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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER
8-65266

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Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 1/1/05 AND ENDING 12/31/05
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: The Sonterra Group Inc

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

(No. and Street)

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Hayske Group, PC

(Name - if individual, state last, first, middle name)

(Address)

(City)

(State)

(Zip Code)

PROCESSED

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THOMSON
FINANCIAL

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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THE SONTERRA GROUP, INC.

**Financial Statements
and Supplemental Information**

December 31, 2005

H A N K E



G R O U P

**A PROFESSIONAL CORPORATION OF
CERTIFIED PUBLIC ACCOUNTANTS**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and
Stockholders' of The Sonterra Group, Inc.

We have audited the accompanying balance sheet of The Sonterra Group, Inc. (a Texas Corporation), as of December 31, 2005, and the related statements of operations, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Sonterra Group, Inc. as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on Pages 8 and 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplemental information required by rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic statements taken as a whole.

The Hanke Group, P.C.

San Antonio, Texas
February 2, 2006

THE SONTERRA GROUP, INC.

BALANCE SHEET DECEMBER 31, 2005

ASSETS

CURRENT ASSETS:

Cash	\$ 33,878
Certificate of deposit	20,787
Federal income tax receivable	<u>1,230</u>
Total current assets	<u>55,895</u>

FURNITURE AND FIXTURES:

Furniture and fixtures	6,115
Accumulated depreciation	<u>(3,496)</u>

Net furniture and fixtures	<u>2,619</u>
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OTHER ASSETS

3,177

TOTAL

\$ 61,691

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 1,000
Concessions payable	<u>14,869</u>
Total current liabilities	<u>15,869</u>

STOCKHOLDERS' EQUITY:

Common stock of \$.10 par value per share, 1,000,000 shares authorized, 15,000 shares issued and outstanding	1,500
Additional paid in capital	73,500
Retained deficit	<u>(29,178)</u>

Total stockholders' equity	<u>45,822</u>
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TOTAL

\$ 61,691



THE SONTERRA GROUP, INC.

STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2005

REVENUES:	
Commissions	\$ 801,953
Interest	<u>584</u>
Total revenues	<u>802,537</u>
EXPENSES:	
Professional	3,694
Payroll taxes	9,569
Salaries, wages and benefits	771,827
NASD fees	29,331
Licenses, fees, and taxes	1,860
Depreciation	874
Insurance	<u>24,041</u>
Total expenses	<u>841,196</u>
LOSS BEFORE FEDERAL INCOME TAX BENEFIT	(38,659)
FEDERAL INCOME TAX (BENEFIT):	
Current	<u>(1,230)</u>
NET LOSS	<u>\$ (37,429)</u>



THE SONTERRA GROUP, INC.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2005

	<u>COMMON STOCK</u>	<u>ADDITIONAL PAID-IN CAPITAL</u>	<u>RETAINED EARNINGS (DEFICIT)</u>	<u>TOTAL STOCKHOLDERS' EQUITY</u>
Balance at December 31, 2004	\$ 1,500	\$ 73,500	\$ 66,964	\$ 141,964
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>(58,713)</u>	<u>(58,713)</u>
Balance as restated	1,500	73,500	8,251	83,251
Net Loss	<u>-</u>	<u>-</u>	<u>(37,429)</u>	<u>(37,429)</u>
Balance at December 31, 2005	<u>\$ 1,500</u>	<u>\$ 73,500</u>	<u>\$ (29,178)</u>	<u>\$ 45,822</u>



THE SONTERRA GROUP, INC.

**STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2005**

OPERATING ACTIVITIES:	
Net loss	\$ (37,429)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	874
Changes in assets and liabilities:	
Federal income tax receivable	(1,230)
Concessions payable	14,869
Accounts payable	(12,400)
Federal income taxes payable	<u>(1,240)</u>
Net cash used in operating activities	<u>(36,556)</u>
INVESTING ACTIVITIES:	
Addition to certificate of deposit	<u>(584)</u>
Net cash used in investing activities	<u>(584)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(37,140)
CASH AND CASH EQUIVALENTS at beginning of year	<u>71,018</u>
CASH AND CASH EQUIVALENTS at end of year	<u>\$ 33,878</u>
SUPPLEMENTAL CASH FLOW INFORMATION:	
Federal income taxes paid	<u>\$ 1,265</u>



THE SONTERRA GROUP, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General — The Sonterra Group, Inc. (the Company), is a broker/dealer with membership in good standing with the National Association of Securities Dealers. The Company also is properly registered under applicable Texas securities laws and regulations. The Company is retained by Zeppelinn Energy, L.P., as a registered broker/dealer in connection with the marketing of private placement joint ventures formed in Texas for the exploration and production of oil and gas.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents — For purposes of the statement of cash flows, the Company considers cash on hand, checking accounts and short-term certificates of deposits with original maturities of three months or less as cash and cash equivalents. At December 31, 2005, the Company had no cash equivalents.

Income Tax — Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of assets for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes are also recognized for operating losses that are available to offset future taxable income.

Property and Equipment — Property and equipment are stated at cost. Depreciation is determined on the straight-line method over seven years.

2. RELATED PARTY TRANSACTIONS

The Company receives commissions from partnerships managed by a related partnership, Zeppelinn Energy, L.P. The Company and Zeppelinn Energy, L.P. are owned by the same individuals.

The Company has agreed by contract to receive 15% of the sales price per unit of all partnership units sold, acting as broker/dealer, pursuant to selling agreements with Texas Joint Venture Partnerships. During 2005, the Company earned \$801,953 in commissions under these contracts.

