

**CDS Oil and Gas Group Plc**

**Report and financial statements for the year ended 31 December 2007**



# CDS Oil & Gas Group Plc

## Report and financial statements for the year ended 31 December 2007

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# CDS Oil & Gas Group Plc

## Directors, Secretary and Advisers

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### Directors

J W S Bentley (Non-executive Chairman)

J Eng (Non-executive)

T Hirata (Non-executive)

D J Morrison (Senior Vice-President & Executive Director)

G F Peroni (Non-executive)

P Roman (Chief Executive)

E Romero (Non-executive)

### Secretary

P Speer, Thomson Webb & Corfield, 16 Union Road, Cambridge, CB2 1HE

### Registered office

126 Brompton Road, London, SW3 1JD

### Company Web site

Web site: [www.cdsogg.com](http://www.cdsogg.com)

### Company number

05061058

### Auditors

BDO Stoy Hayward LLP, 55 Baker Street, London, W1U 7EU

### Solicitors

#### - UK

White & Case LLP, 5 Old Broad Street, London, EC2N 1DW

#### - Paraguay

Peroni Sosa Tellechea Burt & Navaja, Eulogio Estigarribia No 4846, Asuncion, Paraguay

### Nominated Adviser and Broker

Hanson Westhouse Limited, One Angel Court, London, EC2R 7HJ

### Registrars

Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH

# CDS Oil & Gas Group Plc

## Chairman's and Chief Executive Officer's Review

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We are pleased to report the results for the year ending 31 December 2007. In CDS Oil & Gas Group Plc's ("CDS" or the "Group") short history, the year under review stands out as a year of important transition.

### 2007 Review

The financial strength of the Group was materially improved with the placing of new shares in June 2007 to raise \$16.1 million net of expenses. This enabled CDS to enter 2008 with sufficient cash resources to carry out a comprehensive early-stage exploration programme. This new programme comprises the complementary application of a variety of geophysical techniques including aeromag, aerogravity and seismic as well as a geochemical survey to define drilling targets for late 2008/early 2009.

During the year, the Group engaged US company Carson Helicopters to undertake a 9,200 km aeromag and aerogravity study over the Boqueron, Gabino Mendoza and PG&E blocks. Exploration Technologies, Inc ("ETI"), also based in the US and specialising in geochemical techniques, has been engaged to perform a reconnaissance geochemical programme on the Gabino Mendoza and the Boqueron blocks. In addition, Harmattan FZE, a UAE based land seismic operator, has been contracted to conduct a 2-D seismic data acquisition programme of 700 km on the Boqueron and 281 km on the Gabino Mendoza blocks.

As announced in October 2007 we were pleased to welcome Petro-Saudi Ltd Inc, an affiliate of PetroSaudi International Ltd, as a significant shareholder with a current holding of 8.2%. PetroSaudi is building a portfolio of geographically diversified oil and gas properties and we believe they will be of significant assistance to the Group by strengthening access to long term financial resources and supporting the identification of possible acquisition opportunities.

### Post year-end events

The gravity and magnetic interpretation of the Carson Helicopters survey has demonstrated the likely presence of structural highs within the sedimentary sequences of our portion of the sub Andean foreland basin in Paraguay. The preliminary evaluation of this technical data provides encouragement for the prospectivity of the blocks. The gravity and magnetic surveys have been followed by seismic and geochemical programmes which are currently ongoing. It is currently anticipated that analysis of the results from these three exploration tools will be undertaken over the coming months with a view to defining a selection of drilling sites. The Company is at an advanced stage of negotiations to raise further funds for this program.

CDS continues to develop its relationship with the Paraguayan authorities. On 20 April 2008 Paraguay underwent a major political change as a result of the presidential and parliamentary elections. After sixty one years in power, the Colorado Party ceded control of the government to a coalition of political parties and social movements led by the Liberal Party. The elections passed without incident. The rapid recognition of the outcome by all political parties and by the country's executive and judicial authorities demonstrate the successful transition to a more open and transparent democracy, a key condition welcomed by the multilateral institutions to encourage a sustainable development.

Furthermore, it is anticipated that the Group's activities will be assisted by the agreement between the Paraguayan Ministry of Environment and "Global Chaco", a local NGO. The agreement will lead to a joint study of biodiversity and the compatibility of exploration in the most sensitive areas of the "Parque Medanos del Chaco" which covers most of CDS's Gabino Mendoza and PG&E blocks as well as a small part of Boqueron. This cooperation with a NGO is a new initiative for Paraguay and CDS are fully supportive of the agreement.

### Board

James Wade, Non-Executive Director stepped down from the Board in February 2008 and Dan Morrison, Director, will step down at the end of June. James Wade will continue to be available to the company as a consultant and Dan Morrison will continue to be President and one of the managers of the Group's Paraguayan affiliate, CDS Energy SA. They were both founders of CDS and the pioneers and active promoters of the potential of Paraguay as an oil and gas producer. We are grateful to them for their determination and persistence in the formation of CDS and their leadership during its early period as a public company.

Mr Bernard Verdu joined the Group on 6 May 2008 as Vice President and Chief Operating Officer. He is based in Paraguay and is responsible for CDS's operations in the country. His extensive international exploration background, over a career of more than thirty years, most recently as consultant to Perenco, will significantly enhance the Group's technical expertise. On behalf of the Board, we welcome him to CDS.

**John W.S. Bentley** (Chairman)

**Patrice Roman** (Chief Executive Officer)

26 June 2008

# CDS Oil & Gas Group Plc

## Directors' report

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The Directors present their report and the audited financial statements of CDS Oil & Gas Group Plc for the year ended 31 December 2007.

### Financial reporting

The results for 2007 have been prepared in accordance with the Group's accounting policies under International Financial Reporting Standards (IFRS) as adopted for use in the European Union. The Company has adopted IFRS for its Group financial statements with effect from 1 January 2007. Following the transition to IFRS, the Group has chosen to continue using the US Dollar as its presentation currency. This reflects the fact that most of the Group's activities are denominated in that currency.

### Results and dividends

The consolidated income statement is set out on page 9 showing a loss of \$1,239,000 for the year (2006: \$1,377,000).

The directors do not recommend the payment of a final ordinary dividend for the period (2006: \$ nil).

### Principal activities, trading review and future developments

The principal activities of the Group are oil and gas exploration. The Group has its registered office in London and has oil and gas interests in Paraguay.

A review of the development of the business of the Group is contained in the Chairman's and CEO's Review on page 4.

The Group's Paraguayan subsidiary company, CDS Energy SA, held contractual rights in respect of three blocks of property covering 2.9 million hectares in the Chaco region of Paraguay. With approval of the Paraguayan government on 22 March 2007, CDS Energy relinquished prospecting rights to 1.3 million hectares of the Boqueron Block and increased its exploration rights to 800,000 hectares. The portfolio now includes:

- The Gabino Mendoza block, covering an area of 40,000 hectares, over which CDS Energy has exploitation rights with a 100% working interest and a 96.5% gross revenue interest;
- The PG & E block which is a prospecting area covering 491,077 hectares in which CDS Energy has a 100% working interest and a 99.4% gross revenue interest;
- The Boqueron block, covering a total area of 800,000 hectares in which CDS Energy has exploration rights, and both 100% working and gross revenue interests.

The Company's long-term objective is to create an integrated oil and natural gas exploration and production company, and the Company will consider acquisition and joint venture opportunities on its properties and others within Paraguay and elsewhere.

### Capital structure

The Company's capital structure comprises a single class of ordinary share capital. The shares are listed on the Alternative Investment Market (AIM) of the London Stock Exchange.

Following the approval of the shareholders at the Extraordinary General Meeting held on 14 June 2007, 609 million new shares were issued for cash (pre-consolidation) at an issue price of 1.4 pence per share raising £8,526,000 net of expenses, equivalent to approximately 59.9% of the Company's enlarged share capital, were issued. In addition, 254,511,893 new options and warrants to subscribe for ordinary shares were granted as part of the new shareholders' investment. After the allotment of the subscription shares, new options and new warrants, the share capital was consolidated on the basis of 1 (one) new ordinary share for every 10 (ten) existing shares. This share issue enabled the funding of a comprehensive early-stage exploration programme which is discussed in the Chairman's and CEO's review.

### Principal risks and uncertainties

The Group operates in an uncertain environment that may result in increased risk, cost pressures and schedule delays. The following are the key risks that face the Group:

#### - Financing risks

The development of the Group's assets will depend upon the Group's ability to obtain financing primarily through the raising of new equity capital. There is no absolute assurance that the Group will be successful in obtaining the required financing. The Group continually monitors the financing arrangements to ensure the continuation of the operational activities.

#### - Exploration risk

There is no assurance that the Group's exploration activities will be successful. Accordingly, the Group seeks to reduce this risk by reviewing the level of investment made in each project, as well as engaging qualified personnel to undertake detailed assessments of the areas under exploration.

