

CDS Oil & Gas Group Plc

Report and Financial Statements

Year Ended

31 December 2005

CDS Oil & Gas Group Plc

Annual report and financial statements for the year ended 31 December 2005

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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)
K D Irons (Non-executive)
E A McMaster (Non-executive)
D J Morrison (Senior Vice-President)
G F Peroni (Non-executive)
J G Wade (President and Chief Executive Officer)

Secretary and Registered office

Scrip Secretaries Limited, 17 Hanover Square, London, W1S 1HU

Company number

05061058

Auditors

BDO Stoy Hayward LLP, 8 Baker Street, London, W1U 3LL

Solicitors to the Company

- UK

Stringer Saul LLP, 17 Hanover Square, London W1S 1HU
Blake Cassels and Graydon LLP, 7th Floor, 10 Lloyd's Avenue, London EC3N 3AX

- Paraguay

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

Nominated Adviser and Broker

Insinger de Beaufort, 131 Finsbury Pavement, London EC2A 1NT

Registrars

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

CDS Oil & Gas Group Plc

Chairman's statement

The year under review was notable for two significant events, the admission of the company to the Alternative Investment Market (AIM) of the London Stock Exchange, on 27 September, and the drilling of the company's first well.

Prior to becoming a public company, CDS Oil & Gas Group plc ("CDS" and "the company") raised a net amount of £2.4 million through a placing of ordinary shares in March 2005. It had been the intention to list the company during the second quarter of 2005 but the prevailing market conditions resulted in a deferment until September when a net amount of £1.6 million was raised through a placing and a further £0.5 million was raised through the exercise of warrants, principally from RAB Capital plc. RAB remains the largest shareholder with a holding of 24.49%, whilst the two founders of the group, James Wade and Daniel Morrison, currently control 22.8% and 22.9% respectively.

In March 2005 CDS Energy SA, the company's Paraguayan subsidiary, executed a contract on a drilling rig from Nabors Drilling International Ltd in Bolivia in order to secure its availability such that the drilling of the obligation well on the Gabino Mendoza block could be commenced as soon as financing became available. Notice to mobilise the rig from Bolivia was issued on 23 September and the well was spudded on 24 November. The objective of the well was the Devonian sand sequence believed to be oil bearing from approximately 723 metres down to the planned depth of 1,600 metres. The target sands were encountered at the prognosed depths and minor oil shows were found but the reservoir was too tight to flow under normal conditions and did not therefore warrant testing. Subsequent analysis of the well logs, drill cuttings and sidewall cores does however give further encouragement that the deeper Devonian section between 1,800 metres and 3,240 metres which had already been identified from seismic, petrophysical analysis and geological interpretation is prospective for gas. Upon reaching target depth on 23 December, the well was cased to 1,635 metres and suspended so that it may be re-entered and deepened in order to test the deeper gas potential.

Regrettably mobilisation and demobilisation of the rig was severely hampered, in the company's view, by unnecessary delays and lack of cooperation on the part of the contractor which has resulted in significant cost over-runs. CDS Energy submitted a claim to Nabors amounting to \$1,617,000 and Nabors has subsequently made a counter claim amounting to \$768,000. The matter has now been referred to arbitration in London in accordance with the terms of the drilling contract and the board is confident of a successful outcome to the process.

The loss for the year under review was \$784,000 (2004: \$777,000) which was entirely made up of administrative expenses less interest. Cash outflow before financing amounted to \$8,200,000 (2004: \$1,698,000) of which \$180,000 was spent on tangible assets and \$5,560,000 was expenditure on oil and gas assets, principally the drilling of the Gabino Mendoza well. At year end the cash balance was \$826,000 (2004: \$338,000).

Since the year end the company has raised £800,000 through two convertible loans: £500,000 from Westmount Energy Ltd, an independent energy investment company quoted on AIM, and £300,000 from GMG Trust Ltd, a Geneva based fund management group.

Despite the significant challenges and setbacks which the company has faced in its first few months as a public company, the fundamental investment proposition remains undiminished. CDS holds 7.22 million acres (29,209 sq.km) in the under-explored Chaco basin of Northwest Paraguay which is due East and shares the same stratigraphy at shallower depth as the oil and gas producing areas in Bolivia. Although the first well was disappointing, the two most interesting plays have yet to be drilled: the deep Devonian gas on the Gabino Mendoza block and the shallow Emilia oil type prospects on the Boqueron block. A new independent review of the prospective resources is currently being undertaken and will be made available during the third quarter.

It is the company's intention to raise financing for the continuation of the exploration programme through a further equity placing and through bringing in joint venture partners on the different licences. Professional advisers have been mandated to assist with both of these endeavours.

Finally, I would like to thank my fellow board members, executive directors and the dedicated staff in Asuncion for all their hard work and loyalty to the company. Ed McMaster has decided not to offer himself for re-election as a director at the AGM and I would particularly like to extend the board's thanks to him for his contribution over the past three years.

JWS Bentley
Chairman
29 June 2006

CDS Oil & Gas Group Plc

Report of the directors for the year ended 31 December 2005

The directors present their report together with the audited financial statements for the year ended 31 December 2005.

Results and dividends

The profit and loss account which is set out on page 10 shows a loss for the year. The directors do not recommend the payment of a final ordinary dividend for the period (2004: \$ 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. The subsidiary undertakings principally affecting the profits or net assets of the Group are listed in Note 9 to the accounts.

During March 2005, the company raised approximately £2.5 million (before expenses) through a placing of ordinary share capital. The company increased its shareholding in CDS Energy SA ("CDS Energy"), its Paraguayan subsidiary, from 95.1% to 98.1% by 31 December 2005, and is in the process of acquiring the remaining minority interest.

