REPORTS AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2009

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DIRECTORS AND OTHER INFORMATION

Current Directors	Kevin Foo, Chairman Grant Manheim, Deputy Chairman Robert Palmer, Finance Director George Donne, Executive Director Austen Titford, Executive Director Philip Rand, Non Executive Director Mukhtar Tuyakbayev, Non Executive Director
Secretary	Leena Nagrecha
Company Number	5139892
Registered office	Hatfield House 52/54 Stamford Street London SE1 9LX
Auditors	Deloitte & Touche Deloitte & Touche House Earlsfort Terrace Dublin 2 Ireland
Bankers	Allied Irish Bank plc 9/10 Angel Court London EC2R 7AB
Solicitors	Kerman & Co LLP 200 Strand London WC2R 1DJ
Nominated Adviser	Strand Hanson Limited 26 Mount Row London W1K 3SQ
Brokers	Fox-Davies Capital Limited Whitefriars House 6 Carmelite Street London EC4Y 0BS
Registrars	Computershare Investor Services plc The Pavilions, Bridgewater Road Bristol BS99 6ZY

Directors' Biographies

Kevin Foo M.Sc.,DIC, Dip Met, MIMMM (Chairman) has a 38 year career in all aspects of mining, including technical, operational and project management and has run several public companies. He has worked on five continents including 15 years in Kazakhstan and Russia and is a specialist in the development of mines in the FSU. He was formerly the Chairman of Bramlin Limited, Eureka Mining Plc and Managing Director of Celtic Resources Holdings Plc, all AIM-quoted resource companies.

Grant Manheim (Deputy Chairman) has extensive financial experience in the City of London gained over 37 years at a top-tier investment bank. In addition to his financial experience, he also has knowledge of the oil and gas sector having been the Chairman of the executive committee of a company whose business was the investment in and development of oil and gas properties in the United States.

Robert Palmer FCA (Finance Director) is a chartered accountant. He combines his role as Finance Director with his position as a senior partner in a business consultancy-based accountancy practice where he specialises in providing financial advice to small and medium sized enterprises. He holds a number of directorships in private companies.

George Donne (Executive Director) was previously the General Manager of Victoria Oil & Gas Plc with responsibility for the administration of the Company's head office in London. He is a former investment banker with JP Morgan in both London and Johannesburg, specialising in natural resources advisory.

Austen Titford (Executive Director) is a chartered accountant with more than 17 years financial and commercial experience from working for FTSE 100 and AIM-quoted natural resource companies, including Lonrho, LASMO, BHP Billiton and Celtic Resources Holdings Plc. He has worked on projects in Africa, Iran, Russia and Central Asia and brings a broad mix of financial experience, covering both the project development and operational phases.

Philip Rand (Non Executive Director) has over 30 years of financial experience, 17 of which have been in the upstream energy sector. He was formerly Chief Executive Officer of AIM-quoted Equator Exploration Limited and Chief Financial Officer of Burren Energy, Group Treasurer of Monument Oil & Gas and held senior financial roles at Deminex and Louisiana Land & Exploration. Philip is a Fellow of the Association of Corporate Treasurers.

Mukhtar Tuyakbayev (Non Executive Director). Mukhtar qualified at Moscow State Technical University in electronics engineering. Previously he was an Executive Director of Celtic Resources Holdings Plc with responsibility for finding and acquiring new projects, attracting local banks to project financing and relations with FSU state institutions.

Chairman's Statement

Dear Shareholder,

It is my pleasure to write to you once again and to discuss potentially the most significant year in Victoria's history and to outline how the next year will be even more eventful.

Review of the Markets

Markets in the last 18 months have been the most volatile and traumatic in memory. Following the near-collapse of the banking system, the equity markets, which are the life-blood of the resources sector, effectively closed for business until confidence returned in the middle of 2009. Such extreme financial conditions proved a true test of both companies and managements, with several high-profile names not lasting to see the third quarter of this year. In my statement in last year's accounts I explained how the Board was focussed on how to capitalise on this situation.

I am proud to report that not only did Victoria survive this period, but we raised over $28 million in new equity since year end and acquired our interest in the highly-desirable Logbaba project in Cameroon. Such achievements are testament to our determination and to the quality of our asset portfolio. We are now well and truly participants in Africa.