#### - Environmental and other regulatory requirements

Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Group, the extent of which cannot be predicted. Before exploration and production can commence, the Group must obtain regulatory approval and there is no assurance that such approvals will be obtained. No assurance can be given that the new rules and regulations will not be enacted or existing legislations will not be applied in a manner which could limit or curtail the Group's activities.

#### - Operational risks

These include equipment failure, well blowouts, pollution, fire and the consequences of bad weather. Where the Group is project operator, it takes an increased responsibility for ensuring that all relevant legislation is met.

# CDS Oil & Gas Group Plc

## Directors' report – continued

### Key performance indicators (“KPIs”)

Given the nature of the business and that the Group is in the early phase of operations, the Directors are of the opinion that analysis using financial KPIs is not appropriate for an understanding of the development, performance or position of our business at this time. However the Directors constantly review the overall expenditure in comparison to budget and the Group's cash position.

	2007 US\$'000	2006 US\$'000
Cash and cash equivalents at the year-end	11,523	387

### Directors

Following the completion of the share subscription referred to above, Mr. Patrice Roman (appointed 14 June 2007) joined the Board of CDS as an executive director and was appointed as the Chief Executive Officer. Mr. Takeo Hirata (appointed 14 June 2007) and Mr. Evanan Romero (appointed 14 June 2007) also joined the Board as non-executive directors. Mr. Keith Irons served as a director until 15 June 2007.

The directors who held office at 31 December 2007 had the following interests in the share capital of the Company:

	Ordinary shares of 10p each		Share options		Share warrants	
	31 December 2007	1 January 2007 (restated)	31 December 2007	1 January 2007 (restated)	31 December 2007	1 January 2007 (restated)
J W S Bentley	120,000	120,000	100,000	100,000	120,000	120,000
J Eng	80,000	80,000	100,000	100,000	80,000	80,000
T Hirata	Nil	Nil	250,000	Nil	Nil	Nil
D J Morrison	5,230,010	5,230,010	550,000	550,000	400,000	400,000
G F Peroni	Nil	Nil	100,000	100,000	Nil	Nil
P Roman						
(note 1)	8,757,142	Nil	3,409,442	Nil	3,313,149	Nil
E Romero	Nil	Nil	250,000	Nil	Nil	Nil
J G Wade	5,480,001	5,480,001	550,000	550,000	680,000	680,000

The holdings as at 1 January 2007 have been restated to reflect the 1 for 10 share consolidation.

*Note 1:* Shares, options and warrants held by Red Law Corporation Services Inc. of which Patrice Roman is the controlling shareholder.

Mr. James G. Wade resigned as a director of the Company with effect from 29 February 2008.

At the 2008 AGM it is proposed that Mr. John W.S. Bentley and Mr. Jeremy Eng be re-appointed to the board. Mr. Dan J. Morrison retires by rotation from the board and will not offer himself for re-election.

The Company has Directors' and Officers Liability insurance in place.

### Employees

The Company has no employees other than the directors.

### Environment

The Group endeavours to comply with the environmental policies of the areas in which it operates. The nature of its activities so far in Paraguay does not require any provision for site restoration or re-habilitation costs.

### Corporate governance

The directors seek, as far as is considered appropriate having regard to the size and nature of the activities of the Company and its subsidiaries, to comply with the Combined Code on Corporate Governance applicable to listed companies. The board is assisted in this regard by an audit committee and a remuneration committee.

The Company has an audit committee which currently comprises Mr. John W.S. Bentley and Mr. Takeo Hirata. The committee meets at least twice a year and at any other time when it is appropriate to discuss audit, accounting or control issues. The committee's principal objectives are to review annual and interim financial statements; to review accounting policies; to review with management and the Company's external auditors the effectiveness of internal controls; to oversee the publication of reserve and resource statements to ensure compliance with best practice under the new AIM rules; and to review with the Company's external auditors the scope and results of their audit. Mr. John W.S. Bentley chairs the audit committee.

The remuneration committee's members are Mr. Jeremy Eng, Mr. Guillermo Peroni, and Mr. Evanan Romero who review the performance of the executive directors and set the scale and structure of their remuneration and the basis of their service agreements. In determining remuneration, the committee seeks to enable the Company to attract and retain executives of the highest calibre. The committee also makes recommendations to the board concerning allocation of share options to employees. No directors participate in discussions or decisions concerning their own remuneration. Mr. Jeremy Eng chairs the remuneration committee.

### Policy and practice on the payment of creditors

It is the Company's normal practice to settle the terms of payment when agreeing the terms of the transaction, to ensure that suppliers are aware of those terms, and to abide by them. Trade creditors at the year end amount to 24 days (2006: 62) of average supplies for the year.

# CDS Oil & Gas Group Plc

## Directors' report – continued

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### Financial instruments

Details of the use of financial instruments by the Company and its subsidiary undertakings are contained in note 25 of the financial statements.

### Political and charitable donations

No political or charitable donations were made during the year (2006: \$nil).

### Directors' responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets of the company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The directors have chosen to prepare financial statements for the company in accordance with IFRSs

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein

### Going concern

As referred to under **Capital structure** above, the share issue in June 2007 enabled the funding of the initial stage of a comprehensive early-stage exploration and evaluation program. The Company is now at an advanced stage of negotiations to raise further funds to progress this program.

As discussed in Note 26 to the financial statements and after making enquiries the directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### Annual General Meeting

A separate document provides notice of the Annual General Meeting to be held on 23 July 2008 to consider resolutions: to approve the directors' report and financial statements; the re-election of directors; the re-appointment and remuneration of the auditors; increase the authorised share capital; provide authority to the directors to allot shares; and to amend the Articles of Association of the Company.

### Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting.

### On behalf of the Board

**Patrice Roman**

**Director and Chief Executive Officer**

26 June 2008

# CDS Oil & Gas Group Plc

## Independent auditors' report to the shareholders of CDS Oil & Gas Group Plc

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We have audited the Group and parent Company financial statements (the "financial statements") of CDS Oil and Gas Group Plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Balance sheets, the Consolidated and Company Cash Flow Statements, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and Group and parent company financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with those financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Director, Secretary and Advisors, the Chairman's and Chief Executive Officer's Review and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its loss for the year ended 31 December 2007;
- the parent Company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Company's affairs as at 31 December 2007 and of its loss for the year ended 31 December 2007;
- the Group and Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

### Emphasis of matter – going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 26 to the financial statements concerning the Group's ability to continue as a going concern, which is dependent on raising further finance. These conditions indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

### BDO STOY HAYWARD LLP

*Chartered Accountants and Registered Auditors*

London

26 June 2008

# CDS Oil & Gas Group Plc

## Consolidated Income Statement for the year ended 31 December 2007

	Note	2007 US\$'000	2006 US\$'000
Administrative expenses		(1,593)	(1,294)
<b>Loss from operations</b>	4	<b>(1,593)</b>	<b>(1,294)</b>
Finance income	9	361	15
Finance expense	9	(7)	(98)
<b>Loss for the year before taxation and loss for the year</b>		<b>(1,239)</b>	<b>(1,377)</b>
<b>Attributable to:</b>			
- Equity holders of the parent		(1,239)	(1,377)
- Minority interest		-	-
<b>Loss per share expressed in US\$ per share</b>			
- Basic and diluted loss per share (2006 re-stated to reflect 1 for 10 share consolidation in 2007)	21	<b><u>\$(0.02)</u></b>	<b><u>\$(0.06)</u></b>

All amounts relate to continuing activities.

The notes on pages 16 to 34 form part of these financial statements.

# CDS Oil & Gas Group Plc

## Consolidated Balance Sheet at 31 December 2007

	Note	2007 US\$'000	2006 US\$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	11	14,833	11,072
Property, plant and equipment	12	456	147
		<b>15,289</b>	<b>11,219</b>
<b>Current assets</b>			
Inventory	14	1,618	1,568
Prepayments and other receivables	15	633	92
Cash and cash equivalents	16	11,523	387
		<b>13,774</b>	<b>2,047</b>
<b>Total assets</b>		<b>29,063</b>	<b>13,266</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	17	(447)	(404)
Provisions	18	-	(400)
<b>Total liabilities</b>		<b>(447)</b>	<b>(804)</b>
<b>Total net assets</b>		<b>28,616</b>	<b>12,462</b>
<b>Capital and reserves attributable to shareholders</b>			
Share capital	19	19,715	5,884
Share premium	19	14,242	9,157
Shares to be issued		-	1,665
Merger reserve		(1,097)	(1,097)
Foreign currency translation reserve		(62)	(204)
Retained deficit		(4,190)	(2,951)
Capital and reserves attributable to equity holders of the parent		<b>28,608</b>	<b>12,454</b>
Minority interest		<b>8</b>	<b>8</b>
<b>Total equity</b>		<b>28,616</b>	<b>12,462</b>

The financial statements were approved by the Board of Directors and authorised for issue on 26 June 2008

P Roman  
Director

26 June 2008

The notes on pages 16 to 34 form part of these financial statements.