On 27 September 2005 the company was admitted to the AIM of the London Stock Exchange raising approximately £2.4 million (before expenses) through a placing of ordinary share capital. In addition, in September 2005, certain shareholders exercised warrants for the issue of ordinary share capital raising approximately £0.5 million.

The company has been using these monies to further develop its oil and gas interests in Paraguay. The Group subsidiary company, CDS Energy SA, holds contractual rights in respect of three blocks of property covering 2.9 million hectares in the Chaco region of Paraguay which include:

- The Gabino Mendoza block, covering an area of 40,000 hectares, over which CDS Energy has exploitation rights with a 100% working interest and a 96.5% gross revenue interest;
- The PG & E block which is a prospecting area covering 491,077 hectares in which CDS Energy has a 100% working interest and a 99.4% gross revenue interest;
- The Boqueron block, covering a total area of 2,389,850 hectares in which CDS Energy has prospecting rights and also has exploration rights over a 120,000 hectare portion thereof, and both have 100% working and gross revenue interests.

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

CDS Energy has drilled its first well on the Gabino Mendoza block and, subject to the availability of further funding and/or joint venture participation will seek to develop these properties further during the coming year. Despite delays, which were outside of the Group's control, drilling of the first well commenced on 24 November 2005 and reached its planned depth by 23 December 2005. The technical information derived from this well confirmed the presence of liquid hydrocarbons (although not able to flow unassisted at this level) and has improved the level of confidence of the gas potential at greater depths, meriting, in the company's view, a deepening of the well. Further technical analysis is currently being undertaken by Collarini Associates of Houston, Texas to determine the value of the company's properties. The work conducted thus far has fulfilled the licence obligations for the Gabino Mendoza Block. However, cost over-runs, estimated at approximately \$1.4 million, have been incurred, due principally to delays in equipment mobilisation and de-mobilisation. The company is pursuing its interests in Paraguay, and is in discussions to finance its obligations through a farm-out arrangement and/or, raising additional finance.

CDS Oil & Gas Group Plc

Report of the directors for the year ended 31 December 2005 (Continued)

Directors

The directors of the company during the year and their beneficial interests in the year were as follows:

	Ordinary shares of 1p each	
	31 December 2005	1 January 2005
J W S Bentley (appointed 7 September 2005)	-	-
J Eng (appointed 17 January 2005)	-	-
K D Irons	1,250,000	1,100,000
E A McMaster	200,000	200,000
D J Morrison	48,300,100	51,500,000
G F Peroni	-	-
J G Wade	48,000,100	51,500,000

	Warrants		Number	
	Final exercise date	Exercise price	31 December 2005	1 January 2005
E A McMaster	13 December 2006	US\$0.15	50,000	50,000

	Share options				
	Date of grant	Exercise period	Exercise price	Number of shares	
				31 December 2005	1 January 2005
J W S Bentley	7 September 2005	7 September 2005 to 6 September 2010	£0.10	1,000,000	-
J Eng	17 January 2005	17 January 2005 to 16 January 2010	US\$0.10	250,000	-
	6 April 2005	6 April 2005 to 5 April 2010	£0.10	750,000	-
K D Irons	17 February 2004	17 February 2004 to 16 February 2009	US\$0.10	250,000	250,000
	6 April 2005	6 April 2005 to 5 April 2010	£0.10	750,000	-
E A McMaster	17 February 2004	17 February 2004 to 16 February 2009	US\$0.10	250,000	250,000
	6 April 2005	6 April 2005 to 5 April 2010	£0.10	750,000	-
D J Morrison	6 April 2005	6 April 2005 to 5 April 2010	£0.10	5,500,000	-
G F Peroni	4 October 2004	4 October 2004 to 3 October 2009	US\$0.10	250,000	250,000
	6 April 2005	6 April 2005 to 5 April 2010	£0.10	750,000	-
J G Wade	6 April 2005	6 April 2005 to 5 April 2010	£0.10	5,500,000	-

CDS Oil & Gas Group Plc

Report of the directors for the year ended 31 December 2005 *(Continued)*

Substantial shareholders

Excluding the directors' holdings above, the following parties had interests of greater than 3% of the issued share capital of the company at 23 June 2006:

Credit Suisse Client Nominees (UK) Limited	51,500,000	24.49%
Fund Profit Investment (Nominees) Limited	10,000,000	4.75%
Fitel Nominees Limited	7,000,000	3.33%

Post balance sheet events

On 13 June 2006, the Group announced that its Paraguayan subsidiary, CDS Energy SA, is in the process of applying for arbitration in respect of a dispute with its drilling contractor, Nabors International Limited, whereby CDS Energy SA is claiming approximately \$1,617,000 and Nabors is counter-claiming approximately \$768,000 (see Note 21).

During January and May 2006 the company raised additional funds of about £800,000 through the issue of convertible loans (see Note 22).

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 period end amount to 64 days (2004: 26) of average supplies for the period.

Financial instruments

Details of the use of financial instruments by the company and its subsidiary undertakings are contained in note 20 of the financial statements.

Directors' responsibilities

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

CDS Oil & Gas Group Plc

Report of the directors for the year ended 31 December 2005 *(Continued)*

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

Political and charitable donations.

No political and charitable donations were made during the year (2004: \$ Nil).

Auditors

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

J G Wade

Director

29 June 2006

CDS Oil & Gas Group Plc

Independent Auditor's 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 & Gas Group Plc for the year ended 31 December 2005 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses 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 financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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. We also report to you if, in our opinion, the Directors' Report is not consistent with those financial statements, if 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, and the Chairman's Statement. 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.

