlap between the businesses of IPC and Rurelec. IPC will only have the right to develop or invest in isolated power projects in Latin America if Rurelec has declined the opportunity.

8. Details of the Placing.

The Company is proposing to raise approximately £3,500,000, before expenses, through the issue of 8,750,000 Placing Shares, to institutional and other investors, at a price of 40 pence per Placing Share pursuant to the Placing Agreement.

The Placing Shares will represent approximately 41.0 per cent. of the Enlarged Share Capital. At the Placing Price, the Company's market capitalisation on Admission will be £8,540,000.

Following Admission, the Directors (and companies connected and/or associated with them) will hold, in aggregate, approximately 19.4 per cent. of the Enlarged Share Capital. The Directors are not subscribing for Placing Shares.

The Placing Shares will rank *pari passu* in all respects with the Existing Ordinary Shares. Dealings in the Placing Shares are expected to commence on 1 August 2005. It is anticipated that CREST accounts will be credited on the day of Admission and that certificates will be despatched by first class post by 4 August 2005.

9. Directors

Biographical details of the Directors are as follows:

James West, *Chairman and Non-Executive Director*, aged 58. Following a successful career as Managing Director of Globe Investment Trust plc, Jimmy West became the Chief Executive of Lazard Asset Management and a Managing Director of Lazard Brothers & Co. Ltd, where he held full responsibility for the bank's investment operations. He is now Chairman of Gartmore Fledgling Trust plc and Jupiter Second Enhanced Income Trust plc and is a non-executive Director of a number of diverse companies including Candover Investments plc, British Assets Trust plc and Global Natural Energy plc.

Peter Earl, *Managing Director*, aged 50, began his career at the Boston Consulting Group advising state-owned companies. He has advised ministries of finance and central banks in Abu Dhabi, Albania, Kuwait and Saudi Arabia. He is the author of the standard European textbook on cross-border takeovers published by Euromoney. Formerly Chief Executive of Tranwood plc and The Carter Organization Inc., in New York, he acted on secondment to the World Bank and the United Nations Development Programme, advising on privatisations in Latin America and Eastern Europe, where he has served as Deputy Chairman for the United Nations Economic Commission for Europe infrastructure finance group. He was a director of Fieldstone Private Capital Group Limited ("Fieldstone") in London. In the mid-1990's, he advised on US$6 billion of cross-border power sector acquisitions and bids, involving 5,000 MW of installed capacity and more than 2 million distribution customers. In 1995, he founded IPC which has owned, developed and operated 3,400 MW of power projects around the world including in Kazakhstan, USA, Argentina and Bolivia. He is an Oxford University graduate and was a Kennedy Scholar at Harvard University.

John Michael Eyre, *Director of Engineering*, aged 51, is both a Chartered and European Engineer and has extensive experience in project management and development in the power sector. As a Central Electricity Generating Board engineer, he spent part of his early career on secondment to Eskom of South Africa with responsibility for maintenance of a portfolio of 26 power plants. He subsequently became Head of Engineering Quality with National Power plc, where he developed and implemented policy for risk management of their UK assets as well as leading the technical due diligence for significant international acquisitions such as Hub, a 1,200 MW oil-fired plant in Pakistan, and Marmara, a 500 MW combined cycle power plant in Turkey. Recently, he led business development at Lloyds' Register power division (subsequently Ingenco) and advised developers on renewable energy projects. At IPC, he is responsible for operations and maintenance activities and supervising technical due diligence for proposed acquisitions and greenfield development in Latin America and Central Asia.

Elizabeth Shaw, *Director of Finance*, aged 44, has been involved in the electricity sector since 1994. Between 1994 and 2000, as a director of Fieldstone, she advised on a number of mergers, acquisitions and disposals in the electricity industry, both in the UK and in developing markets. In Bolivia, she advised on the spin-off of the Electropaz distribution business of Compañía Boliviana de Energía Eléctrica S.A. to Iberdrola S.A. of Spain and on the sale by ENDE of its electricity distribution interests in Cochabamba. Prior to joining Fieldstone, Elizabeth was extensively involved in the financing of small-to-medium sized companies in the UK, including raising equity for both listed and unlisted companies. Currently she is responsible for business development and finance at IPC. She is a graduate of Exeter University.

Francis Mattos, *Non-Executive Director*, aged 72, has over 40 years' broad-based power sector engineering and management experience, initially as a senior manager with the Central Electricity Generating Board. In 1984 he was seconded to British Electricity International (BEI), where he became director of overseas business and project development. On privatisation of the U.K. electricity sector, BEI became National Power International with a focus on international utility acquisitions and power plant construction projects. Projects included the acquisition in 1993 of the Pego power station in Portugal, then the largest, privatised, power project in Europe. Recently he was an adviser to Sithe Energies, Inc. and is a consultant to the World Bank. He has written and presented papers on power system economics and control, tariffs, substation switching, planning and operations reliability standards. He is both a Chartered Engineer and a Chartered

Manager. On 19 July 2004 the Company passed a resolution at an extraordinary general meeting to approve his appointment as a Director notwithstanding that he has attained the age of 70, in accordance with section 293(5) of the Act.

10. Lock-ins and orderly market arrangements

Following Admission, the Directors (and companies connected and/or associated with them) and certain senior management will be interested, in aggregate, in 4,650,000 Ordinary Shares representing approximately 21.8 per cent. of the Enlarged Share Capital. Details of these shareholdings are set out in paragraph 4(a) of Part VII of this document. Under the terms of the Lock-in Agreement each of the Directors and their connected persons, save in certain limited circumstances, will not dispose of any interest in any Ordinary Shares held by them for a period of twelve months from Admission other than with prior written consent of both the Broker and Nominated Adviser and for a further twelve months, only having consulted the Broker and Nominated Adviser, or the Company's then broker and nominated adviser, so as to ensure the maintenance of an orderly market in the Ordinary Shares.

11. Share option scheme

The Directors believe that the Company's success is highly dependent on the quality of its employees. To assist in the recruitment, retention and motivation of employees, an important part of the future remuneration strategy will be the ability to award equity incentives and in particular share options to employees. The Directors intend to adopt a share option scheme pursuant to which options may be granted to Directors and employees of the Group, at a subscription price equal to the greater of the nominal value per Ordinary Share and the market value of an Ordinary Share at the time of grant, over an aggregate maximum of 10 per cent. of the Company's issued share capital from time to time.

12. Dividend policy

The Company has not paid any dividends since its incorporation. The Directors intend to commence the payment of dividends only when it becomes commercially prudent to do so, having regard to the availability of the Company's distributable profits and the retention of funds required to finance future growth. In the medium term the Directors intend that dividend income will be a significant source of shareholder value.

13. Corporate governance

The Directors support high standards of corporate governance and have adopted the Combined Code as far as is applicable for a company of its size and nature.

An audit committee, comprising Elizabeth Shaw and Jimmy West, determines the application of the financial reporting and internal control principles, including reviewing the effectiveness of the Group's financial reporting, internal control and risk management procedures and the scope, quality and results of the external audit. The audit committee is chaired by Mr. West.

A remuneration committee, comprising Peter Earl and Jimmy West, reviews the performance of the executive directors and will set their remuneration and consider bonus and share option schemes. No Director will take part in discussions concerning their own remuneration. The remuneration committee is chaired by Mr. West.

The Company holds bi-monthly Board meetings.

The Company has adopted the model code for Directors' and key employee share dealings which is appropriate for an AIM quoted company and in accordance with Rule 12 of the AIM Rules.

14. Extraordinary General Meeting

At the end of this document you will find a notice convening an extraordinary general meeting of the Company which is to be held at 10.00 a.m. on 29 July 2005. The EGM Resolutions will provide as follows:

(a) to approve the Acquisition;

(b) to increase the authorised share capital of the Company from £600,000 to £850,000 by the creation of a further 12,500,000 Ordinary Shares;

(c) to authorise the Directors to allot (i) new Ordinary Shares pursuant to the Placing; (ii) new Ordinary Shares pursuant to the Warrants; and (iii) otherwise up to a maximum nominal amount of £128,100 (representing approximately 30 per cent. of the Enlarged Share capital of the Company;

(d) to authorise the Directors to allot equity securities for cash as if the statutory pre-emption rights set out in section 89 of the Act did not apply to enable the directors to allot the new Ordinary Shares pursuant to the Placing; pursuant to rights or other offers and otherwise up to a maximum nominal amount of £21,350 (representing approximately 5 per cent. of the Enlarged Share Capital of the Company).

15. Admission, settlement and CREST

Application will be made to the London Stock Exchange for the Existing Ordinary Shares and Investor Warrants to be readmitted to trading on AIM and for the Placing Shares to be admitted to trading on AIM. Re-admission of the Existing Ordinary Shares and Investor Warrants and admission of the Placing Shares to trading on AIM is expected to take place on 1 August 2005.

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by written instrument. The Articles contain provisions concerning the transfer of shares which are consistent with the transfer of shares in dematerialised form under the CREST Regulations. The consent of CRESTCo has been sought to issue the Placing Shares in uncertificated form and, accordingly, settlement of transactions in the Placing Shares following Admission may take place within the CREST system if Shareholders and holders of Placing Shares so wish. CREST is a voluntary system and holders of Placing Shares who wish to receive and retain share certificates will be able to do so.

16. Additional information

Your attention is drawn to the Risk Factors set out in Part II and to the information contained in Parts III to VII of this document.

17. Action to be taken

You will find enclosed with this document a form of proxy for use in connection with the EGM. Whether or not you intend to be present at the EGM, you are asked to complete the form of proxy in accordance with the instructions printed on it so as to be received by the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Kent BR3 4BR, as soon as possible but in any event not later than 10.00 a.m. on 27 July 2005. Completion of the form of proxy will not preclude you from attending and voting at the meeting should you so wish.

18. Recommendation

The Directors believe that the proposed Acquisition and Placing is in the best interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend that you vote in favour of the EGM Resolutions to be proposed at the EGM as they intend to do in respect of their own beneficial holding of 4,150,000 Ordinary Shares, representing approximately 32.9 per cent. of the Existing Ordinary Shares.

Yours faithfully

Jimmy West
Chairman

PART II

RISK FACTORS

An investment in the Ordinary Shares involves a high degree of risk. Accordingly, prospective investors should consider carefully the specific risk factors set out below in addition to the other information contained in this document before investing in the Ordinary Shares. The Directors consider the following risks and other factors to be the most significant for potential investors in the Company but the risks listed do not necessarily comprise all those associated with an investment in the Company and are not set out in any particular order of priority. Additional risks and uncertainties not currently known to the Directors may also have an adverse effect on the Company's business.

Specific Risks Relating to Patagonia Group

1. *Profit Retentions*

   CAMMESA currently retains a proportion of the profit made by EDS. 35 per cent. of such retention is not subject to any specific repayment conditions. There can be no guarantee that in any event these funds will be repaid to the Company.

   The other 65 per cent. is withheld pending financial investment to carry out the projects needed to comply with the adjustment of MEM. Should EDS be unable to fund such investment, this part of the retention may not be released to the Company. There can be no guarantee in any event that these retained funds will be repaid to the Company. In the event that CAMMESA does not make the additional payments detailed above, there is no guarantee that EDS will be able to operate profitably.

   EDS is subject to changes in the Argentine legal and regulatory system. In particular EDS is subject to regulation by CAMMESA. There is no guarantee that it will be possible to mitigate all adverse regulatory changes.

2. *Joint venture and Acquisition Agreement*

   Patagonia Energy is a deadlock joint venture company whose operation is subject to the provisions of the Patagonia Shareholders' Agreement as described in Part VI of this document. It may not be possible to resolve differences between the parties to the joint venture on a timely basis or at all. Moreover, in the event that consensual cooperation between the parties is lost, the operation and financial performance of the joint venture may be adversely effected notwithstanding the Patagonia Shareholders' Agreement. You are also referred to the limitations on warranty cover obtained by the Company in connection with the Acquisition Agreement under which the Company is to acquire its shareholding in Patagonia Energy described in Part VI of this document.

3. *Capital Equipment*

   In order to invest in new capacity, including the conversion to combined cycle of the Central Térmica Patagonia generating system, EDS must source competitively priced capital equipment. There is no guarantee that EDS will be able to source such equipment nor that EDS will obtain the necessary financing for such equipment.

4. *Gas supply*

   EDS relies on third parties for the supply and delivery of its fuel. Any interruption to the gas supply caused, including but not limited by physical damage to the pipeline, financial failure of the supplier, or political intervention could prevent the operation of the generating units and adversely effect the financial performance of Patagonia Energy. There have been no significant interruptions of gas supply since 1996 when the plant was built and although there is a shortage of gas in Argentina there are alternative suppliers of gas in the region.

The deregulation of the gas market may lead to significant gas price rises, which if not reflected in the spot price of electricity would lead to reduced profit or operating losses or even to EDS generators not being dispatched.

5. *Electricity market and demand*

Demand for electricity in the region served by MEMSP is not static and may fall as well as rise. In the event that additional generation or transmission capacity is built or if there is a significant fall in demand within the system, EDS is likely to be adversely affected to the extent that its cost of generation exceeds the marginal cost in the system and to the extent that it has uncontracted capacity. Furthermore, EDS may be unable to renew the contract with Sociedad Cooperativa Popular Limitada de Comodoro Rivadavia on satisfactory terms and this may result in the Company becoming more dependent on the more volatile spot market.

6. *Long term service agreement*

Long term planned maintenance is undertaken by Capime under an 18 year contract which is payable in US dollars. The income received by the plant from CAMMESA is in Argentine Pesos and any deterioration in the exchange rate will have an adverse effect on Patagonia Energy. In the event of failure by Capime, alternatives are available, but it may be difficult to obtain the same services for the price negotiated with Capime under the long term service agreement. In addition, breakdown of the plant while a new maintenance supplier is found could have a material effect on EDS's supply contract.

7. *Availability of key personnel*

Owing to the technical nature of the operations and particularly the conversion to combined cycle, EDS will require specialist personnel on site for protracted periods. There can be no guarantee that such expertise can be recruited locally.

Industry specific risks

1. *Counterparty credit*

The Company's profitability is dependent to some extent on the ability of third parties to perform. In particular, the Company's revenues depend on the creditworthiness of its contractual counterparties such as the distributors of electricity. In turn, their ability to perform depends on their capacity to collect revenues from their retail operations. Such risk may be mitigated through escrow or lock-box arrangements.

2. *Cost Control*

The ability of the Company's subsidiaries to control costs, including fuel costs, or to pass them on to customers to ensure that they are not forced to generate electricity at a loss is an important part of the Company's strategy but there can be no guarantee that it will always succeed in this and a number of these factors are outside of the Company's control.

3. *Industrial accident*

The Company's operations will be subject to all of the risks incidental to the ownership of electricity generation facilities and the management of rural electrification projects, any of which could result in damage to life or property, environmental damage and legal liability. Whilst insurance against such risks is in place, there can be no certainty that the proceeds of an insurance claim will cover such liability.

4. *Machinery breakdown*

Notwithstanding the long term maintenance agreement with Capime, there is a risk of plant failure and even though insurance covers machinery breakdown there is a potential exposure to loss of revenue.

5. *Weather*

   The Company intends to have further operations in rural areas and will therefore be subject to the risks of operating in isolated areas, such as the continuity of fuel supply and accessibility as a result of the associated lack of infrastructure and other services. Individual project activities, particularly construction, may be subject to disruption due to weather conditions depending on the location of the Company's assets.

Political, country and donor risks

1. *Political Risk*

   The Directors believe that the governments of the countries in which it invests support the electrification of rural areas by foreign operators as owners. However, there is no assurance that future political and economic conditions in these countries will not result in their governments adopting different policies with respect to foreign investment in electricity generating assets. Any such changes in policy may, amongst other things, affect ownership of assets, taxation, rates of exchange, environmental protection, labour relations, repatriation of income and return of capital, thereby influencing the Company's ability to generate profits. Such policy changes could extend to the expropriation of assets. In Bolivia the risk of such expropriation of assets is mitigated by the 1988 Bolivia-UK Treaty, under which UK entities are given financial recompense in the event of nationalization of their assets.

2. *Approvals, licences and permits*

   The intended future and ongoing operations of the Company require approvals, licences and permits from various governmental and other regulatory authorities. The Directors are not aware of any reason to suggest that the Company will not continue to maintain or obtain the necessary approvals, licences and permits under applicable laws and regulations. However, such approvals, licences and permits are subject to change and there can be no guarantee that the Company will be able to obtain or maintain all necessary approvals, licences and permits that may be required by it in connection with its business.

3. *Foreign exchange rates*

   Adverse currency movements may impair the profitability of the Company. The Directors do not intend to hedge against currency movements.

4. *Development Funding*

   Rural electrification projects may be reliant on Development Funding from the international donor community. There can be no guarantee that the Company will be selected by donors to manage such projects nor of the donors' continued support of such projects.

