

CDS Oil and Gas Group Plc

Report and financial statements for the year ended 31 December 2008

CDS Oil & Gas Group Plc

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CDS Oil & Gas Group Plc

Directors, Secretary and Advisers

Directors

J W S Bentley (Non-executive Chairman)

J Eng (Non-executive)

T Hirata (Non-executive)

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

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

We are pleased to report the results for the year ending 31 December 2008.

2008 Review

On the 5 May 2009, the Company was able to announce the completion of the interpretation and analysis of its geological and geophysical studies, soil gas geochemistry survey and seismic survey. The Company is pleased that the results of the data interpretation have confirmed the potential of certain areas within the Company's Gabino Mendoza and Boquerón blocks. The prospective un-risked aggregated hydrocarbon resource estimates for CDS' prospects include 243 MMBO (millions of barrels of oil) and 161 BCF (billion cubic feet) of non-associated gas. The analysis has identified several drill prospects and the Company is currently in discussions with potential partners to fund the next stage of its exploration programme.

As announced in the interim statement, the physical exploration programme was completed in September 2008. The soil geochemistry survey was analyzed by Houston-based Exploration Technologies, Inc. The seismic data was processed by two Houston-based oil and gas service companies, Tricon Geophysics, Inc. and Texseis Inc. and interpretation was then undertaken by the Company's in-house geosciences team in Houston.

In the Gabino Mendoza block, the moderate level of positive soil geochemistry anomalies indicates the presence of a mixed oil and gas source. The Gabino Mendoza prospect consists of an unconventional gas resource which extends over an area of a few hundred square kilometres, having a sedimentary column in excess of 1,200 metres, which would result in prospective resources on an un-risked basis of 140 BCF.

In the Boquerón block where three prospects have been identified - Picuiba Nose, East Emilia and Emilia - the Carboniferous target sands were deposited in the same proximal deep submarine fan facies as the giant San Alberto/San Antonio Field and others in southern Bolivia.

From the soil geochemistry survey, it appears that the Picuiba Nose prospect has good hydrocarbon source potential from a mixed oil and gas source. The Picuiba Nose prospect is a 1,100 hectare structural dome located on the crest of a northwest-plunging anticlinal nose. The prospect's prospective resources have an un-risked estimated ultimate recovery ("EUR") of 175 MMBO.

The Emilia East prospect features a low-relief structure, with top-seals in the Cretaceous and the Permian above the Carboniferous. This prospect has un-risked prospective resources of 21 BCF non-associated gas and 38 MMBO, derived from volumetric EUR calculations from prospect maps.

In the Emilia prospect, the Carboniferous target sands were deposited in a submarine fan. The targets are the same age and facies as the 22 TCF (trillion cubic feet) San Alberto Gas Field in Bolivia. This prospect has un-risked prospective resources of 30 MMBO, based on volumetric EUR calculations from prospect maps.

We believe that the comprehensive programme, implemented by the Company for an amount of more than USD30 million, has resulted in a total potential of finding up to 250 MMBOE (millions of barrels of oil equivalent). It represents a strong encouragement to persevere in our exploration efforts and work towards the start of a drilling programme on the Boqueron block.

During 2008, the Company had been pleased to welcome Petro Saudi Ltd. Inc. ("Petro Saudi") as a significant shareholder. However, the discontinuation of the relationship with PetroSaudi in February 2009 means that the Company no longer has immediate access to the funding of its further expansion. Discussions with prospective new strategic shareholders are taking place with a view to covering the cost of the next stage of the exploration programme. It has been orally agreed with the Ministry of Public Works and Communication (MOPC, which is also responsible for energy and mining) of Paraguay that drilling commitments under the licences can be postponed for at least six months pending further financing being obtained.

Post year-end events

As more fully described in note 24, on 23 February 2009, the Company announced that Feltown Assets Inc. ("Feltown") and Werton Finance S.A. ("Werton") acquired from PetroSaudi its entire holding in the ordinary shares of the Company together with its rights and obligations as lender in relation to two unsecured working capital facilities granted to CDS in July 2008 for US\$2,000,000 and in December 2008 for US\$250,000. The acquisition was completed on 20th February 2009.

As more fully described in note 24, on the 2 April 2009, the Company announced that Feltown and Werton had agreed to convert the loans of \$2,250,000, together with the accrued interest thereon, and subscribe for new ordinary shares of 10p each, at a conversion price of 10p per share. In addition, two suppliers of services to the Group, Famay Enterprises Corp. ("Famay") and Harmattan FZE ("Harmattan") had agreed to convert amounts due to them by the Group by subscribing for new ordinary shares of 10p each at a conversion price of 10p each.

John W.S. Bentley (Chairman)

Patrice Roman (Chief Executive Officer)

29 June 2009

CDS Oil & Gas Group Plc

Directors' report

The Directors present their report and the audited financial statements of CDS Oil & Gas Group Plc for the year ended 31 December 2008.

Financial reporting

The results for 2008 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 Group continues to use 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 \$2,222,000 for the year (2007: \$1,239,000).

The directors do not recommend the payment of a final ordinary dividend for the year (2007: \$ 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. The portfolio 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; and
- 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. It is the intention of the Board to seek additional funding through the issue of new equity where appropriate and possible.

Subsequent to the year end, the Company issued 21,489,958 new ordinary shares in relation to the conversion of certain loan facilities and settlement of amounts due to certain suppliers of services to the Group.