# CDS Oil & Gas Group Plc

## Consolidated Statement of Changes in Equity for the year ended 31 December 2007

### Attributable to equity holders of the Company

	Share Capital	Share Premium	Shares to be issued	Merger Reserve	Foreign currency translation reserve	Retained deficit	Total shareholders equity	Minority interests	Total equity
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January 2006	3,822	8,794	-	(1,095)	-	(1,574)	9,947	10	9,957
Currency translation differences and net expense recognised directly in equity	-	-	-	-	(204)	-	(204)	-	(204)
Loss for the year	-	-	-	-	-	(1,377)	(1,377)	-	(1,377)
Total recognised income and expense for the year	-	-	-	-	(204)	(1,377)	(1,581)	-	(1,581)
Shares issued in year	2,062	515	-	-	-	-	2,577	-	2,577
Share issue costs	-	(152)	-	-	-	-	(152)	-	(152)
Shares to be issued	-	-	1,665	-	-	-	1,665	-	1,665
Other reserve movement	-	-	-	(2)	-	-	(2)	(2)	(4)
At 31 December 2006	5,884	9,157	1,665	(1,097)	(204)	(2,951)	12,454	8	12,462
At 1 January 2007	5,884	9,157	1,665	(1,097)	(204)	(2,951)	12,454	8	12,462
Currency translation differences and net income recognised directly in equity	-	-	-	-	142	-	142	-	142
Loss for the year	-	-	-	-	-	(1,239)	(1,239)	-	(1,239)
Total recognised income and expense for the year	-	-	-	-	142	(1,239)	(1,097)	-	(1,097)
Shares issued in year	13,831	5,889	(1,665)	-	-	-	18,055	-	18,055
Share issue costs	-	(804)	-	-	-	-	(804)	-	(804)
At 31 December 2007	19,715	14,242	-	(1,097)	(62)	(4,190)	28,608	8	28,616

The notes on pages 16 to 34 form part of these financial statements.

The following describes the nature and purpose of each reserve within owners' equity.

Share capital	Amount subscribed for shares at nominal value.
Share premium	Amount subscribed for share capital in excess of nominal value.
Shares to be issued	Amounts received from shareholders in advance of the issue of the relevant shares.
Merger reserve	Amounts arising from the merger of subsidiary investments.
Foreign currency translation reserve	Gains/losses arising on retranslating the net assets of parent Company into US dollars.
Retained earnings	Cumulative profit/(loss) of the Group attributable to equity shareholders.

# CDS Oil & Gas Group Plc

## Consolidated Cash Flow Statement for the year ended 31 December 2007

	Note	2007 US\$'000	2006 US\$'000
<b>Cash flow from operating activities</b>			
Loss before taxation		(1,239)	(1,377)
Adjustments for:			
- Finance income	9	(361)	(15)
- Finance expense	9	7	98
Equity-settled share-based payment expense		-	284
<b>Net cash flow from operating activities before changes in working capital</b>		<b>(1,593)</b>	<b>(1,010)</b>
(Increase)/decrease in inventories		(49)	175
Decrease in payables and provisions		(357)	(817)
Increase in receivables		(541)	(6)
<b>Net cash flow from operating activities before interest and taxation paid</b>		<b>(2,540)</b>	<b>(1,658)</b>
<b>Investing activities</b>			
Payments for property, plant and equipment		(309)	-
Interest received		361	15
Proceeds from the disposal of property, plant, and equipment		-	174
Exploration costs capitalised		(3,761)	(2,539)
<b>Net cash flow from investing activities</b>		<b>(3,709)</b>	<b>(2,350)</b>
<b>Financing activities</b>			
Issue of ordinary shares		18,055	2,289
Cost of share issue		(804)	(152)
Issue of convertible loan notes		-	1,432
Interest paid		(7)	-
<b>Net cash flow from financing activities</b>		<b>17,244</b>	<b>3,569</b>
<b>Net increase/(decrease) in cash and cash equivalents in the year</b>		<b>10,995</b>	<b>(439)</b>
Cash and cash equivalents at the beginning of the year		387	826
Effect of foreign exchange rate changes on cash and cash equivalents held		141	-
<b>Cash and cash equivalents at the end of the year</b>	16	<b>11,523</b>	<b>387</b>

The notes on pages 16 to 34 form part of these financial statements.

# CDS Oil & Gas Group Plc

## Company Balance Sheet as at 31 December 2007

	Note	2007 US\$'000	2006 US\$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investment in subsidiaries	13	2,274	2,274
Amounts due from Group companies	15	31,270	13,471
		<b>33,544</b>	15,745
<b>Current assets</b>			
Prepayments and other receivables	15	38	128
Cash and cash equivalents	16	51	-
		<b>89</b>	128
<b>Total assets</b>		<b>33,633</b>	15,873
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	17	(298)	(288)
<b>Total liabilities</b>		<b>(298)</b>	(288)
<b>Total net assets</b>		<b>33,335</b>	15,585
<b>Capital and reserves attributable to shareholders</b>			
Share capital	19	19,715	5,884
Share premium	19	14,242	9,157
Shares to be issued		-	1,665
Foreign currency translation reserve		1,144	937
Retained deficit		(1,766)	(2,058)
<b>Total equity</b>		<b>33,335</b>	15,585

The financial statements were approved by the Board of Directors and authorised for issue on 26 June 2008

P Roman  
Director

26 June 2008

The notes on pages 16 to 34 form part of these financial statements.

# CDS Oil & Gas Group Plc

## Company Statement of Changes in Equity for the year ended 31 December 2007

	Share Capital	Share Premium	Shares to be issued	Foreign currency translation reserve	Retained deficit	Total shareholders equity
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January 2006	3,822	8,794	-	-	(786)	11,830
Currency translation differences and net income recognised directly in equity	-	-	-	937	-	937
Loss for the year	-	-	-	-	(1,272)	(1,272)
	-----	-----	-----	-----	-----	-----
Total recognised income and expense for the year	-	-	-	937	(1,272)	(335)
Shares issued in year	2,062	515	-	-	-	2,577
Share issue costs	-	(152)	-	-	-	(152)
Shares to be issued	-	-	1,665	-	-	1,665
	-----	-----	-----	-----	-----	-----
At 31 December 2006	5,884	9,157	1,665	937	(2,058)	15,585
	=====	=====	=====	=====	=====	=====
At 1 January 2007	5,884	9,157	1,665	937	(2,058)	15,585
Currency translation differences and net income recognised directly in equity	-	-	-	207	-	207
Profit for the year	-	-	-	-	292	292
	-----	-----	-----	-----	-----	-----
Total recognised income and expense for the year	-	-	-	207	292	499
Shares issued in year	13,831	5,889	(1,665)	-	-	18,055
Share issue costs	-	(804)	-	-	-	(804)
	-----	-----	-----	-----	-----	-----
At 31 December 2007	19,715	14,242	-	1,144	(1,766)	33,335
	=====	=====	=====	=====	=====	=====

The following describes the nature and purpose of each reserve within owners' equity.

Share capital	Amount subscribed for shares at nominal value.
Share premium	Amount subscribed for share capital in excess of nominal value.
Shares to be issued	Amounts received from shareholders in advance of the issue of the relevant shares.
Foreign currency translation reserve	Gains/losses arising on retranslating the net assets of parent Company into US dollars.
Retained earnings	Cumulative profit/(loss) of the Group attributable to equity shareholders.

The notes on pages 16 to 34 form part of these financial statements.

# CDS Oil & Gas Group Plc

## Company Cash Flow Statement for the year ended 31 December 2007

	Note	2007 US\$'000	2006 US\$'000
<b>Cash flow from operating activities</b>			
Profit/(loss) before taxation		292	(1,272)
Adjustments for:			
- Finance income		(1,809)	(4)
- Finance expense		4	93
Foreign exchange differences		207	1,109
<b>Net cash flow from operating activities before changes in working capital</b>		<b>(1,306)</b>	<b>(74)</b>
Increase in payables		34	126
Decrease/(increase) in receivables		90	(106)
<b>Net cash flow from operating activities before interest</b>		<b>(1,182)</b>	<b>(54)</b>
<b>Investing activities</b>			
Advances to subsidiary companies		(16,344)	(3,881)
Interest received		354	4
<b>Net cash flow from investing activities</b>		<b>(15,990)</b>	<b>(3,877)</b>
<b>Financing activities</b>			
Issue of ordinary shares (net of issue costs)		17,251	2,421
Issue of convertible loan notes		-	1,432
Interest paid		(4)	-
<b>Net cash flow from financing activities</b>		<b>17,247</b>	<b>3,853</b>
<b>Net increase/(decrease) in cash and cash equivalents in the year</b>		<b>75</b>	<b>(78)</b>
Cash and cash equivalents at the beginning of the year		(24)	86
Effect of foreign exchange rate changes on cash and cash equivalents		-	(32)
<b>Cash and cash equivalents at the end of the year</b>	16	<b>51</b>	<b>(24)</b>

The notes on pages 16 to 34 form part of these financial statements.