5. *Political, economic and social unrest*

   Political, economic and social unrest in the geographic areas to be targeted by the Company may lead to disruptions to the operations of the Company.

General risks

1. There can be no guarantee that the Placing Price will reflect the actual or potential market value of the Placing Shares.

2. It may be necessary for the Company to raise additional capital to finance growth; it is likely that further issues of equity would be made on a non pre-emptive and dilutive basis. There is also a risk that such capital may not be available on acceptable terms.

3. The price at which investors realise their Ordinary Shares will be influenced by a large number of factors; some specific to the Company and its proposed operations, and some generally. These factors could include the performance of the Company's operations, large purchases or sales of shares in the

Company, absence of liquidity in the Ordinary Shares, legislative or regulatory changes affecting the business of the Company and general economic conditions. All of these factors could affect the value of the Ordinary Shares and investors could lose some or all of their investment.

4. The Company's future performance, and that of any companies which it invests in or acquires, will depend on its ability to retain the services of the Directors and to be able to attract, motivate and retain the services of suitable personnel. Although such individuals have entered into service or employment agreements with the Company, the loss of the services of any such individual may affect the business, operations, revenues and/or prospects of the Company. The operations of the Company are very specialised and its ability to recruit high calibre individuals in this sector may be difficult.

5. Although the Company has a defined strategy, there can be no guarantee that any of its strategic objectives will be achieved on a timely basis or at all.

6. Unexpected problems associated with the integration of new projects, assets or companies may be encountered. Such problems could adversely affect or delay the Company's ability to generate profits in the short to medium term.

7. Potential investors should be aware that the value of the Ordinary Shares can go down as well as up and that an investment in a share which is to be traded on AIM is likely to be less realisable and to carry a higher degree of risk than an investment in a share listed on the Official List.

8. The Company may face competition from other entities with comparatively greater resources to invest in similar target companies and assets. There can be no assurance that competition will not limit the Company's ability to implement its strategy or affect its ongoing profitability.

9. Certain members of the Board are also board members of other companies which, from time to time, are expected to be party to agreements with the Company. As a result, conflicts of interest may arise.

10. The information in this document is based upon current tax law and practice and other legislation and changes in the legislation or in the levels and bases of, and reliefs from, taxation may affect the value of an investment in the Company.

Investors should consider carefully whether investment in the Company is suitable for them in light of the risk factors outlined above, their personal circumstances and the financial resources available to them.

PART IIIa

ACCOUNTANTS' REPORT ON THE COMPANY

Grant Thornton Corporate Finance

Grant Thornton UK LLP
Chartered Accountants
UK Member of
Grant Thornton International

Grant Thornton

The Directors
Rurelec plc
5th floor Prince Consort House
27-29 Albert Embankment
LONDON
SE1 7TJ

The Directors
Daniel Stewart & Co plc
48 Bishopsgate
LONDON
EC2N 4AJ

6 July 2005

Dear Sirs

RURELEC PLC (THE COMPANY)

1 INTRODUCTION

1.1 We report on the financial information set out in sections 3 to 7 below. This financial information has been prepared for inclusion in the admission document dated 6 July 2005 of Rurelec plc (the Admission Document).

BASIS OF PREPARATION

1.2 The financial information set out in sections 3 to 7 below is based on the audited financial statements of Rurelec plc for the period ended 30 June 2004 and has been prepared on the basis set out in section 3.

RESPONSIBILITY

1.3 Such financial statements are the responsibility of the directors of Rurelec plc who approved their issue.

1.4 The directors of Rurelec plc are responsible for the contents of the Admission Document in which this report is included.

1.5 It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

BASIS OF OPINION

1.6 We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

1.7 We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

OPINION

1.8 In our opinion the financial information gives, for the purposes of the Admission Document, a true and fair view of the results and cash flows of the Company for the period ended 30 June 2004 and the state of affairs of the Company at the end of that period.

CONSENT

1.9 We consent to the inclusion in the Admission Document of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995 (as amended) as in force prior to 1 July 2005.

2 STATUTORY INFORMATION

2.1 The Company was incorporated in England and Wales on 26 June 2003 under the name Independent Power International Limited. On 16 February 2004 the Company changed its name to Rurelec Limited. On 19 July 2004 the Company re-registered as a public limited company with the name Rurelec plc.

3 ACCOUNTING POLICIES

3.1 The financial information has been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

3.2 Cash at bank and in hand comprises cash held on deposit in bank accounts free of encumbrances.

3.3 Shares issued by the Company are recorded at the proceeds received, net of direct issue costs.

4 PROFIT AND LOSS ACCOUNT

	Period from incorporation to 30 June 2004 £
Administrative expenses	(22)
Operating loss	(22)
Interest receivable	65
Profit on ordinary activities before taxation	43
Tax on profit on ordinary activities	–
Profit for the period	43

There were no recognised gains or losses other than the profit for the financial period.

All transactions arise from continuing operations.

5 BALANCE SHEET

	At 30 June 2004 £
Current assets	
Cash at bank and in hand	200,043
Capital and reserves	
Called up share capital	200,000
Profit and loss account	43
Shareholders' funds	200,043

6 CASH FLOW STATEMENT

	Period from incorporation to 30 June 2004 £
Net cash outflow from operating activities	(22)
Returns on investments and servicing of finance	
Interest received	65
Net cash inflow from returns on investments and servicing of finance	65
Financing	
Issue of shares	200,000
Net cash inflow from financing	200,000
Increase in cash	200,043

7 NOTES TO THE FINANCIAL INFORMATION

7.1 Share capital

	30 June 2004 £
Authorised	
12,500,000 ordinary shares of 2 pence each	250,000
Allotted, called up and fully paid	
10,000,000 ordinary shares of 2 pence each	200,000

On incorporation the authorised share capital of the Company was £100, comprising 100 ordinary shares of £1 each. On incorporation the Company issued two subscriber shares.

On 14 May 2004 the authorised share capital of the Company was increased by £249,900 to £250,000, comprising 250,000 ordinary shares of £1 each. Also on 14 May 2004, the authorised share capital of 250,000 ordinary shares of £1 each was sub-divided into 12,500,000 ordinary shares of 2 pence each, resulting in the issued share capital at that point in time of 2 ordinary shares of £1 each sub-dividing into 100 ordinary shares of 2 pence each. On the same date, the Company allotted an additional 9,999,900 ordinary shares of 2 pence each fully paid.

As described in Note 7.8, on 18 August 2004 the Company's ordinary shares were admitted to trading on AIM.

7.2 Profit and loss reserves

	£
On incorporation	–
Profit for the period	43
At 30 June 2004	43

7.3 Reconciliation of movements in shareholders' funds

	£
On incorporation	–
Profit for the period	43
Issue of shares during the period	200,000
At 30 June 2004	200,043

7.4 Net cash outflow from operating activities

	Period from incorporation to 30 June 2004 £
Operating loss	(22)
Net cash outflow from operating activities	(22)

7.5 Reconciliation of net cash flow to movement in net funds

	Period from incorporation to 30 June 2004 £
Increase in cash in the period	200,043
Net funds at 30 June 2004	200,043

7.6 Analysis of changes in net funds

	On incorporation £	*Cash flow* £	*At 30 June 2004* £
Cash at bank and in hand	–	200,043	200,043

7.7 Other matters

None of the directors were remunerated by the Company during the period.

There is no taxation due on the result for the period.

The Company had no capital or leasing commitments as at 30 June 2004.

The Company had no contingent liabilities as at 30 June 2004.

There were no related party transactions during the period.

7.8 Post-balance sheet events

On 19 July 2004 the authorised share capital of the Company was increased from £250,000 to £600,000, by the creation of an additional 17,500,000 ordinary shares of 2 pence each.

On 18 August 2004 the Company issued 2,000,000 ordinary shares of 2 pence each at 40 pence per share and the Company's ordinary shares were admitted to trading on the Alternative Investment Market of London Stock Exchange plc (AIM). At the same time the Company issued:

- 75,000 warrants to subscribe for ordinary shares on a 1:1 basis at 40 pence per share at any time within two years of admission to AIM;
- 1,000,000 warrants to subscribe for ordinary shares on a 1:1 basis at 60 pence per share (if exercised prior to 12 August 2005) or 80 pence per share (if exercised thereafter) at any time within two years of admission to AIM.

On 5 November 2004 the Company issued a further 600,000 ordinary shares of 2 pence each at 42.5 pence per share.

Pursuant to an agreement dated 8 October 2004 and amended on 28 February 2005, the Company acquired Energía para Sistemas Aislados S.A. for a consideration of US$550,000, the sterling equivalent of which, at the original contract date, was approximately £307,000. Details of this contract are set out in Part VII, paragraph 6(c) of the Admission Document.

Pursuant to two agreements dated 24 January 2005, the Company acquired nine GE Jenbacher 616 gas engines for a consideration of £1 million and simultaneously sold six of the engines, also for £1 million. Details of these contracts are set out in Part VII, paragraph 6(d) of the Admission Document.

Yours faithfully

GRANT THORNTON UK LLP

PART IIIb

INTERIM RESULTS OF THE COMPANY FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

The following is the text of an announcement of the interim results of the Company for the six months ended 31 December 2004, announced on 30 March 2005.

"Chairman's Statement

Rurelec today announces its first results since joining the AIM Market in August 2004.

Since its flotation, Rurelec has moved to acquire power generation assets for installation in isolated areas of Latin America serving rural communities in Bolivia and Argentina. I am pleased to report that Rurelec now owns outright 12 MW of gas fired and dual fuel capacity in the form of two Worthington and three GE Jenbacher 616 gas engines. Rurelec also has the right to acquire a further 15 MW of dual fuel machines and has made arrangements to lease a further 4 MW of GE Jenbacher capacity.

All of Rurelec's initial power generation projects are located in Bolivia. 6 MW of capacity is to be based in Trinidad in the country's lowland Amazonian territory using gas condensate as a fuel source. Rurelec intends to expand in Trinidad and is exploring the use of bio-diesel for its dual fuel reciprocating engines. 10 MW of gas-fired capacity using the high efficiency GE Jenbacher gas engines will be installed in the Department of Tarija to the south of Bolivia.

Rurelec is actively negotiating expansion opportunities in Argentina to the very north of the country, where the national grid is weak, and in Patagonia to the south where there are isolated systems. Argentina and Bolivia both suffer shortages of power generation capacity.

As well as developing new power plant capacity, Rurelec is pursuing public sector contracts to oversee and manage rural electrification projects in Bolivia which are being funded by multi-lateral organisations and European government funds. Some US $190 million has been committed for public sector funded wires projects in rural areas. Rurelec hopes to be awarded contracts to supervise such projects.

As expected, Rurelec recorded a loss of £107,870 for the period ended 31 December, 2004. On 25 February, 2005 the Company announced that it had completed the purchase of nine GE Jenbacher 616 engines for £1 million and simultaneously sold six of those machines for £1 million, thereby recording a gross profit of £333,000.

Subsequently, the Company announced on 3 March that it had successfully renegotiated the terms of its October 2004 purchase of two Worthington engines. Instead of taking an assignment of US $1.2 million of long term debt associated with the machines, Rurelec has made a one time cash payment of US $500,000. Rurelec has therefore made a headline saving of US $700,000 on the cost of the machines. As a result Rurelec as at today's date has no debt, ownership of 12 MW of plant capacity and over £600,000 of cash or near cash.

Rurelec appointed Carlos Garcia Agreda as General Manager of its Bolivian isolated power subsidiary, Energía para Sistemas Aislados SA ("ESA"). Carlos Garcia is an electrical and mechanical engineer who spent six years at Cooperativa Rural de Electrificacion ("CRE"), a distribution co-operative that serves Bolivia's Santa Cruz department and which is also Bolivia's largest rural electrification co-operative, before taking responsibility for rural electrification projects at Bolivia's Vice-Ministry of Electricity. The provision of power for isolated generation has become an important political issue in Bolivia. ESA is in discussions, which may lead to new joint ventures with local partners in Bolivia and Argentina and with multi-lateral agencies for an accelerated roll-out of new power capacity.

In November 2004 funds managed by Gartmore subscribed £255,000 of new Rurelec shares for cash and now owns 4.7 per cent. of the issued share capital of the Company.

Rurelec continues to explore expansion possibilities in line with its intention to become the leading rural power company in Southern Cone of Latin America.

Daniel Stewart & Co. PLC has been appointed the Company's Nominated Adviser, with effect from 30th March 2005.

Jimmy West
Chairman

Unaudited Consolidated Profit and Loss Account for the six months ended 31 December 2004

	6 months to 31 December 2004 Unaudited £	*Period from incorporation to 30 June 2004 Audited* £
Turnover	0	0
Administrative expenses	(112,774)	(22)
Interest receivable	4,904	65
(Loss)/Profit on ordinary activities before taxation	(107,870)	43
Tax on profit on ordinary activities	–	–
(Loss)/Profit for the period	(107,870)	43

Loss per ordinary share for the six months ended 31 December 2004: 0.88p

Unaudited Consolidated Balance Sheet at 31 December 2004

	31 December 2004 Unaudited		*30 June 2004 Audited*	
	£	£	£	£
Fixed assets		322,660		0
Current assets				
Cash at bank and in hand	893,010		200,043	
Debtors	40,933		0	
		933,943		200,043
Current Liabilities				
Creditors: amounts falling due within one year		(302,076)		0
Current assets less current liabilities		631,867		200,043
Total assets less current liabilities		954,527		200,043
Capital and Reserves				
Called up share capital		252,000		200,000
Unrealised gain on investment		18,124		
Share premium account		792,232		0
Profit and loss account		(107,829)		43
		954,527		200,043

Net assets per ordinary share at 31 December 2004: 7.6p

Unaudited Consolidated Cashflow Statement for the six months ended 31 December 2004

	6 months to 31 December 2004 Unaudited £	*Period from incorporation to 30 June 2004 Audited £*
Net cash outflow from operating activities	(112,774)	(22)
Net Increase in liabilities	261,141	
Returns on investments and servicing of finance:		
Interest received	4,904	65
Net cashflow from operating activities and returns on investment	153,271	43
Financing: share issues less issue expenses written off	844,232	200,000
Unrealised foreign exchange gain	18,124	
Investment in subsidiary	(322,660)	0
Net cashflow from financing and investment	539,696	200,000
Net cashflow	692,967	200,043

Notes to the unaudited financial statements

1. The financial information set out above does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. It has been prepared on the basis of the accounting policies set out in the Group's 2004 statutory accounts. The results for the period to 30th June 2004 have been extracted from the Group's published accounts which have been filed with the Registrar of Companies. The auditors' report on the full statutory accounts of the Group for the period ended 30 June 2004 were unqualified.

2. The financial information for the six months ended 31 December 2004 has not been audited.

3. The consolidated balance sheet has been prepared in accordance with the rules for acquisition accounting. In the opinion of the Directors the adjustment to fair value is reasonable.

4. The loss per ordinary share has been calculated on the loss on ordinary activities after taxation of £107,870 using the weighted average number of ordinary shares in issue during the six months 12,186,000.

5. Net assets per ordinary share have been calculated on net assets of £954,527 divided by 12,600,000 ordinary shares in issue at 31 December 2004.

6. Post balance sheet events

   (i) Pursuant to an amendment to the contract dated 11 October 2004 for the purchase of Energía para Sistemas Aislados S.A. ("ESA"), executed on 2 March 2005, the company's investment in its subsidiary is US$550,000, the sterling equivalent of which, at the original contract date, is £306,961. Of this amount US$500,000 was outstanding at year end, equivalent to £260,552, and is carried as a short term creditor. The difference between the carrying value of the assets acquired and the value of the liability at 31 December 2004 is shown as an unrealised gain on investment

   (ii) On 25 February, 2005 the Company completed the purchase an onward sale of GE Jenbacher 616 gas engines. Nine engines were acquired for a consideration of £1 million. Simultaneously the Company sold six engines, also for £1 million, recognising a £333,000 gain on disposal. The carrying value of the three machines the Company now owns is £333,000.

7. This announcement is being sent to all shareholders on the register at 5 July 2005 and copies are available to the general public free of charge during office hours for one month from the date of this announcement at the Company's registered office, Fifth Floor, Prince Consort House, 27-29 Albert Embankment, London SE1 7TJ."

PART IVa

ACCOUNTANTS' REPORT ON PATAGONIA ENERGY

Grant Thornton Corporate Finance

Grant Thornton UK LLP
Chartered Accountants
UK Member of
Grant Thornton International

Grant Thornton

The Directors
Rurelec plc
Prince Consort House, 5th floor
27-29 Albert Embankment
LONDON
SE1 7TJ

and

The Directors
Daniel Stewart & Co plc
48 Bishopsgate
LONDON
EC2N 4AJ

6 July 2005

Dear Sirs

PATAGONIA ENERGY LTD (THE COMPANY)

1 INTRODUCTION

1.1 We report on the financial information of the Company set out in section 3 below. This financial information has been prepared for inclusion in the admission document dated 6 July 2005 of Rurelec plc (the Admission Document).

