

Company number: 04876395

CDS Oil & Gas Limited

**Report and audited financial statements for the year ended
31 December 2008**

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CDS Oil & Gas Limited

Annual Report and Financial Statements for the year ended 31 December 2008

Directors

P Roman
CDS Oil & Gas Group Plc

Secretary

P Speer, Thomson Webb & Corfield, 16 Union Road, Cambridge, CB2 1HE

Registered office

126 Brompton Road, London, SW3 1JD

Company number

04876395

Auditors

BDO LLP, 55 Baker Street, London, W1U 7EU

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CDS Oil & Gas Limited

Report of the directors for the year ended 31 December 2008

The directors present their report together with the audited financial statements for the year ended 31 December 2008.

Results and dividends

The results of the company are set out on page 8 and show a loss for the year of \$98,000 (2007 - loss \$156,000).

The directors do not recommend the payment of a final ordinary dividend for the year (2007 - \$Nil).

Principal activities, trading review and future developments

The Company is a holding company which manages its investments. The Company has its head office in London and its subsidiary CDS Energy S.A. has oil and gas interests in Paraguay.

Going concern

As disclosed in **Note 1 to the financial statements**, working capital levels of CDS Oil and Gas Group Plc (the "Group") have been utilised in the last year such that the Group currently does not have sufficient funds to finance the continuation of planned work programmes on its exploration assets. The ability of CDS Oil and Gas Limited (the "Company") to continue as a going concern is dependent upon new funding being negotiated by the Group.

At this time, the Group has received a significant level of interest from prospective investors, and whilst no funding arrangements have yet been formally agreed, the Directors are confident that further funds will be arranged in the near future.

Principal risks and uncertainties

The Group, of which the Company is part, operates in an uncertain environment that may result in increased risk, cost pressures and schedule delays. The following are some of the key risks that face the Group:

Financing risks

The development of the Group's assets will depend upon the Group's ability to obtain financing primarily through the raising of new equity capital. There is no assurance that the Group will be successful in obtaining the required financing. The Group continually monitors the financing arrangements to ensure the continuation of the operational activities.

Exploration risk

There is no assurance that the Group's exploration activities will be successful. Accordingly, the Group seeks to reduce this risk by reviewing the level of investment made in each project, as well as engaging qualified personnel to undertake detailed assessments of the areas under exploration.

CDS Oil & Gas Limited

Report of the directors for the year ended 31 December 2008 (*Continued*)

Principal risks and uncertainties (*continued*)

Environmental and other regulatory requirements

Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Group, the extent of which cannot be predicted. Before exploration and production can commence, the Group must obtain regulatory approval and there is no assurance that such approvals will be obtained. No assurance can be given that the new rules and regulations will not be enacted or existing legislations will not be applied in a manner which could limit or curtail the Group's activities.

Operational risks

These include equipment failure, well blowouts, pollution, fire and the consequences of bad weather. Where the Group is project operator, it takes an increased responsibility for ensuring that all relevant legislation is met.

Directors

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

	Ordinary shares of £0.01 each	
	2008 Shares	2007 Shares
P Roman	-	-
CDS Oil & Gas Group Plc	112,000,200	112,000,200

P Roman is also a director of the ultimate parent company, CDS Oil and Gas Group Plc, and his interests in the share capital of that company are shown in its 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 of the profit or loss of the company 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 company will continue in business.

CDS Oil & Gas Limited

Report of the directors for the year ended 31 December 2008 (*Continued*)

Directors' responsibilities (*continued*)

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO 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


for Philip [unclear]
CDS Oil & Gas Group Plc
Director

22 October 2009

CDS Oil & Gas Limited

Independent auditors report to the shareholders of CDS Oil & Gas Limited

We have audited the financial statements of CDS Oil and Gas Limited for the year ended 31 December 2008 which comprise the profit and loss account, the reconciliation of movements in shareholders' funds, the balance sheet 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 and whether the information given in the Directors' Report is consistent with those financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 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 Limited

Independent auditors report to the shareholders of CDS Oil & Gas Limited (Continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter – going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Company's ability to continue as a going concern, which is dependent on the Group raising further finance. The Group's progress against these objectives is set out in the Directors' Report. These conditions indicate the existence of a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the Company was unable to continue as a going concern.