# CDS Oil & Gas Group Plc

## Notes to the Financial Statements for the year ended 31 December 2007

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### 1. Basis of preparation and significant accounting policies

These consolidated financial statements of CDS Oil & Gas Group Plc have been prepared in accordance with accepted International Financial Reporting Standards (IFRSs), International Accounting Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations (collectively "IFRSs") as adopted for use in the European Union and as issued by the International Accounting Standards Board and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. These consolidated financial statements are the first CDS Oil & Gas Group Plc financial statements to be prepared in accordance with IFRS, the transition date being 1 January 2006.

#### **First-time adoption**

In preparing these financial statements, the Group has elected to apply the following transitional arrangements permitted by IFRS1 'First-time Adoption' of International Financial Reporting Standards

- Business combinations effected before 1 January 2006, including those that were accounted for using the merger method of accounting under UK accounting standards, have not been restated.
- Only those exchange differences arising on the retranslation of foreign operations since 1 January 2006 have been recognised as a separate component of equity, with the related reserve being set to zero at that date.
- IFRS2 'Share-based payments' has been applied to employee options granted after 1 November 2002 that had not vested by 1 January 2006.

The Group has made estimates under IFRSs at the date of transition, which are consistent with those estimates made for the same date under UK GAAP unless there is objective evidence that those estimates were in error, i.e. the Group has not reflected any new information in its opening IFRS balance sheet but reflected that new information in its income statement for subsequent periods.

As a consequence of applying IFRS 6, Exploration for and evaluation of mineral resources, the impact of applying IFRS on both the 2007 financial information and the previously reported performance and financial position for 2006 is considered to be immaterial as the Group's accounting policies determined under UK Generally Accepted Accounting Principles, and set out in the Group's statutory accounts for the year ended 31 December 2006, are largely unaffected.

Judgements made by the directors in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are disclosed in note 2 below.

The Company has taken advantage of the exemptions allowed under section 230 of the Companies Act 1985 and has not presented its own income statement in these financial statements. The Group loss for the year included a profit on ordinary activities after tax of US\$292,000 (2006: a loss of \$1,272,000) in respect of the Company which is dealt with in the financial statements of the parent Company.

#### **Changes in accounting policies**

*IFRIC 8, Scope of IFRS 2* (effective for accounting periods beginning on or after 1 May 2006).

IFRIC 8 requires consideration of transactions involving the issue or grant of equity instruments to establish whether or not they fall within the scope of IFRS 2. It applies to situations where the identifiable consideration received is or appears to be less than the fair value of the equity instruments issued. There was no impact on the Group's accounts from its adoption.

*IFRIC 9, Reassessment of embedded derivatives* (effective for accounting periods beginning on or after 1 June 2006).

IFRIC 9 requires an assessment of whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when an entity becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. There was no impact on the Group's accounts from its adoption.

*IFRIC 10, Interim Financial Reporting and Impairment* (effective for accounting periods beginning on or after 1 November 2006).

IFRIC 10 prohibits impairment losses recognised in an interim period on goodwill and investments in equity instruments and on financial assets carried at cost to be reversed at a subsequent balance sheet date. There was no impact on the Group's accounts from its adoption.

#### **Standards, interpretations and amendments to published standards effective in 2007 but which are not relevant to the Group.**

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but are currently not relevant to the Group's operations:

*IFRIC 7, Applying the restatement approach under IAS 29, Financial Reporting in Hyperinflationary Economies* (effective for accounting periods beginning on or after 1 March 2006).

IFRIC 7 provides guidance on the application of IAS 29 requirements in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the company was not hyperinflationary in the prior period. IFRIC 7 is not relevant to the Group as none of the Group companies has a currency of a hyperinflationary economy as its functional currency.

#### **Standards, amendments and interpretations to published standards not yet effective.**

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the Group has decided not to adopt early. These are:

*IFRS 8, Operating Segments* (effective for accounting periods beginning on or after 1 January 2009).

This standard sets out requirements for the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. It replaces IAS 14, Segmental Reporting. The Group expects to apply this standard in the accounting period beginning on 1 January 2009. As this is a disclosure standard it will not have impact on the results or net assets of the Group.

# CDS Oil & Gas Group Plc

## Notes to the Financial Statements for the year ended 31 December 2007 - continued

*IAS 23, Borrowing Costs (revised)* (effective for accounting periods beginning on or after 1 January 2009).

The revised IAS 23 is still to be endorsed by the EU. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to qualifying assets, broadly being assets that take a substantial period of time to get ready for use or sale. The impact on the Group's accounts from its adoption is being considered by the Board.

*IFRIC 11, IFRS 2 - Group and Treasury Share Transactions* (effective for accounting periods beginning on or after 1 March 2007).

IFRIC 11 requires share-based payment transactions in which an entity receives services as consideration for its own equity instruments to be accounted for as equity settled. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement. It also applies regardless of whether: (a) the employee's rights to the entity's equity instruments were granted by the entity itself or by its shareholder(s); or (b) the share-based payment arrangement was settled by the entity itself or by its shareholder(s). There is not expected to be an impact on the Group's accounts from its adoption.

*IFRIC 12, Service Concession Arrangements* (effective for accounting periods beginning on or after 1 January 2008).

IFRIC 12 is still to be endorsed by the EU. IFRIC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Group's operations due to the absence of such arrangements.

*IFRIC 13, Customer Loyalty Programmes* (effective for accounting periods beginning on or after 1 July 2008).

IFRIC 13 is still to be endorsed by the EU. IFRIC 13 addresses sales transactions in which the entities grant their customers award credits that, subject to meeting any further qualifying conditions, the customers can redeem in future for free or discounted goods or services. IFRIC 13 is not relevant to the Group's operations due to the absence of such arrangements.

*IFRIC 14, IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for accounting periods beginning on or after 1 January 2008).

IFRIC 14 is still to be endorsed by the EU. IFRIC 14 clarifies when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19, how a minimum funding requirement might affect the availability of reductions in future contributions and when a minimum funding requirement might give rise to a liability. IFRIC 14 is not relevant to the Group's operations due to the absence of such arrangements.

*Revised IFRS 3, Business Combinations and complementary Amendments to IAS 27, Consolidated and separate financial statements* (both effective for accounting periods beginning on or after 1 July 2009).

This revised standard and amendments is still to be endorsed by the EU. The revised IFRS 3 and amendments to IAS 27 arise from a joint project with the Financial Accounting Standards Board (FASB), the US standards setter, and result in IFRS being largely converged with the related, recently issued, US requirements. There are certain very significant changes to the requirements of IFRS, and options available, if accounting for business combinations. Management is currently assessing the impact of revised IFRS 3 and amendments to IAS 27 on the accounts.

*Amendment to IFRS 2, Share-based payments: vesting conditions and cancellations* (effective for accounting periods beginning on or after 1 January 2009).

This amendment is still to be endorsed by the EU. The Amendment to IFRS 2 is of particular relevance to companies that operate employee shares save schemes. This is because it results in an immediate acceleration of the IFRS 2 expense that would otherwise have been recognised in future periods should an employee decide to stop contributing to the savings plan, as well as a potential revision to the fair value of the awards granted to factor in the probability of employees withdrawing from such a plan. This amendment is not relevant to the Group's operations due to absence of such arrangements.

*Amendments to IAS1 Presentation of Financial statements: A Revised Presentation* (effective for periods beginning on or after 1 January 2009). This amendment is still to be endorsed by the EU. The revised version of IAS1 (revised 2007) replaces IAS1 Presentation of Financial Statements (Revised 2003) as amended in 2005 and key changes include: the requirement to aggregate information in the financial statements on the basis of shared characteristics; changes in the titles of some primary statements (non-mandatory); introducing the possibility of a single Statement of Comprehensive income (combining the Income Statement and the Statement of Recognised Income and Expense); Only the total of comprehensive income is to be shown in the Statement of Changes in Equity. Management is currently assessing the impact of the Amendment on the accounts.

*Amendments to IAS32 Financial Instruments: Presentation and IAS1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* (effective for beginning on or after 1 January 2009). This amendment is still to be endorsed by the EU. The amendments result in certain types of financial instrument that meet the definition of a liability, but represent the residual interest in the net assets of the entity, being classified as equity. Management is currently assessing the impact of the Amendment on the accounts.

*Amendments to IFRS1 and IAS27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (effective for accounting periods beginning on or after 1 January 2009). These amendments are still to be endorsed by the EU. The amendments permits the entity at the date of transition to IFRSs in its separate financial statements to use deemed cost to account for its investment in subsidiary, jointly controlled entity or associate. The deemed cost of such investment could be either the fair value of the investment at the date of transition, which would be determined in accordance with IAS39 Financial Instruments: Recognition and Measurement or; the carrying amount of the investment under previous GAAP at the date of transition. Management is currently assessing the impact of the Amendment on the accounts.

*Improvements to IFRS* (effective date for accounting periods beginning on or after 1 July 2009). This improvements project is still to be endorsed by the EU. The amendments take various forms, including the clarification of the requirements of IFRS, the elimination of inconsistencies between standards. Management is currently assessing the impact of the Amendment on the accounts.

