CDS Oil & Gas Group plc

1 Frederick's Place, Old Jewry
London EC2R 8AE
Tel: 020 7367 8873
Fax: 020 7367 8899

NEWS RELEASE

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CDS Oil & Gas Group plc

Report for the six months ended 30 June 2006

Chairman's review

CDS Oil & Gas Group plc was admitted to trading on AIM on 17 September. This report therefore covers the six-month period from 1 January to 30 June 2006. CDS's activities are focused on exploring several potential oil and gas plays in the Chaco Basin in western Paraguay.

The loss for the six months under review was $519,000 (2005: $469,000) which was entirely made up of administrative expenses less interest. Cash outflow before financing amounted to $1,821,000, (2004: $3,312,000) of which $1,461,000 (2005: $2,700,000) was capital expenditure, principally the drilling of the Gabino Mendoza well. At end of June the cash balance was $453,000 (2005: $1,514,000).

Under the terms of the joint-venture agreement on the Gabino Mendoza block CDS had an obligation to drill a well before the end of 2005. The well reached a planned depth of 1,635 meters and was cased and suspended for testing or deepening at a later date. The initial objective of the well was a potential oil-bearing zone between 705 metres and 1,600 metres. Analysis to date by CDS of the technical information derived from the well, confirms that hydrocarbons were found within several zones, although reservoir qualities are lower than required to be able to flow oil unassisted. CDS believes that the results from this well have improved the level of confidence of the gas potential at depth on the Gabino Mendoza Block and merits a deepening of the well.

The drilling of this well fulfilled the Company's work obligation on the Gabino Mendoza Block although CDS has stated that at a later date it intends to continue to drill the well to 3,250 metres to test for gas.

However, cost over runs, estimated at approximately $1.4 million, were incurred, due principally to problems with the contractor. CDS Energy has submitted a claim to Nabors Drilling International ("Nabors") for the extra costs involved, amounting to $1,617,000, and Nabors has made a counter claim. The matter has now been referred to arbitration in London.

CDS Energy still has some residual debts arising from the cost over-runs on the drilling of the Independencia 3 well on the Gabino Mendoza block. Apart from the disputed claim of $768,000 from Nabors, which was reported to shareholders in the annual report dated 29 June 2006, CDS

Energy has liabilities amounting to about $892,000 to contractors who provided services for the drilling of the Independencia 3 well, and other creditors. The Directors intend to advance sufficient funds to clear these debts as soon as new funds are available.

At the time of the Company's admission to AIM it raised equity funding of a total of £1.68 million, net of expenses. While this was originally considered adequate for the Company's planned activities, the cost over-runs referred to previously have severely reduced the Company's cash resources. In an effort to ameliorate the position, the Company 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. Full details of these arrangements were contained in announcements published on 19 January 2006 and 15 May 2006 respectively.

Despite the significant challenges and setbacks which the Company has faced in its first year as a listed company, the fundamental investment proposition remains undiminished. CDS holds prospecting rights over a very large area of the under-explored Chaco basin of Northwest Paraguay which is due east of, and shares the same stratigraphy at shallower depth as, the oil and gas producing areas in Bolivia. The two most interesting plays have yet to be drilled by CDS - the Carboniferous oil on the Boqueron block and the deep Devonian gas on the Gabino Mendoza block.

CDS Energy will continue to select exploration lots in the Boqueron Block amounting to a total of 800,000 hectares prior to May 2007, as required by the terms of the Concession. This new exploration area is extensive and contains the primary area of interest to CDS and its best ranked leads in the Block.

Rather than follow the strategy of drilling further wells with 100% working interest, as stated in the AIM Admission document, it is now the intention to bring in joint venture partners on the different licences to provide majority funding and to spread the risk for CDS shareholders. Professional advisers have been retained to assist with these endeavours and the Company has had initial discussions with several parties, but these are at an early stage and no definitive agreements have yet been reached. Nor can any guarantee be given that such discussions will have a positive outcome.

A study of the Independencia gas prospect and the Emilia oil prospect has been undertaken by Collarini Associates of Houston, Texas, to update the extent of each target and its potential productivity. The draft results of this review indicate in the case of Independencia the expected resource potential in the immediate area of the Independencia #1 well is estimated at 216 BCF in place or 140 BCF recoverable.