BDO LLP

*Chartered Accountants
and Registered Auditors
London
United Kingdom*

22 October 2009

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

CDS Oil & Gas Limited

Profit and loss account and Reconciliation of movement in shareholders funds for the year ended 31 December 2008

		2008	2007
	Note	\$'000	\$'000
<u>Profit and loss account</u>			
Other administrative expenses		(2)	(70)
Exchange differences		(96)	(90)
		<hr/>	<hr/>
Total administrative expenses		(98)	(160)
		<hr/>	<hr/>
Operating loss	2	(98)	(160)
Interest receivable		-	357
Interest payable		-	(353)
		<hr/>	<hr/>
Loss on ordinary activities before and after taxation		(98)	(156)
		<hr/>	<hr/>
<u>Reconciliation of movement in shareholders funds</u>			
Loss for the period		(98)	(156)
Opening shareholders funds		1,667	1,823
		<hr/>	<hr/>
Closing shareholders funds		1,569	1,667
		<hr/>	<hr/>

All amounts in these financial statements are denominated in US Dollars.
All amounts relate to continuing activities.

The notes on pages 10 to 14 form part of these financial statements.

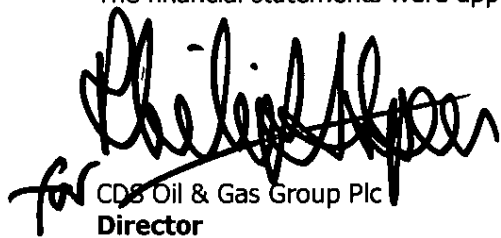
CDS Oil & Gas Limited

Balance sheet at 31 December 2008

Company number: 04876395

	Note	2008 \$'000	2007 \$'000
Fixed assets			
Investments	5	1,666	1,666
Current assets			
Cash at bank		1	11,290
Creditors: amounts falling due within one year	6	(98)	(11,289)
Net current (liabilities)/assets		(97)	1
Total assets less liabilities		1,569	1,667
Capital and reserves			
Called up share capital	7	1,909	1,909
Share premium	8	447	447
Profit and loss account	8	(787)	(689)
Total shareholders' equity		1,569	1,667

The financial statements were approved by the Board on 22 October 2009.


for CDS Oil & Gas Group Plc
Director

The notes on pages 10 to 14 form part of these financial statements.

CDS Oil & Gas Limited

Notes forming part of the financial statements for the year ended 31 December 2008

1 Accounting policies

Accounting convention

The accounts have been prepared under the historical cost convention and in accordance with applicable UK accounting standards. The following principal accounting policies have been applied:

Going concern

The Group, like most businesses, has had to adapt to very difficult economic and financial conditions.

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

These conditions indicate the existence of a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the Company was unable to continue as a going concern.

The Group has had a significant amount of interest from prospective investors with a view to covering the cost of the next stage of the exploration programme.

Given the nature of the Group's operations, it is capable of winding down to allow just a relatively low residual level of overheads to be incurred. This flexibility would allow it to remain a going concern until such a time when market conditions had improved.

Taking into account the above, and after making suitable enquiries the Directors have formed a judgment, at the time of approving the financial statements, that there is a reasonable expectation that the Company has, or will have, adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

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.

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.

CDS Oil & Gas Limited

Notes forming part of the financial statements for the year ended 31 December 2008

1 Accounting policies *(continued)*

Foreign currencies

In accordance with FRS 23, transactions entered into by the Company, other than the currency of the primary economic environment in which it operates (the functional currency) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the Profit and Loss account. The presentational currency for the company's financial statements is the US Dollar. The functional currency of the Company is the US Dollar.