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. Alternatively, farm-in arrangements on the Group's licences may be concluded. 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

The Group currently operates primarily in Paraguay. The nature of the Group's investments requires the commitment of significant funding through its investment in and exploration and evaluation expenditure in Paraguay. It is the nature of oil and gas operations that each project is long-term. It may be many years before the exploration and evaluation expenditures incurred are proven to be viable and for progress to reach commercial production. To control these risks the board arranges for the provision of technical support, directly or through appointed agents and also commissions technical research and feasibility studies both prior to entering into these commitments and subsequently in the life of these projects.

There also exists a risk that the market perception of the relevant market risk discount rate used in the assessment of asset values in Paraguay worsens.

In addition, operational risks 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")

The Directors are of the opinion that finding prospective accumulations of hydrocarbons is the appropriate KPI at this stage of the Group's business. As discussed in the Chairman and CEO's Review above, locations with the potential of finding up to 250 MMBOE have been identified.

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. At 31 December 2008, the Group had \$200,000 (2007: \$11,523,000) in cash.

Directors

The directors who held office at 31 December 2008 had the following interests in the share capital of the Company:

	Ordinary shares of 10p each		Share options		Share warrants	
	31 December 2008	1 January 2008	31 December 2008	1 January 2008	31 December 2008	1 January 2008
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	250,000	Nil	Nil
G F Peroni	Nil	Nil	100,000	100,000	Nil	Nil
P Roman (<i>note 1</i>)	8,757,142	8,757,142	3,409,442	3,409,442	3,313,149	3,313,149
E Romero	Nil	Nil	250,000	250,000	Nil	Nil

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

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

Mr. Dan Morrison resigned as a director of the Company with effect from 23 July 2008.

In accordance with the Company's Articles of Association at least one third of the directors must retire by rotation at each Annual General Meeting, and they may stand for re-appointment at the Meeting. Additionally, a director appointed during the year must stand for re-appointment at the first Annual General Meeting after such appointment. Accordingly the directors retiring by rotation are Mr. P. Roman and Mr. G. Peroni. All, being eligible, offer themselves for re-appointment.

Third party indemnities

The Company has procured insurance which provides cover for the directors and officers of the company and all its subsidiaries for claims made against them arising from an actual or alleged wrongful act whilst acting in their capacity of directors or officers of the company.

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 rehabilitation 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 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 16 days (2007: 24) of average supplies for the year.

Financial instruments

Details of the use of financial instruments by the Company and its subsidiary undertakings are contained in note 24 of the financial statements.

CDS Oil & Gas Group Plc

Directors' report – continued

Political and charitable donations

No political or charitable donations were made during the year (2007: \$nil).

Statement of 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 disclosed in **Note 1 to the financial statements**, the Group's working capital levels have been utilised in the last year such that the Group currently does not have sufficient funds to finance the continuation of planned work programmes on its exploration assets. These are estimated to cost up to \$18 million over the next year. The Group's ability to continue as a going concern is dependent upon new funding being negotiated and the postponement of the minimum commitments stipulated in the terms of the exploration licences until such a time that new funding is available.

At this time, the Group has received a significant level of interest from prospective investors, and whilst no funding arrangements have yet been formally agreed, the Directors are confident that further funds will be arranged in the near future. Further to this, the Directors have orally agreed with the Ministry of Public Works and Communication (MOPC, which is also responsible for energy and mining) of Paraguay at least a six month postponement of the minimum commitments set out by the exploration licence agreements. We have requested confirmation of this in writing, and are currently awaiting a response.

Annual General Meeting

A separate document provides notice of the Annual General Meeting to be held on 24 July 2009 to consider resolutions: to approve the directors' report and financial statements; the re-election of directors; the re-appointment and remuneration of the auditors; and to allot equity securities for cash.

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 has 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

29 June 2009

CDS Oil & Gas Group Plc

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

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 2008 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 Directors' Report, Chairman's Statement, Board of Directors Statement of Directors' Responsibilities, Operational Review and Financial Review. 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 2008 and of its loss for the year ended 31 December 2008;
- the parent Company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985,, of the state of the parent company's affairs as at 31 December 2008;
- 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 1 to the financial statements concerning the Group's ability to continue as a going concern, which is dependent on raising further finance and postponing the minimum commitments stipulated by the Company's exploration licence agreements. The Group's progress against these objectives is set out in the Directors' Report. 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

29 June 2009

CDS Oil & Gas Group Plc

Consolidated Income Statement for the year ended 31 December 2008

	<u>Note</u>	<u>2008</u> <u>US\$'000</u>	<u>2007</u> <u>US\$'000</u>
Administrative expenses		(2,327)	(1,593)
Loss from operations	4	<u>(2,327)</u>	<u>(1,593)</u>
Finance income	9	146	361
Finance expense	9	(41)	(7)
Loss for the year before taxation and loss for the year		<u>(2,222)</u>	<u>(1,239)</u>
Attributable to:			
- Equity holders of the parent		<u>(2,222)</u>	<u>(1,239)</u>
Loss per share expressed in US\$ per share			
- Basic and diluted loss per share	21	<u>\$(0.02)</u>	<u>\$(0.02)</u>

All amounts relate to continuing activities.

The notes on pages 16 to 28 form part of these financial statements.