Additionally, Zeppelinn Energy, L.P. pays operating expenses for The Sonterra Group, Inc. except for salaries, commissions to salesmen, security licensing fees, audit fees, and retirement plan contributions.

3. RESTATEMENT OF RETAINED EARNINGS

The Company has restated retained earnings as previously reported at December 31, 2004, by \$58,713, net of income tax effect of \$9,420 for the effect of reversing the accrual of commissions not earned until paid.



THE SONTERRA GROUP, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2005

4. RETIREMENT PLAN

The Company has a 401(k) employees' profit sharing plan covering substantially all of its eligible employees. The Company makes an annual safe harbor contribution to the plan equal to 3% of eligible salaries. The plan also allows for additional contributions at the discretion of the owners, but may not exceed the maximum allowable deduction permitted under the Internal Revenue Code at the time of contribution. The Company contributed approximately \$62,000 to the plan during the year ended December 31, 2005.

5. FEDERAL INCOME TAXES

Deferred Federal Income Taxes — For the year ended December 31, 2005, the total income tax expense (benefit) differs from amounts computed by applying the statutory federal income tax rate of 34% as summarized below:

Income tax expense (benefit) at statutory rate	\$ (13,144)
Surtax exemption	7,345
Valuation allowance for net operating loss carryforward	<u>4,569</u>
	\$ <u>(1,230)</u>

At December 31, 2005, The Sonterra Group, Inc. has tax net operating losses of approximately \$29,918 which can be used to offset future taxable income. For financial accounting purposes, a valuation allowance has been recognized at December 31, 2005, to offset the deferred tax assets related to a portion of those net operating losses. These loss carryforwards will begin to expire in 2025.

6. NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (Rule 15c3-1) which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by Paragraph 15c3-1(2) of the rule, which requires that the Company maintain minimum net capital, as defined, of not less than \$5,000. (The net capital rule also provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than \$5,000.) At December 31, 2005, the net capital, as defined, was \$38,380.

SUPPLEMENTAL INFORMATION



THE SONTERRA GROUP, INC.

**COMPUTATION OF NET CAPITAL
(AS DEFINED WITHIN SECURITIES ACT OF 1934 RULE 15c3-1)
DECEMBER 31, 2005**

TOTAL SHAREHOLDERS' EQUITY FROM STATEMENT OF FINANCIAL CONDITION	\$ 45,822
DEDUCT SHAREHOLDERS' EQUITY NOT ALLOWABLE FOR NET CAPITAL	<u>-</u>
TOTAL SHAREHOLDERS' EQUITY QUALIFIED FOR NET CAPITAL	45,822
ADD:	
Liabilities subordinated to the claims of general creditors allowable in computation of net capital	-
Other allowable credits, deferred taxes	<u>-</u>
TOTAL CAPITAL AND ALLOWABLE SUBORDINATED LIABILITIES	<u>45,822</u>
DEDUCTIONS AND/OR CHARGES:	
Total non-allowable assets from statement of financial condition	7,026
Aged fails-to-deliver	-
Aged short security differences	-
Secured demand note deficiency	-
Commodity futures contracts and spot commodities	-
Other deductions and/or charges	<u>-</u>
	<u>7,026</u>
NET CAPITAL BEFORE HAIRCUTS ON SECURITIES POSITIONS (HAIRCUTS ON SECURITIES COMPUTED WHERE APPLICABLE)	38,796
Contractual securities commitments	-
Deficit in securities collateralizing secured demand notes	-
Trading and investment securities	-
Undue concentrations	-
Other	<u>(416)</u>
NET CAPITAL	<u>\$ 38,380</u>



THE SONTERRA GROUP, INC.

**COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS
UNDER RULE 15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION
AND COMPUTATION OF NET CAPITAL UNDER 15c3-1
DECEMBER 31, 2005**

As of December 31, 2005, the Company is exempt from the provision of Rule 15c3-3 under Section 15c3-3(k)(2)(i):

"...The provisions of this section shall not be applicable to a broker or dealer...who carries no margin accounts, promptly transmits all customer funds and delivers all securities received in connection with his activities as a broker or dealer, does not otherwise hold funds or securities for, or owe money or securities to, customers and effectuates all financial transactions between the broker or dealer and his customers through one or more bank accounts, each to be designated as "Special Account for the Exclusive Benefit of Customers of The Sonterra Group, Inc..."

Computation of Net Capital under Rule 15c3-1:

There were no material differences between Net Capital as presented on page 8 herein, and the Company's presentation of Net Capital in Part IIA of Form X-17A-5 as of December 31, 2005, as amended.





INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROLS REQUIRED BY SEC RULE 17a-5

To the Board of Directors
The Sonterra Group, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of The Sonterra Group, Inc., for the year ended December 31, 2005, we considered its internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal controls.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following: (1) making quarterly securities examinations, counts, verifications and comparisons; (2) recordation of differences required by Rule 17a-13; (3) complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal controls and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above mentioned objectives. Two of the objectives of internal controls and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal controls or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

The Sonterra Group, Inc.

Our consideration of the internal controls would not necessarily disclose all matters in the internal controls that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control elements do not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal controls, including procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2005, to meet the SEC's objectives.

This report is intended solely for the use of management, the SEC, and New York Stock Exchange and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

The Healy Group, P.C.

San Antonio, Texas
February 2, 2006