Although several prospects exist in the Boqueron Concession only the Emilia was studied by Collarini who have concluded that the reservoir is potentially more productive than originally thought. However, due to the lack of data at this stage they can only map a restricted area and accordingly the prospective resources at Emilia are estimated at 27.0 MMBbl in place or 6.4 MMBbl recoverable.

It is especially difficult to quantify resource potential in frontier plays of this type. The initial Scott Pickford report, which focused on the broader potential of the basin, based its analysis at the Emilia prospect from two seismic lines and the data from an earlier well.

Collarini's results using the same basic data and a more rigorous engineering-based and industry standard approach have derived a risked resource with a potentially more productive reservoir over a smaller area. For example, at Emilia, the Scott Pickford report indicated 12 MBO per acre of mean recoverable reserves while the Collarini report indicates 18 MBO per acre of mean recoverable for the same reservoir, greatly improving the possible recoverable oil in place.

The Collarini methodology is accepted internationally to be more accurate in modeling the reservoir capability and gives validity to the productive qualities of the reservoir both at Emilia for oil and at Independencia for gas. But, it also indicates that more work needs to be done for CDS to be able to understand more fully the lateral extent or trap for each case.

This report will be completed during the next month and will be made available to shareholders as soon as practicable. A resource update will be announced at that time in accordance with the "Guidance note for mining, oil and gas companies" issued by the London Stock Exchange plc in March 2006.

Steven L Veal, a consultant to the company, has reviewed the summary set out above of the draft results of the Collarini Associates study. Steven is a professional petroleum geologist and is a qualified person with more than 26 years experience in the petroleum and natural gas industries and is a member, and former Vice President and Treasurer, of the American Association of Petroleum Geologists and a Fellow of the Royal Geological Society, London.

On 25 July 2006, due to the uncertainty over CDS's financial position, trading in the Company shares was suspended, but has been restored today following the issue of these interim statements. The Company is currently in the process of raising further funds through an equity placing, to continue the exploration programme and to provide working capital. In this placing investors are being offered a unit consisting of one share and one warrant to subscribe for a further share (a "Unit") for 1.25 pence per Unit. The warrant is exercisable at a price of 3 pence over a period of two years. CDS has commitments for approximately two-thirds of the minimum of £1.2 million that needs to be raised and the Board is confident of raising the remainder from other investors who are showing interest. On the other hand, if the funding is unsuccessful, then it is unlikely that CDS would be able to meet its financial obligations as and when they fall due and may therefore be unable to trade unless alternative financing arrangements can be negotiated in the short term. Whilst the Board have been actively pursuing alternative funding arrangements, there is no certainty as to the outcome of these negotiations nor is there any guarantee that such funding could be obtained on terms equivalent to the current fundraising.

There is no doubt that CDS is at a turning point. The Company still has an excellent acreage in the Chaco Basin in Paraguay which has a proven hydrocarbon system in which a number of prospective exploration leads have been identified. Paraguay itself is now beginning to attract the interest of some of the larger oil companies. CDS has already received a number of approaches from other companies interested in its assets. As said earlier, these are all at an early stage and shareholders will be advised as soon as practicable of any discussions which move beyond that stage.

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, a resident of Canada, decided not to offer himself for re-election as a director at the AGM. James Wade (65), the current Chief Executive, has agreed to relinquish his executive responsibilities on completion of the current funding, although he will continue as a non-executive director of the parent company only. Dan Morrison, the chief executive of CDS Energy SA, will continue in his role and serve as Chief Operating Officer of CDS. The Board will review the question of other management changes following completion of the current funding.

JWS Bentley
Chairman

Note:

BCF = Billion Cubic Feet of gas
MMbbl = Millon barrels of oil
Mbbl = thousand barrels of oil

See the following unaudited accounts for the period 1 January to 30 June 2006.

Contacts:

Simon Rothschild, Bankside Consultants 020 7367 8871

CDS OIL & GAS GROUP PLC

Interim Unaudited Accounts for the Six Months ended 30 June 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Half year ended 30 June 2006 (Unaudited) $000	Half year ended 30 June 2005 (Unaudited) $000	Year ended 31 December 2005 (Audited) $000
Administrative expenses	(530)	(469)	(816)
Operating loss	**(530)**	**(469)**	**(816)**
Interest receivable	11	-	32
Loss on ordinary activities before and after taxation	**(519)**	**(469)**	**(784)**

All amounts relate to continuing activities.