CDS Oil & Gas Group Plc

Consolidated Balance Sheet at 31 December 2008

	Note	2008 US\$'000	2007 US\$'000
Assets			
Non-current assets			
Intangible assets	11	27,888	14,833
Property, plant and equipment	12	331	456
		-----	-----
		28,219	15,289
		-----	-----
Current assets			
Inventory	14	1,618	1,618
Prepayments and other receivables	15	56	633
Cash and cash equivalents	16	200	11,523
		-----	-----
		1,874	13,774
		-----	-----
Total assets		30,093	29,063
		-----	-----
Liabilities			
Current liabilities			
Trade and other payables	17	(1,364)	(447)
Borrowings	18	(2,291)	-
		-----	-----
Total liabilities		(3,655)	(447)
		-----	-----
Net assets		26,438	28,616
		=====	=====
Capital and reserves attributable to shareholders			
Share capital	19	19,745	19,715
Share premium	19	14,254	14,242
Merger reserve		(1,097)	(1,097)
Foreign currency translation reserve		-	(62)
Retained deficit		(6,474)	(4,190)
		-----	-----
Capital and reserves attributable to equity holders of the parent		26,428	28,608
Minority interest		10	8
		-----	-----
Total equity		26,438	28,616
		=====	=====

The financial statements were approved by the Board of Directors and authorised for issue on 29 June 2009.

P Roman
Director

29 June 2009

The notes on pages 16 to 28 form part of these financial statements.

CDS Oil & Gas Group Plc

Consolidated Statement of Changes in Equity for the year ended 31 December 2008

	<u>Attributable to equity holders of the Company</u>						<u>Minority</u>	<u>Total</u>	
	<u>Share</u>	<u>Share</u>	<u>Shares</u>	<u>Merger</u>	<u>Foreign</u>	<u>Retained</u>	<u>shareholders</u>	<u>equity</u>	
	<u>capital</u>	<u>premium</u>	<u>to be</u>	<u>reserve</u>	<u>currency</u>	<u>deficit</u>	<u>equity</u>		
	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>translation</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	
			<u>issued</u>		<u>reserve</u>				
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 expense 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
At 1 January 2008	19,715	14,242	-	(1,097)	(62)	(4,190)	28,608	8	28,616
Loss for the year	-	-	-	-	-	(2,222)	(2,222)	2	(2,220)
Total recognised income and expense for the year	-	-	-	-	-	(2,222)	(2,222)	2	(2,220)
Shares issued in year	30	12	-	-	-	-	42	-	42
Transfer of foreign currency translation reserve	-	-	-	-	62	(62)	-	-	-
At 31 December 2008	19,745	14,254	-	(1,097)	-	(6,474)	26,428	10	26,438

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 group reconstruction.
Foreign currency translation reserve	Gains/(losses) arising on retranslating the net assets including inter-company receivables of parent Company into US dollars.
Retained deficit	Cumulative losses of the Group attributable to equity shareholders.

The notes on pages 16 to 28 form part of these financial statements.

CDS Oil & Gas Group Plc

Consolidated Cash Flow Statement for the year ended 31 December 2008

	Note	<u>2008</u> <u>US\$'000</u>	<u>2007</u> <u>US\$'000</u>
Cash flow from operating activities			
Loss before taxation		(2,222)	(1,239)
Adjustments for:			
- Finance income	9	(146)	(361)
- Finance expense	9	41	7
- Effect of foreign exchange rate changes on cash and cash equivalents held		69	
- Equity-settled share-based payment expense		42	-
		-----	-----
Net cash flow from operating activities before changes in working capital		(2,216)	(1,593)
Increase in inventories		-	(49)
Increase/(decrease) in payables and provisions		919	(357)
Decrease/(increase) in receivables		577	(541)
		-----	-----
Net cash flow from operating activities before interest and taxation paid		(720)	(2,540)
		-----	-----
Investing activities			
Payments for property, plant and equipment		(108)	(309)
Interest received		146	361
Proceeds from the disposal of property, plant, and equipment		72	-
Exploration costs capitalised		(12,894)	(3,761)
		-----	-----
Net cash flow from investing activities		(12,784)	(3,709)
		-----	-----
Financing activities			
Issue of ordinary shares		-	18,055
Cost of share issue		-	(804)
Proceeds from borrowings		2,250	-
Interest paid		-	(7)
		-----	-----
Net cash flow from financing activities		2,250	17,244
		-----	-----
Effect of foreign exchange rate changes on cash and cash equivalents held		(69)	141
		-----	-----
Net (decrease)/increase in cash and cash equivalents in the year		(11,323)	11,136
Cash and cash equivalents at the beginning of the year		11,523	387
		-----	-----
Cash and cash equivalents at the end of the year	16	200	11,523
		====	====

The notes on pages 16 to 28 form part of these financial statements.

CDS Oil & Gas Group Plc

Company Balance Sheet as at 31 December 2008

	Note	<u>2008</u> <u>US\$'000</u>	<u>2007</u> <u>US\$'000</u>
Assets			
Non-current assets			
Investment in subsidiaries	13	2,274	2,274
Amounts due from Group companies	15,22	33,499	31,270
		-----	-----
		35,773	33,544
		-----	-----
Current assets			
Prepayments and other receivables	15	29	38
Cash and cash equivalents	16	56	51
		---	---
		85	89
		---	---
Total assets		35,858	33,633
		-----	-----
Liabilities			
Current liabilities			
Trade and other payables	17	(546)	(298)
Borrowings	18	(2,291)	-
		-----	-----
Total liabilities		(2,837)	(298)
		-----	-----
Net assets		33,021	33,335
		=====	=====
Capital and reserves attributable to shareholders			
Share capital	19	19,745	19,715
Share premium	19	14,254	14,242
Foreign currency translation reserve		-	1,144
Retained deficit		(978)	(1,766)
		-----	-----
Total equity		33,021	33,335
		=====	=====

The financial statements were approved by the Board of Directors and authorised for issue on 29 June 2009.