Acquisition of Logbaba Project, Cameroon

Our acquisition of Bramlin Limited and its interest in the unique Logbaba gas and condensate project in December 2008 is a good example of our strategy and this project is expected to provide material cash flow in 2010. This cash will also help to unlock the potential of our large West Medvezhye project in Russia.

When referring to the Logbaba project, I do not use the term unique loosely. In my 38 year experience in the resources industry, I have not seen a project so favourably positioned for swift development and monetisation. Since the discovery of the field in the 1950s, Douala, the city where the field is located, has grown into a commercial focal point of the Central African region. Our customers are literally on our doorstep. Cameroon, Equatorial Guinea, Chad and the Central African Republic all channel their foreign trade through the city's port and major international companies such as Guinness, Lafarge and Nestle all have their manufacturing bases here to exploit the region's abundant natural commodities.

It is these industrial customers who will constitute the immediate market for the natural gas production from Logbaba. Their processing facilities rely on high-cost liquid fuels such as diesel and fuel-oil and they have already declared their desire to switch to natural gas as soon as it is available. Some have even already purchased the equipment to convert their burners. A study by the marketing arm of the State oil company has estimated the current energy consumption in Douala by the industrial market to be equivalent to approximately 15 million standard cubic feet of gas per day. We have already signed up more than half of this market through contracts and letters of intent and we expect demand to double to 30 million standard cubic feet per day within three years of first sales.

My colleague Radwan Hadi gives a detailed update below on the drilling, but we have confirmed the presence so far of 90 feet of gross sandstone pay at 6,030 feet. However, the path to first revenues will not be easy. We are one of the first gas developers in Cameroon and one of very few companies to target the country's onshore potential. Access to oilfield equipment and services is often difficult and circuitous and therefore expensive. Before we can sell our production, we must install a processing facility to remove the valuable liquid hydrocarbons from the gas and construct our own pipeline to reach the market. Although the trunk pipeline may only be a matter of ten kilometres in length this has never been done before in Cameroon.

Our programme currently targets supplying first customers by mid-2010.

Industrial demand, however, is only one of our goals. With production test rates of 25-30 million cubic feet per day in the original wells, we expect to have excess capacity to exploit larger potential markets. The huge demand for power in the region is just such an opportunity and Victoria is delighted to be at the forefront of the Government initiative to more than double its power generating capacity. Historically, natural gas has been a neglected resource in Western Africa (for instance Nigeria currently flares around 40% of its gas production), but the administration of Cameroon has identified its huge potential as a cheap and environmentally sound source of energy and all of this is to Victoria's potential benefit.

Exploration of West Medvezhye, Russia

While Logbaba has been grabbing most of the headlines this year, West Medvezhye continues to be the quiet achiever. Since the grant of exploitation rights to the field in 2008, we have seen the approval of first recoverable reserves and resources, official recognition by the Russian Ministry of Natural Resources (MNR) of over 30 potential structures in the licence area, the first successful passive seismic data acquisition, which, combined with the thorough reprocessing of existing 2D seismic data, has led to the identification of two significant structures very close to discovery well 103.

Today, the current approved recoverable reserves and resources for the field, under Russian standards, are 14.4 million barrels of oil equivalent C1+C2 reserves and 170 million barrels of oil equivalent C3 resources. I should emphasise, however, that the reserve numbers are solely for the Well 103 discovery, while the resources have only been estimated for three potential structures out of over 30. Although based on different sets of assumptions, these official numbers and the DeGolyer and MacNaughton 2006 gross prospective resource estimate of over 1.1 billion barrels of oil equivalent both point to a very significant prospect needing to be exploited.

It has also been very pleasing to see that the authorities in Russia have been aware of the difficulties that companies have faced during the last year due to the credit crunch. Very recently, we applied to the MNR for a relaxation of the terms of our first 5-year work programme and they have agreed to amend our obligation to drill two wells by the end of 2012 to drilling two wells by the end of 2013.

Kemerkol, Kazakhstan

As you will see from this year's financials, the Directors have decided to include a provision for $35.5 million against the carrying value of the Kemerkol asset. We continue to fight our corner in the Kazakhstan legal system on this project, but its importance in the day to day business of Victoria has been minimised. We will also seek solutions within economic and legal limits.

