

September 30, 2005

## **INTERIM REPORT TO SHAREHOLDERS**

The first six months of this year were a period of significant achievement for CDS Oil & Gas Group plc. They were marked in April by our successful second significant fund-raising when we raised £2.56 million in a private placing with UK and European investors. These funds allowed us to move forward operationally in a number of areas, one of the more important being the signing of a contract to secure drilling rig #426 from Nabors International to drill our wells. This was especially important in view of the very limited availability of such rigs in South America.

We were also able to secure the service companies to support the drilling program, to establish a logistics base at la Patria, located at the end of the paved highway near the middle of the Boqueron Block, and to complete 594 km of road improvements necessary to access the drilling sites.

The funds raised also enabled us to procure well casing sufficient for 5 wells from Chile, Brazil and Houston, all of which is now stored at the logistics base in la Patria. This was a key element to our drilling programme as there is a shortage internationally of casing with lead times of several months for delivery. We have also obtained well heads from Argentina and drill bits from Northern Ireland and Belgium. They are all stored in our warehouse in Asunción.

At our drill sites in the Chaco, we completed the drill pad at the Independencia 1 site where we will drill well CDS-GM-05-5001, including cementing in 50m of conductor pipe and constructing the 2 metre deep drill cellar; completed a new water well and reworked an old Pennzoil water well to provide sufficient water for drilling at the site, and completed environmental studies and received environmental permits to proceed with the planned drilling operations. Baseline environmental studies are ongoing.

In May 2005, we received the Concession Law in respect of the Boqueron Block.

We have digitized and conducted computer analysis of 22 of the 26 wells drilled on our properties during the period 1947 – 1996. This expanded and improved our data base, and identified 10 leads and 2 prospects, of which 5 are ready for drilling. The drilling program is designed to drill twin wells at 200 meter distance from selected existing wells drilled by others in the past.

We also took some important steps towards our target of establishing a stock market listing for the Company's shares on the AIM Market of the London Stock Exchange ("AIM"). We were admitted to AIM on 27 September 2005 raising £2.42 million (before expenses) through the Placing of 24,250,000 new Ordinary Shares and issue of 1 Placing Warrant for every 2 Ordinary Shares. The Placing with UK and European institutional investors was at the price of 10p per Ordinary Share. Each Placing Warrant entitles the holder to subscribe for one new Ordinary

Share at 12p per share, prior to 31 March 2007. The new Ordinary Shares represent 12% of the Company's issued ordinary share capital. In addition, certain shareholders exercised warrants for an additional £500,000.

The shares closed at the end of the first day of dealing at a 15% premium to the Placing price, giving the Company a market capitalization of £24.1 million with 2.66 million shares traded.

Other significant developments during 2005 have been the appointments of John Bentley as the Company's non-executive Chairman, and Mr Guillermo Peroni, the founder and senior partner of the highly-respected Paraguayan law firm Peroni Sosa Tellechea Burt & Narvaja, as a non-executive director. Mr Peroni is also Honorary Consul of the United Kingdom in Asunción, Paraguay.

John Bentley has over 30 years experience in natural resources and during the last decade was responsible for the formation of Energy Africa Ltd. Mr Bentley became Energy Africa's CEO and guided the company through its first five years during which time its production grew fourfold and it expanded its operations into 12 countries in Africa. Mr Bentley is currently also Vice Chairman of Vanco Energy Company, the Houston based deepwater exploration company.

Now that we have become a public company and successfully raised £2.42 million we are moving forward, as speedily as possible, with our drilling programme. The rig is being mobilised next week and we expect to spud our first well by the middle of October.

I would like to thank all of our long-standing shareholders for their support during this year and to welcome the new shareholders who took shares in the recent Placing. I look forward to being able to deliver added value for shareholders in the years ahead. We would also like to thank our employees and support groups for their diligence and commitment during these formative early months.

Respectfully;

James G Wade  
*President and CEO*

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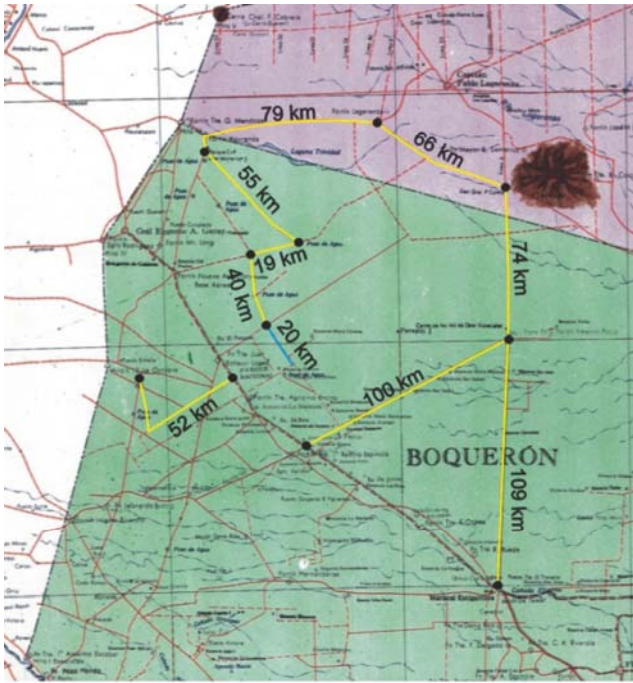
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The AIM admission document is available as a pdf file on the company's website [www.cdsogg.com](http://www.cdsogg.com)