BASIS OF PREPARATION

1.2 The financial information set out below is based on the transactions of the Company from incorporation on 22 October 2004 to 30 April 2005.

1.3 No financial statements have been prepared, audited or filed by the Company since incorporation.

1.4 The financial information set out below is presented in US dollars.

RESPONSIBILITY

1.5 The financial information and books and records of the Company are the responsibility of the Directors of the Company.

1.6 The Directors of Rurelec plc are responsible for the contents of the Admission Document in which this report is included.

1.7 It is our responsibility to form an opinion on the financial information set out in our report, to form an opinion on the financial information and to report our opinion to you.

BASIS OF OPINION

1.8 We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information.

1.9 We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

OPINION

1.10 In our opinion the financial information gives, for the purposes of the Admission Document, a true and fair view of the results of the Company for the period from incorporation to 30 April 2005 and the state of affairs of the Company as at the end of that period.

CONSENT

1.11 We consent to the inclusion of this report in the Admission Document and accept responsibility for this report for the purposes of paragraph 45(8)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995 (as amended) as in force prior to 1 July 2005.

2 STATUTORY INFORMATION

2.1 Patagonia Energy Ltd. was incorporated on 22 October 2004 in the British Virgin Islands (BVI) as an International Business Company under the International Business Companies Act (CAP. 291) of the BVI. The registration number of the Company is 620522.

2.2 The registered office of the Company is Walkers Chambers, PO Box 92, Road Town, Tortola, British Virgin Islands.

2.3 The purpose of Patagonia Energy Ltd. is to act as an investment holding company.

3 FINANCIAL INFORMATION

3.1 Profit and loss account

The profit and loss account of the Company for the period from incorporation to 30 April 2005 was as follows:

	Incorporation to 30 April 2005 US$'000
Revenue	–
Operating expenses	(164)
Operating loss	(164)
Interest receivable	103
Net operating loss	(61)

3.2 Balance sheet

The balance sheet of the Company as at 30 April 2005 was as follows:

	Note	*As at 30 April 2005 US$'000*
Fixed assets		
Investment	3.3(ii)	5,583
		5,583
Current assets		
Loan to related party	3.3(iii)	540
Accrued interest	3.3(iii)	103
		643
Current liabilities		
Accounts payable	3.3(iv)	(178)
Loan from related party	3.3(iv)	(6,109)
		(6,287)
Net current assets		(5,644)
		(61)
Shareholders' funds		
Share capital	3.3(v)	–
Profit and loss account		(61)
		(61)

3.3 Notes to the financial information

(i) Accounting polices

The financial information has been prepared under the historical cost convention and under the accruals basis of accounting.

(ii) Fixed asset investment

On 25 October 2004 the Company acquired from Xcel Argentina Energy Inc. for a total consideration of US$5,500,000 (plus transaction costs of approximately US$83,000):

- 100 per cent. of the share capital of Eléctrica del Sur S.A. (a company incorporated in the Republic of Argentina), comprising all 2,865,747 shares of Class A common stock and all 1,910,498 shares of Class B common stock in that company;
- the 40 per cent. of the share capital of Energía del Sur S.A. (a company incorporated in the Republic of Argentina) not already owned by Eléctrica del Sur S.A., comprising all 3,124,800 shares of Class B common stock in that company;
- the assignment of inter-company loans owed by Energía del Sur S.A. to Xcel Argentina Energy Inc., amounting to US$2,502,000 plus accrued interest as at 25 October 2005;
- the assignment of irrevocable capital contributions made by Xcel Argentina Energy Inc., to Energía del Sur S.A., also categorised as inter-company loans in Energía del Sur S.A., amounting to 27,583,000 Argentinian Pesos (approximately US$9,287,000) as at 25 October 2005.

(iii) Current assets

The loan to related party of US$540,000 as at 30 April 2005 represents an amount advanced to Energía del Sur S.A. post-acquisition.

Accrued interest represents interest accrued since 25 October 2004 on loans to Energía del Sur S.A. acquired on 25 October 2004 or loaned subsequent to that date.

(iv) Current liabilities

The loan from related party of US$6,109,000 as at 30 April 2005 represents amounts advanced to the Company by its parent, Basic Energy Ltd.

Included in accounts payable at 30 April 2005 is a further US$45,000 owed to Basic Energy Ltd.

(v) Share capital

The authorised capital of the Company is US$50,000, divided into 50,000 shares of US$1 each.

The issued share capital of the Company is 1 share of US$1 each, which was issued for a consideration of US$1 to the parent company of Patagonia Energy Ltd., Basic Energy Ltd.

(vi) Post-balance sheet events

On 6 July 2005 the Company increased its authorised share capital to US$7,000,000, divided into 7,000,000 shares of US$1 each, and issued a further 5,578,593 shares to its parent, Basic Energy Ltd., for a consideration of US$5,578,593. This consideration was effected through the conversion of US$5,578,593 of Basic Energy Ltd.'s loan to the Company into share capital.

Yours faithfully

GRANT THORNTON UK LLP

PART IVb

ACCOUNTANTS' REPORT ON ELÉCTRICA

Grant Thornton Corporate Finance

Grant Thornton UK LLP
Chartered Accountants
UK Member of
Grant Thornton International

Grant Thornton

The Directors
Rurelec plc
Prince Consort House, 5th floor
27-29 Albert Embankment
LONDON
SE1 7TJ

and

The Directors
Daniel Stewart & Co plc
48 Bishopsgate
LONDON
EC2N 4AJ

6 July 2005

Dear Sirs

ELÉCTRICA DEL SUR S.A. (THE COMPANY) AND ITS SUBSIDIARY ENERGÍA DEL SUR S.A. (TOGETHER, THE GROUP)

1 INTRODUCTION

1.1 We report on the financial information set out in sections 3 to 7 below. This financial information has been prepared for inclusion in the admission document dated 6 July 2005 of Rurelec plc (the Admission Document).

BASIS OF PREPARATION

1.2 The financial information set out in sections 3 to 7 below is based on the audited consolidated financial statements of Eléctrica del Sur S.A. for the three years ended 31 December 2004 and the audited financial statements of Energía del Sur S.A for the three years ended 31 December 2004, after making such adjustments as we considered necessary.

1.3 The audited consolidated financial statements of Eléctrica del Sur S.A. for the three years ended 31 December 2004 and the audited financial statements of Energía del Sur S.A for the three years ended 31 December 2004 were prepared in accordance with generally accepted accounting practice in the Republic of Argentina (Argentine GAAP). The adjustments to the audited financial information which we considered necessary included those arising from the translation of the financial information from Argentine GAAP into generally accepted accounting practice in the United Kingdom (UK GAAP) and the elimination of the minority interest shown in the audited consolidated financial statements of Eléctrica del Sur S.A. in order to show a 100 per cent. interest in the Group for the purposes of the Admission Document on the grounds that Patagonia Energy Ltd directly and indirectly owns 100 per cent. of the Group.

1.4 During the year ended 31 December 2002 the economy in Argentina was hyper-inflationary. The financial information has been adjusted to take account of the effects of hyper-inflation in that year.

RESPONSIBILITY

1.5 The consolidated audited financial statements of Eléctrica del Sur S.A. and Energía del Sur S.A. are the responsibility of the directors of Eléctrica del Sur S.A. and the directors of Energía del Sur S.A. respectively who approved their issue.

1.6 The directors of Rurelec plc are responsible for the contents of the Admission Document in which this report is included.

1.7 It is our responsibility to compile the financial information set out in our report from the Argentine GAAP financial statements, to form an opinion on the financial information and to report our opinion to you.

BASIS OF OPINION

1.8 We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

1.9 We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

OPINION

1.10 In our opinion the financial information gives, for the purposes of the Admission Document, a true and fair view of the consolidated results and cash flows of the Group for the three years ended 31 December 2004 and the consolidated state of affairs of the Group at the end of each of those years.

CONSENT

1.11 We consent to the inclusion in the Admission Document dated 6 July 2005 of this report and accept responsibility for this report for the purposes of paragraph 45(2)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995 (as amended) as in force prior to 1 July 2005.

2 STATUTORY INFORMATION

2.1 Eléctrica del Sur S.A. was incorporated on 20 September 1996 under the laws of the Republic of Argentina. Patagonia Energy Ltd., a company incorporated in the British Virgin Islands, owns 100 per cent. of the common stock of Eléctrica del Sur S.A. (comprising all 2,865,747 shares of Class A common stock and all 1,910,498 shares of Class B common stock).

2.2 Energía del Sur S.A was incorporated on 29 July 1994 under the laws of the Republic of Argentina.

2.3 Eléctrica del Sur S.A. owns 60 per cent. of the common stock of Energía del Sur S.A. (comprising all 4,687,200 shares of Class A common stock). Patagonia Energy Ltd. owns the remaining 40 per cent. of the common stock of Energía del Sur S.A. (comprising all 3,124,800 shares of Class B common stock).

3 ACCOUNTING POLICIES

3.1 Basis of accounting

The accountants' report has been prepared in accordance with generally accepted accounting practice in the United Kingdom and in accordance with the historical cost convention modified for the effects of inflation in accordance with the inflation accounting policy detailed below. The financial statements are presented in Argentine Pesos (Arg$).

The financial statements of the Group have been prepared on a going concern basis.

3.2 Basis of consolidation

The consolidated financial information consolidates the financial information of Eléctrica del Sur S.A. and its subsidiary, Energía del Sur S.A, under the acquisition method of accounting.

3.3 Accounting for the effects of inflation

The financial information has been adjusted to take account of the effects of inflation, for periods when the Group was operating in a hyper-inflationary environment.

During 2002 the economy in Argentina was hyper-inflationary and inflation accounting has been adopted for that year. Inflation in Argentina stabilised in early 2003. Inflation accounting has not been adopted for the early part of 2003 on the grounds that the adjustments would not be material.

The restatement in 2002 was calculated by means of conversion factors derived from the Wholesale Internal Price Index published by the Argentine National Statistics and Census Institute. The conversion factor between 1 January 2002 and 31 December 2002 was 2.18 (118 per cent. inflation).

The application of inflation accounting to specific categories of transactions and balances within the consolidated financial statements was as follows:

- monetary assets and liabilities that are carried at amounts current at the balance sheet date are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date
- non-monetary assets and liabilities that are not carried at amounts current at the balance sheet date and components of shareholders' equity are restated by applying the relevant conversion factors
- all items in the profit and loss account are restated by applying the relevant monthly or annual conversion factors
- the effect of inflation on the net monetary position of the group is included as a gain or loss on net monetary position in the profit and loss account.

3.4 Turnover

Turnover represents the total amount receivable by the Group for electricity sales, excluding Value Added Tax and any amounts withheld by the regulator of the wholesale electricity market in Patagonia for which either no repayment date has been set as at the balance sheet date or additional conditions need to be met by the Group prior to repayment.

3.5 Tangible fixed assets

Tangible fixed assets are stated at cost restated in accordance with the inflation accounting policy, net of depreciation and any provision for impairment. Finance costs on fixed asset additions are capitalised during the period of construction and written off as part of the total cost. No depreciation is charged during the period of construction.

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Plant and equipment:	Generating unit	3.34%
	Machinery	3.33%
	Installations	9.49%
	Equipment	4.92%
	Spare parts in use	3.7%
	Spare parts not is use	over life of asset from date of use
Fixture and Fittings:	13.72%	
Motor vehicles:	12.92%	

3.6 Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or the right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognized when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

3.7 Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All exchange differences are dealt with through the profit and loss account.

4 CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Note	*Year ended 31 December 2004 Arg$'000*	*Year ended 31 December 2003 Arg$'000*	*Year ended 31 December 2002 Arg$'000*
Turnover	7.1	–	78	15,372
Operating expenses		(4,862)	7,258	(25,906)
Other operating expenses		(4,862)	(3,406)	(21,478)
Inflation adjustment	7.2	–	–	(4,428)
Discount on repayment of loan	7.2	–	10,664	–
Operating (loss)/profit	7.2	(4,862)	7,336	(10,534)
Interest receivable and similar income	7.3	1	156	672
Interest payable and similar charges	7.3	(405)	(1,617)	(1,501)
(Loss)/profit on ordinary activities before taxation		(5,266)	5,875	(11,363)
Tax on (loss)/profit on ordinary activities	7.5	–	–	–
(Loss)/profit transferred to reserves		(5,266)	5,875	(11,363)

There were no recognised gains or losses other than the (loss)/profit for the financial year.

5 CONSOLIDATED BALANCE SHEETS

	Note	*As at 31 December 2004 Arg$'000*	*As at 31 December 2003 Arg$'000*	*As at 31 December 2002 Arg$'000*
Fixed assets				
Tangible assets	7.7	51,792	54,057	56,356
		51,792	54,057	56,356
Current assets				
Debtors	7.8	164	232	3,387
Investments	7.9	–	–	5,376
Cash at bank and in hand	7.18	217	539	3,283
		381	771	12,046
Creditors: amounts falling due within one year	7.10	(36,566)	(34,234)	(26,236)
Net current assets/(liabilities)		(36,185)	(33,463)	(14,190)
Total assets less current liabilities		15,607	20,594	42,166
Creditors: amounts falling due after more than one year	7.11	(415)	(136)	–
		15,192	20,458	42,166
Capital and reserves				
Share capital	7.14	4,776	4,776	4,776
Additional paid in capital	7.15	5,636	5,636	5,636
Irrevocable contribution to equity	7.15	–	–	27,583
Legal reserve	7.15	280	280	280
Profit and loss account	7.15	4,500	9,766	3,891
Shareholders' funds		15,192	20,458	42,166
Equity shareholders' funds		15,192	20,458	14,583
Non–equity shareholders' funds		–	–	27,583
		15,192	20,458	42,166

6 CONSOLIDATED CASH FLOW STATEMENTS

	Note	*Year ended 31 December 2004* *Arg$'000*	*Year ended 31 December 2003* *Arg$'000*	*Year ended 31 December 2002* *Arg$'000*
Net cash (outflow)/inflow from operating activities	7.17	(2,109)	(3,839)	3,134
Returns on investments and servicing of finance				
Interest received		1	156	605
Interest paid		–	–	–
Net cash (outflow)/inflow from returns on investments and servicing of finance		1	156	605
Taxation		–	–	–
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(42)	–	(3)
Sale/(purchase) of short term deposits	7.19	–	5,376	(759)
Net cash (outflow)/inflow from capital expenditure and financial investment		(42)	5,376	(762)
Financing				
Receipts from loans from related party	7.19	1,781	6,004	–
Repayment of bank loan	7.19	–	(10,434)	–
Net cash inflow/(outflow) from financing		1,781	(4,430)	–
(Decrease)/increase in cash	7.18	(369)	(2,737)	2,977

7 NOTES TO THE FINANCIAL INFORMATION

7.1 Turnover

	Year ended 31 December 2004 Arg$'000	*Year ended 31 December 2003 Arg$'000*	*Year ended 31 December 2002 Arg$'000*
Power and energy sales	–	63	14,615
Other service income	–	15	757
	–	78	15,372

All sales were in one geographic location, namely Argentina.

The Group generates electricity from two turbines. The Group ceased generating electricity from one turbine on 15 June 2002 and from the other turbine on 4 January 2003 as the turbines required a major maintenance overhaul and the then owners of the Group were analysing options as to whether to incur the maintenance expenditure, prepare for the potential closure of the plant and sale of the Group's assets or sell their interest in the shares of the Group.

On 25 October, 2004, the then owners of the Group, Xcel Energy Argentina Inc., sold their interest in the shares of the Group to Patagonia Energy Ltd. Subsequent to the change in owner of the Group, the two turbines were put back into operation (on 9 January 2005 and 15 January 2005 respectively).

7.2 Operating (loss)/profit

Operating (loss)/profit is stated after:

	Year ended 31 December 2004 Arg$'000	*Year ended 31 December 2003 Arg$'000*	*Year ended 31 December 2002 Arg$'000*
Depreciation on tangible fixed assets, owned	2,307	2,299	2,299
Exchange loss/(gain) on foreign currency liabilities less assets	42	(2,989)	6,950

Included in the profit and loss account for 2002 is an amount of Arg$4,428,000 relating to the loss on the net monetary position under inflation accounting as per the accounting policy on accounting for the effects of inflation. No such adjustment occurred in 2003 or 2004 as no inflation accounting was required in those years.

During 2003, Energía del Sur SA repaid a bank loan to Eximbank and recognised a discount arising from forgiveness of part of the liability of Arg$10,664,000 as income in that financial year. The circumstances of the repayment are set out in Note 7.12 below.