Falcon Option

Our option for the acquisition of Falcon Petroleum Limited, a private company with 50% of a Production Sharing Agreement (PSA) in Mali and 90% of a PSA for three very prospective blocks in Ethiopia, expired recently, although we are currently negotiating an extension of this option. The technology that we have at our disposal, particularly passive seismic, is perfectly suited to the quick and economic appraisal of such large-scale exploration projects. With good ground-work and some luck, we could uncover an elephant project in a nascent petroleum region.

Our ambition remains to grow Victoria organically and through acquisition into a major E&P company and as we develop the Logbaba and West Med projects, we will continue to seek out new, exciting opportunities to add further value.

I would like to extend my thanks to all of our employees and my fellow Directors for their application and determination during this most demanding of years and also thank you, our shareholders, for your support. On your behalf, I would also like to pass on our appreciation to two Non Executive Directors, who are leaving us this year. Rashed Al Suwaidi, who left the Company in October, and Mukhtar Tuyakbayev, who will not be standing for re-election at this year's Annual General Meeting, have both decided to pursue other opportunities and we wish them great success in their future ventures.

Kevin Foo
Chairman

Review of Operations

Dear Shareholder,

It is my great pleasure to report to you for the first time as the Chief Operating Officer of Victoria in a year which has seen so much activity for our small company and which should pave the way for so much more in the years to come.

Logbaba, Cameroon

Speaking as an oil man with more than 30 years' experience in the industry, working on E&P projects across the globe, I believe that the achievement of the Victoria team in Cameroon in spudding the first well, La-105, within nine months of acquiring the license is nothing short of exceptional. For more than 50 years, the Logbaba gas and condensate project has remained dormant, but starting in January 2009, following the acquisition of Bramlin, Victoria has succeeded in: developing an integrated appraisal/development/production programme; constructing a drilling site and obtaining certificate of compliance from the Ministry of Environment; mobilising a new land rig; sourcing and importing a full suite of equipment and services; and breaking ground on schedule.

As reported earlier in November, we have successfully drilled down to the bottom of the 12½ inch hole section to a depth of approximately 6,200 feet (measured depth), and we have intersected around 90 feet of gross sandstone pay. These sands, of Campanian age, were encountered at around 6,030 feet (measured depth) and appear to have good porosity and permeability and are at pressures of 4,000 psi. This excellent result conforms to the prognosis for Well La-105, prepared using the original data from Well La-103.

When La-103 was drilled by Elf in the late 1950s, these same sands were encountered and flowed on an open-hole drill stem test at a rate of approximately 4.5 million cubic feet of gas per day. Although these test results were appraised by RPS Energy in their reserve report of 2008, they were not included in the calculation of proven reserves and a good test on these sands could see them added to our 1P numbers for the field.

Most of the gas encountered by Well La-103 was seen at depths of around 8,000 feet at pressures of around 8,000 psi and temperatures of up to 320 degrees Fahrenheit. Under test, these gas-bearing horizons flowed at approximately 30 million cubic feet of gas per day per well or the equivalent of 5,400 barrels of oil.

Once La-105 is completed, work will immediately begin on the next well. The rig will be skidded about ten metres to the side of the current hole and another 10,000 foot deviated well (Well La-106) will be drilled to twin La-101. La-101 was originally a blow-out when drilled by Elf, who were looking for oil and so not prepared for the prolific gas zones that they encountered. The blow-out ran for 38 days before being brought under control and is estimated to have produced almost a billion cubic feet of gas in that time.

Activities on the gas processing plant, production facilities and pipeline of the Logbaba integrated development programme continue on-schedule. The detailed engineering will incorporate the data from the new wells and we are targeting first deliveries in mid-2010. The engineering of the downstream is unlikely to be complex in itself, assuming that the gas composition is similar to that which was seen by Elf, but bringing such a project on-stream in a country with such little available infrastructure is the real challenge. However, it is worth keeping the nature of the project in perspective and the intricacies of constructing a pipeline are more than offset by the availability of a fully developed market within a ten kilometre radius of our first well.