# CDS Oil & Gas Group Plc

## Notes to the Financial Statements for the year ended 31 December 2007 - continued

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### ***Basis of consolidation***

The consolidated financial statements include the results of the Company and all of its subsidiary undertakings. A subsidiary is an entity controlled, directly or indirectly, by the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The results of subsidiaries have been included from the date of acquisition using the merger method of accounting or the acquisition method of accounting as appropriate.

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Inter-company transactions and balances between Group companies are therefore eliminated in full.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

### ***Merger accounting***

In accordance with the exemption in IFRS 1 where merger accounting has been used, the investment is recorded in the Company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration paid.

In the Group financial statements, merged subsidiary undertakings are treated as if they had always been a member of the Group. The results of such a subsidiary are included for the whole period in the year it joins the Group. The corresponding figures for the previous year include its results for that period, the assets and liabilities at the previous balance sheet date and the shares issued by the Company as consideration as if they had always been in issue. Any difference between the nominal value of the shares acquired by the Company and those issued by the Company to acquire them is taken to Merger Reserve.

### ***Investments in subsidiaries***

Fixed asset investments in subsidiary undertakings are shown at cost less provisions for impairment in value. In relation to acquisitions, where advantage can be taken of the merger relief rules, shares issued as consideration for acquisitions are accounted for at nominal value. The cost of acquisition includes directly attributable professional fees and other expenses incurred in connection with the acquisition.

### ***Oil and natural gas exploration and evaluation expenditure – Intangible assets***

The Group has adopted the full cost accounting policy for expenditure on oil and gas projects. Under this method all expenditure in connection with the acquisition, exploration, appraisal and development of oil and gas assets, including direct overheads are capitalised and accumulated in full cost pools on a geographic basis. Exploration and evaluation costs are written off unless commercial reserves have been established or the determination process has not been completed and there are no indications of impairment. Expenditure incurred prior to obtaining legal rights to explore in a specified area is expensed directly to the income statement as incurred.

Currently the Group has only non-production oil and gas projects. Costs are accumulated in cost pools and are then written off either on withdrawal from a project or to the extent that they are not supported by underlying oil and gas reserves. On discovery of commercial reserves, the related exploration and evaluation assets will be assessed for impairment on a cost pool basis and any impairment loss recognised in the income statement. The carrying value, after any impairment loss, of the relevant expenditure will then be transferred to property plant and equipment as development and production assets.

### ***Impairment policy***

An impairment test is carried out by the directors if events or changes in circumstances indicate that the net book amount of expenditure within each cost pool, less any provisions for decommissioning costs and deferred production or revenue-related taxes, may not be recoverable from the anticipated future net revenue from the oil and gas reserves attributable to the Group's interest in that pool. To the extent that the carrying amount exceeds the recoverable amount, that is the higher of net realisable value and value in use, the fixed asset will be written down to its recoverable amount. The value in use is determined from estimated discounted future net cash flows. Such tests are carried out on a pool-by-pool basis.

### ***Property, plant and equipment***

Property, plant and equipment are stated at cost of acquisition less accumulated depreciation and impairment losses. Depreciation is provided on a straight-line basis at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life.

Buildings, plant and equipment unrelated to production are depreciated using the straight-line method based on estimated useful lives.

The annual rate of depreciation for each class of depreciable asset is:

- Fixtures and fittings - 25% straight line
- Motor vehicles - 25% straight line
- Computer equipment - 25% straight line

The carrying value of tangible fixed assets is assessed annually and any impairment is charged to the income statement.

# CDS Oil & Gas Group Plc

## Notes to the Financial Statements for the year ended 31 December 2007 - continued

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### *Inventories*

Inventories, which consist of tools and equipment for exploration and development, spare parts, and various consumables, are stated at the lower of cost and net realisable value. Cost is determined using the FIFO method. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

### *Financial instruments*

#### *Financial assets*

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired.

**Loans and receivables:** These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services but also incorporate other types of contractual monetary assets. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Group's loans and receivables include cash and cash equivalents. These include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within current liabilities on the balance sheet.

#### *Financial liabilities*

The Group classifies its financial liabilities as:

**Financial liabilities at amortised cost:** Group's financial liabilities at amortised cost include trade payables and other financial liabilities. These are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

#### *Convertible debt*

The proceeds received on issue of the Group's convertible debt are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that did not include an option to convert. Subsequently, the debt component is accounted for as a financial liability measured at amortised cost (see above).

The difference between the net proceeds of the convertible debt and the amount allocated to the debt component is credited direct to equity and is not subsequently re-measured. On conversion, the debt and equity elements are credited to share capital and share premium as appropriate.

### *Provisions*

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

#### *Share-based payments*

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Fair value is measured using an appropriate option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Where equity instruments are granted to persons other than employees, the consolidated income statement is charged with the fair value of goods and services received.

### *Warrants*

Where warrants granting a right to subscribe for ordinary shares are issued at the same time as a subscription for ordinary shares, the fair value of the warrants at the date of grant is included with the associated share premium arising on issue of the ordinary shares.

#### *Operating leases*

Amounts payable under operating leases are charged to the income statement on a straight-line basis over the lease term.

### *Taxation*

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

# CDS Oil & Gas Group Plc

## Notes to the Financial Statements for the year ended 31 December 2007 - continued

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- The same taxable Group company; or
- Different Group entities which intend to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

### Foreign currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in US dollars which is the presentation currency for the consolidated and Company financial statements. The functional currency of the Company is Pounds Sterling.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items is included in the income statement for the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in US dollars using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve.

On transition to IFRS the Group has taken advantage of the exemption offered under IFRS 1 and assumed zero brought forward translation differences on subsidiary undertakings as at 1 January 2006.

## 2. Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future, which by definition will seldom result in actual results that match the accounting estimate. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

### *(i) Estimation of oil and gas reserves*

Oil and gas reserves are key elements in the Company's investment decision-making process. They are also an important element in testing for impairment. Changes in proven oil and gas reserves will also affect the standardised measure of discounted cash flows and changes in proven oil and gas reserves, particularly proven developed reserves, will affect unit-of-production depreciation charges to income.

Proven oil and gas reserves are the estimated quantities of oil and natural gas made by management and verified by industry experts that demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of the date the estimate is made.

Estimates of oil and gas reserves are inherently imprecise, require the application of judgement and are subject to future revision. Accordingly, financial and accounting measures (such as the standardised measure of discounted cash flows, depreciation, depletion, and amortisation charges, and decommissioning provisions) that are based on proven reserves are also subject to change.

Proven reserves are estimated by reference to available reservoir and well information, including production and pressure trends for producing reservoirs and, in some cases, subject to definitional limits, to similar data from other producing reservoirs.

Proven reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and execution and for which applicable government and regulatory approvals have been secured or are reasonably certain to be secured. Furthermore, estimates of proven reserves only include volumes for which access to market is assured with reasonable certainty. All proven reserves estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

### *(ii) Income taxes*

The Group is subject to income taxes in several jurisdictions and in other jurisdictions has significant carried forward tax losses. Significant judgement is required in determining provisions for income taxes and in determining deferred tax assets based on assessment of probability that taxable profits will be available against which carried forward losses can be utilised.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income statement in the period in which such determination is made.

### *(iii) Share-based payments*

In order to calculate the charge for share-based compensation as required by IFRS 2, the Group makes estimates principally relating to the assumptions used in its option-pricing model as set out in note 20.

# CDS Oil & Gas Group Plc

## Notes to the Financial Statements for the year ended 31 December 2007 - continued

### 3. Geographical and Business Segments

In the opinion of the Directors the operations of the Group comprise one class of business, oil and gas exploration. The Group currently operates in one geographical market, Paraguay, and has a head office and associated corporate expenses in the UK.

### 4. Loss from operations

This has been arrived at after charging:

	<b>2007</b> <b>US\$'000</b>	2006 <u>US\$'000</u>
Operating lease rentals – property	17	-
Staff costs (note 5)	895	1,037
Auditors remuneration (note 8)	100	73
	-----	-----

### 5. Staff costs:

Staff costs, including Directors comprise:

	<b>2007</b> <b>US\$'000</b>	2006 <u>US\$'000</u>
Wages and salaries	878	1,030
Social security costs	17	7
	-----	-----
Total	895	1,037
	-----	-----

The average monthly number of employees (including executive Directors) of the Group and Company during the year was 25 (2006: 17).

### 6. Directors' remuneration:

	<b>2007</b> <b>US\$'000</b>	2006 <u>US\$'000</u>
Salaries	157	-
Fees	1	24
Amounts payable to third parties in respect of directors' services	491	543
Amounts payable to third parties in respect of termination settlements	-	213
Social security costs	11	-
	-----	-----
Total	660	780
	-----	-----

The Directors are not in receipt of any non-cash benefits other than share options. No retirement benefits are accruing to Directors under pension schemes. The Directors receive reimbursement for reasonable expenses.

The amounts set out above include remuneration of \$230,517 (payable to a third party) (2006: \$365,918) in respect of the highest paid director.

### 7. Key management personnel

The Group's Directors are the key management personnel.