P Roman
Director

29 June 2009

The notes on pages 16 to 28 form part of these financial statements.

CDS Oil & Gas Group Plc

Company Statement of Changes in Equity for the year ended 31 December 2008

	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 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
	=====	=====	=====	=====	=====	=====
At 1 January 2008	19,715	14,242	-	1,144	(1,766)	33,335
Loss for the year	-	-	-	-	(356)	(356)
	-----	-----	-----	-----	-----	-----
Total recognised income and expense for the year	-	-	-	-	(356)	(356)
	-----	-----	-----	-----	-----	-----
Shares issued in year	30	12	-	-	-	42
Transfer of foreign currency translation reserve	-	-	-	(1,144)	1,144	-
	-----	-----	-----	-----	-----	-----
At 31 December 2008	19,745	14,254	-	-	(978)	33,021
	=====	=====	=====	=====	=====	=====

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 including inter-company receivables of parent Company into US dollars.
Retained deficit	Cumulative losses of the Company attributable to equity shareholders.

The notes on pages 16 to 28 form part of these financial statements.

CDS Oil & Gas Group Plc

Company Cash Flow Statement for the year ended 31 December 2008

	Note	<u>2008</u> <u>US\$'000</u>	<u>2007</u> <u>US\$'000</u>
Cash flow from operating activities			
(Loss)/profit before taxation		(356)	292
Adjustments for:			
- Finance income		(2,002)	(1,809)
- Finance expense		41	4
Foreign exchange differences		63	207
Equity-settled share-based payment expense		42	-
		-----	-----
Net cash flow from operating activities before changes in working capital		(2,212)	(1,306)
Increase in payables		248	34
Decrease in receivables		9	90
		-----	-----
Net cash flow from operating activities before interest		(1,955)	(1,182)
		-----	-----
Investing activities			
Advances to subsidiary companies		(372)	(16,344)
Interest received		145	354
		-----	-----
Net cash flow from investing activities		(227)	(15,990)
		-----	-----
Financing activities			
Issue of ordinary shares (net of issue costs)		-	17,251
Proceeds from borrowings		2,250	-
Interest paid		-	(4)
		-----	-----
Net cash flow from financing activities		2,250	17,247
		-----	-----
Effect of foreign exchange rate changes on cash and cash equivalents		(63)	-
		-----	-----
Net increase in cash and cash equivalents in the year		5	75
Cash and cash equivalents at the beginning of the year		51	(24)
		---	---
Cash and cash equivalents at the end of the year	16	56	51
		---	---

The notes on pages 16 to 28 form part of these financial statements.

CDS Oil & Gas Group Plc

Notes to the Financial Statements for the year ended 31 December 2008 - continued

1. Basis of preparation and significant accounting policies

The consolidated financial statements are for the year ended 31 December 2008. They have been prepared in compliance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union as at 31 December 2008.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group in the 31 December 2008 financial statements

At the date of authorisation of these consolidated financial statements, the IASB and IFRIC have issued the following standards and interpretations which are effective for annual accounting periods beginning on or after the stated effective date. These standards and interpretations are not effective for and have not been applied in the preparation of these consolidated financial statements:

- IAS 1: Presentation of Financial Statements (Revised 2007) (effective as of 1 January 2009)
- IAS 23: Borrowing Costs (Revised 2007) (effective as of 1 January 2009)
- IAS 27: Consolidated and Separate Financial Statements (Amended) (effective as of 1 July 2009)
- IFRS 2: Share-Based Payments: Vesting conditions and Cancellations (Amended) (effective as of 1 January 2009)
- IFRS 3: Business Combinations (Revised) (effective as of 1 July 2009) includes an amendment to the treatment of minority interests (renamed non-controlling interests), amendments to the calculation of goodwill, a change to the method of accounting for acquisitions in stages, amendment to the accounting for contingent consideration and changes to the recognition and measurement of certain assets and liabilities
- IFRS 8: Operating Segments (effective as of 1 January 2009)
- IFRIC Interpretation 13: Customer Loyalty Programmes (effective as of 1 July 2008 – not yet endorsed by the EU)
- IFRIC Interpretation 14: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective as of 1 July 2008 – not yet endorsed by the EU)
- IFRIC Interpretation 15: Agreements for the Construction of Real Estate (effective as of 1 January 2009 – not yet endorsed by the EU)
- IFRIC Interpretation 16: Hedges of a Net Investment in a Foreign Operation (effective as of 1 October 2008 – not yet endorsed by the EU)
- IFRIC Interpretation 17: Distributions of non-cash assets to owners (effective 1 July 2009, not yet endorsed by the EU).
- IFRIC Interpretation 18: Transfers of assets from customers (effective 1 July 2009, not yet endorsed by the EU).
- 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
- 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
- Eligible Hedged Items (Amendment to IAS 39 Financial Instruments: Recognition and Measurement). Entities shall apply the amendment retrospectively for annual periods beginning on or after 1 July 2009. This amendment is still to be endorsed by the EU.
- Embedded Derivatives (Amendments to IFRIC 9 and IAS 39) Effective 30 June 2009. This Amendment clarifies the treatment of embedded derivatives in host contracts that are reclassified out of fair value through profit or loss following the changes introduced by the Amendments to IAS 39 and IFRS 7: Reclassification of Financial Instruments.
- Improving Disclosures about Financial Instruments (Amendments to IFRS 7) Effective 1 January 2009. This Amendment requires the analysis of each class of financial asset and financial liability, into a three level fair value measurement hierarchy.
- Revised IFRS 1 First-time Adoption of international Financial Reporting Standards. Effective 1 January 2009. The revised version of IFRS 1 has an improved structure but does not contain any technical changes.
- Improvements to IFRSs (2009) Effective 1 January 2009. The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies between Standards.
- Improvements to IFRSs (2010) Generally Effective 1 January 2010. The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards.