CDS Oil & Gas Group Plc

Independent Auditor's Report to the Shareholders of CDS Oil & Gas Group Plc *(continued)*

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 31 December 2005 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2005; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Emphasis of matter – going concern

In forming our opinion, which is not qualified we have considered the adequacy of the disclosures made in note 24 to the financial statements concerning the Group's need to raise further funds in order to continue in operational existence. These conditions indicate the existence of a material uncertainty which may cast significant uncertainty 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 2006

CDS Oil & Gas Group Plc

Consolidated profit and loss account for the year ended 31 December 2005

	Note	2005 \$'000	2004 \$'000
Administrative expenses		(816)	(777)
		<hr/>	<hr/>
Operating loss	2	(816)	(777)
Interest receivable		32	-
		<hr/>	<hr/>
Loss on ordinary activities before and after taxation	5	(784)	(777)
		<hr/>	<hr/>
Loss per ordinary share (cents)			
Basic	6	(0.4)	(0.6)
Diluted	6	(0.4)	(0.6)
		<hr/>	<hr/>

All amounts in these financial statements are denominated in US Dollars.

All amounts relate to continuing activities.

The notes on pages 15 to 31 form part of these financial statements.

CDS Oil & Gas Group Plc

Consolidated statement of total recognised gains and losses and reconciliation of movements in shareholders' funds for the year ended 31 December 2005

	Note	2005 \$'000	2004 \$'000
Statement of total recognised gains and losses			
Loss for the year		(784)	(777)
Exchange differences	15	56	2
		<hr/>	<hr/>
Total recognised losses for the year		(728)	(775)
		<hr/>	<hr/>
Reconciliation of movements in shareholders' funds			
Loss for the year		(784)	(777)
Other recognised gains and losses in the year	15	56	2
New share capital subscribed	14, 15	1,150	899
Share premium	14, 15	7,607	978
Profit and loss reserve movement	15	-	(35)
Other capital reserve movement	15	-	35
Other reserves movement	15	(29)	188
Opening shareholders' funds	15	1,947	657
		<hr/>	<hr/>
Closing shareholders' funds	15	9,947	1,947
		<hr/>	<hr/>

The notes on pages 15 to 31 form part of these financial statements.

CDS Oil & Gas Group Plc**Consolidated balance sheet at 31 December 2005**

	Note	2005 \$'000	2005 \$'000	2004 \$'000	2004 \$'000
Fixed assets					
Intangible assets	7		8,602		1,662
Tangible assets	8		321		142
			<hr/>		<hr/>
			8,923		1,804
Current assets					
Debtors	11	86		92	
Inventory	12	1,743		-	
Cash at bank and in hand		826		338	
		<hr/>		<hr/>	
		2,655		430	
Creditors: amounts falling due within one year	13	(1,621)		(265)	
		<hr/>		<hr/>	
Net current assets			1,034		165
			<hr/>		<hr/>
Total assets less current liabilities			9,957		1,969
			<hr/> <hr/>		<hr/> <hr/>
Capital and reserves					
Called up share capital	14, 15		3,822		2,672
Share premium	15		8,794		1,187
Profit and loss account	15		(1,700)		(972)
Other capital reserve	15		126		126
Other reserves	15		(1,095)		(1,066)
			<hr/>		<hr/>
Shareholders' funds – equity			9,947		1,947
			<hr/>		<hr/>
Minority interest			10		22
			<hr/>		<hr/>
Net assets			9,957		1,969
			<hr/> <hr/>		<hr/> <hr/>

The financial statements were approved by the Board on 29 June 2006 and authorised for issue on 29 June 2006

J G Wade
Director

K D Irons
Director

The notes on pages 15 to 31 form part of these financial statements.

CDS Oil & Gas Group Plc

Company balance sheet at 31 December 2005

	Note	2005 \$'000	2004 \$'000
Fixed assets			
Investments	9	2,270	2,209
Current assets			
Debtors - due within one year	11	22	-
- due after more than one year	11	9,590	1,650
Cash		86	-
		<u>9,698</u>	<u>1,650</u>
Current liabilities			
Creditors	13	(138)	-
		<u>9,560</u>	<u>1,650</u>
Net current assets			
		<u>9,560</u>	<u>1,650</u>
Total assets less current liabilities		<u>11,830</u>	<u>3,859</u>
Capital and reserves			
Called up share capital	14	3,822	2,672
Share premium	15	8,794	1,187
Profit and loss account	15	(912)	(126)
Other capital reserve	15	126	126
		<u>11,830</u>	<u>3,859</u>
Shareholders' funds - equity		<u>11,830</u>	<u>3,859</u>

The financial statements were approved by the Board on 29 June 2006 and authorised for issue on 29 June 2006

J G Wade
Director

K D Irons
Director

The notes on pages 15 to 31 form part of these financial statements.

CDS Oil & Gas Group Plc**Consolidated cash flow statement for the year ended 31 December 2005**

	Note	2005 \$'000	2005 \$'000	2004 \$'000	2004 \$'000
Net cash outflow from operating activities	16		(2,492)		(552)
Returns on investments and servicing of finance					
Interest received			32		-
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(180)		(69)	
Purchase of intangible fixed assets		(5,560)		(1,077)	
			(5,740)		(1,146)
Cash outflow before financing			(8,200)		(1,698)
Financing					
Issues of ordinary shares for cash (net of issue costs)			7,718		1,930
Exercise of warrants			970		-
Increase in cash	17		488		232

The notes on pages 15 to 31 form part of these financial statements.

CDS Oil & Gas Group Plc

Notes forming part of the financial statements for the year ended 31 December 2005

1 Accounting policies

Accounting convention

The accounts have been prepared under the historical cost convention and in accordance with applicable UK accounting standards and the Statement of Recommended Practice ("SORP") "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities" issued by the Oil Industry Accounting Committee. The accounts, including disclosures, have been prepared in accordance with the provisions of the SORP currently in effect.

