

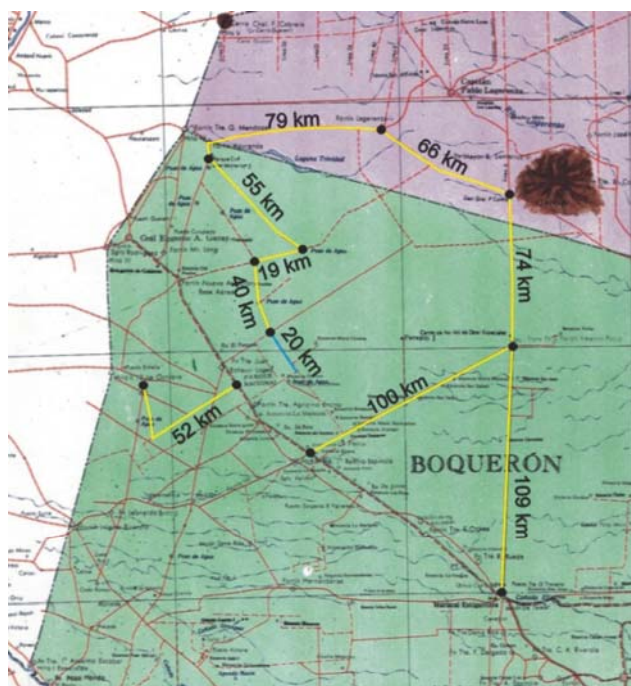
September 2, 2005

### **ACTIVITY UPDATE**

*Extract from the Chief Executive's report to shareholders at the Annual General Meeting in London, 30 August 2005.*

This past year has been one of achievement and progress towards drilling. The highlights of what we have achieved are:

- Digitized and conducted computer analysis of the wells drilled during the period 1947 – 1996 on our properties and expanded and improved our data base.
- Identified 7 leads and 5 prospects of which 5 are ready for drilling. The drilling program will be to drill twin wells at 200 meter distance from existing wells drilled by others in the past.
- Completed a US\$1.25 million financing in September, 2004.
- Contracted drilling rig #426 from Nabors International for drilling.
- Received the Concession Law for the Boqueron Block in May, 2005.
- Completed a £2.56 million pre-IPO financing in April, 2005.
- Completed a pathfinder/prospectus for purposes of completing an IPO and seeking admission to AIM.
- Completed a Competent Persons Report for the pathfinder/prospectus.
- Secured the service companies to support the drilling program.
- Established a logistics base at la Patria, located at the end of the paved highway near the middle of the Boqueron Block.
- Procured well casing sufficient for 5 wells from Chile Brazil and Houston. This is now stored at the logistics base in la Patria.
- Procured well heads in Argentina. They are stored in our warehouse in Asuncion.
- Procured drill bits which arrived from Northern Ireland and Belgium. They are stored in our warehouse in Asuncion.
- Completed 594 km of road improvements necessary to access the drilling sites.
- Completed the drill pad at the Independencia 1 site including cementing in 150m of conductor pipe and constructing the 2m deep drill cellar.
- Completed a new water well and reworked an old Pennzoil water well to provide sufficient water for drilling at the Independencia site.
- Completed environmental studies and received environmental permits to proceed with the planned drilling operations. Baseline environmental studies are ongoing.



- Picadas mejoradas y con mantenimiento
- Picada a ser mejorada

Se han rehabilitados 542 km de picadas con mantenimiento permanente

**Roads (in yellow) which we improved in order to access the drill sites for the proposed 2005 drilling program**



**Drill casing from Houston arriving at the river port in Asuncion, the capital of Asuncion**



**Drill casing being unloaded from the river barge for loading onto trucks and hauling to the logistics base at La Patria at the end of the paved highway, near the center of the Boqueron Block**



**Testing the water well for supplying water to drill the twin well to the Independencia 1 well on the Gabino Mendoza Block**



**The conductor pipe drilled and cemented 150 meters into the ground and the 2m deep drill cellar ready for the drill rig to set up at the twin well to the Independencia 1 well**



**The drill pad cleared and graded, ready for the drill rig and man camp at the Independencia 1 well site on the Gabino Mendoza Block**