7.3 Net interest and other similar charges

	Year ended 31 December 2004 Arg$'000	*Year ended 31 December 2003 Arg$'000*	*Year ended 31 December 2002 Arg$'000*
Amortisation of bank loan fees	–	1,182	473
Interest payable	405	435	1,028
Interest receivable	(1)	(156)	(672)
	404	1,461	829

7.4 Directors and employees

Staff costs during the years were as follows:

	Year ended 31 December 2004 Arg$'000	*Year ended 31 December 2003 Arg$'000*	*Year ended 31 December 2002 Arg$'000*
Wages and salaries	472	474	599
Social security costs	100	120	123
	572	594	722

7.5 Tax on (loss)/profit on ordinary activities

The tax charge/credit represents:

	Year ended 31 December 2004 Arg$'000	*Year ended 31 December 2003 Arg$'000*	*Year ended 31 December 2002 Arg$'000*
Argentine corporation tax at 35%	–	–	–
Total current tax	–	–	–
Origination and reversal of timing differences	(1,392)	2,740	(3,918)
Adjustment to estimated recoverable amount of deferred tax assets	1,392	(2,740)	3,918
Total deferred tax	–	–	–
Tax on (loss)/profit on ordinary activities	–	–	–

The current tax charge on (loss)/profit on ordinary activities for the year varied from the standard rate of Argentine corporation tax as follows:

	Year ended 31 December 2004 Arg$'000	*Year ended 31 December 2003 Arg$'000*	*Year ended 31 December 2002 Arg$'000*
(Loss)/profit on ordinary activities	(5,266)	5,875	(11,363)
Argentine corporation tax at 35%	(1,843)	2,056	(3,977)
Permanent differences	451	684	59
Change in allowance for deferred tax	1,392	(2,740)	3,918
Tax on (loss)/profit on ordinary activities	–	–	–

Unrelieved tax losses of approximately Arg$5,800,000 at 31 December 2004 (2003: Arg$2,500,000; 2002: Arg$900,000) remain available to offset against future taxable profits. Of the tax losses at 31 December 2004, Arg$2,500,000 expire by 31 December 2007 and Arg$3,300,000 expire by 31 December 2009.

7.6 Dividends

No dividends were paid or proposed during the period.

7.7 Tangible fixed assets

	Freehold land Arg$'000	*Machinery and equipment Arg$'000*	*Furniture and Fittings Arg$'000*	*Motor vehicles Arg$'000*	*Total Arg$'000*
Cost:					
At 1 January 2002	179	69,821	120	77	70,197
Additions	–	3	–	–	3
At 31 December 2002	179	69,824	120	77	70,200
Additions	–	–	–	–	–
At 31 December 2003	179	69,824	120	77	70,200
Additions	–	7	3	32	42
At 31 December 2004	179	69,831	123	109	70,242
Depreciation:					
At 1 January 2002	–	11,441	63	41	11,545
Provided in the year	–	2,275	16	8	2,299
At 31 December 2002	–	13,716	79	49	13,844
Provided in the year	–	2,275	16	8	2,299
At 31 December 2003	–	15,991	95	57	16,143
Provided in the year	–	2,276	17	14	2,307
At 31 December 2004	–	18,267	112	71	18,450
Net book amounts:					
At 31 December 2002	179	56,108	41	28	56,356
At 31 December 2003	179	53,833	25	20	54,057
At 31 December 2004	179	51,564	11	38	51,792

No finance costs were capitalised during 2004, 2003 or 2002.

Fixed assets are carried at historic cost, as adjusted for inflation in 2002, less depreciation.

7.8 Debtors

	As at 31 December 2004 Arg$'000	*As at 31 December 2003 Arg$'000*	*As at 31 December 2002 Arg$'000*
Trade debtors	32	64	2,235
Other debtors	–	–	930
Prepayments and accrued income	132	168	222
	164	232	3,387

The Group had VAT receivable of Arg$1,280,000 at 31 December 2004 (2003: Arg$870,000; 2002: Arg$520,000). The VAT receivable at 31 December 2002 was recovered in 2003 and is included in other debtors above. The VAT receivable at 31 December 2004 and 2003 has been provided for on the grounds that recovery is uncertain in the foreseeable future.

7.8 Debtors (continued)

Included in other debtors is an amount of Arg$410,000 at 31 December 2002 (2004: nil; 2003: nil) relating to income tax advance payments and withholdings that was classed as due in greater than one year. Included in prepayments and accrued income is an amount of Arg$110,000 at 31 December 2004 (2003: Arg$146,000; 2002: Arg$183,000) relating to an amount incurred on the construction of an electricity substation, ownership of which was transferred to the local transmission company post construction under an electricity transmission arrangement but still utilised by the Group for the transmission of its generated electricity. The prepayment is being amortised at Arg$36,000 per annum and thus Arg$72,000 at 31 December 2004 (2003: Arg$110,000; 2002: Arg$146,000) was classed as due in greater than one year.

The Group pays a minimum income tax assessed at a rate of 1 per cent. on the potential income of certain productive assets. This tax is complementary to corporate income tax (which is levied on the taxable income of the Group) in that the tax obligation of the Group coincides with the highest of both taxes. To the extent the minimum income tax exceeds the corporate income tax charge for a fiscal year, the surplus may be set off against any surplus of corporate income tax over the minimum income tax that may arise in any of the next ten fiscal years. At 31 December 2004, 2003 and 2002, a provision has been made against all minimum income tax paid on the grounds that recovery is uncertain in the foreseeable future. The amount fully-provided for at 31 December 2004 was Arg$1,246,000 (2003: Arg$936,000; 2002: Arg$706,000).

7.9 Current asset investments

	As at 31 December 2004 Arg$'000	*As at 31 December 2003 Arg$'000*	*As at 31 December 2002 Arg$'000*
Other investments	–	–	5,376
	–	–	5,376

Other investments in 2002 represented time deposits with banks. Of the Arg$5,376,000 at 31 December 2002, Arg$4,617,000 comprised a deposit to guarantee a bank loan at that date. This deposit was utilised in 2003 to part repay the bank loan and the guarantee was subsequently released (see Note 7.12).

7.10 Creditors: amounts falling due within one year

	As at 31 December 2004 Arg$'000	*As at 31 December 2003 Arg$'000*	*As at 31 December 2002 Arg$'000*
Bank overdraft	47	–	7
Bank loans	–	–	24,901
less: unamortised finance costs on bank loan	–	–	(1,182)
Loan from related parties	35,552	33,607	–
Trade creditors	726	445	2,212
Social security and other taxes	194	118	228
Accruals	47	64	70
	36,566	34,234	26,236

7.11 Creditors: amounts falling due after one year

	As at 31 December 2004 Arg$'000	*As at 31 December 2003 Arg$'000*	*As at 31 December 2002 Arg$'000*
Loan from related parties	415	136	–
	415	136	–

7.12 Borrowings

	As at 31 December 2004 Arg$'000	*As at 31 December 2003 Arg$'000*	*As at 31 December 2002 Arg$'000*
Due within one year			
Bank overdrafts	47	–	7
Bank loan	–	–	24,901
less: unamortised finance costs on bank loan	–	–	(1,182)
Related party loans			
– Patagonia Energy Ltd.	35,552	–	–
– Xcel Energy Argentina Inc	–	33,607	–
	35,599	33,607	23,726
Due after one and within two years			
Related party loans			
– Patagonia Energy Ltd.	415	–	–
– Xcel Energy Argentina Inc	–	136	–
	415	136	–

Bank loan

On June 16, 1997 Energía del Sur S.A. entered into a bank loan for an amount of US$16,396,000, payable in sixteen half-yearly instalments as from December 15, 1997, at a nominal interest rate of 0.5 per cent. on LIBOR. Energía del Sur S.A. pledged the plant and electric turbines as security for the loan. On August 31, 2001, Energía del Sur S.A. also agreed to maintain a deposit of US$1,350,000 at a bank as collateral for the loan. The loan was also guaranteed by Export-Import bank (Eximbank).

Energía del Sur S.A. defaulted on a loan instalment that fell due on 18 June 2002, the guarantee issued by Eximbank was executed and Eximbank became the assignee of the payments under the loan agreement. On 18 June 2003 Energía del Sur S.A. and Eximbank entered into an agreement whereby Energía del Sur S.A. agreed to pay US$ 3,700,000 to settle all amounts owed under the loan agreement. Energía del Sur S.A. repaid this amount during 2003. As a result of the settlement agreement, Energía del Sur S.A. recorded as income in September 2003 a discount on repayment of the loan balance of Arg$10,664,000.

Related party loans

During 2003 an irrevocable contribution for future share subscriptions from the then parent group of the Group amounting to Arg$27,583,000 was reclassified from shareholders' equity to creditors (see Note 7.15).

On 25 October 2004 the current parent of the Group, Patagonia Energy Ltd., acquired a 100 per cent. interest in the share capital of Eléctrica del Sur S.A. and Energía del Sur S.A. At the same time Patagonia Energy Ltd. acquired the rights to repayment of all of the related party loans outstanding on that date, including the right to repayment of the irrevocable contribution for future share subscriptions.

7.13 Provision for deferred taxation

	As at 31 December 2004 Arg$'000	*As at 31 December 2003 Arg$'000*	*As at 31 December 2002 Arg$'000*
Accelerated capital allowances	283	302	510
Less:			
Tax losses carried forward	(2,072)	(924)	(4,098)
Other timing differences	(1,502)	(1,277)	(1,051)
Deferred tax asset	(3,291)	(1,899)	(4,639)
Allowance against recoverability of asset	3,291	1,899	4,639
Provision for deferred tax	–	–	–

7.14 Share capital

	As at 31 December 2004 Arg$'000	*As at 31 December 2003 Arg$'000*	*As at 31 December 2002 Arg$'000*
Outstanding common shares:			
2,865,747 Type A shares of $1 each	2,866	2,866	2,866
1,910,498 Type B shares of $1 each	1,910	1,910	1,910
	4,776	4,776	4,776
Registered shares, subscribed and paid up:			
2,865,747 Type A shares of $1 each	2,866	2,866	2,866
1,910,498 Type B shares of $1 each	1,910	1,910	1,910
	4,776	4,776	4,776

7.15 Reserves

	Other reserve Arg$'000	*Additional paid in capital Arg$'000*	*Irrevocable contribution Arg$'000*	*Profit and loss reserve Arg$'000*
At 1 January 2002	280	5,636	27,583	15,254
Retained (loss) for the year	–	–	–	(11,363)
At 31 December 2002	280	5,636	27,583	3,891
Irrevocable contribution now repayable	–	–	(27,583)	–
Retained profit for the year	–	–	–	5,875
At 31 December 2003	280	5,636	–	9,766
Retained (loss) for the year	–	–	–	(5,266)
At 31 December 2004	280	5,636	–	4,500

7.15 Reserves (continued)

Additional paid in capital represents the inflation adjustment to opening share capital booked on the restatement of opening reserves for 2002.

Other reserves represent a legal reserve required under Argentine law. Under Argentine law, 5 per cent. of the net profits of a company for each financial year are to be assigned to the legal reserve until it reaches 20 per cent. of the value of the share capital. No amounts were transferred to the legal reserve during 2004, 2003 or 2002 as Eléctrica del Sur S.A. did not generate net profits in any of those periods in the individual company financial statements.

Prior to 1 January 2002, Energía del Sur S.A. received an advance of approximately Arg$12,653,000 representing an irrevocable contribution for future share subscriptions. This amount was indexed for inflation in 2002 to Arg$27,583,000.

On 17 November 2003, and in accordance with regulations passed in Argentina, the then parent of the Group informed Energía del Sur S.A. that it no longer intended to maintain the irrevocable contribution for future share subscriptions. Consequently, on that date Energía del Sur S.A.'s Board of Directors resolved to approve the refund of irrevocable contributions in the amount of Arg$27,583,000. In accordance with the shareholder's statement, Energía del Sur S.A.'s Board of Directors expressly stated that the refund of irrevocable contributions is only to be made to the extent that Energía del Sur S.A. has sufficient funds and provided that it does not affect its normal operations.

Accordingly, as at 31 December 2004 and 2003 the irrevocable contribution for future share subscriptions of Arg$27,583,000 was reclassified from shareholders' equity to other liabilities. This liability remains unpaid as at the date of this report.

7.16 Movement in Shareholders' funds

	Year ended 31 December 2004 Arg$'000	*Year ended 31 December 2003 Arg$'000*	*Year ended 31 December 2002 Arg$'000*
(Loss)/profit for the financial year	(5,266)	5,875	(11,363)
Reclassification of irrevocable contribution to share capital as a shareholder loan	–	(27,583)	–
Net (decrease)/increase in shareholders funds	(5,266)	(21,708)	(11,363)
Shareholders' funds at 1 January	20,458	42,166	53,529
Shareholders' funds at 31 December	15,192	20,458	42,166

7.17 Net cash (outflow)/inflow from operating activities

	Year ended 31 December 2004 Arg$'000	*Year ended 31 December 2003 Arg$'000*	*Year ended 31 December 2002 Arg$'000*
Operating (loss)/profit	(4,862)	7,336	(10,534)
Depreciation	2,307	2,299	2,299
(Increase)/decrease in debtors	68	3,155	6,815
Increase/(decrease) in creditors	378	(5,965)	4,554
Discount on repayment of loan	–	(10,664)	–
Net cash (outflow)/inflow from operating activities	(2,109)	(3,839)	3,134

7.18 Analysis of changes in cash and cash equivalents

	Cash at bank Arg$'000	*Cash in hand Arg$'000*	*Total Arg$'000*	*Bank overdraft Arg$'000*	*Total Arg$'000*
Balance at 1 January 2002	636	17	653	(354)	299
Net cash inflow/(outflow)	2,645	(15)	2,630	347	2,977
Balance at 31 December 2002	3,281	2	3,283	(7)	3,276
Net cash inflow/(outflow)	(2,745)	1	(2,744)	7	(2,737)
Balance at 31 December 2003	536	3	539	–	539
Net cash inflow/(outflow)	(322)	–	(322)	(47)	(369)
Balance at 31 December 2004	214	3	217	(47)	170

7.19 Analysis of changes in net debt

	At 1 January 2004 Arg$'000	*Cash flow Arg$'000*	*Exchange and other non-cash adjustments Arg$'000*	*At 31 December 2004 Arg$'000*
Cash and bank	539	(322)	–	217
Overdrafts	–	(47)	–	(47)
	539	(369)	–	170
Debt	(33,743)	(1,781)	(443)	(35,967)
Current asset investments	–	–	–	–
	(33,204)	(2,150)	(443)	(35,797)

	At 1 January 2003 Arg$'000	*Cash flow Arg$'000*	*Exchange and other non-cash adjustments Arg$'000*	*At 31 December 2003 Arg$'000*
Cash and bank	3,283	(2,744)	–	539
Overdrafts	(7)	7	–	–
	3,276	(2,737)	–	539
Debt	(23,719)	4,430	(14,454)	(33,743)
Current asset investments	5,376	(4,622)	(754)	–
	(15,067)	(2,929)	(15,208)	(33,204)

	At 1 January 2002 Arg$'000	*Cash flow Arg$'000*	*Exchange and other non-cash adjustments Arg$'000*	*At 31 December 2002 Arg$'000*
Cash and bank	653	2,630	–	3,283
Overdrafts	(354)	347	–	(7)
	299	2,977	–	3,276
Debt	(14,023)	–	(9,696)	(23,719)
Current asset investments	2,943	759	1,674	5,376
	(10,781)	3,736	(8,022)	(15,067)

7.20 Major non-cash transactions

During 2003, the then parent of the Group informed Energía del Sur S.A. that it no longer intended to maintain its irrevocable contributions for future share subscriptions as shareholders' equity. Consequently, following approval by Energía del Sur S.A.'s Board of Directors, the irrevocable contributions for future share subscriptions of Arg$27,583,000 were reclassified from shareholders' equity to creditors during 2003.

7.21 Related party transactions

	As at 31 December 2004 Arg$'000	*As at 31 December 2003 Arg$'000*	*As at 31 December 2002 Arg$'000*
Balances			
Included in trade creditors			
IPC Operations Ltd.	–	140	101
Xcel Energy Argentina Inc.	–	–	148
Included in borrowings			
Shareholder loans from Patagonia Energy Ltd.	35,967	–	–
Shareholder loans – Xcel Energy group companies	–	33,743	–
Transactions			
Fees for services charged by IPC Operations Ltd.	252	460	480
Interest payable charged by Patagonia Energy Ltd.	407	–	–
Interest payable charged by Xcel Energy group companies	–	156	–

Xcel Energy Argentina Inc. was the previous parent of the Group prior to the shareholdings in the Group being transferred to Patagonia Energy Ltd. IPC Operations Ltd. is a company in the same group as Xcel Energy Argentina Inc. and provided administrative and operational and maintenance services to the Group prior to the Group being acquired by Patagonia Energy Ltd.

Patagonia Energy Ltd. is the current parent company of the Group.

7.22 Controlling related party

The parent company of the Group is Patagonia Energy Ltd., a company incorporated in the British Virgin Islands. The ultimate parent company of the Group is Basic Energy Ltd., a company incorporated in the Bahamas.