The directors anticipate that the adoption of these standards and interpretations will not have a material impact on the Group's financial statements in the period of initial adoption with the exception of IAS23: Borrowing Costs (Revised) which will require interest incurred in respect of long-term development projects to be capitalised within the relevant project and of IFRS 3: Business Combinations (Revised), which will require transaction costs arising on business combinations to be expensed to the income statement as opposed to the existing treatment of capitalisation, in the event that acquisitions are undertaken.

CDS Oil & Gas Group Plc

Notes to the Financial Statements for the year ended 31 December 2008 - continued

Going concern

The Company, like most companies, has had to adapt to very difficult economic and financial conditions.

The Group's working capital levels have been utilised in the last year such that the Group currently does not have sufficient funds to finance the continuation of planned work programmes on its exploration assets. These are estimated to cost up to \$18 million over the next year. The Group's ability to continue as a going concern is dependent upon new funding being negotiated and the postponement of the minimum commitments stipulated in the terms of the exploration licences until such a time that new funding is available.

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.

The Company has had a significant amount of interest from prospective investors with a view to covering the cost of the next stage of the exploration programme. The Ministry of Public Works and Communications (MOPC, which is also responsible for energy and mining) of Paraguay has orally agreed for the minimum commitments stipulated by the licences to be postponed for a minimum of six months, allowing the Company time to source further financing. Written confirmation of this postponement and the specific conditions attached to it has been requested, but has not yet been received.

Given the nature of the Group's operations, it is capable of winding down to allow just a relatively low residual level of overheads to be incurred. This flexibility would allow it to remain a going concern until such a time when market conditions had improved. Additionally in April 2009 the Company agreed with certain loan providers and suppliers of services, to convert amounts due to them as of 31 March 2009 (\$3,116,000) into new ordinary shares, thus alleviating a significant amount of financial pressure.

Taking into account the above, and after making suitable enquiries the Directors have formed a judgment, at the time of approving the financial statements, that there is a reasonable expectation that the Group has, or 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.

Company income statement

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 loss on ordinary activities after tax of US\$356,000 (2007: a profit of \$292,000) in respect of the Company which is dealt with in the financial statements of the parent Company.

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

Merger accounting is adopted where a subsidiary has been acquired as part of a group reconstruction.

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.

The investment is recorded in the Company's balance sheet at the fair value of consideration.

Investments in subsidiaries

Fixed asset investments in subsidiary undertakings are shown at cost less provisions for impairment in 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.

CDS Oil & Gas Group Plc

Notes to the Financial Statements for the year ended 31 December 2008 - continued

Impairment of non-financial assets

The carrying amount of the non-current assets of the Group and Company, including 'exploration and evaluation costs', 'investments in subsidiary undertakings' and 'property, plant and equipment', is compared to the recoverable amount of the assets whenever events or changes in circumstances indicate that the net book value may not be recoverable. The recoverable amount is the higher of value in use and the fair value less cost to sell. In assessing the value in use, the expected future cash flows from the assets is determined by applying a pre-tax discount rate to the anticipated pre-tax future cash flows.

An impairment test is carried out by the directors in respect of exploration and evaluation expenditure 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. Such tests are carried out on a pool-by-pool basis and include related property, plant and equipment and investments in subsidiary undertakings.

Impairment is recognised in the income statement to the extent that the carrying amount exceeds the assets' recoverable amount. The revised carrying amounts are amortised in line with Group accounting policies. A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally resulted in the impairment. This reversal is recognised in the income statement and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior years. Assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units) for purposes of assessing impairment. The estimates of future discounted cash flows are subject to risks and uncertainties including the future oil price. It is therefore reasonably possible that changes could occur which may affect the recoverability of assets.

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:

- Furniture and fixtures - 25% straight line
- Motor vehicles - 25% straight line
- Office and computer equipment - 25% straight line

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

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: The 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.

CDS Oil & Gas Group Plc

Notes to the Financial Statements for the year ended 31 December 2008 - continued

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 the Black-Scholes 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.

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.

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.

Functional currency of parent Company

Effective 1 January 2008, the Company's functional currency changed from pounds sterling (£) to the US dollar ('US\$'). This change was made as, due to significant balances being denominated in US\$, the Directors considered the US\$ to most faithfully represent the economic effects of the underlying transactions, events and conditions in the Company.

In accordance with International Accounting Standards, this change in functional currency has been accounted for prospectively by translating all items using the US\$:£ exchange spot rate on that date, being US\$1.991:£1. In the parent company accounts the resulting translated amounts for non-monetary items at this date have been treated as their historic cost. Additionally the comparatives for the year ended 31 December 2007 have been translated at this rate.

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 are 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.

CDS Oil & Gas Group Plc

Notes to the Financial Statements for the year ended 31 December 2008 - continued

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. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money, the projected value of oil and gas and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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.

(iv) Carrying values of property, plant and equipment.