The Company has taken out indemnity insurance on behalf of its Directors and key management personnel.

### 8. Auditors' remuneration

During the year the Group obtained the following services from the Company's auditors:

	<b>2007</b> <b>US\$'000</b>	2006 <u>US\$'000</u>
Fee for the audit of the annual financial statements	60	55
Auditing the accounts of subsidiaries of the Company	8	8
Taxation services	32	10
	-----	-----
	100	73
	-----	-----

# CDS Oil & Gas Group Plc

## Notes to the Financial Statements for the year ended 31 December 2007 - continued

### 9. Finance income and expense

	<b>2007</b> <b>US\$'000</b>	2006 <u>US\$'000</u>
Bank interest receivable	361	15
Interest on borrowings	(7)	(98)

### 10. Taxation

#### *Reconciliation of the total tax charge*

UK Corporation tax rate is 30%. The tax assessed on the profit on ordinary activities for the year is different from the standard rate of corporation tax in the UK. The charge for the year can be reconciled to the loss per the income statement as follows:

	<b>2007</b> <b>US\$'000</b>	2006 <u>US\$'000</u>
Loss before taxation	1,239	1,377
	-----	-----
At standard rate of Corporation tax at 30% (2006: 30%)	372	413
Non-deductible expenses	(189)	(30)
Unrecognised tax losses carried forward	(183)	(383)
	-----	-----
Tax for the year	-	-
	-----	-----

No deferred tax asset has been recognised in relation to the trading losses available for offset against future taxable profits.

### 11. Intangible assets

Intangible assets represent the cost of investment in oil and gas projects where it is too early to make a decision regarding the existence or otherwise of commercial reserves.

	<b>Exploration and evaluation costs</b>	
	<b>2007</b> <b>US\$'000</b>	2006 <u>US\$'000</u>
<b>Cost</b>		
At 1 January	11,072	8,602
Additions	3,761	2,470
	-----	-----
<b>At 31 December</b>	<b>14,833</b>	11,072
	-----	-----

# CDS Oil & Gas Group Plc

## Notes to the Financial Statements for the year ended 31 December 2007 - continued

### 12. Property, plant and equipment

Group	Office and computer equipment US\$'000	Furniture and fixtures US\$'000	Motor vehicles US\$'000	Total US\$'000
<b>Cost</b>				
At 1 January 2006	17	88	246	351
Additions	2	-	-	2
Disposals	-	(8)	(78)	(86)
	----	----	----	----
At 31 December 2006	19	80	168	267
Additions	36	127	189	352
Disposals	-	-	(76)	(76)
	----	----	----	----
<b>At 31 December 2007</b>	<b>55</b>	<b>207</b>	<b>281</b>	<b>543</b>
	----	----	----	----
<b>Depreciation</b>				
At 1 January 2006	4	4	22	30
Depreciation charge	5	30	55	90
Disposals	-	-	-	-
	----	----	----	----
At 31 December 2006	9	34	77	120
Depreciation charge	7	36	-	43
Disposals	-	-	(76)	(76)
	----	----	----	----
<b>At 31 December 2007</b>	<b>16</b>	<b>70</b>	<b>1</b>	<b>87</b>
	----	----	----	----
<b>Net book value 2007</b>	<b>39</b>	<b>137</b>	<b>280</b>	<b>456</b>
	----	----	----	----
Net book value 2006	10	46	91	147
	----	----	----	----
Net book value 2005	13	84	224	321
	----	----	----	----

The Company had no tangible fixed assets.

### 13. Investments in subsidiaries

Company	Subsidiary undertakings US\$'000
<b>Cost</b>	
At 1 January 2007 and 31 December 2007	2,274
	-----
<b>Carrying value</b>	
<b>At 31 December 2007</b>	<b>2,274</b>
	-----
At 31 December 2006	2,274
	-----

The Group has the following subsidiary undertakings:

	% interest	Country of incorporation	Activity
CDS Oil & Gas Limited	100%	United Kingdom	Holding company
CDS Energy SA	98.2%*	Paraguay	Oil & gas exploration

\* Held indirectly by CDS Oil & Gas Limited.

### 14. Inventory

	Group		Company	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
<b>At cost:</b>				
Inventory of tools and equipment, spare parts and various consumables	1,618	1,568	-	-
	-----	-----	-----	-----

# CDS Oil & Gas Group Plc

## Notes to the Financial Statements for the year ended 31 December 2007 - continued

### 15. Prepayments and other receivables

	Group		Company	
	2007	2006	2007	2006
	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
<b>Current assets:</b>				
Other receivables	53	42	-	87
Prepayments	580	50	38	41
	----	----	----	----
	633	92	38	128
	----	----	----	----
<b>Non-current assets:</b>				
Amounts due from Group companies			31,270	13,471
			-----	-----

Amounts due from Group companies are unsecured. The Company accrues a nominal interest rate of 4% above London Inter-bank Offered Rate (LIBOR) on all outstanding inter-company balances. The amounts due from Group companies are repayable on demand but the Directors have no intention of recalling the loans within the next twelve months.

### 16. Cash and cash equivalents

	Group		Company	
	2007	2006	2007	2006
	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
Cash at bank and in hand	11,523	387	51	-
	-----	-----	-----	-----

The Group's cash and cash equivalents are held primarily in Sterling at floating interest rates (1 – 6%).

### 17. Trade and other payables

	Group		Company	
	2007	2006	2007	2006
	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
Trade payables	134	84	-	-
Other financial liabilities	313	320	298	264
Bank overdraft	-	-	-	24
	----	----	----	----
	447	404	298	288
	----	----	----	----

### 18. Provisions

#### Within current liabilities

	Group	Group
	2007	2006
	<u>US\$'000</u>	<u>US\$'000</u>
A 1 January	400	-
Charged to the income statement	-	400
Paid in the year	(400)	-
	-----	-----
At 31 December	-	400
	-----	-----

The provision arose within the Group's Paraguayan subsidiary, CDS Energy SA, and concerned a dispute with its drilling contractor, Nabors International Limited. The amount provided in 2006 and settled in 2007 comprised \$270,000 plus legal fees of \$130,000. These amounts were capitalised within intangible assets.

# CDS Oil & Gas Group Plc

## Notes to the Financial Statements for the year ended 31 December 2007 - continued

### 19. Share capital

	<u>No.</u>	<u>£'000</u>
<b>Authorised:</b>		
2007 Ordinary Shares of 10 pence (2006: 10 pence) each	<b>150,000,000</b>	<b>15,000</b>
2006 (restated following 1 for 10 consolidation)	75,000,000	7,500

At the Extraordinary General Meeting held on 14 June 2007 the authorised share capital was increased to 1,500,000,000 ordinary shares of £0.01. The authorised share capital was then consolidated into 150,000,000 new ordinary shares of £0.10.

#### Allotted, called up and fully paid Ordinary shares

	<u>No.</u>	<u>Issue price</u>	<u>Share capital</u> <u>US\$'000</u>	<u>Share premium</u> <u>US\$'000</u>
At 1 January 2007	319,140,760		5,884	9,157
January 2007	37,622,687	£0.01425	736	313
January 2007	5,244,315	£0.06000	103	513
February and April 2007	42,000,000	£0.01250	828	207
March 2007	3,750,514	£0.01250	70	18
June 2007	609,000,000	£0.01400	12,094	4,838
				(804)
	-----		-----	-----
Pre-consolidation total	1,016,758,276		19,715	14,242
	-----			-----
Consolidation	1 for 10		-	-
	-----		-----	-----
At 31 December 2007	101,675,828		<b>19,715</b>	<b>14,242</b>
	-----		-----	-----

Shares issued in January 2007 relate to the conversion of a loan to equity during December 2006. At 31 December 2006 these amounts were held within shares to be issued within equity.

### Warrants

Final exercise date	Exercise price	31 December 2007	Year ended 31 December 2007	31 December 2006
		Outstanding	Granted/(Exercised or lapsed)	
28 February 2007	£0.12	-	(2,541,500)	2,541,500
31 March 2007	US \$0.10	-	(2,260,000)	2,260,000
31 March 2007	£0.12	-	(1,319,000)	1,319,000
30 June 2007	US \$1.00	-	(270,000)	270,000
21 September 2010	£1.20	261,534	156,649	104,885
5 October 2008	£0.30	27,084,883	16,222,827	10,862,056
30 April 2009	£0.30	10,507,743	10,507,743	-
17 December 2009	£0.30	1,218,000	1,218,000	-

In accordance with the Share Subscription Agreement dated 17 May 2007, warrants were issued to the new investors, as part of their investment, in respect of the warrants outstanding at that time, pro-rata to their new ordinary shares (609,000,000) to the ordinary shares in issue at that time (407,758,277).

The warrants have been restated following a 1 for 10 consolidation of the ordinary shares.