Patagonia became the parent company on 25 October 2004. Prior to this, Xcel Energy Argentina Inc. was the parent company of the Group.

7.23 Capital commitments

There were no capital commitments at 31 December 2004.

7.24 Contingent liabilities

During 2002 and 2003 Energía del Sur S.A. assigned VAT tax credits amounting to Arg$1.3 million to a third party for consideration of Arg$1.0 million. The Argentine Federal Tax Authority has not yet approved the assignment. Energía del Sur S.A. has indemnified the third party from any claims the Argentine tax authorities may raise against the third party with respect to the validity of the VAT tax credits, until such time as approval of the assignment by the Argentine Federal Tax Authority is obtained.

There were no other material contingent liabilities at 31 December 2004.

Yours faithfully

GRANT THORNTON UK LLP

PART V

PRO FORMA STATEMENT OF NET ASSETS

Set out below is an unaudited pro forma statement of net assets prepared to illustrate the effect on the Group of the Acquisition of 50 per cent. of Patagonia Energy and Placing as if they had taken place as at 31 December 2004. It has been prepared, on the basis of the notes set out below, for illustrative purposes only. Because of its nature, this pro forma statement of net assets may not give a true picture of the position of the Group.

		Adjustments		
	Rurelec	*Placing proceeds (Note 2)*	*Investment in Patagonia Energy (Note 3)*	*Rurelec pro forma net assets*
	£'000	*£'000*	*£'000*	*£'000*
Fixed assets				
Tangible fixed assets	323	–	–	323
Investments				
– Share in gross assets of joint venture	–	–	3,695	3,695
– Share in gross liabilities of joint venture	–	–	(300)	(300)
	323	–	3,395	3,718
Current assets				
Cash at bank and in hand	893	3,020	(2,546)	1,367
Debtors	41	–	–	41
	934	3,020	(2,546)	1,408
Creditors: amounts falling due within one year	(302)	–	(849)	(1,151)
Net current assets	632	3,020	(3,395)	257
Net assets	955	3,020	–	3,975

Notes:

(1) The net assets of Rurelec as at 31 December 2004 have been extracted without material adjustment from the interim reports and accounts of Rurelec for the six months ended 31 December 2004 set out in Part IIIb of this document.

(2) The net placing proceeds of £3,020,000 represent an assumed placing of 8,750,000 ordinary shares at 40 pence per share, less assumed transaction costs of £480,000 (excluding VAT).

(3) The investment in Patagonia Energy is based on a total consideration of US$6,000,000 at an assumed exchange rate of US$1.767:£1, being £3,395,000. Consideration of US$4,500,000 (£2,546,000 at an exchange rate of US$1.767:£1) is payable on acquisition of the 50 per cent. interest in Patagonia Energy and consideration of US$1,500,000 (£849,000 at an exchange rate of US$1.767:£1) is deferred and is included as an amount fully due within one year for the purposes of the pro forma statement above.

Rurelec's investment in Patagonia Energy is accounted for under the gross equity method of accounting in the pro forma statement of net assets.

Rurelec's share of the gross liabilities of the joint venture has been derived from a 50 per cent. share of the liabilities shown in the consolidated balance sheet of Electrica del Sur S.A. as at 31 December 2004 and the liabilities shown in the balance sheet of Patagonia Energy as at 30 April 2005, set out in Parts IVb and IVa of this document respectively, assuming foreign exchange rates of 2.886 Argentine Pesos: US$1 and US$1.767:£1, and assuming:

(a) the elimination of all inter-company balances between Eléctrica del Sur S.A., Energía del Sur S.A and Patagonia Energy; and

(b) the conversion of circa US$5,579,000 of current liabilities in Patagonia Energy at 30 April 2005 into share capital, as described in the accountants' report at Part IVa of this document.

Rurelec's share of the gross assets of the joint venture represents its investment in Patagonia Energy plus its share of the gross liabilities of the joint venture.

No adjustments have been made which may be necessary to reflect the fair value of Rurelec's share of the gross assets and gross liabilities acquired.

(4) The pro forma statement of net assets of Rurelec does not take into account any trading or working capital movements arising in Rurelec, Eléctrica del Sur S.A. or Energía del Sur S.A. since 31 December 2004 or in Patagonia Energy since 30 April 2005.

(5) No account has been made for trading or working capital movements for Eléctrica del Sur S.A., Energía del Sur S.A. and Rurelec since 31 December 2004 and for Patagonia Energy since 30 April 2005.

Grant Thornton Corporate Finance

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and

The Directors
Daniel Stewart & Co plc
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6 July 2005

Dear Sirs

PRO FORMA STATEMENT OF NET ASSETS

We report on the pro forma statement of net assets set out in Part V of this admission document dated 6 July 2005, which has been prepared, for illustrative purposes only, to provide information about how the placing and acquisition of 50 per cent. of Patagonia Energy Limited by Rurelec plc might have affected the financial information presented.

RESPONSIBILITIES

It is the responsibility solely of the directors of Rurelec plc (the Company) to prepare the pro forma financial information.

It is our responsibility to form an opinion on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom the reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company.

OPINION

In our opinion:

- the pro forma statement of net assets has been properly compiled on the basis stated
- such basis is consistent with the accounting policies of the Company
- the adjustments are appropriate for the purposes of the pro forma statement of net assets as disclosed.

Yours faithfully

GRANT THORNTON UK LLP

PART VI

SUMMARY OF ACQUISITION AGREEMENT AND PATAGONIA SHAREHOLDERS' AGREEMENT

Acquisition Agreement

Pursuant to the Acquisition Agreement, Basic will sell to Rurelec 50 per cent. of the entire issued share capital of Patagonia Energy (which as at completion of the agreement will be 5,578,594 shares of US$1 each). Completion, which will take place on Admission, is conditional upon, *inter alia*:

(a) the passing of the EGM Resolutions;

(b) Rurelec's solicitors holding the initial consideration (US$4,500,000) in their client account in cleared funds;

(c) a memorandum and articles of association of Patagonia Energy being drafted and agreed between Basic and Rurelec which accords with the terms and conditions of the Patagonia Shareholders' Agreement;

(d) a resolution of the board of Patagonia Energy being passed pursuant to which US$5,578,593 of indebtedness owed by Patagonia Energy to Basic is capitalised into 5,578,593 shares of US$1 each in Patagonia Energy;

(e) immediately after the passing of the EGM Resolutions, the Placing Agreement not having been terminated and remaining unconditional in all respects (save only as to the fulfillment of the condition relating to Admission); and

(f) Admission having taken place.

Basic has undertaken to procure that, pending Completion, the business of Patagonia Energy and its subsidiaries is carried on in the ordinary and usual course and in the same manner as prior to the date of the Acquisition Agreement.

The maximum consideration payable for the Shares is US$6,000,000, which is payable in cash and is comprised (a) US$4,500,000 (the "Initial Consideration") which is payable upon Completion and (b) further consideration (the "Further Consideration") which shall not exceed US$1,500,000.

The Further Consideration is payable by reference to the management accounts of EDS in respect of the calendar year ending 31 December 2005 (the "December 2005 Management Accounts") and the subsequent quarterly management accounts of EDS in respect of the quarterly period ending 31 March 2006, and each subsequent quarterly period until all the Further Consideration is paid in full (the "Quarterly Management Accounts"). The first instalment of the Further Consideration is payable as soon as is practicable after 31 December 2005 and is equal to the lesser of (a) US$1,500,000 and (b) the amount of the net profit after tax of EDS as shown in the December 2005 Management Accounts taking into account certain adjustments. Each further instalment of the Further Consideration is calculated by reference to the next Quarterly Management Accounts and is equal to the lesser of (a) any unpaid remainder of the maximum US$1,500,000 payable in respect of the Further Consideration and (b) the net profit after tax of EDS as shown in the relevant Quarterly Management Accounts taking into account certain adjustments.

The warranties (which are given on an indemnity basis) are extremely limited in scope. In particular there are no warranties in relation to the financial position, assets and liabilities of the operating subsidiary, EDS nor in relation to Electrica.

The warranties are capped at half of the amount of the consideration insofar as it is paid (up to US$6,000,000). There is a *de minimis* of US$50,000 and the time limit on warranty claims is the second anniversary of Admission.

The agreement is governed by New York law.

Patagonia Shareholders' Agreement

The Patagonia Shareholders' Agreement is conditional upon the Acquisition Agreement (which is, in turn, conditional upon Admission).

On completion of the Patagonia Shareholders' Agreement, Rurelec and Basic will have 50 per cent. each of the share capital in Patagonia Energy.

Each 20 per cent. shareholding in Patagonia Energy held by a shareholder gives the power to appoint one director to the board of Patagonia Energy. Therefore, with 50 per cent. of the shares in Patagonia Energy, Rurelec and Basic will each on Admission have the power to appoint two directors. Any vote passed by ordinary resolution would, on the basis of Basic's and Rurelec's shareholdings of 50 per cent. each on completion, require the consent of both of them. However, certain matters cannot be effected without the vote of directors appointed by shareholders with an aggregate ownership percentage of 75 per cent. of the shares in Patagonia Energy and certain matters require the unanimous approval of the directors of Patagonia Energy. The matters which are reserved in this way are usual for an agreement of this type.

The board of directors of Patagonia Energy shall meet at least quarterly. A quorum shall consist of a majority of the board.

For so long as Basic owns shares in Patagonia Energy, the chairman of the company shall be a director designated by Basic. The chairman shall initially be Estaban Reynal. The chairman shall have authority to represent Patagonia Energy in its relations with governmental authorities and its public relations in Argentina and other jurisdictions in which business is carried out. For so long as Rurelec owns shares in Patagonia Energy the non-executive deputy chairman shall be Peter Earl who shall have non-exclusive responsibility for pursuing and identifying new projects. For so long as Basic owns shares in Patagonia Energy, the chief executive officer (who shall not necessarily be a director) shall be designated by Basic. The chief executive officer shall initially be Michael Bax. The chief executive officer shall have general responsibility for the management of the company and such other matters as may be delegated to him from time to time by the directors of Patagonia Energy. The finance director shall be a director designated by Rurelec. Initially this shall be Elizabeth Shaw.

Pre-emption rights apply to transfers of shares such that any shares offered to a third party (save for certain permitted transfers) must first be offered to Patagonia Energy on the same terms. Any shares not taken up by Patagonia Energy are then offered to other shareholders in Patagonia Energy on a *pro rata* basis. In the event that the pre-emption provisions are exhausted and a shareholder proposes to transfer its shares to a third party, the other shareholders shall have the option to participate in the sale of the shares to the third party. The amount of shares which may be sold by a shareholder wishing to "tag along" shall be the product of (x) the number of shares proposed to be sold by such shareholder and (y) a fraction, the numerator of which shall be the number of shares willing to be purchased by the proposed transferee and the denominator of which shall be the total number of shares proposed to be sold by all shareholders who have "tag along" rights.

The agreement contains pre-emptive rights on new issues of shares by Patagonia Energy which allow existing shareholders to participate in new issues of shares on a *pro rata* basis.

The agreement is governed by British Virgin Islands law. The parties shall attempt to resolve any dispute in relation to the agreement in an amicable way by calling a meeting among the shareholders of Patagonia Energy. However, ultimately, disputes shall be referred to arbitration under the London Court of International Arbitration Rules in London. Note that, for these purposes, the meaning of "dispute" is sufficiently broad to cover disputes arising in relation to the running of the business of Patagonia or its subsidiaries, including where a deadlock arises at either board or shareholder level.

PART VII

ADDITIONAL INFORMATION

1. Incorporation and status of the Company

(a) On 26 June 2003 the Company was incorporated in England and Wales under the Act as a private company limited by shares with the name Independent Power International Limited and with registered number 4812855. On 16 February 2004, the Company changed its name to Rurelec Limited. On 19 July 2004 the Company re-registered as a public limited company with the name Rurelec PLC.

(b) The principal legislation under which the Company operates is the Act and regulations made thereunder.

(c) The Company's registered office, which is also its principal place of business, is at 5th Floor, Prince Consort House, 27-29 Albert Embankment, London SE1 7TJ.

(d) The accounting reference date of the Company is 30 June.

(e) Details of the Group are set out in paragraph 7 below.

2. Share capital of the Company

(a) The authorised share capital of the Company on incorporation was £100, consisting of 100 ordinary shares of £1.00 each.

(b) Save as set out below, there have been no changes in the issued share capital of the Company since its incorporation.

(c) On 14 May 2004, pursuant to resolutions of the Company passed on that date:

(i) the authorised share capital of the Company was increased from £100 to £250,000 by the creation of an additional 249,900 ordinary shares of £1.00 each in the capital of the Company;

(ii) the Directors were generally and unconditionally authorised until 14 May 2009, to allot relevant securities for the purposes of section 80 of the Act up to an aggregate nominal amount of £250,000;

(iii) the Directors were authorised and empowered pursuant to section 95 of the Act to allot equity securities until 14 May 2009, as if section 89(1) of the Act did not apply to the allotment of any such securities;

(iv) the 250,000 Ordinary Shares of £1.00 in the capital of the Company were subdivided into 12,500,000 Ordinary Shares of £0.02 each.

(d) On 19 July 2004, pursuant to resolutions of the Company passed on that date:

(i) the authorised share capital of the Company was increased from £250,000 to £600,000 by the creation of an additional 17,500,000 Ordinary Shares;

(ii) the Directors were generally and unconditionally authorised until the earlier of the anniversary of the resolution and the next annual general meeting of the Company to allot relevant securities for the purposes of section 80 of the Act up to an aggregate nominal amount of £83,800;

(iii) the Directors were authorised and empowered pursuant to section 95 of the Act until the earlier of the anniversary of the resolution and the next annual general meeting of the Company to allot equity securities as if section 89(1) of the Act did not apply to the allotment of any such securities, provided that such power is limited to:

(1) the proposed issue of 2,500,000 Ordinary Shares to be issued in connection with the placing to take place on the Company's admission to AIM;

(2) in connection with an issue by way of rights (including, without limitation, under a rights issue, open offer or similar arrangement) to holders of equity securities (as so defined) in proportion as nearly as may be to their respective holdings of such securities or in accordance with the rights attaching to them (but with such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements, record dates or other legal or practical problems under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory or as regards shares held by an approved depository or in issue in uncertificated form);

(3) the allotment of equity securities in connection with the exercise of the Warrants; and

(4) the allotment of equity securities up to a maximum aggregate nominal amount of £12,500 for any other purpose.

(e) On 18 August 2004, upon admission of the Company to AIM, the Company issued 2,000,000 Ordinary Shares pursuant to the placing agreement summarised in paragraph 6(h) below.

(f) On 5 November 2004, pursuant to a resolution of the Directors of the same date, the Company issued 600,000 Ordinary Shares to HSBC Global Custody Nominees (UK) Limited at a subscription price of 42.5 pence per Ordinary Share.

(g) At the Extraordinary General Meeting, the Shareholders of the Company will consider and, if thought fit, pass the following resolutions, of which (i) (ii), and (iii) will be proposed as ordinary resolutions and (iv) will be proposed as a special resolution, namely that:

(i) the Acquisition, which constitutes a reverse takeover for the purposes of the AIM Rules, be approved;

(ii) the authorised share capital of the Company be increased from £600,000 to £850,000 by the creation of an additional 12,500,000 Ordinary Shares;

(iii) in substitution for all previous authorities the Directors be generally and unconditionally authorised pursuant to section 80 of the Act, to exercise all or any powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) in the capital of the Company up to:

(1) a maximum nominal amount of £175,000 in connection with the Placing;

(2) a maximum nominal amount of £21,500 in connection with the exercise of the Warrants; and

(3) a maximum nominal amount of £128,100 (representing approximately 30 per cent. of the issued share capital of the Company following the Placing,

provided that such authority shall expire on the day falling 15 months after the date of the passing of such resolution or, if earlier, at the conclusion of the next annual general meeting of the Company to be held in 2006 save that the Company may make an offer or agreement before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority conferred by such resolution had not expired; and

(iv) subject to and conditional upon the passing of resolution (iii) and in substitution for all previous authorities, the Directors be and are hereby empowered pursuant to the provisions of section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to any such allotment, provided that this power shall be limited to:

(1) the allotment of equity securities up to an aggregate nominal amount of £175,000 in connection with the Placing;

(2) the allotment of equity securities up to an aggregate nominal amount of £21,500 in connection with the exercise of the Warrants;

(3) the allotment of equity securities otherwise than pursuant to sub-paragraphs A and B above in connection with any issue by way of rights or other offer where the number of equity securities to be allotted to holders of ordinary shares of the Company on a fixed record date is proportionate (as nearly as may be) to the number of ordinary shares then held by such shareholders, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems under the laws of, or the requirements of, any regulatory or stock exchange authority in any jurisdiction or in relation to fractional entitlements; and

(4) otherwise than pursuant to sub-paragraphs (1), (2) and (3) above, the allotment of equity securities up to an aggregate nominal amount of £21,350 (representing approximately 5 per cent. of the issued share capital of the Company following the Placing).