The Group monitors internal and external indicators of impairment relating to its property, plant and equipment. Management has considered whether any indicators of impairment have arisen over certain assets relating to these assets. After assessing these, management has concluded that no impairment has arisen in respect of these assets during the year and subsequently since 31 December 2008. The value of these assets is also subject to the same risks as affect oil and gas exploration and evaluation expenditure.

3. Geographical and Business Segments

A segment is a distinguishable component of the Group that is engaged in providing products or services in a particular business sector (business segment) or in providing products or services in a particular economic environment (geographic segment), which is subject to risks and rewards that are different in those other segments. The Group operated in the period in one segment, the exploration and development of oil and gas deposits, and in one principal geographic area: Paraguay. Accordingly all activities for the year to 31 December 2008 relate to a single activity within a single market.

The Group has its head office and associated corporate expenses in the United Kingdom and provides support to operations in countries of operation.

4. Loss from operations

This has been arrived at after charging:

	2008	2007
	US\$'000	US\$'000
Operating lease rentals – property	44	17
Staff costs (note 5)	672	895
Auditors remuneration (note 8)	84	100
	-----	-----

CDS Oil & Gas Group Plc

Notes to the Financial Statements for the year ended 31 December 2008 - continued

5. Staff costs:

Staff costs, including Directors comprise:

	2008 US\$'000	2007 <u>US\$'000</u>
Salaries and wages	633	878
Social security costs	39	17
	-----	-----
Total	672	895
	-----	-----

The average monthly number of employees (including executive Directors) of the Group during the year was 20 (2007: 25).

6. Directors' remuneration:

	2008 US\$'000	2007 <u>US\$'000</u>
Total emoluments	421	649
	-----	-----

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 emoluments of \$108,735 (payable to a third party) (2007: \$230,517) 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 officers.

8. Auditors' remuneration

Amounts receivable by auditors and their associates in respect of:

	2008 US\$'000	2007 <u>US\$'000</u>
Fee for the audit of the annual financial statements	72	60
Auditing the accounts of subsidiaries of the Company	7	8
Taxation services	5	32
	-----	-----
	84	100
	-----	-----

9. Finance income and expense

	2008 US\$'000	2007 <u>US\$'000</u>
Bank interest receivable	146	361
	-----	-----
Interest on borrowings	(41)	(7)
	-----	-----

10. Taxation

Reconciliation of the total tax charge

UK Corporation tax rate is 28.5%. 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:

	2008 US\$'000	2007 <u>US\$'000</u>
Loss before taxation	2,222	1,239
	-----	-----
At weighted average rate of Corporation tax at 28.5% (2007: 30%)	633	372
Non-deductible expenses	(12)	(189)
Unrecognised tax losses carried forward	(645)	(183)
	-----	-----
Tax for the year	-	-
	-----	-----

No deferred tax asset has been recognised in relation to the trading losses available for offset against future taxable profits. Temporary differences arising for unprovided deferred tax assets equate to \$165,200 (2007: \$51,240)

CDS Oil & Gas Group Plc

Notes to the Financial Statements for the year ended 31 December 2008 - continued

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.

	Exploration and evaluation costs	
	2008 US\$'000	2007 US\$'000
Cost		
At 1 January	14,833	11,072
Additions	13,055	3,761
At 31 December	27,888	14,833

12. Property, plant and equipment

Group	Office and computer equipment US\$'000	Furniture and fixtures US\$'000	Motor vehicles US\$'000	Total US\$'000
Cost				
At 1 January 2007	19	80	168	267
Additions	36	130	186	352
Disposals	-	-	(76)	(76)
At 31 December 2007	55	210	278	543
Additions	7	44	57	108
Disposals	-	-	(102)	(102)
At 31 December 2008	62	254	233	549
Depreciation				
At 1 January 2007	9	34	77	120
Depreciation charge	7	36	-	43
Disposals	-	-	(76)	(76)
At 31 December 2007	16	70	1	87
Depreciation charge	16	71	44	131
Disposals	-	-	-	-
At 31 December 2008	32	141	45	218
Net book value 2008	30	113	188	331
Net book value 2007	39	140	277	456
Net book value 2006	10	46	91	147

The Company had no tangible fixed assets.

CDS Oil & Gas Group Plc

Notes to the Financial Statements for the year ended 31 December 2008 - continued

13. Investments in subsidiaries

Company	Subsidiary undertakings US\$'000
Cost	
At 1 January 2008 and 31 December 2008	2,274

Carrying value	
At 31 December 2008	2,274

At 31 December 2007	2,274

The Group has the following subsidiary undertakings:

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

* 86.6% held indirectly by CDS Oil & Gas Limited.

14. Inventory

	Group		Company	
	2008	2007	2008	2007
	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
At cost:				
Inventory of tools and equipment, spare parts and various consumables	1,618	1,618	-	-
	-----	-----	-----	-----

15. Prepayments and other receivables

	Group		Company	
	2008	2007	2008	2007
	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
Current assets:				
Other receivables	-	53	-	-
Prepayments	56	580	29	38
	-----	-----	-----	-----
	56	633	29	38
	-----	-----	-----	-----
Non-current assets:				
Amounts due from Group companies	-	-	33,499	31,270
	-----	-----	-----	-----

The trade and other receivable balances are categorised as loans and receivables. At the balance sheet date none of the trade and other receivable balances were past due nor impaired.

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 current intention of recalling the loans within the next twelve months.