Changes in accounting policies

The Group has adopted FRS 21: Events after the balance sheet date, FRS 22: Earnings per share, the presentation component of FRS 25: Financial instruments: Disclosure and presentation and FRS 28: Corresponding amounts in financial statements. The adoption of these standards however, did not necessitate this year's or the comparative year's figures to be restated.

The following principal accounting policies have been applied:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of CDS Oil & Gas Group Plc and all its subsidiary undertakings throughout the year ended 31 December 2005. The results of subsidiaries are included from the date of acquisition, using the merger method of accounting or the acquisition method of accounting as appropriate. Where the acquisition method of accounting has been used, the results of subsidiary undertakings are included from the date of acquisition.

Merger accounting

Where merger accounting is used, the investment is recorded in the company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration paid.

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

Investments

Investments held as fixed assets are stated at cost less any provision for impairment in value. In relation to acquisitions, where advantage can be taken of the merger relief rules, shares issued as consideration for acquisitions are accounted for at nominal value.

Oil and gas projects

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

CDS Oil & Gas Group Plc

Notes forming part of the financial statements for the year ended 31 December 2005

1 Accounting policies *(continued)*

and development of oil and gas assets, including direct overheads are capitalised and accumulated in full cost pools on a geographic basis. Currently the Group has only non-production oil and gas projects.

Non-production oil and gas projects

Expenditure in this category of oil and gas projects has been included on the balance sheet under intangible assets. Expenditure incurred on non-production assets is transferred to tangible assets once a decision has been made as to the commercial development of a field or property. 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.

Impairment policy

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

Joint arrangements

The group has several joint arrangements. In accordance with Financial Reporting Standard 9 "Associates and Joint Ventures" (FRS9), these are considered to be "Joint Arrangements not an entity". Accordingly, the group accounts for its own assets, liabilities and cash flows in accordance with the terms in the agreements.

Decommissioning costs

Provisions for decommissioning costs are recognised in full at the commencement of oil and gas production, or when the assets are first acquired, if later. The amount recognised is the present value of the estimated future expenditure. A corresponding tangible fixed asset is also created at an amount equal to the provision. This is subsequently amortised as part of the capital costs of the production facilities. Any change in the present value of the estimated expenditure is reflected as an adjustment to the fixed asset.

Depreciation

Depreciation is provided at rates calculated to write off the cost less residual value of each tangible asset over its expected useful life as follows:

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

CDS Oil & Gas Group Plc

Notes forming part of the financial statements for the year ended 31 December 2005 *(continued)*

1 Accounting policies *(continued)*

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are not discounted.

Share based employee remuneration

When shares and share options are awarded to employees a charge is made to the profit and loss account based on the difference between the market value of the company's shares as at the date of grant and the option exercise price in accordance with UITF Abstract 17 (Revised 2004) "Employee Share Schemes".

Share based payments for non employee services

Where share based payments are made to non employees in respect of services, a charge is made to the profit and loss account, or share premium account, in respect of the fair value of the services received, in accordance with FRS 4 "Capital instruments".

Operating leases

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

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Any differences are taken to the profit and loss account. Results of overseas subsidiaries are translated using the average rate and their balance sheets at the year end rate. The exchange differences arising from the retranslation of the opening net assets and results of foreign subsidiaries are taken directly to reserves. Where exchange differences result from the translation of foreign currency borrowings raised to acquire foreign assets (including equity investments), they are taken to reserves and offset against the differences arising from the translation of those assets. All other exchange differences are dealt with through the profit and loss account.

Inventory

Inventory, which consists of tools and equipment for exploration and development, spare parts, and various consumables, are valued at the lower of cost and net realisable value.

Financial instruments

In relation to the disclosures made in note 20:

- short term debtors and creditors are not treated for disclosure purposes as financial assets or financial liabilities except for the currency disclosures; and
- the group does not hold or issue derivative financial instruments for trading purposes.

CDS Oil & Gas Group Plc

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

2 Operating loss

	2005	2004
	\$'000	\$'000
This is stated after charging/(crediting):		
Auditor's remuneration		
- Audit	83	61
- Other	3	-
	<u> </u>	<u> </u>

In addition, \$91,507 was charged against the share premium account in respect of Reporting Accountant fees paid to BDO Stoy Hayward LLP on the AIM flotation of the Company.

Fees of \$8,000 paid in respect of the Paraguayan subsidiary, CDS Energy SA, have been capitalised.

Currently, the Group's sole business segment is oil and gas exploration in Paraguay.

3 Employees

	2005	2004
	\$'000	\$'000
Staff costs (excluding directors) consist of:		
Wages and salaries	232	58
Social security costs	2	2
	<u> </u>	<u> </u>
	<u>234</u>	<u>60</u>

All staff costs have been capitalised within intangible assets.

The average number of employees, including directors, during the year was 17 (2004 - 10).

CDS Oil & Gas Group Plc

Notes forming part of the financial statements for the year ended 31 December 2005 (Continued)

4 Directors

	2005	2004
	\$'000	\$'000
Directors' remuneration consists of:		
Fees and emoluments for management services (including amounts paid to third parties)	413	232

No directors received contributions to their defined contribution pension schemes in the year (2004 - Nil).

The amounts set out above include remuneration of \$133,308 in respect of each of the 2 highest paid directors.

The services of J G Wade as President and Chief Executive Officer of the company are provided through a contract with Kintyre Corporation. The agreement became effective from 27 September 2005 and Kintyre is entitled to fees of £114,000 per annum for these services of which approximately £11,000 remains unpaid.

The services of D Morrison as Vice President and a Director of the company are provided through a contract with Tridanel SA. The agreement became effective from 27 September 2005 and Tridanel is entitled to fees of £114,000 per annum for these services of which approximately £11,000 remains unpaid.