(h) Following Admission the authorised share capital of the Company will be £850,000 divided into 42,500,000 Ordinary Shares of which 21,350,000 will be issued and fully paid up with a further 75,000 Ordinary Shares being subject to the Broker Warrants and a further 1,000,000 Ordinary Shares being subject to the Investor Warrants.

(i) The provisions of sections 89(1) of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of securities which are, or are to be, paid up in cash other than by way of allotment to employees under any employees' share scheme as defined in section 743 of the Act) apply to the authorised but unissued ordinary share capital of the Company to the extent not disapplied as described in paragraph 2(g) above. This disapplication will give the Directors limited flexibility to issue shares for cash following the Placing. Subject to this disapplication and certain limited exceptions, unless the approval of Shareholders in general meeting is obtained, the Company must normally offer Ordinary Shares to be issued for cash to existing holders of Ordinary Shares on a *pro rata* basis. No such issue is presently in contemplation by the Board (other than in respect of the Placing).

(j) Save as disclosed in this document, no share or loan capital of the Company is under option or agreed, conditionally or unconditionally, to be put under option.

(k) Save for the issue of the Placing Shares and any Ordinary Shares issued in respect of the Warrants, there is no present intention to issue either fully or partly paid up for cash or otherwise any of the authorised but unissued share capital of the Company.

(l) Save as disclosed in this document, no persons have preferential subscription rights in respect of any authorised but unissued share or loan capital of the Company.

3. Memorandum and Articles

(a) The memorandum of association of the Company provides that the Company's principal objects are to carry on business as a general commercial company. The objects of the Company are set out in full in clause 3 of the memorandum of association, which is available for inspection at the address specified in paragraph 13 below.

(b) The Articles contain provisions, *inter alia*, to the following effect, which is a description of significant rights and does not purport to be complete or exhaustive:

(i) *Share capital*

The share capital of the Company is divided into shares of one class, namely Ordinary Shares.

(ii) *Voting rights*

Subject to the Articles and any special rights or restrictions as to voting for the time being attached to any share at a general meeting every member holding an Ordinary Share present in person shall upon a show of hands have one vote and on a poll every member present in person or by proxy shall have one vote for every Ordinary Share of which he is the holder. A proxy cannot vote on a show of hands. Except as otherwise provided in the Articles, two persons entitled to vote upon the

business to be transacted at the meeting each being a member or a proxy for a member of a duly authorised representative of a corporation shall be a quorum.

Unless the Board otherwise decides, a member shall not be entitled to attend or vote, either in person or by proxy, at any general meeting of the Company or to exercise any other right as a member in respect of any share held by him unless and until all calls and other sums presently payable by him in respect of that share have been paid.

(iii) *Dividends*

Subject to the Statutes (meaning the Act and every other statute (including any orders, regulations or other legislation made under them) for the time being in force concerning companies and affecting the Company, (and every statutory modification or re-enactment of the same for the time being in force) the Company may by ordinary resolution declare dividends to be paid to the members according to their respective rights and interests in the profits of the Company. No dividend shall exceed the amount recommended by the Directors. Subject to the Statutes, the Directors may pay such interim dividends (including any dividend payable at a fixed rate) as appear to them to be justified by the financial position of the Company.

Except insofar as the rights attaching to, or the terms of issue of, any shares otherwise provide, all dividends shall be declared and paid according to the amounts paid up (other than amounts paid up in advance of calls) on the shares in respect of which the dividend is paid and all dividends shall be apportioned and paid *pro rata* according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

All unclaimed dividends, interest or other sums payable may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not constitute a trustee in respect of such dividends, interest or other sums. All dividends unclaimed for a period of 12 years after having been declared or become due for payment shall be forfeited and cease to remain owing by the Company.

The Directors may, with the authority of an ordinary resolution of the Company, direct that the payment of any dividend may be satisfied wholly or in part by the distribution of specific assets and, in particular, of paid up shares or debentures of any other company. The Board may, with the authority of an ordinary resolution of the Company and in accordance with the Articles, offer any holders of Ordinary Shares the right to elect to receive further new shares credited as fully paid instead of cash in respect of all (or some part) of any dividend specified by the ordinary resolution.

(iv) *Distribution of assets on a winding up*

If the Company is wound up, the liquidator may, with the authority of an extraordinary resolution of the Company and any other authority required by the Statutes, divide among the members *in specie* the whole or any part of the assets of the Company and, for that purpose, value any assets and determine how the division shall be carried out as between members or different classes of members or vest the whole or any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but no member shall be compelled to accept any assets upon which there is any liability.

(v) *Transfer of shares*

Subject to the restrictions in the Articles, a member may transfer all or any of his shares in any manner which is permitted by the Statutes and is from time to time approved by the Board.

The Company shall register the transfer of any uncertificated shares in accordance with the Regulations and other Statutes and where permitted by the CREST Regulations and other statutes the Board may, in its absolute discretion and without giving any reason for its decision, refuse to register any transfer of an uncertificated share.

An instrument of transfer of a certificated share may be in any usual form or in any other form which the Board may approve and shall be signed by or on behalf of the transferor and (except in the case of a fully paid share) by or on behalf of the transferee. An instrument of transfer need not be under seal.

Save in the case of a class of shares which has been admitted to the Official List or whose shares are admitted to CREST the Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of a certificated share unless:

(1) it is in respect of a share which is fully paid up;

(2) the instrument of transfer is left at the registered office or at such place as the Board may decide, for registration;

(3) the instrument of transfer is accompanied by the certificate for the shares to be transferred and such other evidence (if any) as the Board may reasonably require to prove the title of the intending transferor or his right to transfer the shares;

(4) the instrument of transfer is duly stamped (if so required);

(5) it is in respect of only one class of shares; and

(6) it is in favour of not more than four transferees.

(vi) *Power to increase, consolidate, sub-divide and cancel shares*

The Company may by ordinary resolution:

(1) increase its share capital by such sum to be divided into shares of such amount as the resolution prescribes;

(2) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;

(3) subject to the Statutes, sub-divide its shares, or any of them, into shares of smaller amount and the resolution may determine that, as between the shares resulting from the sub-division, one or more of the shares may, as compared with the others, have such preferred, deferred or other special rights, or be subject to such restrictions, as the Company has power to attach to unissued or new shares; and

(4) cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

(vii) *Fractions*

Whenever as a result of a consolidation or sub-division of shares any member would become entitled to a fraction of a share, the Board may on behalf of the members deal with the fractions as it thinks fit. In particular, but without limitation, the Board may sell the shares representing the fractions for the best price reasonably obtainable to any person (including, subject to the Statutes, the Company) and distribute the net proceeds of sale in due proportion among those members (except that any amount otherwise due to a member, being less than £3 or such other sum as the Board may from time to time determine, may be retained for the benefit of the Company).

(viii) *Power to reduce capital*

Subject to the Statutes, and to any rights for the time being conferred on the holders of any class of shares, the Company may by special resolution reduce its share capital, any capital redemption reserve or any share premium account in any way.

(ix) *Power to purchase own shares*

Subject to the Statutes, and to any rights for the time being conferred on the holders of any class of shares, the Company may purchase all or any of its shares of any class, including any redeemable shares.

(x) *Variation of rights*

If at any time the share capital of the Company is divided into shares of different classes, any of the rights for the time being attached to any class of shares may be varied or abrogated (whether or not the Company is being wound up) in such manner (if any) as may be provided by those rights or, if no such provision is made, either:

(1) with the consent in writing of the holders of three-quarters in nominal value of the issued shares of that class; or

(2) with the authority of an extraordinary resolution passed at a separate general meeting of the holders of those shares.

The provisions of the Articles relating to general meetings of the Company or to the proceedings at general meetings shall apply, *mutatis mutandis*, to every meeting of the holders of any class of shares, except that:

(1) the quorum at any such meeting (other than an adjourned meeting) shall be two persons holding or representing by proxy at least one-third in nominal amount of the issued shares of the class;

(2) at an adjourned meeting the quorum shall be one person holding shares of the class or his proxy;

(3) every holder of shares of the class shall, on a poll, have one vote in respect of every share of the class held by him; and

(4) a poll may be demanded by any one holder of shares of the class whether present in person or by proxy.

(xi) *Disclosure of interests*

If a holder of, or any other person appearing to be interested in, any shares has been issued with a notice by the Company pursuant to section 212 of the Act (a "Section 212 Notice") and has failed in relation to any shares (the "Default Shares") to comply with the Section 212 Notice within 14 days from the service of the notice:

(1) the holder of the Default Shares shall not be entitled in respect of the Default Shares to be present or to vote (either in person or by proxy) at any general meeting of the Company or at any separate meeting of the holders of any class of shares; and

(2) if the Default Shares represent 0.25 per cent. or more in nominal value of the issued shares of their class, the holder of the Default Shares shall not be entitled in respect of the Default Shares to receive any dividend or other distribution or other than an Exempt Transfer to transfer or agree to transfer any of those shares.

An "Exempt Transfer" in relation to any shares means a transfer pursuant to:

(1) a sale on a Recognised Investment Exchange (as defined in FSMA) or any other stock exchange outside the United Kingdom on which the Company's shares are normally traded;

(2) a sale of the whole beneficial interest in the shares to a person whom the Board is satisfied is unconnected with the existing holder or with any other person appearing to be interested in the shares; or

(3) a sale by way of or pursuant to acceptance of a takeover offer (as defined in section 428 of the Act).

(xii) *Directors*

Subject to the Statutes, the memorandum of association of the Company, the Articles and any directions given by special resolution of the Company, the business of the Company shall be managed by the Board which may exercise all the powers of the Company.

A Director need not hold any shares of the Company. Each Director shall be entitled to attend and speak at any general meeting of the Company whether or not he is a member.

The Board may from time to time appoint one or more Directors to hold any executive office (including that of chief executive or managing Director) for such term (subject to the Statutes) and on such terms as the Board may decide. The Board may revoke or terminate any such appointment without prejudice to any claim for damages for breach of contract between the Director and the Company.

Subject to the Statutes and subject to disclosure of his interests, a Director notwithstanding his office:

(1) may enter into or otherwise be interested in any contract, arrangement, transaction or proposal with the Company or in which the Company is otherwise interested;

(2) may hold any other office or place of profit under the Company (except as its auditor or auditor of a subsidiary of the Company) in conjunction with the office of Director for such period (subject to the Statutes) and upon such terms as the Board may decide and may be paid such extra remuneration for so doing (whether by way of salary, commission, participation in profits or otherwise) as the Board may decide, either in addition to or in lieu of any remuneration under any other provision of the Articles;

(3) may be or become a member or Director of, or hold any other office or place of profit under, or otherwise be interested in, any other company in which the Company may be interested;

(4) may act by himself or his firm in a professional capacity for the Company (except as its auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a Director;

(5) shall not be liable to account to the Company for any profit, remuneration or other benefit realised by any such office, employment, contract, arrangement, transaction or proposal

and no such contract, arrangement, transaction or proposal shall be avoided on the grounds of any such interest or benefit.

Save as otherwise provided by the Articles, a Director shall not vote or be counted in the quorum at a meeting in relation to any resolution of the Board or a committee of the Board relating to any contract, arrangement, transaction or other proposal in which he has an interest which, together with any interest of a person connected with him (within the meaning of section 346 of the Act), is to his knowledge a material interest and, if he purports to do so, his vote shall not be counted. The prohibition shall not apply and a Director may vote and be counted in the quorum in respect of any resolution concerning any one or more of the following matters:

(1) any contract, arrangement, transaction or proposal in which he is interested by virtue of an interest in shares, debentures or other securities of the Company or otherwise in or through the Company;

(2) the giving of any guarantee, security or indemnity in respect of:

(a) money lent or obligations incurred by him or by any other person at the request of, or for the benefit of, the Company or any of its subsidiary undertakings; or

(b) a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part (either alone or jointly with others) under a guarantee or indemnity or by the giving of security;

(3) any issue or offer of shares, debentures or other securities of the Company or any of its subsidiary undertakings in respect of which he is or may be entitled to participate in his capacity as a holder of any such securities or as an underwriter or sub-underwriter;

(4) any contract, arrangement, transaction or proposal concerning any other company in which he, and any persons connected with him (within the meaning of section 346 of the Act), do not to his knowledge hold an interest in shares (within the meaning of sections 198 to 211 of the Act) representing one per cent. or more of any class of the equity share capital of that company or of the voting rights available to members of that company;

(5) any arrangement for the benefit of employees of the Company or any of its subsidiary undertakings which does not accord to him any privilege or benefit not generally accorded to the employees to whom the arrangement relates; and/or

(6) the purchase or maintenance of insurance for the benefit of Directors or for the benefit of persons including Directors.

A Director shall not vote or be counted in the quorum at a meeting in respect of any resolution of the Board or committee of the Board concerning his own appointment (including fixing or varying its terms) or the termination of his own appointment, to an office or place of profit with the Company or any other Company in which the Company is interested but, where proposals are under consideration concerning the appointment (including fixing or varying its terms), or the termination of the appointment, of two or more Directors to offices or places of profit with the Company or any other company in which the Company is interested, those proposals may be divided and a separate resolution may be put in relation to each Director and, in that case, each of the Directors concerned (if not otherwise debarred from voting under the Articles) shall be entitled to vote (and be counted in quorum) in respect of each resolution unless it concerns his own appointment or the termination of his own appointment.

The Directors (other than any Director who for the time being holds an executive office or employment with the Company or a subsidiary of the Company) shall be paid out of the funds of the Company by way of remuneration for their services as Directors such fees, not exceeding in aggregate £120,000 per annum (or such larger sum as the Company may, by ordinary resolution, determine), as the Board may decide. Such sum shall be divided among the Directors in such proportion and manner as the Board may agree or, failing agreement, equally. Any fee payable shall be distinct from any remuneration or other amounts payable to the Director under other provisions of the Articles and shall accrue from day to day. The Directors shall be paid out of the funds of the Company all reasonable travelling, hotel and other expenses properly incurred by him in and about the performance of his duties as Director, including his expenses of travelling to and from Board meetings, committee meetings, general meetings or separate meetings of the holders of any class of shares or debentures in the Company.

If, by arrangement with the Board, any Director performs or renders any special duties or services outside his ordinary duties as a Director and not in his capacity as a holder of employment or executive office, he may be paid such reasonable special remuneration (whether by way of lump sum, salary, commission, participation in profits or otherwise) as the Board may decide in addition to any remuneration payable under or pursuant to any provision of the Articles.

The number of Directors (other than alternate Directors) shall not, unless otherwise determined by ordinary resolution of the Company be less than three nor more than ten.

(xiii) *Borrowing powers*

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled

capital of the Company and, subject to the Statutes, to create and issue debenture and other loan stock and debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Board shall restrict the borrowings of the Company and exercise all voting and other rights and powers of control exercisable by the Company in respect of its subsidiary undertakings so as to procure (but as regards its subsidiary undertakings only so far as it can procure by such exercise) that the aggregate principal amount at any one time outstanding of all monies borrowed by the Company and/or its group, (excluding amounts borrowed by any member of the Company's group from any other member of the Company's group and after deducting cash deposited) shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to four times the Company's adjusted capital and reserves.

(xiv) *Pensions and benefits*

The Board may exercise all the powers of the Company to pay, provide or procure the grant of pensions or other retirement or superannuation benefits and death, disability or other benefits, allowances or gratuities to any person who is or has been at any time a Director of the Company or in the employment or service of the Company or of any company which is or was a subsidiary of or associated with the Company or of the predecessors in business of the Company or of any such subsidiary or associated company or the relatives or dependants of any such person. For that purpose the Board may procure the establishment and maintenance of, or participate in, or contribute to, any non-contributory or contributory pension or superannuation fund, scheme or arrangement and pay any insurance premiums.

(xv) *Uncertificated securities*

Pursuant to and subject to the CREST Regulations, the Board may permit shares of any class to be held in uncertificated form and to be transferred or otherwise dealt with by means of a Relevant System (as defined in the CREST Regulations), and may revoke such permission.