Loss per ordinary share (cents) (Note 3)			
Basic	(0.3)	(0.3)	(0.4)
Diluted	(0.3)	(0.3)	(0.4)

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

Loss for the period	(519)	(469)	(784)
Exchange differences	(31)	-	56
Total recognised losses for the period	**(550)**	**(469)**	**(728)**

CDS OIL & GAS GROUP PLC

Interim Unaudited Accounts for the Six Months ended 30 June 2006

CONSOLIDATED BALANCE SHEET

	30 June 2006 (Unaudited) $000	30 June 2005 (Unaudited) $000	31 December 2005 (Audited) $000
Fixed Assets			
Intangible assets	10,356	2,724	8,602
Tangible assets	240	1,780	321
	10,596	4,504	8,923
Current Assets			
Debtors	96	225	86
Inventory	1,751	-	1,743
Cash at bank and in hand	453	1,514	826
	2,300	1,739	2,655
Creditors: Amounts falling due within one year			
Convertible debt	(1,478)	-	-
Other	(2,011)	(255)	(1,621)
Net Current (Liabilities)/Assets	**(1,189)**	**1,484**	**1,034**
Total Assets less Current Liabilities	**9,407**	**5,988**	**9,957**
Capital and Reserves			
Called up share capital	3,822	3,218	3,822
Share premium	8,794	5,193	8,794
Profit and loss account deficit	(2,250)	(1,315)	(1,700)
Capital reserve	126	-	126
Other reserve	(1,095)	(1,117)	(1,095)
Shareholders' funds - equity	**9,397**	**5,979**	**9,947**
Minority interest	**10**	**9**	**10**
	9,407	**5,988**	**9,957**

CDS OIL & GAS GROUP PLC

Interim Unaudited Accounts for the Six Months ended 30 June 2006

CONSOLIDATED CASH FLOW STATEMENT

	Half year ended		Year ended
	30 June 2006 (Unaudited) $000	30 June 2005 (Unaudited) $000	31 December 2005 (Audited) $000
Net cash outflow from operating activities	(371)	(612)	(2,492)
Returns on investments and servicing of finance			
Interest received	11	-	32
Capital expenditure and financial investment			
Sale/(purchase) of tangible fixed assets	81	(1,638)	(180)
Expenditure on oil and gas assets	(1,542)	(1,062)	(5,560)
Cash outflow before financing	**(1,821)**	**(3,312)**	**(8,200)**
Financing			
Issues of ordinary shares for cash	-	4,488	7,718
Exercise of warrants	-	-	970
Convertible loans	1,448		
(Decrease)/increase in cash	**(373)**	**1,176**	**488**

CDS OIL & GAS GROUP PLC

Interim Unaudited Accounts for the Six Months ended 30 June 2006

Note 1 - Currency

All amounts in the unaudited accounts are denominated in US Dollars.

Note 2 – Basis of preparation

The interim accounts have been prepared in accordance with applicable accounting standards and under the historic cost convention.

The interim financial information has been prepared on the basis of the accounting policies set out in the group's statutory accounts for the period ended 31 December 2005.

The financial information set out in this interim statement, does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The financial information for the full preceding period is based on the statutory accounts for the period ended 31 December 2005. Those accounts, on which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

Note 3 – Loss per share

The loss per share is calculated based on:

	Half year ended		Year ended
	30 June 2006	30 June 2005	31 December 2005
Loss for the period ($000)	(519)	(469)	(784)
Weighted average number of shares in issue (000)	210,170	162,913	177,656

Note 4 – Convertible loans

During January 2006, the company raised £0.5 million ($883,000) 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.

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Interim Unaudited Accounts for the Six Months ended 30 June 2006

Note 4 – Convertible loans (continued)

During May 2006, the company raised £0.3 million ($565,000) 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.

Note 5 – Reconciliation of operating loss to net cash outflow from operating activities

	Half year ended		Year ended
	30 June 2006 (Unaudited) $000	30 June 2005 (Unaudited) $000	31 December 2005 (Audited) $000
Operating loss	(530)	(469)	(816)
Shares based payments for professional services received	-	-	27
(Increase)/decrease in debtors	(11)	(133)	8
(Increase) in inventory	(8)	-	(1,743)
Increase/(decrease) in creditors	178	(10)	32
Net cash outflow from operating activities	**(371)**	**(612)**	**(2,492)**