The Non-executive Chairman is entitled to fees of £30,000 per annum, and the other Non-executive Directors are entitled to fees of £1,000 per annum each from date of appointment. In addition, the other Non-executive Directors are entitled to fees for their professional services at determined rates in accordance with their respective consultancy agreements.

CDS Oil & Gas Group Plc

Notes forming part of the financial statements for the year ended 31 December 2005 (Continued)

5 Taxation on loss from ordinary activities

(a) Factors affecting taxation

The tax for the period is different from the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2005 \$'000	2004 \$'000
Loss on ordinary activities before tax	784	777
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2004 - 30%)	235	233
Effects of:		
Expenses not deductible for tax purposes	(3)	(31)
Losses carried forward	(232)	(202)
Current tax for period	-	-

(b) Factors that may affect future tax charges

The UK group has trading losses of approximately \$1,558,000 that are available indefinitely for offset against future taxable profits. Deferred tax assets have not been recognised in respect of these allowances as they may not be used to offset taxable profits for some time. The approximate undiscounted value of this unrecognised deferred tax asset for the group is \$460,000.

In addition the company's Paraguayan subsidiary has tax losses of approximately \$22,000 that can be carried forward up to 2006. The approximate value of this unrecognised tax asset to the group is \$2,000.

6 Loss per share

Basic and diluted loss per share has been calculated on the basis of losses after taxation of \$784,000 (2004 - \$777,000) and 177,655,969 1p ordinary shares (2004 - 123,046,000 1p ordinary shares), being the weighted average number of shares in issue during the year to 31 December 2005.

The effect of all potential ordinary shares is anti-dilutive.

CDS Oil & Gas Group Plc

Notes forming part of the financial statements for the year ended 31 December 2005 (Continued)

7 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.

Group	2005 \$'000	2004 \$'000
<i>Cost</i>		
At 1 January	1,662	538
Additions	6,940	1,124
	<hr/>	<hr/>
At 31 December	8,602	1,662
	<hr/>	<hr/>

The company had no intangible fixed assets.

8 Tangible assets

Group	Fixtures, and Fittings \$'000	Motor Vehicles \$'000	Computer Equipment \$'000	Total \$'000
<i>Cost or valuation</i>				
At 1 January 2005	25	133	6	164
Additions	63	113	11	187
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2005	88	246	17	351
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At 1 January 2005	5	16	1	22
Charge for the period	(1)	6	3	8
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2005	4	22	4	30
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 December 2005	84	224	13	321
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	20	117	5	142
	<hr/>	<hr/>	<hr/>	<hr/>

The company had no tangible fixed assets.

CDS Oil & Gas Group Plc

Notes forming part of the financial statements for the year ended 31 December 2005 (Continued)

9 Fixed asset investments

Company	Group undertakings \$'000
<i>Cost and net book value</i>	
As at 31 December 2004	2,209
Addition	61
As at 31 December 2005	2,270

The following were subsidiary undertakings at the end of each period and have been included in the consolidated financial information:

Name	voting rights and country of incorporation or registration	proportion of ordinary share capital held	Nature of business
CDS Oil & Gas Limited	United Kingdom	100%	Holding company
C.D.S. Energy S.A.	Paraguay	98.1%	Oil and gas exploration

During the year the company acquired 3% of CDS Energy SA in a share for share exchange, increasing its direct holding to 11.5% with 86.6% held indirectly through CDS Oil & Gas Limited

10 Loss for the financial year

The company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The group loss for the period includes a loss after tax of \$786,000 (2004: \$Nil) which is dealt with in the financial statements of the parent company.

11 Debtors

	Group 2005 \$'000	Group 2004 \$'000	Company 2005 \$'000	Company 2004 \$'000
Other debtors (falling due within one year)	86	92	22	-
Amounts owed by group undertakings (falling due after more than one year)	-	-	9,590	1,650

12 Inventory

	Group 2005 \$'000	Group 2004 \$'000	Company 2005 \$'000	Company 2004 \$'000
Inventory of tools and equipment, spare parts and various consumables	1,743	-	-	-

CDS Oil & Gas Group Plc

Notes forming part of the financial statements for the year ended 31 December 2005 (Continued)

13 Creditors: amounts falling due within one year

	Group 2005 \$'000	Group 2004 \$'000	Company 2005 \$'000	Company 2004 \$'000
Trade creditors	1,463	208	-	-
Other creditors and accruals	138	57	138	-
Taxation and Social Security	20	-	-	-
	<u>1,621</u>	<u>265</u>	<u>138</u>	<u>-</u>

14 Share capital

	Authorised Number	\$'000
Ordinary shares of 1p each (Approximately 1.9c each)	500,000,000	9,447

Allotted, called up and fully paid					
Date	Purpose	Number of shares	Issue price	Share capital \$'000	Share premium \$'000
1 January 2005	In issue	147,100,200		2,672	1,187
28 February to 11 April 2005	Private placing	25,415,000	£0.10	463	4,073
6 April 2005	Payment for services	150,000	£0.10	3	25
1 January 2005 to 25 April 2005	Acquisition of CDS Energy SA shares	3,400,000	£0.01	61	-
10 May 2005	Payment for services	155,000	£0.10	3	25
21 September 2005	Exercise of warrants	9,300,000	\$0.10	169	760
27 September 2005	Placing	24,250,000	£0.10	441	3,972
2 November 2005	Exercise of warrants	400,000	\$0.10	7	33
2 November 2005	Payment for services	150,000	£0.10	3	25
1 January 2005 to 31 December 2005	Issue expenses during the year				(1,306)
31 December 2005	In issue	210,320,200		3,822	8,794

CDS Oil & Gas Group Plc

Notes forming part of the financial statements for the year ended 31 December 2005 (Continued)

14 Share capital (Continued)

The company was incorporated on 2 March 2004 with issued share capital of 2 ordinary shares of 1p each.