# CDS Oil & Gas Group Plc

## Notes to the Financial Statements for the year ended 31 December 2007 - continued

### 20. Share-based payment

The following options are outstanding at 31 December 2007:

Option holder	Date of grant	Number of shares	Exercise period	Exercise price post-consolidation
Directors	17 February 2004	25,000	17 February 2004 to 16 February 2009	\$1.00
Directors	4 October 2004	25,000	4 October 2004 to 3 October 2009	\$1.00
Directors	17 January 2005	25,000	17 January 2005 to 16 January 2010	\$1.00
Directors	6 April 2005	1,325,000	6 April 2005 to 5 April 2010	£1.00
Directors	7 September 2005	100,000	7 September 2005 to 6 September 2010	£1.00
Consultants	17 February 2004	50,000	6 April 2005 to 5 April 2010	£1.00
Staff	24 October 2005	30,000	24 October 2005 to 23 October 2008	£1.00
Staff	1 May 2006	10,000	1 May 2006 to 1 May 2009	£1.00
Shareholders	14 June 2007	37,338	17 February 2004 to 16 February 2009	\$1.00
Shareholders	14 June 2007	37,338	4 October 2004 to 3 October 2009	\$1.00
Shareholders	14 June 2007	37,338	17 January 2005 to 16 January 2010	\$1.00
Shareholders	14 June 2007	1,978,930	6 April 2005 to 5 April 2010	£1.00
Shareholders	14 June 2007	149,353	7 September 2005 to 6 September 2010	£1.00
Shareholders	14 June 2007	74,677	6 April 2005 to 5 April 2010	£1.00
Shareholders	14 June 2007	44,806	24 October 2005 to 23 October 2008	£1.00
Shareholders	14 June 2007	14,935	1 May 2006 to 1 May 2009	£1.00
Directors	27 November 2007	500,000	27 November 2007 to 31 December 2011	£0.40
Consultants	27 November 2007	650,000	27 November 2007 to 31 December 2011	£0.40

In accordance with the Share Subscription Agreement dated 17 May 2007, options were issued to the new investors, as part of their investment, in respect of the warrants outstanding at that time, pro-rata to their new ordinary shares (609,000,000) to the ordinary shares in issue at that time (407,758,277). 5,114,715 were exercisable at 31 December 2007.

The options outstanding as at 14 June 2007 and the exercise price have been restated following a 1 for 10 consolidation of the Ordinary Shares. The Share Option Plan was adopted on 1 September 2004 and is not approved by the Inland Revenue under Schedule 9 of the Income and Corporation Taxes Act 1988. The Plan is governed by Rules and is administered by the Directors of the Company, or a duly authorised committee thereof.

Fair value is measured using the Black-Scholes model that takes into account the effect of financial assumptions, including the future share price volatility and the risk-free rates. The expected volatility was determined based on both the volatility of the Company's share price since flotation and the volatility of similar quoted companies. Employee exit rates and the expected period from vesting to exercise are also considered, based on historical experience. The principal assumptions are:

	2007	2006
Weighted average share price at grant date (2006 restated following 1 for 10 consolidation)	£0.225	£0.125
Exercise price (2006 restated following 1 for 10 consolidation)	£0.400	£0.300
Weighted average expected life	2 – 5 years	2 – 5 years
Expected volatility	60%	60%
Expected dividend growth rate	Nil	Nil
Risk-free rate	5.75%	5.50%

The Directors considered the share options and warrants in issue, and have evaluated their effect on the financial statements using the valuation models prescribed in the applicable standards. The result has been deemed to be immaterial to the results of the Group.

# CDS Oil & Gas Group Plc

## Notes to the Financial Statements for the year ended 31 December 2007 - continued

### 21. Loss per Ordinary Share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

In order to calculate diluted earnings per share, the weighted average number of ordinary shares in issue would be adjusted to assume conversion of all dilutive potential ordinary shares according to IAS 33. In 2007 and 2006 the Group made a loss after taxation and the effect of the potential ordinary shares is anti-dilutive and therefore the diluted earnings per share is the same as basic earnings per share.

Potential dilutive instruments include share options totalling 5,114,715 (see note 20) and warrants totalling 39,072,160 (see note 19).

	<b>Earnings US\$'000</b>	<b>2007 Weighted average number of shares</b>	<b>Per share amount (US dollars)</b>	<b>Earnings US\$'000</b>	<b>2006 Weighted average number of shares</b>	<b>Per share amount (US dollars)</b>
<b>Basic EPS</b>	<b>(1,239)</b>	<b>69,748,173</b>	<b>(0.02)</b>	<b>(1,377)</b>	<b>23,762,534</b>	<b>(0.06)</b>

The 2006 earnings per share has been calculated taking into account a 1 for 10 consolidation of the ordinary shares.

# CDS Oil & Gas Group Plc

## Notes to the Financial Statements for the year ended 31 December 2007 - continued

### 22. Transition to IFRS

CDS Oil & Gas Group reported under UK GAAP in its previous published financial statements for the year ended 31 December 2006. The analysis below shows a reconciliation of net assets as reported under UK GAAP as at 1 January 2006 and 31 December 2006 for the Group and the Company to the revised net profit and assets under International Financial Reporting Standards (IFRS) as reported in these financial statements. There is no impact on the Income Statement nor Cash Flow (other than presentational) as a result of the conversion to IFRS.

#### Reconciliation of equity at 1 January 2006

Group	Previous GAAP*	Effect of transition to IFRS	IFRS
	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	8,602	-	8,602
Property, plant and equipment	321	-	321
	-----	-----	-----
	8,923	-	8,923
<b>Current assets</b>			
Inventory	1,743	-	1,743
Prepayments and other receivables	86	-	86
Cash and cash equivalents	826	-	826
	-----	-----	-----
	2,655	-	2,655
	-----	-----	-----
<b>Total assets</b>	11,578	-	11,578
	-----	-----	-----
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	(1,621)	-	(1,621)
	-----	-----	-----
<b>Total liabilities</b>	(1,621)	-	(1,621)
	-----	-----	-----
<b>Total net assets</b>	9,957	-	9,957
	-----	-----	-----
<b>Capital and reserves attributable to shareholders</b>			
Share capital	3,822	-	3,822
Share premium	8,794	-	8,794
Merger reserve	(1,095)	-	(1,095)
Foreign currency translation reserve	-	-	-
Retained deficit	(1,574)	-	(1,574)
	-----	-----	-----
<b>Capital and reserves attributable to equity holders of the parent</b>	9,947	-	9,947
	-----	-----	-----
Minority interests	10	-	10
	-----	-----	-----
<b>Total equity</b>	9,957	-	9,957
	-----	-----	-----

\*The previous GAAP column represents the numbers previously reported; however the presentation has been amended to comply with IAS 1.

# CDS Oil & Gas Group Plc

## Notes to the Financial Statements for the year ended 31 December 2007 - continued

### Reconciliation of equity at 31 December 2006

Group	Note	Previous GAAP*	Effect of transition to IFRS	IFRS
		<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible assets		11,072	-	11,072
Property, plant and equipment		147	-	147
		-----	-----	-----
		11,219	-	11,219
<b>Current assets</b>				
Inventory		1,568	-	1,568
Prepayments and other receivables		92	-	92
Cash and cash equivalents		387	-	387
		-----	-----	-----
		2,047	-	2,047
		-----	-----	-----
<b>Total assets</b>		<b>13,266</b>	<b>-</b>	<b>13,266</b>
		-----	-----	-----
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables		(804)	-	(804)
		-----	-----	-----
<b>Total liabilities</b>		<b>(804)</b>	<b>-</b>	<b>(804)</b>
		-----	-----	-----
<b>Total net assets</b>		<b>12,462</b>	<b>-</b>	<b>12,462</b>
		-----	-----	-----
<b>Capital and reserves attributable to shareholders</b>				
Share capital		5,884	-	5,884
Share premium		9,157	-	9,157
Shares to be issued		1,665	-	1,665
Merger reserve		(1,097)	-	(1,097)
Foreign currency translation reserve	1	-	(204)	(204)
Retained deficit	1	(3,155)	204	(2,951)
		-----	-----	-----
Capital and reserves attributable to equity holders of the parent		12,454	-	12,454
Minority interests		8	-	8
		-----	-----	-----
<b>Total equity</b>		<b>12,462</b>	<b>-</b>	<b>12,462</b>
		-----	-----	-----

\*The previous GAAP column represents the numbers previously reported; however the presentation has been amended to comply with IAS 1.

#### Notes:

- In terms of IAS 21, the Effects of Changes in Foreign Exchange Rates, the Group has selected its presentational currency to be US Dollars. This decision was made as the majority of the Group's operations are in the oil and gas industry in which products are primarily traded in US dollars. The parent company's functional currency is the UK pound; consequently, a difference arises on translation of its net assets into US dollars.