4. Directors' and other Interests

(a) *Holdings in Ordinary Shares*

(i) The interests of the Directors (all of which are beneficial save where otherwise stated) in the issued share capital of the Company as at the date of this document and as they are expected to be immediately following Admission, which are required to be shown in the register maintained under section 325 of the Act or which are required to be notified by a director and the persons connected (within the meaning of section 346 of the Act) with them (or in the case of such a connected person, would be required to be notified by that person had he been a director) to the Company pursuant to sections 324 and 328 of the Act are as follows:

	At the date of this document		*Following Admission*	
	Number of Existing Ordinary Shares	*Percentage of Existing Ordinary Shares*	*Number of Ordinary Shares*	*Percentage of Enlarged Share Capital*
Jimmy West	1,125,000	8.93	1,125,000	5.27
Peter Earl	2,000,000	15.87	2,000,000	9.37
Mike Eyre	500,000	3.97	500,000	2.34
Elizabeth Shaw	500,000	3.97	500,000	2.34
Frank Mattos	25,000	0.20	25,000	0.12

(ii) Save as disclosed below and in paragraph 4(a)(i) above, the Directors are not aware of any interest (within the meaning of Part VI of the Act) in the Company's issued share capital which, at the date of this document and immediately following Admission, would amount to 3 per cent. or more of the Company's issued share capital:

	At the date of this document		*Following Admission*	
	Number of Existing Ordinary Shares	*Percentage of Existing Ordinary Shares*	*Number of Ordinary Shares*	*Percentage of Enlarged Share Capital*
European Power Systems A.G.[1]	2,130,000	16.9	2,130,000	9.98
Susan Laker	500,000	3.97	500,000	2.34
Secteur Holdings Limited	2,000,000	15.87	2,000,000	9.37
HSBC Global Custody Nominees (UK) Limited[2]	600,000	4.8	2,475,000	11.59
Pershing Keen Nominees Limited[3]	553,000	4.39	1,853,000	8.68

1 Park Avenue Nominees Limited is a nominee company that holds 62,500 shares on behalf of European Power Systems A.G.

2 HSBC Global Custody Nominees (UK) Limited is a nominee company holding shares on behalf of Gartmore Investments Limited.

3 Pershing Keen Nominees Limited is a nominee company holding shares on behalf of Hichens Harrison.

(b) Save as disclosed in paragraphs 4(a)(i) to 4(a)(ii) above, the Directors are not aware of any person or persons who directly or indirectly, jointly or severally exercise or could exercise control over the Company.

(c) Save as disclosed in this document:

(i) no Director has any interest in the issued share capital of the Company and no Director will acquire shares in the Company pursuant to the Placing;

(ii) no contract or arrangement with the Company subsists or has subsisted since incorporation in which any Director is or was materially interested and which is significant in relation to the business of the Company taken as a whole;

(iii) no Director has had any interest, direct or indirect, in any asset since incorporation which has been or which is proposed to be acquired, disposed of by or leased to the Company; and

(iv) no amount or benefit has been paid or given by the Company since incorporation to any promoter nor is any such payment or gift intended.

(d) No Director has or has had any interest, direct or indirect, in any transaction which is or was unusual in its nature or conditions or which is or was significant to the business of the Company and which was effected by the Company during the current year and remains, in any respect, outstanding or unperformed.

(e) No loans are outstanding by the Company to or for the benefit of any of the Directors or their connected persons, nor has any guarantee been provided by the Company for the benefit of any Director or his connected persons.

(f) For the financial year ended 30 June 2004, the aggregate remuneration paid to the Directors by the Company was nil. Under arrangements now in force, conditional on Admission, the Directors' aggregate remuneration and benefits in kind for the financial year ending 30 June 2005 are estimated to be £70,000.

(g) In addition to their directorships of the Company, the Directors currently hold, and in the previous five years have held, the following directorships and are or were partners of the following partnerships:

Name	*Current directorships and partnerships*	*Previous directorships and partnerships*
Jimmy West	Aberdeen New Dawn Investment Trust plc	Catalyst Fund Management & Research Limited
	Associated British Foods Pension Trustees Limited	Courage Pensions Investments Limited
	Bioethanol Limited	Courage Pensions Limited
	British Assets Trust plc	Embankment Holdings Limited
	Candover Investments plc	European Financial Services Venture Fund (General Partner) Limited
	Gartmore Fledgling Trust plc	JFIT Securities Limited
	Global Natural Energy plc	Jupiter Financial Trust plc
	Independent Power Corporation plc	Latchley Management Limited
	IV plc (formerly Intrinsic Value plc)	LEPCO plc
	Jimmy West Associates Limited	Principal Healthcare Finance Limited
	Jupiter Second Enhanced Income Trust plc	Scottish & Newcastle Pensions Limited
	New City High-Yield Trust plc	Snackhouse plc
	Scottish & Newcastle Pensions Plan Trustee Limited	Themis FTSE Fledgling Index Trust plc
	Shires Smaller Companies plc	
	UK Select Trust Limited	
Peter Earl	Celtic Integrated Energy Limited	Crediton Minerals Limited
	The Database Correction Company Limited	Gori Mayu Limited
	Guaracachi Americas Inc.	Consort Resources Limited (now Caledonia Energy Limited)
	Embankment Investments Limited	Independent Power (UK) Limited
	Independent Power Corporation plc	IPC Operations Limited
	Independent Power Finance Limited	International Rainforest Resource Centre Limited
	Independent Power International Limited	Kazakh Independent Power Limited
	Independent Power Operations Limited	Kyrgyz Independent Hydro Power Corporation Limited
	Independent Power South Africa Limited	Nepal Independent Hydro Limited
	Integrated Energy Limited	Superski Limited
	Integrated Hydropower Limited	Park Avenue Nominees Limited
	Nepal Integrated Energy Limited	Ukraine Independent Power Limited
	Peru Integrated Energy Limited	Tranwood plc
	Sloane Corporate Finance Limited	Tranwood Capital Limited
	The Sloane Wine Company Limited	Tranwood Earl & Company Limited
	South Asia Integrated Energy Limited	
	Strategic Natural Resources Plc	
	The Wychwood Regeneration Company plc	
	Empresa Eléctrica Guracachi, S.A.	
	Bolivia Integrated Energy Limited	
Mike Eyre	Bioblend plc	Bioethanol Automotive Limited
	Bioethanol Limited	Embankment Investments Limited
	Greenheart Heating Systems Limited	Empresa Eléctrica Guracachi, S.A.
	Independent Power International Limited	Integrated Development Projects Limited
	Independent Power Operations Limited	Peninsular Power Limited
	Independent Power Southern Africa Limited	TV Energy Limited
Elizabeth Shaw	Blazeway Engineering Limited	Empresa Eléctrica Guracachi, S.A.
	The Database Correction Company Limited	Fieldstone Private Capital Group Limited
	Embankment Investments Limited	
	Independent Power Corporation plc	
	Independent Power Finance Limited	
	Independent Power International Limited	
	Independent Power Operations Limited	
	Independent Power South Africa Limited	
	IPSA Development Company Limited	
Frank Mattos	None	Franklands Court Limited

(h) (i) Save as disclosed below, none of the Directors has any previous names.

(1) Elizabeth Shaw's maiden name was Cowx.

(ii) None of the Directors has any unspent convictions in relation to indictable offences.

(iii) None of the Directors has ever had a bankruptcy order made against him or entered into an individual voluntary arrangement or had a receiver appointed to any of his assets.

(iv) None of the Directors has, save as set out below, been a director of a company at the time of, or within the preceding 12 months of, that company being the subject of a receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or where it has made any composition or arrangement with its creditors or generally or any class of its creditors:

(1) Jimmy West is a non-executive director of IV plc (formerly Intrinsic Value plc), which went into members' voluntary liquidation on 10 June 2004. He was a non-executive director of Latchly Management Limited, which went into creditors' voluntary liquidation on 28 March 2000 and a non-executive director of Snackhouse plc, which went into creditors' voluntary liquidation on 5 October 2001.

(v) None of the Directors has been a partner of a partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement or had a receiver appointed to any partnership asset whilst he was a partner of that partnership at the time or within 12 months after he ceased to be a partner of that partnership.

(vi) None of the Directors has been publicly criticised by any statutory or regulatory authority (including recognised professional bodies), or disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

5. Directors' service agreements and letters of appointment

(a) *Executive Directors' service agreements*

The appointments of Peter Earl, Elizabeth Shaw and Mike Eyre are governed by the terms of their respective Executive Directors service agreements each dated 1 August 2004, which became unconditional on the Company's admission to AIM on 18 August 2004. The amount of time each of the Executive Directors devotes to the affairs of the Company varies based on the requirements of the business. Pursuant to the terms of his/her agreement the Executive Directors are each entitled to a gross annual fee of £24,000 payable monthly in arrears and subject to annual review by the remuneration committee of the Board. No compensation is payable for loss of office. There is no provision for any further benefit to be provided to the Executive Directors under the service agreements.

The service agreements are terminable on 6 months' written notice from either party. They also contain 6 month post-termination restrictions on the Executive Director being engaged by any customer of the Company, soliciting any customer of the Company, dealing with any customer of the Company, soliciting any key employee, or employing any key employee.

Each of the Executive Directors agrees to conform to such hours of work as may be from time to time reasonably required of him.

(b) *Non-Executive Directors' letters of appointment*

The appointments of Jimmy West and Frank Mattos as Non-Executive Directors of the Company are governed by the terms of letters of appointment which become unconditional on the Company's admission to AIM on 18 August 2004. The appointment of both Non-Executive Directors took effect from 25 June 2004. Each such appointment is terminable on not less than 1 months written notice by either party. Pursuant to the terms of the letters of appointment, the Non-Executive Directors are entitled to an annual fee of £6,000 each although Jimmy West's salary has since been increased to £15,000 per year. They are also entitled to reimbursement for all reasonable out of pocket expenses

properly incurred by them on Company business. Under the terms of the letters of appointment, no fees were payable to the Non-Executive Directors before the completion of the Company's first acquisition or investment which took place on 8 October 2004.

Save as disclosed in this paragraph 5, there are no existing or proposed service agreements between any Director and the Company.

Save as referred to in this paragraph 5, no service or consultancy agreements between any existing director, and the Company have been entered into or amended within 6 months prior to the publication of this document.

6. Material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been either entered into by members of the Enlarged Group during the two years immediately preceding the date of this document and are, or may be, material or are contracts entered into at any time which contain provisions under which a relevant member of the Enlarged Group has an obligation or entitlement which is material to the Company as at the date of this document.

The Company and ESA

(a) *Acquisition Agreement*

A summary of the Acquisition Agreement is set out in Part VI of this document.

(b) *Patagonia Shareholders' Agreement*

A summary of the Patagonia Shareholders' Agreement is set out in Part VI of this document.

(c) *Share purchase agreement relating to ESA*

On 8 October 2004 the Company entered into a share purchase agreement with Empresa Eléctrica Guaracachi S.A. ("Guaracachi") and on 28 February 2005 entered into a deed of amendment to the original share purchase agreement for the purchase of the entire issued share capital of ESA.

The consideration payable on completion for the acquisition of ESA was US$550,000. The consideration was paid in full on 28 February 2005. The Company took the benefit of some basic warranties as to title, liabilities, employees and litigation. Under the terms of the share purchase agreement the Company purchased ESA which owns two 3MW Worthington dual fuel motors.

(d) *Agreements relating to the Jenbachers*

(i) On 24 January 2005 the Company acquired from Medina Finance Limited (In Administrative Receivership) 9 Jenbacher Engines Model 616 and generators and various ancillary machinery in connection with the engines. The Company purchased the assets for a total consideration of £1,000,000 of which £800,000 was payable on completion of the acquisition and a further £200,000 plus any VAT on the total consideration was payable by no later than 15 February 2005. The administrative receivers confirmed receipt of the full £1,000,000 on 25 February 2005. As the Company acquired the assets from administrative receivers there were no warranties provided to the Company and the assets were sold in their current state and condition. The Company provided an indemnity to the seller and the administrative receivers in relation to any claims or losses resulting from the assets.

(ii) On 24 January 2005 the Company entered into the agreement dated 24 January 2005 between the Company and Independent Power Generation Limited ("IPG") for the sale by the Company and the acquisition by IPG of 6 of the Jenbacher machines and their associated equipment. IPG purchased the Jenbachers for the sum of £1,000,000 which was paid to the Company on completion. The Company gave no warranties in relation to the Jenbachers. The Company was provided with an indemnity from IPG in relation to any claims or losses resulting from the Jenbachers.

(e) *Placing agreement*

On 6 July 2005, the Company entered into the Placing Agreement pursuant to which the Broker has agreed to use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price. The Placing Agreement is conditional on the entire issued and to be issued share capital of the Company being admitted to AIM on the Admission Date (or such other date as may be agreed between the parties being no later than 31 August 2005).

The Placing Agreement contains warranties given by the Company and the Directors as to the accuracy of the information contained in this document and other matters relating to the Company and its business. In addition, the Company has given an indemnity to the Broker and Daniel Stewart in respect of certain matters. Either the Broker or Daniel Stewart is entitled to terminate the Placing Agreement prior to Admission, principally in the event of a breach by the Directors of the Placing Agreement or if any of the warranties contained in it are found to be untrue, inaccurate or misleading in any material respect or in the event of *force majeure*.

In consideration of its services in connection with the Placing, the Company will pay the Broker a commission of 5 per cent. of the Placing Price for each of the Placing Shares for which the Broker has procured subscribers. In consideration of its services in connection with the Placing, the Company will pay Daniel Stewart the fee specified in the Nomad Agreement described in paragraph 6(f) below.

(f) *Nomad agreement*

Under the terms of this agreement the Company appointed Daniel Stewart to act as nominated adviser for the purposes of the AIM Rules. The appointment commenced on 30 March 2005. The agreement contained certain warranties, undertakings and indemnities given by the Company in respect of, *inter alia*, compliance with applicable laws and regulations. The agreement provided, initially, for a payment of an annual retainer of £25,000 plus VAT following completion of the Placing, that sum will increase to £30,000 plus VAT in addition to the payment of certain other fees and expenses of the Company.

On 6 May 2005 the Company executed an engagement letter with Daniel Stewart. Under the terms of the arrangement, Daniel Stewart agreed to provide services in connection with the proposed Acquisition and the re-admission of the Ordinary Shares to AIM. Daniel Stewart's fee for the provision of the services (in addition to the annual retainer fee for services as the Nomad) is £110,000 plus VAT of which £10,000 was payable on execution of the engagement letter and £100,000 is payable on the re-admission of the Ordinary Shares to AIM.

(g) *Lock-in agreements*

Each of the Directors and Susan Laker undertook (in connection with the Company's proposed Admission) to the Company and Hichens Harrison that, except in limited circumstances, they would not sell or dispose of any of their Ordinary Shares for a period of 12 months from the date of Admission and that, for a further period of 12 months thereafter, they would only sell or dispose of their Ordinary Shares through the Company's broker from time to time. These agreements supersede the lock-in agreements described in paragraph 6(i) below.

(h) *Placing and broker agreement entered into on 10 August 2004*

Under the terms of this agreement, Hichens Harrison agreed to act as broker to the Company in respect of the placing which occurred on admission of the Company to AIM on 18 August 2004 and to use its reasonable endeavours to procure persons to subscribe for Ordinary Shares.

The Company agreed to pay to Hichens Harrison a commission of 5 per cent. of the gross proceeds raised by Hichens Harrison in respect of the issue of such Ordinary Shares. In addition, on admission, the Company paid a fee of £20,000 plus VAT to Hichens Harrison and issued the Broker Warrants to Hichens Harrison. The Company also paid to Hichens Harrison an annual fee of £15,000 plus VAT for acting as the Company's broker, to be payable quarterly in arrears for a minimum period of 12 months, the first payment of which was invoiced on admission to AIM on 18 August 2004.

(i) *Lock-ins and orderly marketing arrangements in connection with the Company's admission to AIM on 18 August 2004.*

The Directors, European Power Systems A.G. and Secteur Holdings Limited which are substantial Shareholders as set out in paragraph 4(a)(ii) of this Part VII, undertook (in connection with the Company's admission to AIM on 18 August 2004) to the Company and Hichens Harrison that, except in limited circumstances, they would not sell or dispose of any of their Ordinary Shares for a period of 12 months from 18 August 2004 and that, for a further period of twelve months thereafter, they will only sell or dispose of their Ordinary Shares through the Company's broker from time to time. These agreements have all been superseded by the lock-in agreements described in paragraph 6(g) above.

(j) *Nomad Agreement entered into on 12 August 2004*

Under this agreement, the Company appointed Arbuthnot Securities to act as nominated adviser to the Company in relation to the Company's admission to AIM on 18 August 2004. The appointment commenced on 12 August 2004 and was terminated by Arbuthnot Securities serving one month's notice on the Company by letter dated 25 January 2005. The agreement contained certain warranties, undertakings and indemnities given by the Company in respect of, *inter alia*, compliance with applicable laws and regulations and an agreement to provide Arbuthnot Securities with certain information whilst it remained nominated adviser. The agreement provided, initially, for a payment of an annual retainer of £10,000 plus VAT which, on 8 October 2004, increased to £25,000 plus VAT. The agreement, together with the engagement letter between Arbuthnot Securities and the Company dated 30 June 2004 also provided for the payment to Arbuthnot Securities of a corporate finance fee of £100,000 plus VAT, which was payable on 18 August 2004, in addition to the payment of certain other fees and expenses by the Company.

(k) *Option Agreement*

The Option Agreement with EGSA was entered into on 9 July 2004 and provides the Company with an option to acquire ESA on the terms of the draft share purchase agreement attached to the Option Agreement (details of the share purchase agreement are set out in paragraph 6(c) above).