On 31 March 2004, the company issued 112,000,198 shares and exchanged them on a one-for-one basis to acquire the entire share capital of CDS Oil & Gas Limited.

Between 1 April 2004 and 31 December 2004, the company issued 24,550,000 shares for a total consideration of \$1,555,000. The company also issued 850,000 as consideration for the acquisition of motor vehicles with a value of \$85,000. In addition, and 100,000 shares and 50,000 warrants were issued in payment of invoices for services received with a total value of \$10,000.

On 1 September 2004, the company made an open offer of a one-for-one exchange of shares in the company to all remaining holders of bearer shares in C.D.S. Energy S.A. At the time the offer was made there were 15,200,000 outstanding bearer shares in C.D.S. Energy S.A. and by 31 December 2004 9,600,000 shares had been submitted in exchange for shares in the company. The total number of issued shares in the company at 31 December 2004 was 147,100,200.

Warrants

At 31 December 2005 the following 66,370,251 warrants were outstanding in respect of ordinary shares:

Final exercise date	Exercise price	31 December 2005			31 December 2004
		Outstanding	Transferred	Granted / (Exercised)	
31 December 2005	US\$0.10	-	(22,300,000)	(9,700,000)	32,000,000
30 June 2006	US\$0.10	2,700,000	2,700,000	-	-
6 November 2006	£0.12	1,091,400	-	1,091,400	-
8 November 2006	US\$0.15	275,000	-	-	275,000
18 November 2006	US\$0.15	-	(1,000,000)	-	1,000,000
22 November 2006	US\$0.15	-	(1,000,000)	-	1,000,000
13 December 2006	US\$0.15	50,000	-	-	50,000
26 December 2006	US\$0.15	-	(1,000,000)	-	1,000,000
28 February 2007	£0.12	25,415,000	-	25,415,000	-
31 March 2007	US\$0.10	22,600,000	22,600,000	-	-
31 March 2007	£0.12	13,190,000	-	13,190,000	-
21 September 2010	£0.12	1,048,851	-	1,048,851	-

CDS Oil & Gas Group Plc

Notes forming part of the financial statements for the year ended 31 December 2005 (Continued)

14 Share capital (Continued)

Share options

At 31 December 2005 the following 17,125,000 options were outstanding in respect of ordinary shares:

Option holder	Date of grant	Number of shares	Exercise period	Exercise price
Directors	17 February 2004	500,000	17 February 2004 to 16 February 2009	\$0.10
Directors	4 October 2004	250,000	4 October 2004 to 3 October 2009	\$0.10
Directors	17 January 2005	250,000	17 January 2005 to 16 January 2010	\$0.10
Directors	6 April 2005	14,000,000	6 April 2005 to 5 April 2010	£0.10
Directors	7 September 2005	1,000,000	7 September 2005 to 6 September 2010	£0.10
Consultants	17 February 2004	750,000	17 February 2004 to 16 February 2009	\$0.10
Staff	26 October 2005	375,000	26 October 2005 to 25 October 2010	£0.10

No options were exercised during the year.

CDS Oil & Gas Group Plc

Notes forming part of the financial statements for the year ended 31 December 2005 (Continued)

15 Capital and reserves

Group	Share Capital	Share premium	Other capital reserve	Other reserves	Profit and loss account	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2004	1,773	209	91	(1,256)	(160)	657
Issued shares	899	978	-	-	1,877	
Loss for year	-	-	-	-	(777)	(777)
Exchange differences recognised in year	-	-	-	2	-	2
Retranslation of share capital and share premium	-	-	35	-	(35)	-
Other reserves	-	-	-	188	-	188
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	2,672	1,187	126	(1,066)	(972)	1,947
Issued shares	1,150	7,607	-	-	-	8,757
Loss for the year	-	-	-	-	(784)	(784)
Exchange differences recognised in the year	-	-	-	-	56	56
Other reserves	-	-	-	(29)	-	(29)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2005	3,822	8,794	126	(1,095)	(1,700)	9,947

CDS Oil & Gas Group Plc

Notes forming part of the financial statements for the year ended 31 December 2005 (Continued)

15 Capital and reserves (continued)

Company	Share Capital	Share premium	Other capital reserve	Other reserves	Profit and loss account	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 2 March 2004	-	-	-	-	-	-
Issued shares	2,672	1,187	-	-	-	3,859
Loss for year	-	-	-	-	-	-
Retranslation of share capital and share premium	-	-	126	-	(126)	-
At 31 December 2004	2,672	1,187	126	-	(126)	3,859
Issued shares	1,150	7,607	-	-	-	8,757
Loss for the year	-	-	-	-	(786)	(786)
At 31 December 2005	3,822	8,794	126	-	(912)	11,830

16 Reconciliation of operating loss to net cash outflow from operating activities

	2005 \$'000	2004 \$'000
Operating loss	(816)	(777)
Shares based payments for professional services received	27	10
Decrease / (Increase) in debtors	8	(33)
(Increase in inventory)	(1,743)	-
Increase in creditors	32	248
Net cash outflow from operating activities	(2,492)	(552)

CDS Oil & Gas Group Plc

Notes forming part of the financial statements for the year ended 31 December 2005 (Continued)

17 Reconciliation of net cash outflow to movement in net funds

	2005 \$'000	2004 \$'000
Increase in cash in the year	488	232
Exchange differences	-	2
	<hr/>	<hr/>
Movements in net funds in the year	488	234
Net funds at beginning of year	338	104
	<hr/>	<hr/>
Net funds at end of year (note 18)	826	338
	<hr/>	<hr/>

18 Analysis of net funds

	At 1 January 2005 \$'000	Cash flow \$'000	At 31 December 2005 \$'000
Cash in hand and at bank	338	488	826
	<hr/>	<hr/>	<hr/>
Net funds	338	488	826
	<hr/>	<hr/>	<hr/>

19 Significant non-cash transactions

1) 3,400,000 ordinary shares were issued to CDS Energy SA shareholders in exchange for shares representing 3% of CDS Energy SA.