16. Cash and cash equivalents

	Group		Company	
	2008	2007	2008	2007
	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
Cash at bank and in hand	200	11,523	56	51
	-----	-----	-----	-----

Cash at bank, bank deposits and cash in hand comprise only cash. The Group's cash and cash equivalents are held primarily in US dollars at floating interest rates (1 – 2%).

CDS Oil & Gas Group Plc

Notes to the Financial Statements for the year ended 31 December 2008 - continued

17. Trade and other payables

	Group		Company	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Trade payables	1,118	134	300	-
Other financial liabilities	246	313	246	298
	-----	-----	-----	-----
	1,364	447	546	298
	-----	-----	-----	-----

There is no material difference between the fair values and book values of trade and other payables.

18. Interest-bearing loans and borrowings

	Group		Company	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Shareholder loans	2,250	-	2,250	-
Accrued interest	41	-	41	-
	-----	-----	-----	-----
	2,291	-	2,291	-
	-----	-----	-----	-----

Loans comprise: a) \$2,000,000 bridging loan, originally for 3 months, interest at 5% per annum; b) \$250,000 originally for 6 months, at 10% per annum.

19. Share capital

	No.	£'000
Authorised:		
2008 Ordinary Shares of 10 pence each	500,000,000	50,000
	-----	-----
2007 Ordinary Shares of 10 pence each	150,000,000	15,000
	-----	-----

At the AGM on 23 July 2008 the Company's authorised share capital was increased from £15,000,000 to £50,000,000.

Allotted, called up and fully paid Ordinary shares

	No.	Issue price	Share capital US\$'000	Share premium US\$'000
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
	-----		-----	-----
Ten for one share consolidation	101,675,828		-	-
	-----		-----	-----
At 1 January 2008	101,675,828		19,715	14,242
22 December 2008	200,000	£0.1400	30	12
	-----		-----	-----
At 31 December 2008	101,875,828		19,745	14,254
	-----		-----	-----

Warrants

Final exercise date	Exercise price	31 December 2008 Outstanding	Year ended 31 December 2008 (Lapsed)	31 December 2007 Outstanding
21 September 2010	£1.20	261,534	-	261,534
5 October 2008	£0.30	-	(27,084,883)	27,084,883
30 April 2009	£0.30	10,507,743	-	10,507,743
17 December 2009	£0.30	1,218,000	-	1,218,000
		-----	-----	-----
Total		11,987,277	(27,084,883)	39,072,160

CDS Oil & Gas Group Plc

Notes to the Financial Statements for the year ended 31 December 2008 - continued

20. Share-based payment

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.

During the year the following changes took effect in respect of share options issued to employees and directors:

	<u>Date of grant</u>	<u>Number of shares</u>	<u>Exercise period</u>	<u>Exercise price</u>
Outstanding at 1 January 2008		2,740,000		£0.73
Lapsed	24 October 2005	(30,000)	24 October 2005 to 23 October 2008	£1.00
Cancelled	1 May 2006	(10,000)	1 May 2006 to 1 May 2009	£1.00
Issued	23 September 2008	40,000	23 September 2008 to 31 December 2011	£0.30
Outstanding at 31 December 2008		2,740,000		£0.74

In addition, 2,329,909 (2007: 2,374,715) share options were outstanding and exercisable by shareholders at a weighted average price of £0.99 (2007: £0.98).

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:

	<u>2008</u>	<u>2007</u>
Weighted average share price at grant date	£0.130	£0.225
Exercise price	£0.300	£0.400
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%	5.75%
Fair value per share	£0.03	£0.01

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 share-based payment charge has been deemed to be immaterial to the results of the Group.

21. Loss per Ordinary Share

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

In order to calculate diluted loss 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 2008 and 2007 the Group made a loss after taxation and the effect of the potential ordinary shares is anti-dilutive and therefore the diluted loss per share is the same as basic loss per share.

Potential ordinary shares include share options totalling 5,039,909 (see note 20) and warrants totalling 11,987,277 (see note 19); the potential ordinary shares are not dilutive.

	<u>2008</u>			<u>2007</u>		
	<u>Earnings US\$'000</u>	<u>Weighted average number of shares</u>	<u>Per share amount (US dollars)</u>	<u>Earnings US\$'000</u>	<u>Weighted average number of shares</u>	<u>Per share amount (US dollars)</u>
Basic and diluted loss per share	(2,222)	101,677,217	(0.02)	(1,239)	69,748,173	(0.02)

CDS Oil & Gas Group Plc

Notes to the Financial Statements for the year ended 31 December 2008 - continued

22. Related-party transactions

Group

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 \$720,000 (2007: \$360,000) and the balance outstanding as at 31 December 2008 was \$300,000 (2007: Nil). Post 31 December 2008 the amount outstanding was converted into ordinary shares (see Note 25).
- (b) During the year ended 31 December 2008 the Group paid \$52,000 (2007: \$62,574) 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 2008 (2007: \$Nil).

Details of transactions between the Group and other related parties are described above. Key management personnel disclosures are included in note 6.

Company

Transactions between the Company and its subsidiaries, which are related parties of the Company, are as follows:

	US\$'000
Balance due from subsidiaries at 1 January 2008	31,270
Interest charge for year	1,857
Loans made	372

Balance at 31 December 2008	33,499

23. Commitments

a) Capital commitments

As of the 31 December 2007, the Company's subsidiary company, CDS Energy SA had been authorised to conclude contracts for the analysis of seismic data, aero-gravity and aero-magnetic surveys, and surface geo-chemical surveys. The value of the work still to be performed as at 31 December 2008 was \$Nil (2007: \$8 million).