(l) *Broker Warrants*

The Broker Warrants are governed by an instrument entered into as a deed poll by the Company on 18 August 2004 under which the Company agreed to create and issue warrants conferring on the warrant holders the right to subscribe in cash at the 40 pence per share for up to 75,000 Ordinary Shares. The period during which the Broker Warrants can be exercised commenced on 18 August 2004 and expires on 18 August 2006. The Broker Warrants are transferable by the holder of them for the time being but will not be admitted to trading on AIM. The Company have issued to Hitchens Harrison on 18 August 2004 75,000 Broker Warrants.

(m) *Warrant Instrument*

On 18 August 2004 the Company issued 1,000,000 Investor Warrants. One Investor Warrant was issued to each placee in the placing which occurred on 18 August 2004 for every 2 Ordinary Shares subscribed under such placing (ignoring fractions).

The principal terms of the warrant instrument are as follows:

(i) each Investor Warrant will entitle the holder to subscribe for one new Ordinary Share at the subscription price of 60 pence per Ordinary Share if exercised up to the first anniversary of the warrant instrument and 80 pence per Ordinary Share if exercised at any time thereafter up to and including 18 August 2006;

(ii) Ordinary Shares issued on the exercise of the Investor Warrants will rank for any dividend or other distribution declared, made or paid on any date after the date on which the relevant Investor Warrant is exercised and otherwise shall rank *pari passu* with the Ordinary Shares then in issue;

(iii) the warrant instrument contains provisions for adjustment to the number of shares upon capitalisation of profits or reserves and for appropriate adjustments to the subscription price on a rights issue or on a subdivision or consolidation of share capital. Any offer made to the holders of the ordinary share capital of the Company to acquire shares that would give the offeror the right to cast a majority of the votes which may be cast on a poll at a general meeting, shall be notified to the holders of Investor Warrants who shall be given a period to exercise their Investor Warrants, failing which the Investor Warrants shall lapse;

(iv) so long as any of the subscription rights under the Investor Warrants remain exerciseable, the Company will not without the prior consent of the holders of Investor Warrants:

(1) modify the rights attached to the shares in its capital (whether issued or unissued) in any way which has, or might reasonably be expected to have, a material adverse effect on the rights of the holders of Investor Warrants;

(2) make any distribution of capital reserves (except by means of a capitalisation issue in the form of fully paid Ordinary Shares) or issue securities by way of capitalisation of profits or reserves except fully paid Ordinary Shares; or

(3) reduce by repayment to the holders of shares in its capital, its share capital, share premium account or capital redemption reserve;

(v) Investor Warrants, which will be registered, will be transferable by instrument of transfer in any usual or common form or in any form approved by the Directors including in uncertificated form; and

(vi) the rights of the holders of the Investor Warrants may be altered or abrogated with the prior written consent of the holders of 75 per cent. of the Investor Warrants.

(n) *Services Agreement*

On 23 July 2004 the Company and IPC entered into a Services Agreement. Under the Services Agreement, IPC agreed to provide certain office and facilities services, including a licence to occupy premises at IPC's offices, receptionist and secretarial services, Spanish/English translation services, general administration and IT support services for an aggregate annual fee of £120,000 with other services available on request at a separate charge. The monthly fee for the standard services is £10,000 plus VAT, payable monthly in arrears. The Services Agreement is for a period of 5 years, and commenced on 23 July 2004, and is terminable by either party on 1 month's notice.

(o) *Bank facility*

On 4 July 2005 Allied Irish Offshore (CI) Limited agreed to provide the Company with a £500,000 overdraft facility. The facility is repayable on demand although if no demand is made the period of borrowing will be one year from the date of first drawdown provided always that the capital is repaid in full by 31 July 2006. Interest accrues at a rate of 1 per cent. above the bank's base lending rate (currently 4.75 per cent.). In addition to the arrangement fee of £5,000 the Company indemnifies the bank for all fees, charges and expenses incurred by the bank in connection with the facility. All amounts drawn-down under the facility (including interest) are to be secured by a security agreement and guarantee from Secteur Holdings Limited.

7. Details of the Group

ESA is a wholly owned subsidiary of the Company. Together the Company and ESA comprise the Group.

8. Litigation

There are no legal or arbitration proceedings active, pending or threatened (so far as the Directors are aware) against or being brought by any member of the Enlarged Group, which have, or may have had since its incorporation, a significant effect on the financial position of any member of the Enlarged Group.

9. Working capital

The Directors are of the opinion, having made due and careful enquiry, that, taking into account the net proceeds of the Placing and the available bank facility, the working capital available to the Enlarged Group will be sufficient for its present requirements, that is for at least the next 12 months from the date of Admission.

10. Taxation

The following information is based upon the law and practice currently in force in the United Kingdom. Except when expressly stated, it applies to persons resident in the United Kingdom for tax purposes. The information is of a general nature only, and is not a full description of all relevant tax considerations. In particular, it does not apply to persons who do not hold their Placing Shares as investments. **Any person who is in any doubt as to his tax position should consult a professional adviser concerning his tax position in respect of the acquisition, holding or disposal of Placing Shares.**

(a) *Dividends – UK resident shareholders*

Under current United Kingdom taxation legislation no withholding tax applies on dividends paid by the Company.

Where the Company pays a dividend, a holder of Placing Shares who is an individual and who receives that dividend is generally entitled to a tax credit in respect of the dividend received. The tax credit currently equals 10 per cent. of the combined amount of the dividend and tax credit. Such individuals will be liable to income tax on the aggregate of the dividend and tax credit (the "gross dividend"), which together will be regarded as the top slice of the individual recipients' income for tax purposes and will be subject to UK income tax at the rates of tax described below.

Individual shareholders who are liable to income tax at lower or basic rate will be liable to tax on the gross dividend received at the rate of 10 per cent. This means that the tax credit will fully satisfy the individual's liability to pay income tax at the lower or basic rate.

The rate of income tax applied to dividends received by individual shareholders liable to income tax at the higher rate will be the Schedule F upper rate (currently 32.5 per cent. of the gross dividend). After taking into account the 10 per cent. tax credit a higher rate tax payer will be liable to additional income tax of 22.5 per cent. of the gross dividend, equal to 25 per cent. of the net dividend.

A corporate shareholder will not be liable to UK corporation tax on any dividend received from the Company.

Shareholders who are not liable to income tax on the dividend income cannot reclaim payment of the tax credit from the Inland Revenue.

(b) *Dividends – non UK resident shareholders*

Shareholders not resident in the UK are generally not taxed in the UK on dividends received by them. By virtue of double taxation agreements between the UK and other countries, some overseas shareholders may be able to claim payment of all or part of the tax credits carried by the dividends they receive from UK companies. Persons who are not resident in the UK should consult their own tax advisers on the possible applicability of such provisions, the procedure for claiming repayment and what relief or credit may be claimed in respect of such tax credit in the jurisdiction in which they are resident.

(c) *Taxation of chargeable gains*

Any disposal of Placing Shares by a shareholder resident or ordinarily resident for tax purposes in the UK or a non-UK resident shareholder who carries on a trade, profession or vocation in the UK through a branch or agency and has used, held or acquired the Placing Shares for the purposes of such trade, profession or vocation or such branch or agency may, depending on the shareholder's circumstances, and subject to any available exemptions, allowances or reliefs, give rise to a chargeable gain or an

allowable loss for the purposes of UK capital gains tax (or for companies, corporation tax on chargeable gains unless the gain is exempted by the Substantial Shareholding Exemption legislation). Special rules apply to disposals by individuals at a time when they are temporarily not resident or ordinarily resident in the UK.

The amount of any chargeable gain may be reduced by indexation (in the case of Shareholders who are UK Resident Companies) or taper relief (in the case of individual and certain trustees).

(d) *Stamp duty and stamp duty reserve tax*

No liability to stamp duty or stamp duty reserve tax ("SDRT") will arise on the allotment of new Placing Shares by the Company pursuant to the Placing.

The conveyance or transfer on sale of Placing Shares, which are held in certificated form following registration will be subject to stamp duty on the instrument of transfer, at the rate of 0.5 per cent. (rounded up to the nearest multiple of £5) of the amount of the value of the consideration. The agreement to transfer such shares or warrants will also give rise to a SDRT liability, again at the rate of 0.5 per cent. of the amount of the value of the consideration. This liability is cancelled (and any SDRT paid, refunded) if the agreement is completed by a duly stamped transfer within six years of the agreement becoming unconditional. Where Placing Shares are held in uncertificated form within CREST a liability to SDRT will arise where a change in the legal and/or beneficial ownership of those ordinary shares occurs.

The above is a summary of certain aspects of current law and practice in the UK. Any person who is in any doubt as to his tax position or who is subject to tax in a jurisdiction other than the UK, should consult his or her professional adviser.

11. Consents

(a) Daniel Stewart has given and has not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they are included.

(b) Grant Thornton has given and has not withdrawn its written consent to the issue of this document with the inclusion of its report and the references to its name in the form and context in which they are included.

(c) Hichens Harrison has given and has not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they are included.

12. General

(a) Other than as described in this document, there has been no significant change in the trading or financial position of the Group since 30 June 2004, the date to which the latest audited financial statements of the Group were made up. Other than as described in this document, there has been no significant change in the trading or financial position of Patagonia Energy since 30 April 2005, the date which the financial information in the accountants report at Part IVa of this document is made up. Other than described in this document, there has been no significant financial change in the trading position of Eléctrica or EDS since 31 December 2004, the date to which the accountants report in Part IVb of this document is made up.

(b) It is estimated that the total expenses payable by the Company in connection with the Placing and Admission will amount to approximately £480,000 (excluding value added tax).

(c) The amount payable on application and allotment of each Placing Share is 40 pence of which 38 pence is payable by way of premium to the nominal value of the Ordinary Shares.

(d) The Company is not required to make an application to CRESTCo for the Placing Shares to be settled through CREST and to be admitted as a participating security as the CREST enablement letter issued in connection with the previous placing by the Company on 18 August 2004 is still effective. It is

expected that the admission of the Placing Shares in CREST as a participating security will be effective from Admission. Holders of the Placing Shares who are direct or sponsored members of CRESTCo will be able to dematerialise their Placing Shares in accordance with CREST Regulations.

(e) Save as disclosed in this document:

(i) there are no patents or other intellectual property rights, licences or particular contracts which are of fundamental importance to the Enlarged Group's business;

(ii) the Directors are not aware of any exceptional factors which have influenced the Enlarged Group's activities; and

(iii) the Enlarged Group has no significant investments in progress.

(f) In the opinion of the Directors, the minimum amount which must be raised by the allotment of Ordinary Shares pursuant to the Placing is as follows:

(i)	Purchase of Property	£Nil
(ii)	Preliminary Expenses and commissions (excluding VAT)	£480,000
(iii)	Repayment of money borrowed in respect of (i) and (ii) above	£Nil
(iv)	Working capital	£473,000
(v)	Initial consideration for the Acquisition (US$4,500,000 at exchange rate of US$1.767:£1	£2,547,000

There are no amounts to be provided in respect of the matters aforesaid otherwise than out of the proceeds of the Placing.

(g) Except as detailed in this document, no person (other than professional advisers as referred to in this document and trade suppliers) has received, directly or indirectly, from the Company within the twelve months preceding the date of this document, and no persons have entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission:

(i) fees totalling £10,000 or more;

(ii) securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or

(iii) any other benefit with a value of £10,000 or more at the date of Admission, which includes all the existing shareholders of the Company.

13. Documents available for inspection

Copies of the following documents are available for inspection at the offices of Hammonds, 7 Devonshire Square, Cutlers Gardens, London EC2M 4YH during normal business hours on any weekday (public holidays excepted) from the date of this document until a date one month following Admission:

(a) the memorandum and articles of association of the Company;

(b) the reports produced by Grant Thornton set out in Parts III and IV of this document;

(c) the audited financial statements of the Company for the financial period ended 30 June 2004;

(d) the material contracts referred to in paragraph 6 above;

(f) the Directors' service agreements and letters of appointment referred to in paragraph 6 above;

(g) the consent letters referred to in paragraph 11 above; and

(h) this document.

14. Availability of this document

Copies of this document will be available free of charge at the registered office and the offices of Hammonds, 7 Devonshire Square, Cutlers Gardens, London, EC2M 4YH during normal business hours on any weekday (public holidays excepted) from the date of this document until a date one month following Admission.

Dated: 6 July 2005

RURELEC PLC

(incorporated and registered in England and Wales with company number 4812855)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Rurelec PLC (the "**Company**") will be held at the offices of Hammonds Solicitors, 7 Devonshire Square, Cutlers Gardens, London EC2M 4YH at 10.00 a.m. on 29 July 2005 for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed in the case of resolutions 1, 2 and 3 as ordinary resolutions and in the case of resolution 4 as a special resolution. Definitions used in resolution 1 shall have the same meanings when used in subsequent resolutions where the context requires.

ORDINARY RESOLUTIONS

1 That the acquisition (the "**Acquisition**") by the Company of fifty percent of the issued share capital of Patagonia Energy Limited upon the terms and subject to the conditions contained in the acquisition agreement dated 6 July 2005 (the "**Acquisition Agreement**"), the material terms of which are summarised in Part VI of the admission document dated 6 July 2005 of which this notice forms part (the "**Admission Document**"), which constitutes a "reverse takeover" for the purposes of the AIM Rules (as defined in the Admission Document) be and is hereby approved pursuant to Rule 14 of the AIM Rules and the directors of the Company (the "**Directors**") be and are hereby authorised to take all such steps as they consider to be necessary and desirable to effect the Acquisition in accordance with the terms of the Acquisition Agreement subject to such modifications as the Directors may consider expedient or appropriate.

2 That the authorised share capital of the Company be increased from £600,000 to £850,000 by the creation of a further 12,500,000 ordinary shares of 2 pence each.

3 That in substitution for all previous authorities the Directors be and are hereby generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 (the "**Act**") to exercise all or any powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) in the capital of the Company up to:

(i) a maximum nominal amount of £175,000 in connection with the Placing (as such term is defined in the Admission Document);

(ii) a maximum nominal amount of £21,500 in connection with the Warrants (as such term is defined in the Admission Document); and

(iii) a maximum nominal amount of £128,100 (representing approximately 30 per cent. of the issued share capital of the Company following the Placing (as such term is defined in the Admission Document));

provided that this authority shall expire on the day falling 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the annual general meeting of the Company to be held in 2006 save that the Company may make an offer or agreement before the expiry of this authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority conferred hereby had not expired.

SPECIAL RESOLUTION

4 That, subject to and conditional upon the passing of resolution 3 and in substitution for all previous authorities, the Directors be and are hereby empowered pursuant to the provisions of section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority

given to them by resolution 3 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

(i) the allotment of equity securities up to an aggregate nominal amount of £175,000 in connection with the Placing (as defined in the Admission Document);

(ii) the allotment of equity securities up to an aggregate nominal amount of £21,500 in connection with exercise of the Warrants (as defined in the Admission Document);

(iii) the allotment of equity securities otherwise than pursuant to sub-paragraph (a) above in connection with any issue by way of rights or other offer where the number of equity securities to be allotted to holders of ordinary shares of the Company on a fixed record date is proportionate (as nearly as may be) to the number of ordinary shares then held by such shareholders, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems under the laws of, or the requirements of, any regulatory or stock exchange authority in any jurisdiction or in relation to fractional entitlements; and

(iv) otherwise than pursuant to sub-paragraphs (i), (ii) and (iii) above, the allotment of equity securities up to an aggregate nominal amount of £21,350 (representing approximately 5 per cent. of the issued share capital of the Company following the Placing (as such term is defined in the Admission Document),

provided that this power shall, unless it is (prior to its expiry) duly revoked or varied or renewed by the Company in general meeting, expire on the day falling 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the next annual general meeting of the Company to be held in 2006 save that the Company may make an offer or agreement before the expiry of this power which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to such an offer or agreement as if the power conferred hereby had not expired.

6 July 2005

Registered Office:
5th Floor
Prince Consort House
27-29 Albert Embankment
London SE1 7TJ

By Order of the Board
Susan Laker
Company Secretary

Notes:

1 Any person entered on the register of members of the Company at 10.00 a.m. on 27 July (hereafter referred to as a "member") is entitled to attend and vote at the extraordinary general meeting pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001. Any changes to the register of members after the above time and date shall be disregarded in determining the rights of any person to attend and/or vote at the extraordinary general meeting.

2 Any member who is entitled to vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.

3 The completion and return of a form of proxy does not preclude a member from attending and voting in person at the meeting convened by this notice or any adjournment of it.

4 To be valid, such form of proxy and any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority must be deposited with the registrars of the Company, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4BR in accordance with the instructions printed thereon, so as to be received no later than 48 hours before the time appointed for holding the meeting.