2) 150,000 ordinary shares were issued to Southington Associates (a company in which director K D Irons has an interest) as consideration for services rendered with a total value of £15,000 (\$27,000).

3) 155,000 ordinary shares were issued to N McLoughlin as consideration for services rendered in respect of shareholder introduction fees, with a total value of £15,500 (\$28,000).

4) 150,000 ordinary shares were issued to Bayside Associates following the exercise of warrants which were provided as consideration for services rendered in respect of shareholder introduction fees with a total value of £15,000 (\$27,000).

CDS Oil & Gas Group Plc

Notes forming part of the financial statements for the year ended 31 December 2005 (Continued)

20 Financial Instruments

The group's financial instruments during each period comprised a mixture of cash at bank, and various items such as debtors and creditors that arise directly from its operation. The group does not hold any derivative financial instruments and does not trade in financial instruments. The group has bank accounts denominated in British pounds, US dollars and Paraguayan guarani. The main future risks arising from the group's financial instruments are currency and liquidity risks. The Group has taken advantage of the exemption in FRS 13 "Derivatives and other financial instruments" in respect of disclosure for short-term debtors and creditors and consequently those items are not included in the relevant analysis within the following notes, other than the currency risk disclosures.

Currency risk

The Group has no formal policy in respect of foreign exchange risk; however, it does review its currency exposures on an ad hoc basis. Currency exposures relating to monetary assets held by foreign operations are included within the Group profit and loss account. The main functional currency of the group is US dollars. The following analysis of net monetary assets and liabilities shows the group's currency exposures. Exposures comprise the monetary assets and liabilities of the group that are not denominated in the functional currency of operations.

	Net foreign currency monetary asset / (liability)			
	2005		2004	
	\$000		\$000	
	GBP	PYG	GBP	PYG
<i>Material functional currency of group operations</i>	367	9	15	(27)

Liquidity risk

The Group holds short-term deposits as a liquid resource to fund the projects of the Group. The Group's strategy for managing cash is to maximise interest income whilst ensuring its availability to match the profile of the Group's expenditure. As regards liquidity, the group's objective throughout each period has been to ensure continuity of funding. Operations to date have primarily been financed through the issue of share capital.

Fair values of financial instruments

There is no material difference between the book value and fair value of financial assets and liabilities.

CDS Oil & Gas Group Plc

Notes forming part of the financial statements for the year ended 31 December 2005 *(Continued)*

21 Contingencies

The Group's Paraguayan subsidiary, CDS Energy SA ("SA") is currently involved in a dispute over additional costs, caused by delays, with its drilling contractor, Nabors Drilling International Limited ("Nabors"). SA contends that an unreasonable amount of time was taken to move the drilling rig to site and that the rig was neither in a good state of repair nor working order, on arrival, to enable the commencement and completion of drilling operations as planned. Furthermore, despite having paid Nabors \$50,000 fee and a \$300,000 prepayment, Nabors were completely uncooperative in the SA's endeavours to mitigate any further delays & costs and SA hired third parties to carry out the demobilisation, which ultimately extended into March 2006, at an additional cost of about \$280,000. These delays caused significant cost over-runs and damages of approximately \$1,617,000 which SA claimed from Nabors on 15 May, 2006.

Nabors Corporate Services Inc., on behalf of Nabors, in their 1 June, 2006 letter, refuted SA's claims and counter claimed approximately \$768,000 (primarily under the "force majeure" clauses of the contract) plus interest, citing that SA failed, for example "...to provide adequate access to the drilling site; ...to provide a sound location for drilling operations;...to timely provide transportation for mobilisation and demobilisation; and...to pay undisputed amounts when due and owing".

In the circumstances, as notified to Nabors on 7 June, 2006, SA decided to go to arbitration, in accordance with the provisions of the drilling contract, under the rules of the International Chamber of Commerce.

The Group has made no provision for the recovery of the \$1,617,000 (which, under the Group's accounting policy, would reduce the balance sheet carrying value of its investment in oil & gas projects described as intangible assets) nor has it provided for the potential liability of \$768,000 which, if Nabors claim was successful, would be added to the balance sheet cost of investment in oil & gas projects.

22 Post balance sheet events

During January 2006, the company raised £0.5 million (\$880,000) through a convertible loan, repayable by 29 December 2006, but the holder has the option, at any time, to convert the loan into ordinary share capital of up to 5,000,000 shares at £0.10 per share. The holder has also been issued with warrants, in exchange for an interest waiver, to subscribe for a further number of ordinary shares at £0.10 per share. If the rights are not exercised, then the loan and interest convert into ordinary shares at the repayment date, at an average market price. The company intends to use these monies to further develop its oil and gas interests in Paraguay.

During May 2006, the company raised £0.3 million (\$560,000) through a convertible loan, repayable by 31 December 2006, but the holder has the option, at any time, to convert the loan into ordinary share capital of up to 3,000,000 shares at £0.10 per share. The holder has also been issued with warrants, in exchange for an interest waiver, to subscribe for a further number of ordinary shares at £0.10 per share. If the rights are not exercised, then the loan and interest convert into ordinary shares at £0.06 per share at the repayment date. The company intends to use these monies to further develop its oil and gas interests in Paraguay.

CDS Oil & Gas Group Plc

Notes forming part of the financial statements for the year ended 31 December 2005 *(Continued)*

23 Related party transactions

The Group has taken advantage of the exemption conferred by Financial Reporting Standard 8 "Related party disclosures" not to disclose transactions with other members of the Group on the grounds that at least 90% of the voting rights of subsidiaries are controlled within the Group and all subsidiaries are included in this Company's consolidated financial statements.