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 in June 2012.

Future minimum lease payments under cancellable operating leases at 31 December 2008 are as follows:

	2008	2007
	US\$'000	US\$'000
Within one year	34	54
After one year but not more than five years	120	189
	-----	-----

24. 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.

CDS Oil & Gas Group Plc

Notes to the Financial Statements for the year ended 31 December 2008 - continued

Principal financial instruments

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

Group	2008	2007
	US\$'000	US\$'000
Other receivables	-	53
Cash and cash equivalents	200	11,523
Trade payables	(1,118)	(134)
Other financial liabilities	(246)	(313)
Borrowings	(2,291)	-
Company	2008	2007
	US\$'000	US\$'000
Cash and cash equivalents	56	51
Trade payables	(300)	-
Other financial liabilities	(246)	(298)
Borrowings	(2,291)	-

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. The Group and Company ("The Group") are exposed through its operations to one or more of the following financial risks:

- Credit risk, market operational risk, liquidity risk, interest rate risk and currency risk.

The policy for managing these risks is set by the board and all such risks are managed at a Group level within the organisation. The policies for these risks are described further below:

Credit risk

Credit risk arises principally from the Group's 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.

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 had interest-bearing borrowings as at 31 December 2008 but no any current undrawn borrowing facilities.

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

Further discussion of the Group's liquidity position is set out in the Directors' Report and in notes 25 and 26.

Interest rate risk

The Group has fixed 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 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 and short-term loans.

There have 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.

CDS Oil & Gas Group Plc

Notes to the Financial Statements for the year ended 31 December 2008 - continued

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.

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

Group	2008		2007	
	US Dollar US\$'000	Sterling US\$'000	US Dollar US\$'000	Sterling US\$'000
Other receivables	27	29	53	-
Cash and cash equivalents	145	55	11,472	51
Trade payables	(1,118)	-	(134)	-
Other financial liabilities	-	(246)	(15)	(298)
Borrowings	(2,291)	-	-	-

Company	2008		2007	
	US Dollar US\$'000	Sterling US\$'000	US Dollar US\$'000	Sterling US\$'000
Other receivables	-	29	-	-
Cash and cash equivalents	-	56	-	51
Trade payables	(300)	-	-	-
Other financial liabilities	-	(246)	-	(298)
Borrowings	(2,291)	-	-	-

25. Post balance sheet events

a) Significant shareholders

On 23 February 2009, the Company announced that the Company's previous substantial shareholders, Feltown Assets Inc ("Feltown") and Werton Finance SA ("Werton"), who remain committed to the development of CDS' interests in Paraguay, have acquired from Petro Saudi Ltd Inc ("PetroSaudi"), PetroSaudi's entire holding in the Ordinary Shares of the Company. The acquisition was completed on 20th February 2009 and, as a consequence, PetroSaudi no longer has an interest in the Company's issued share capital. Furthermore, Feltown and Werton acquired jointly from PetroSaudi its rights and obligations as lender in relation to two unsecured working capital facilities granted to CDS in July 2008 for US\$2,000,000 and in December 2008 for US\$250,000.

b) Conversion of loans and debts, and issue of equity

On 2 April 2009, the Company announced that Feltown Assets Inc. ("Feltown") and Werton Finance S.A. ("Werton"), substantial shareholders in the Company, have agreed to convert loans and accrued interest of US\$2,321,370 (the "Loans") due to them as of 31 March 2009. The conversion of the Loans involved Felton and Werton subscribing for a total of 16,009,447 new ordinary shares of 10p each ("Ordinary Shares") in the capital of the Company at a conversion price of 10p per share (the "Conversion Price"). Feltown and Werton acquired the Loans on 20 February 2009 together with their equity interests in the Company. The acquired Loans comprised of: (a) \$2,000,000 as a 3 month bridging loan with interest at 5% per annum; and (b) \$250,000 repayable on 29 June 2009 with interest at 10 % per annum. In order to effect the conversion of the Loans, the Company entered into subscription agreements with each of Feltown and Werton to terminate the Loans and allot Ordinary Shares to each of them.

In addition, in connection with the Group's (being CDS and its subsidiaries) exploration programme, two suppliers of services to the Group, Famay Enterprises Corp ("Famay") and Harmattan FZE ("Harmattan"), agreed to convert an aggregate of \$794,674 owed to them by the Group as of 31 March 2009 by subscribing for 2,482,759 and 2,997,752 Ordinary Shares respectively, in both cases at the Conversion Price. The beneficial owners of Feltown and Werton have a beneficial interest in Famay. Famay provides services to the Group on arm's length commercial terms approved by the independent directors.

Whilst the agreed Conversion Price of 10 pence per Ordinary Share was a significant premium to the price at which the Company's Ordinary Shares were trading on the AIM market of the London Stock Exchange plc, the newly issued Ordinary Shares rank pari passu in all respects with existing Ordinary Shares.

26. Contingent liabilities

The Company's subsidiary CDS Energy SA has been notified by the Secretary for the Environment (SEAM) of Paraguay, that it infringed environmental rules whilst performing line clearance for the seismic surveys of the Gabino Mendoza and Boqueron concessions. Legal advice received confirms the Directors' belief that the claim is more of a technical breach and is unlikely to have any significant implications for the Group and is anticipated to be resolved within the next six months. In the event that the Group is found to be liable, it is uncertain at this stage what the penalty might be. The Directors note that in the event of an unfavourable judgement the Group may not be able to recoup any loss from another party.