Having reviewed the data available on the original wells, recent analogues and the our LWD/MWD new well data, it is my view that the 2P reserves ascribed to the field by RPS Energy of 106 billion cubic feet does not reflect the full potential of the Logbaba block. The 2P reserves were assigned to tested sands, using only the gas-down-to volumes in the respective wells. On the other hand, no gas-water contacts were identified on the well logs in any of the sands in the Logbaba Formation or below it. Furthermore, the currently declared 2P reserves are based on the area that covers the old drilled wells which only represent some 10% of the total Logbaba block area. Yet the Turbidite sands encountered by Elf in the Logbaba wells, and confirmed in La-105, are similar to those seen in the large offshore fields stretching into the Gulf of Guinea from the mainland.

We have looked past the current drilling programme and towards the further development of the field as a whole. All drilling to date has centred on a limited area on a small anticline within the southern section of the block and in November, we commenced a new passive seismic spectroscopy study with GeoDynamics Research. This survey will take about 50 measurements over the entire licence and give us our first new data on the subsurface and allow us to begin selection of the next drilling locations.

West Medvezhye, Russia

The work being undertaken at West Medvezhye is at the other end of the E&P spectrum. West Medvezhye is a very large exploration project in a hugely prospective area, but one in which no discoveries had been made until Victoria's Well 103 which was completed in late 2007. Now that the first discovery has been made and the presence of hydrocarbons confirmed, the aim is to establish the optimum areas for further appraisal to find commercially productive zones.

Following the drilling and seismic work already undertaken, we have a good picture of the area around Well 103, which indicates that it penetrated the flank of a hydrocarbon-bearing structure at around 3,800 metres depth. However, the passive seismic in particular, has indicated that there may be at least one other hydrocarbon-bearing structure in the locality. Our goal now is to delineate as much of the rest of the block as possible before we commence our next drilling campaign. We have been afforded additional time by the MNR precisely for this purpose and we intend to use it.

In the new year, after the worst of the winter has passed, we will undertake a second passive seismic spectroscopy study over a large area of the northern and eastern section of the West Medvezhye licence block. Our studies show that this section of our licence includes an extension of the super-giant Medvezhye field and it is here where we stand the best chance of finding stratigraphic traps with superior reservoir quality. We are also assessing the potential benefit of a geochemical survey over the same area, to be conducted this year before conditions become too severe. With these two technologies, we would gain a better understanding of the hydrocarbon potential of the target area without the immediate need to acquire a very expensive conventional seismic survey. Once the data from the surveys has been processed and interpreted, we will pick areas of possible seismic requirement and, more importantly, our next well location and commence preparations for new exploration drilling. If all goes according to expectation, we could be preparing our next well at West Medvezhye by the end of 2010.

Radwan Hadi
Chief Operating Officer

DIRECTORS' REPORT

The Directors present their Annual Report and the audited financial statements for the year ended 31 May 2009.

PRINCIPAL ACTIVITIES, BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The principal activity of the Group is the exploration for and development and management of oil and gas projects in the Former Soviet Union and Africa.

During the year the Group continued to explore its principal prospect of West Medvezhye in Russia and in December 2008 acquired Bramlin Limited, another exploration company, whose principal asset is a 60% interest in the onshore Logbaba gas exploration and development prospect in Cameroon.

At West Medvezhye, the focus has been on identifying the next well location and rehabilitating the site of previous wells drilled by the Company. A passive seismic survey was acquired and interpreted in the first half of 2009 and based on the results a more extensive programme is now planned.

The Company obtained an extension to the licence agreement for the Logbaba field in February 2009 and acquired the services of a rig company and commenced mobilisation to drill two wells in the second half of 2009.

In June 2008, the Company suspended production at the Kemerkol oil field in Kazakhstan following the loss of the subsoil licence. The Company is pursuing legal claims to recover the licence or receive damages for the loss. A provision of $35.5m has been included against the carrying value of the Group's investment in Kemerkol.

The Company continues to look at additional investment opportunities in the Former Soviet Union and Africa.

A detailed review of the significant developments and operating activities of the Group, as well as the business environment, future prospects and the main trends and factors that are likely to affect the future development, performance and position of the Group's business are contained in the Chairman's Statement and the Review of Operations.