# CDS Oil & Gas Group Plc

## Notes to the Financial Statements for the year ended 31 December 2007 - continued

### Reconciliation of equity at 1 January 2006

Company	Previous GAAP*	Effect of transition to IFRS	IFRS
	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
<b>Assets</b>			
<b>Non-current assets</b>			
Investment in subsidiaries	2,270	-	2,270
Amounts due from Group companies	9,590	-	9,590
	-----	-----	-----
	11,860	-	11,860
	-----	-----	-----
<b>Current assets</b>			
Prepayments and other receivables	22	-	22
Cash and cash equivalents	86	-	86
	-----	-----	-----
	108	-	108
	-----	-----	-----
<b>Total assets</b>	11,968	-	11,968
	-----	-----	-----
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	(138)	-	(138)
	-----	-----	-----
<b>Total liabilities</b>	(138)	-	(138)
	-----	-----	-----
<b>Total net assets</b>	11,830	-	11,830
	-----	-----	-----
<b>Capital and reserves attributable to shareholders</b>			
Share capital	3,822	-	3,822
Share premium	8,794	-	8,794
Foreign currency translation reserve	-	-	-
Retained deficit	(786)	-	(786)
	-----	-----	-----
<b>Capital and reserves attributable to equity holders of the parent</b>	11,830	-	11,830
	-----	-----	-----

\*The previous GAAP column represents the numbers previously reported; however the presentation has been amended to comply with IAS 1.

# CDS Oil & Gas Group Plc

## Notes to the Financial Statements for the year ended 31 December 2007 - continued

### Reconciliation of equity at 31 December 2006

Company	Note	Previous GAAP*	Effect of transition to IFRS	IFRS
		<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
<b>Assets</b>				
<b>Non-current assets</b>				
Investments		2,274	-	2,274
Amounts due from Group companies		13,471	-	13,471
		-----	-----	-----
		15,745	-	15,745
<b>Current assets</b>				
Prepayments and other receivables		128	-	128
Cash and cash equivalents		-	-	-
		-----	-----	-----
		128	-	128
<b>Total assets</b>				
		-----	-----	-----
		15,873	-	15,873
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables		(288)	-	(288)
		-----	-----	-----
<b>Total liabilities</b>		(288)	-	(288)
<b>Total net assets</b>				
		-----	-----	-----
		15,585	-	15,585
<b>Capital and reserves attributable to shareholders</b>				
Share capital		5,884	-	5,884
Share premium		9,157	-	9,157
Shares to be issued		1,665	-	1,665
Foreign currency translation reserve	1	-	937	937
Retained deficit	1	(1,121)	(937)	(2,058)
		-----	-----	-----
<b>Capital and reserves attributable to equity holders of the parent</b>		15,585	-	15,585
		-----	-----	-----

\*The previous GAAP column represents the numbers previously reported; however the presentation has been amended to comply with IAS 1.

#### Notes:

- In terms of IAS 21, the Effects of Changes in Foreign Exchange Rates, the Group has selected its presentational currency to be US Dollars. This decision was made as the majority of the Group's operations are in the oil and gas industry which products are primarily traded in US dollars. The parent company's functional currency is the UK pound, consequently, a difference arises on translation of its net assets into US dollars.

# CDS Oil & Gas Group Plc

## Notes to the Financial Statements for the year ended 31 December 2007 - continued

### 23. Related-party transactions

IAS 24, 'Related-Party Transactions', requires the disclosure of the details of material transactions between the reporting entity and related parties. Details of related-party transactions are:

- (a) The Company concluded a contract, with effect from 1 July 2007, with Famay Enterprises Corp., a company controlled by the majority shareholders, to provide services in respect of technical matters relative to the Group's oil and gas activities, strategic, policy, and legal matters. The fees paid were \$360,000 and there was no balance outstanding as at 31 December 2007 (2006: Nil).
- (b) During the year ended 31 December 2007 the Group paid \$62,574 (2006: \$48,307) fees and expenses to Peroni Sosa Tellechea Burt & Narvaja, a company in which director G. F. Peroni has an interest, for legal services, at normal professional rates. There was no balance outstanding at 31 December 2007 (2006: \$Nil).

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are described above. Key management personnel disclosures are included in note 6.

### 24. Commitments

#### a) Capital commitments

As of the 31 December 2007, the Company's subsidiary company, CDS Energy SA had been authorised to enter into contracts for the acquisition of seismic data, aero-gravity and aero-magnetic surveys, and surface geo-chemical surveys. Certain lump sums (mobilisation and de-mobilisation) were agreed with the operations to be conducted on a fixed fee per kilometre. The value of the work still to be performed as at 31 December 2007 was about \$8 million, however the Group was not contractually committed to any significant amount of this expenditure.

#### b) Operating lease commitments

The Company leases an office building under a licence to occupy. The licence has a life of five years terminating in June 2012. The Company may terminate the agreement by giving three months notice. The information below is presented on the basis of continued occupation of the premises until the expiry of the agreement is June 2012.

Future minimum lease payments under cancellable operating leases at 31 December 2007 are as follows:

	2007 US\$'000	2006 US\$'000
Within one year	54	-
After one year but not more than five years	189	-
	-----	-----

### 25. Financial instruments

In common with other businesses, the Group and Company (the 'Group') is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The significant accounting policies regarding financial instruments are disclosed in note 1.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

#### Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

Group	2007 US\$'000	2006 US\$'000
Other receivables	53	42
Cash and cash equivalents	11,523	387
Trade payables	(134)	(84)
Other financial liabilities	(313)	(320)
	-----	-----
Company	2007 US\$'000	2006 US\$'000
Other receivables	-	87
Cash and cash equivalents	51	-
Other financial liabilities	(298)	(264)
Bank overdrafts	-	(24)
	-----	-----

# CDS Oil & Gas Group Plc

## Notes to the Financial Statements for the year ended 31 December 2007 - continued

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### *General objectives, policies and processes*

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives regular reports from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

#### *Credit risk*

Credit risk arises principally from the Group's other receivables. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument. The maximum exposure to credit risk equals the carrying value of these items in the financial statements.

Credit risk with cash and cash equivalents is reduced by placing funds with banks with high credit ratings.

#### *Liquidity risk*

Liquidity risk arises from the Group's management of working capital and the amount of funding committed to its exploration programme. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The principal liabilities of the Group arise in respect of committed expenditure in respect of its ongoing exploration work and subsequently related development expenditure. To achieve this aim, it seeks to raise new equity finance and debt sufficient to meet the next phase of exploration and where relevant development expenditure.

Further discussion of the Group's liquidity position is set out in the Directors' Report and in note 26.

The Board receives cash flow projections on a monthly basis as well as information on cash balances. The Board will not commit to material expenditure in respect of its ongoing exploration programme prior to being satisfied that sufficient funding is available to the Group to finance the planned programmes. The Group has no interest-bearing borrowings or any current undrawn borrowing facilities.

All of the Group's financial instruments are due for repayment in less than one year.

#### *Interest rate risk*

The Group has no interest-bearing borrowings and so there is no interest rate risk.

There is no significant interest rate risk in respect of temporary surplus funds invested in deposits and other interest-bearing accounts with financial institutions as the operations of the Group are not dependent on the finance income received. However it is the Group's policy to manage the interest rate risk over the cash flows on its invested surplus funds by using only substantial financial institutions when such funds are invested.

#### *Capital*

The Group considers its capital to comprise its ordinary share capital, share premium and accumulated retained earnings as its capital reserves. In managing its capital, the Group's primary objective is to provide a return for its equity shareholders through capital growth. Going forward the Group will seek to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust to adjust its capital structure to achieve these aims, either through new share issues or the issue of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives. At the year-end all of the Group's funding is by equity.

There has been no other significant changes to the Group's management objectives, policies and processes in the year nor has there been any change in what the Group considers to be capital.

#### *Currency risk*

Although the Group raises new equity in Sterling this is converted to US dollars. Hence there is no significant currency risk. The Group also manages its currency exposure by retaining the majority of its cash balances in US dollars and sterling, being relatively stable currencies.

Revenues arising from the successful completion of exploration and development programmes will be denominated in US dollars.

# CDS Oil & Gas Group Plc

## Notes to the Financial Statements for the year ended 31 December 2007 - continued

Financial assets and liabilities are held in the following currencies at the year-end:

Group	2007		2006	
	US Dollar US\$'000	Sterling US\$'000	US Dollar US\$'000	Sterling US\$'000
Other receivables	53	-	42	-
Cash and cash equivalents	11,472	51	387	-
Trade payables	(134)	-	(84)	-
Other financial liabilities	(15)	(298)	(56)	(264)

Company	2007		2006	
	US Dollar US\$'000	Sterling US\$'000	US Dollar US\$'000	Sterling US\$'000
Other receivables	-	-	-	87
Cash and cash equivalents	-	51	-	-
Other financial liabilities	-	(298)	-	(264)
Bank overdraft	-	-	-	(24)

### 26. Going concern

The Group entered 2008 with cash resources sufficient to carry out a comprehensive early-stage exploration programme. This programme is almost complete. Dependant on the outcome of this programme, the plan was to raise further funds to enable the Group to move onto the next stage, the drilling of target locations. As a consequence, the Group currently has insufficient funds available to meet its working capital requirements. Accordingly the Group is in discussions to raise further funds to continue in operational existence.

These financial statements have been prepared on a going concern basis as the Directors are confident that the Group will be able to raise the required funds. These conditions indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

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