— 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**



**17,000m of drill casing from Houston arriving at the the river port in Asuncion, the capital of Paraguay**



**Drill casing being unloaded from 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 50 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**

**CDS OIL & GAS GROUP PLC**

Interim Unaudited Accounts for the Six Months ended 30 June 2005

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

	Half year ended		Year ended
	30 June	30 June	31 December
	2005	2004	2004
	(Unaudited)	(Unaudited)	(Audited)
	\$000	\$000	\$000
Administrative expenses	(469)	(262)	(777)
	<hr/>	<hr/>	<hr/>
<b>Operating loss</b>	<b>(469)</b>	<b>(262)</b>	<b>(777)</b>
	<hr/>	<hr/>	<hr/>
<b>Loss on ordinary activities before and after taxation</b>	<b>(469)</b>	<b>(262)</b>	<b>(777)</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Loss per ordinary share (cents)</b> (Note 3)			
Basic	(0.3)	(0.2)	(0.6)
Diluted	(0.3)	(0.2)	(0.6)

All amounts relate to continuing activities.

**CDS OIL & GAS GROUP PLC**

Interim Unaudited Accounts for the Six Months ended 30 June 2005

**CONSOLIDATED BALANCE SHEET**

	30 June 2005 (Unaudited) \$000	30 June 2004 (Unaudited) \$000	31 December 2004 (Audited) \$000
<b>Fixed Assets</b>			
Intangible assets	2,724	842	1,662
Tangible assets	1,780	74	142
	<hr/>	<hr/>	<hr/>
	4,504	916	1,804
<b>Current Assets</b>			
Debtors	225	23	92
Cash at bank and in hand	1,514	48	338
	<hr/>	<hr/>	<hr/>
	1,739	71	430
<b>Creditors: Amounts falling due within one year</b>	(255)	(18)	(265)
	<hr/>	<hr/>	<hr/>
<b>Net Current Assets</b>	<b>1,484</b>	<b>53</b>	<b>165</b>
	<hr/>	<hr/>	<hr/>
<b>Total Assets less Current Liabilities</b>	<b>5,988</b>	<b>969</b>	<b>1,969</b>
Minority interest	(9)	(45)	(22)
	<hr/>	<hr/>	<hr/>
	<b>5,979</b>	<b>924</b>	<b>1,947</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Capital and Reserves</b>			
Called up share capital	3,218	2,041	2,672
Share premium	5,193	697	1,187
Profit and loss account deficit	(1,315)	(331)	(972)
Capital reserve	-	-	126
Other reserve	(1,117)	(1,483)	(1,066)
	<hr/>	<hr/>	<hr/>
<b>Shareholders' funds - equity</b>	<b>5,979</b>	<b>924</b>	<b>1,947</b>
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**CDS OIL & GAS GROUP PLC**

Interim Unaudited Accounts for the Six Months ended 30 June 2005

**CONSOLIDATED CASH FLOW STATEMENT**

	Half year ended 30 June 2005 (Unaudited) \$000	Half year ended 30 June 2004 (Unaudited) \$000	Year ended 31 December 2004 (Audited) \$000
Net cash outflow from operating activities (note 4)	(612)	(224)	(552)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets	(1,638)	(392)	(69)
Expenditure on oil and gas assets	(1,062)	(64)	(1,077)
	<hr/>	<hr/>	<hr/>
<b>Cash outflow before financing</b>	<b>(3,312)</b>	<b>(680)</b>	<b>(1,698)</b>
<b>Financing</b>			
Issues of ordinary shares for cash	4,488	624	1,930
	<hr/>	<hr/>	<hr/>
<b>Increase/(decrease) in cash</b>	<b>1,176</b>	<b>(56)</b>	<b>232</b>
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## CDS OIL & GAS GROUP PLC

Interim Unaudited Accounts for the Six Months ended 30 June 2005

### Note 1 - Currency

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

### Note 2 – Basis of preparation

The financial information for the six months ended 30 June 2005 is unaudited. In the opinion of the directors, the financial information for this period represents fairly the financial position, results of operations and cash flows for the period in accordance with generally accepted accounting principles. 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 2004.

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 2004. 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	30 June	31 December
	2005	2004	2004
Loss for the period (\$000)	(469)	(262)	(777)
Weighted average number of shares in issue (000)	162,913	112,633	123,046

### Note 4 – Reconciliation of operating loss to net cash outflow from operating activities

Operating loss	(469)	(262)	(777)
Shares issued for services received	-	-	10
(Increase)/decrease in debtors	(133)	36	(33)
Increase/(decrease) in creditors	(10)	2	248
<b>Net cash outflow from operating activities</b>	<b>(612)</b>	<b>(224)</b>	<b>(552)</b>

### Note 5 - Interim Results

Copies of the Interim Results are available on the Company's web site, [www.cdsogg.com](http://www.cdsogg.com), or from the Company's registered office, 17 Hanover Square, London W1S 1HU.