On 1 April 2009, the Company successfully completed a £0.7m placing and secured a funding facility of £5.0m by way of a Standby Equity Distribution Agreement (SEDA) as further described in Note 25. Proceeds from this fund raising exercise have principally been used to finance the Company's exploration of the Logbaba field.

RESULTS AND DIVIDENDS

The consolidated loss for the year after taxation transferred to reserves was $42.4m (2008: $1.2m), which includes an impairment charge of $35.5m (2008: Nil).The Directors do not propose that a dividend be paid (2008: Nil).

At 31 May 2009, the Group had $0.7m of cash and £4.6m of the SEDA facility undrawn.

DIRECTORS

The following Directors held office at the year end:

EXECUTIVE DIRECTORS

Kevin Foo
Grant Manheim
Robert Palmer
George Donne

NON EXECUTIVE DIRECTORS

Philip Rand
Rashed Al Suwaidi (resigned 22nd October 2009)
Mukhtar Tuyakbayev

On 1 October 2009 Austen Titford was appointed as an Executive Director.

Mukhtar Tuyakbayev retires by rotation and will not stand for re-election at the Annual General Meeting of the Company on 18 December 2009.

DIRECTORS' REMUNERATION

	Payable	Shares	Total	Total
	in cash	in lieu	2009	2008
	$000	$000	$000	$000
Kevin Foo *	163	82	**245**	300
Grant Manheim	113	–	**113**	144
Robert Palmer **	117	78	**195**	239
George Donne	202	–	**202**	33
Rashed Al Suwaidi ***	–	–	**–**	–
Philip Rand	24	–	**24**	10
Mukhtar Tuyakbayev	24	–	**24**	10
Tony Porter ****	–	–	**–**	142
	643	160	**803**	878

* Part paid to HJ Resources Limited.
** Paid to The Gallagher Partnership LLP.
*** Subsequent to the prior year end Rashed Al Suwaidi waived his 2008 fees of $10,000.
**** Resigned 28 December 2007.

The Company has a discretionary share incentive scheme whereby fully paid shares can be awarded by the Trustees of the Employee Share Ownership Plan (ESOP) as a long term incentive for the Directors, senior managers and staff. Under this scheme, the ESOP subscribes for shares up to a limit agreed annually by the shareholders, which are available for issue to employees on an annual basis, in recognition of their contribution to the Group. The Trustees of the ESOP did not subscribe for any shares during the year and no discretionary awards were made.

Copies of the Service Agreement for each Director are available for inspection at the Company's Registered Office.

CORPORATE GOVERNANCE

The Directors support high standards of corporate governance and are committed to managing the company in an honest and ethical manner. The Company is not subject to the Combined Code, but where practical and appropriate for a company of this size and nature, the Company complies with the Combined Code and takes account of the recommendations on corporate governance of the Quoted Companies Alliance.

The Board seeks to ensure that the Company is managed in an efficient, effective and entrepreneurial manner for the benefit of all shareholders over the longer term.

BOARD

The Board of Directors currently comprises of the Chairman, four Executive Directors (including the Finance Director) and two Non Executive Directors. The Chairman, Kevin Foo, is responsible for leadership of the Board as well as running the Company's business, where he is assisted by other Board members in formulating strategy and delivery once agreed by the Board. The structure of the Board ensures that no one individual dominates the decision making process. The Directors have significant and relevant resource exploration and production experience together with finance and corporate development skills. Summary biographies for each Director are set out on page 3. In the opinion of the Directors, given the current scale of operations, the present Board and operational management structure have been appropriate and it has not been considered appropriate to appoint a Chief Executive. However, with the Company's growth and future plans, it is planned to strengthen the Board and the management.

The Board meets at least six times each year providing effective leadership and overall management of the Group's affairs. The Board approves the Group's strategy and investment plans and regularly reviews operational and financial performance and risk management matters. A schedule of matters reserved for Board decision is maintained. This includes the approval of the budget and business plan, major capital expenditure, acquisitions and disposals, risk

management policies and the approval of the financial statements. Formal agendas, papers and reports are sent to the Directors in a timely manner prior to Board meetings. The Board delegates certain of its responsibilities to the Board committees, listed below, which have clearly defined terms of reference.