At 31 December 2005, the Group had advanced \$16,000 (2004 - \$34,000) to J G Wade and \$2,000 (2004 - \$8,000), to D Morrison. These amounts are an advance against travelling expenses and will be recovered against out of pocket travelling expenses incurred by J G Wade and D Morrison.

During the year ended 31 December 2005 the Group paid \$80,000 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.

24 Going concern

The Group currently has insufficient funds available to meet its expenditure projections. Accordingly the Group needs to raise further funds to continue in operational existence.

Based on indications received from potential investors and interest expressed by other oil and gas companies in the possibility of joint venturing with the Group in its oil and gas properties, the directors are confident that sufficient funds will become available to the Group.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Notice of Meeting

Notice is hereby given that the Annual General Meeting of CDS Oil & Gas Group plc (the "Company") will be held on 27 July 2006 at Fifth Floor, 17 Hanover Square, London W1S 1HU at 11:00 am for the purposes of transacting the following business:-

Ordinary business

To consider and, if thought fit, to pass the following resolutions which will be proposed as Ordinary Resolutions: -

- 1 To receive and adopt the Report of the Directors and the Audited Accounts for the year ended 31 December 2005.
- 2 To re-elect as a Director, James Gordon Wade, who retires in accordance with Article 101 of the Articles of Association of the Company, and is eligible for re-election.
- 3 To re-elect as a Director, Daniel James Morrison, who retires in accordance with Article 101 of the Articles of Association of the Company, and is eligible for re-election.
- 4 To re-elect as a Director, Jeremy Eng, who retires in accordance with Article 101 of the Articles of Association of the Company, and is eligible for re-election.
- 5 To re-elect as a Director, John William Sharp Bentley, who retires in accordance with Article 107 of the Articles of Association of the Company, and is eligible for re-election..
- 6 To appoint BDO Stoy Hayward LLP as auditors of the Company to hold office until the conclusion of the next general meeting at which the accounts are laid before the Company, and to authorise the Directors to fix their remuneration.

Special business

To consider and, if thought fit, to pass the following resolutions, of which resolutions 7 and 8 will be proposed as ordinary resolutions and resolution 9 as a special resolution: -

- 7 To increase the authorised share capital of the Company from £5,000,000 to £7,500,000 by the creation of an additional 250,000,000 ordinary shares of 1p each, with each ranking pari passu in all respects with the existing ordinary shares of 1p each in the capital of the company.
- 8 That the Directors be and they are hereby generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 (the "Act") to allot relevant securities (within the meaning of section 80 of the Act) up to an aggregate nominal amount of £2,500,000 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the next following annual general meeting of the Company after the date on which this resolution is passed. The authority granted by this resolution shall include the authority to make an offer or agreement which would or might require relevant securities to be allotted after the expiry of the relevant authority and the directors may allot relevant securities pursuant to that offer or agreement as if the relevant authority had not expired. The authority granted by this resolution shall be in substitution for any other authority to allot relevant securities previously granted but shall be without prejudice to the continuing authority of the directors to allot relevant securities in pursuance of an offer or agreement made before the expiry of the authority pursuant to which such offer or agreement was made.
- 9 That the Directors be empowered to allot for cash equity securities (as defined for the purposes of Section 89 of the Act) pursuant to the general authority conferred on them under section 80 of the Act as if section 89(1) of the Act did not apply to the allotment but this power shall be limited: -

- 9.1 to the allotment of equity securities, whether by way of rights issue, open offer or otherwise, to holders of ordinary shares and to holders of other securities in the Company that by their terms are entitled to participate in such rights issue, open offer or otherwise in such a manner that the number of equity securities allotted to them is in proportion (as nearly as may be) to their respective holdings of such securities or in accordance with the rights attached thereto. The Directors may deal as they see fit with fractional entitlements, overseas shareholders and with the legal or practical problems or requirements of any regulatory body or stock exchange, in any territory;
- 9.2 to the allotment of equity securities pursuant to the terms of any share scheme for employees approved by the Company in general meeting;
- 9.3 (otherwise than pursuant to paragraphs 9.1 and 9.2 above) up to an aggregate nominal amount of £2,500,000 pursuant to a proposed issue of shares and warrants by the Company to raise up to £7,000,000;
- 9.4 (otherwise than pursuant to subparagraphs 9.1, 9.2 and 9.3 above) to the allotment or sale of equity securities up to an aggregate nominal amount of £2,500,000.

The powers granted by this resolution above shall unless previously renewed, varied or revoked by the Company in general meeting, expire at the conclusion of the next following annual general meeting of the Company after the date on which this resolution is passed save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired. The powers granted by this resolution shall be in substitution for all such powers previously given but shall be without prejudice to the continuing power of the directors to allot equity securities pursuant to an offer or agreement made by the Company before the expiry of the power pursuant to which such offer or agreement was made.

BY ORDER OF THE BOARD

Registered Office:
17 Hanover Square
London W1S 1HU

29 June, 2006
Scrip Secretaries Limited
Company Secretary

NOTES:

1 A Form of Proxy is enclosed for your use.

2 A member of the Company entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company. The form of proxy may be returned to the Company's registrar, Computershare Investor Services Plc PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH in hard copy form by post or courier or by hand. In each case, the proxy appointment must be received not less than 48 hours before the time for the holding of the meeting or adjourned meeting together with any authority (or a notarially certified copy of such authority) under which it is signed.

4 Completion of a Form of Proxy will not preclude a member from attending and voting in person at the meeting should he/she so wish.

5 There will be available for inspection at the registered office of the Company, during usual business hours on any weekday (Saturday and public holidays excepted) from the date of this notice until the date of the meeting and at the place of the meeting for 15 minutes prior to and during the meeting, a copy of the amended Rules.