2 Operating loss

	2008 \$'000	2007 \$'000
This is stated after charging:		
Exchange differences	96	90
	<hr/>	<hr/>

The audit fees are borne by CDS Oil & Gas Group Plc, the parent company.

3 Directors

The directors are remunerated by the parent company; no part of their remuneration is allocated to the subsidiary company's activities (2007 - \$Nil).

There were no directors receiving contributions to their defined contribution pension schemes in the year (2007 - \$Nil).

CDS Oil & Gas Limited

Notes forming part of the financial statements for the year ended 31 December 2008 (continued)

4 Taxation

a) Factors affecting taxation

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

	2008 \$'000	2007 \$'000
Loss on ordinary activities before taxation	98	156
Loss on ordinary activities at the standard rate of corporation tax in the UK of 28% (2007 – 30%)	27	46
Effects of: Losses carried forward	(27)	(46)
Current tax credit	-	-

b) Factors that may affect future tax charges

No deferred tax asset has been recognised in relation to trading losses available for offset against future taxable profit as it is not sufficiently certain that suitable taxable profits will arise.

5 Fixed asset investments

	Subsidiary undertaking \$'000
<i>Cost and net book value</i>	
As at 31 December 2008 and 31 December 2007	1,666

CDS Oil & Gas Limited

Notes forming part of the financial statements for the year ended 31 December 2008
(continued)

5 Fixed asset investments (Continued)

Details of the Company's subsidiary undertakings are as follows:

Name	Country of incorporation or registration	Voting rights and proportion of ordinary share capital held	Nature of business
CDS Energy SA	Paraguay	86.6%	Oil and gas exploration

The Company is exempt from the obligation to prepare and deliver group accounts under S228 (2) Companies Act 1985 as its ultimate parent company CDS Oil and Gas Group Plc publishes consolidated accounts. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

6 Creditors: amounts falling due within one year

	2008 \$'000	2007 \$'000
Accruals and deferred income	-	15
Amounts owed to group undertakings	98	11,274
	<u>98</u>	<u>11,289</u>

7 Share capital

	Authorised	
	Number	\$'000
Ordinary shares of £0.01 each (approximately \$0.02 each)	500,000,000	8,500
	<u> </u>	<u> </u>
	Allotted, called up, and fully paid	
	Number	\$'000
Ordinary shares of £0.01 each (approximately \$0.02 each)	112,000,200	1,909
	<u> </u>	<u> </u>

CDS Oil & Gas Limited

Notes forming part of the financial statements for the year ended 31 December 2008
(continued)

8 Capital and reserves

	Share capital \$'000	Share premium \$'000	Profit and loss account \$'000	Total \$'000
At 31 December 2006	1,909	447	(533)	1,823
Loss for the period	-	-	(156)	(156)
At 31 December 2007	1,909	447	(689)	1,667
Loss for the period	-	-	(98)	(98)
At 31 December 2008	1,909	447	(787)	1,569

9 Commitments under operating leases

As at 31 December 2008, the company had no commitments under non-cancellable operating leases (2007 - \$Nil).

10 Related party transactions

The company has taken advantage of the exemption conferred by Financial Reporting Standard 8 "Related party disclosures" not to disclose transactions with members of the group headed by CDS Oil and Gas Group Plc on the grounds that at least 90% of the voting rights in the company are controlled within that group and those members are in the consolidated financial statements.

11 Cash flow statement

The company has used the exemption under Financial Reporting Standard 1 "Cash Flow Statements" not to prepare a cash flow statement as it is consolidated in the financial statements of its ultimate parent company.

12 Ultimate parent company

At 31 December 2008 the Company is a subsidiary of CDS Oil & Gas Group Plc which is incorporated in England and Wales. Copies of the consolidated financial statements of CDS Oil & Gas Group Plc are available from 126 Brompton Road, London SW3 1JD.