All Directors have access to the advice and services of the Company's solicitors and the Company Secretary, who is responsible for ensuring that all Board procedures are followed. Any Director may take independent professional advice at the Company's expense in the furtherance of his duties.

One third of the Directors retire at each Annual General Meeting of the Company and each may be re-elected. Furthermore, every Director must stand for re-election once every three years. A Director appointed by the Board must also stand for election at the next shareholders' meeting.

At present, the Board do not consider a nominations committee necessary. When appropriate, any decision will be taken on a clearly defined basis by the Board as a whole.

AUDIT COMMITTEE

The audit committee is chaired by Philip Rand and meets at least twice a year. It is responsible for ensuring that the financial activities of the Group are properly monitored, controlled and reported on. It meets the auditors and reviews reports from the auditors. Its full terms of reference are available on request and include: the review of the annual and interim financial statements and of accounting policies; the review with management of the effectiveness of internal controls; and the review with the Group's external auditors of the scope and results of their audit. The Chairman and Deputy Chairman are other members of the committee and the Finance Director attends the committee meetings by invitation.

REMUNERATION COMMITTEE

A remuneration committee, which consists of the Deputy Chairman, one Non Executive Director and the Finance Director, sets the scale and structure of the Executive Directors' remuneration and that of senior management and the basis of their service agreements with due regard to the interests of shareholders. In determining the remuneration of the Executive Directors and senior management, the committee seeks to ensure that the Company will be able to attract and retain executives of the highest calibre. It will make recommendations to the full Board concerning the representations to be made to the ESOP for the allocation of incentive shares to employees. No Director participates in discussions or decisions concerning his own remuneration.

The Chairman of the committee, Philip Rand, will attend the Annual General Meeting and is prepared to respond to any shareholder questions on the committee's activities.

RELATIONS WITH SHAREHOLDERS

The Directors attach great importance to maintaining good relationships with the shareholders. Extensive information about the Company's activities is included in the annual report and accounts and the interim report, which are sent to all shareholders. The Chairman also issues a quarterly letter to shareholders. Market sensitive information is regularly released to all shareholders in accordance with Stock Exchange rules. The Group is active in communicating with both its institutional and private shareholders and welcomes queries on matters relating to shareholders and the activities of the Group. The Annual General Meeting provides an opportunity for all shareholders to communicate with and to question the Board on any aspect of the Group's activities. The Company maintains a corporate website where information on the Company is regularly updated and all announcements are posted. The Company welcomes communication from both its private and institutional shareholders.

CORPORATE SOCIAL RESPONSIBILITY

The Group is subject to best practice standards and extensive regulations, which govern environmental protection. The Group is committed to uphold these standards and regulations as a minimum and to keep these important matters under continuous review. When appropriate, adequate action and provision is immediately taken to ensure full compliance with the standards expected of a world-class oil and gas exploration company.

The Company works towards positive and constructive relationships with government, neighbours and the public, ensuring fair treatment of those affected by the Company's operations. The Company aims to minimise the use of natural resources, such as energy and water and to provide employees with a healthy and safe working environment whilst receiving payment that enables them to maintain a reasonable lifestyle for themselves and their families.

RISKS AND UNCERTAINTIES

The Group is subject to a number of potential risks and uncertainties, which could have a material impact on the long term performance of the Group and could cause actual results to differ materially from expectation. The following risk factors, which are not exhaustive, are particularly relevant to the Group's activities:

Title to Assets

Title to oil and gas assets in Russia, Kazakhstan and Cameroon can be complex and may be disputed.

Licence Obligations

Operations must be carried out in accordance with the terms of each licence, field development plan, annual work programme and budgets agreed with the relevant ministry for natural resources in the host country. Typically the law provides that fines may be imposed and operations suspended, amended or terminated if a contractor fails to comply with its obligations under such agreements or fails to make timely payments of levies and taxes for the sub-soil use, provide the required geological information or meet other reporting requirements.

Requirement for Further Funding

The Group will require significant additional funding to implement its exploration and development plans as well as finance its operational and administrative expenses. There is no guarantee that future market conditions will permit the raising of the necessary funds by way of issue of new equity, long term loans or farming out of interests. If unsuccessful this will significantly affect the Group's ability to execute its long term growth strategy.

Geological and Development Risks

Exploration activities are speculative and capital intensive and there is no guarantee of identifying commercially recoverable reserves.

Price of Crude Oil and Gas

Substantially all of the Group's revenues will come from the sale of oil and gas. The prices of oil and gas are volatile and are influenced by factors beyond the Group's control. These factors include the demand for oil and gas, exchange rates and political events. Additionally, licence conditions and local legislation may require production to be sold locally and at a significant discount to world prices.

Tax Risk

The Group is subject to local and national taxes, which are subject to frequent change. The legislation often lacks clarity and there is the added risk of receiving substantial fines for non compliance.

Exchange Rate Risk

Whilst future sales are likely to be denominated in local currency, the selling price is fixed taking into consideration movement in the world price for oil and gas, which are US dollar denominated. The Group's expenses, which are primarily to contractors on exploration and development, are incurred primarily in US dollars but also in Russian Roubles, Sterling, Euros and Central African Franc (CFA), which is tied to the Euro. The Group's policy is to conduct and manage its operations in US dollars and therefore it is exposed to fluctuations in the relative values of the US dollar, Russian Rouble, Sterling and Euro.

Political Risk

The Group's principal assets are currently located in Russia and Cameroon and therefore the Group is exposed to country specific risks such as the political, social and economic stability of these countries.

FINANCIAL RISK MANAGEMENT

Details of the Group's financial risk management policies are set out in Note 29.

KEY PERFORMANCE INDICATORS (KPI)

The Group is in the exploration phase of the West Medvezhye gas project and the appraisal and development phases of the Logbaba gas project, so the relevant KPIs relate to the discovery and development of economic oil and gas deposits in Russia and Cameroon.

Accordingly, the Directors believe that the relevant KPIs are capital expenditure and net cash flow. This information is set out in the financial statements together with comparative information for the previous year.

The relevant non financial KPIs are the level of proven and probable reserves and resources. These are derived from reports obtained from expert third party advisers as well as from the Group's internal calculations.

The capital expenditure is a reflection of the exploration and development activity of the Group. During the year additions to intangible assets amounted to $26.2m, of which $24.3m (including an amount of $6.6m in respect of deferred taxation adjustments) related to the Bramlin acquisition. Refer to Note 34 for further details regarding the Bramlin acquisition. Excluding the Bramlin acquisition, 53% of the remaining $1.9m was invested in Russia and 47% was invested in Cameroon. No capital expenditure was incurred in Kazakhstan (2008: 69%).

Net cash inflow from financing activities for the year was $4.0m compared to $18.7m for the previous period. The prime source of cash inflow has been through the issuance of new equity shares.

GOING CONCERN

The Directors have given careful consideration to the appropriateness of the going concern basis in the preparation of the financial statements. The validity of the going concern concept is dependent on finance being available for the working capital requirements of the Group in order to finance the continuing development of the existing projects. Sufficient funds are available in the short term to fund the working capital requirements of the Group and the Directors are currently pursuing further opportunities for raising finance for the Group with banks and specialist investors with regard to funding the development of existing projects. The Directors believe that this will enable the Group and Company to continue in operational existence for the foreseeable future and to continue to meet obligations as they fall due. Further information in respect of going concern considerations is set out in Note 3.

PROPERTY, PLANT AND EQUIPMENT

In the opinion of the Directors, the Group's property, plant and equipment have a value in excess of the balance sheet figure. Details of movements in such assets are shown in Note 16 to the financial statements.

CREDITOR PAYMENT POLICY

It is the Group's normal policy to agree the terms of payment at the start of business with each supplier, ensure that suppliers are aware of the terms of the payment and pay in accordance with contractual and other legal obligations.

CHARITABLE AND POLITICAL DONATIONS

The Company made no political or charitable contributions during the year (2008: Nil).

DIRECTORS' INDEMNITIES

The Company maintained directors' and officers' liability insurance during the year and it remains in force at the date of this report.

SUBSEQUENT EVENTS

On 16 June 2009, the Company agreed to repay two promissory notes issued by Bramlin Limited with a total value of $350,000 by issue of 5,052,658 new ordinary shares and settle legal fees of $131,472 on behalf of the loan note holders. Kevin Foo, the Chairman of Victoria Oil & Gas Plc, has an interest in HJ Resources Limited, which owned 12.4% of the loan notes.

On 17 June 2009, the Company announced that it had completed a £5.3m equity placing and increased the SEDA to £10m for funding working capital.

On 9 July 2009, the Company announced that it had signed agreements for the provision of drilling and other services for the Logbaba gas field and the provision of a minimum of $4m of additional project funding.

The Company drew down in tranches a total of £3.5m ($5.7m) of the SEDA with YA Global Master SPV Limited

On 28 August 2009, the Company announced that it had completed a £6m equity placing for funding working capital.

AUDITORS

To the best of the Directors' knowledge and belief, and having made appropriate enquiries of other officers of the Company, all information relevant to enable the auditors to provide their opinion on the financial statements has been provided. The Directors have taken all reasonable steps in order to ensure their awareness of any relevant audit information and to establish that the Company's auditors are aware of any such information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act, 2006.

A resolution to re-appoint the auditors, Deloitte & Touche, will be proposed at the Annual General Meeting.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held in London on 18 December 2009. A Notice of the Meeting is set out on pages 59 to 63. The Notice contains special business, including the renewal of authority to the Board to allot shares, the dis-application of statutory pre-emption rights on equity issues for cash and to adopt new Articles of Association of the Company. Shareholders should complete the Proxy form accompanying this Report in accordance with the Notes contained in the Notice of Annual General Meeting.

By Order of the Board,

Leena Nagrecha
Company Secretary

Date: 24 November 2009

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that the Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance.
- make an assessment of the Group's and Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report
TO THE MEMBERS OF VICTORIA OIL & GAS PLC

We have audited the financial statements of Victoria Oil & Gas Plc for the year ended 31 May 2009 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, and the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Cash Flow Statements and the related notes 1 to 37. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with section 495 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 May 2009 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to Notes 3, 15, 17 and 19 of the financial statements concerning going concern, the valuation of intangible assets, the valuation of investments and the recoverability of amounts due from subsidiaries. The realisation of intangible assets of $83.1m included in the consolidated balance sheet and, investments of $69.4m and recoverability of amounts due by subsidiaries of $10.4m included in the Parent Company balance sheet is dependent on the successful discovery and development of economic reserves, including the ability of the Group to raise sufficient finance to develop current projects. The financial statements do not include any adjustments relating to these uncertainties and the ultimate outcome cannot, at present, be determined.

SEPARATE OPINION IN RELATION TO IFRSs AS ISSUED BY THE IASB

As explained in Note 1(i) to the financial statements, the Group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Kevin Sheehan (Senior Statutory Auditor)
for and on behalf of Deloitte & Touche
Chartered Accountants and Statutory Auditors
Dublin
Ireland

24 November 2009

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MAY 2009

	Notes	2009 $000	2008 $000
Continuing operations			
REVENUE	4	–	1,726
Cost of sales		–	(1,655)
GROSS PROFIT		–	71
Other (losses) and gains	5	(1,402)	260
Impairment of exploration and evaluation assets	6	(35,541)	–
Administrative expenses		(6,336)	(4,857)
OPERATING LOSS		(43,279)	(4,526)
Interest received		122	248
Finance revenue	7	1,401	11,095
Finance costs	8	(606)	(7,985)
LOSS BEFORE TAXATION	4,9	(42,362)	(1,168)
Income tax expense	10	–	–
LOSS AFTER TAXATION FOR THE FINANCIAL YEAR		(42,362)	(1,168)
		Cents	Cents
Loss per share – basic	14	(11.91)	(0.70)
Loss per share – diluted	14	(11.91)	(0.70)

CONSOLIDATED BALANCE SHEET
AS AT 31 MAY 2009

	Notes	2009 $000	2008 $000
ASSETS:			
NON CURRENT ASSETS			
Intangible assets	15	**83,149**	104,365
Property, plant and equipment	16	**37**	2,008
Investments	17	**–**	696
Restricted cash	18	**–**	122
		83,186	107,191
CURRENT ASSETS			
Inventory		**–**	3
Receivables	19	**737**	1,226
Cash and cash equivalents	20	**711**	9,270
		1,448	10,499
TOTAL ASSETS		**84,634**	117,690
LIABILITIES:			
CURRENT LIABILITIES			
Trade and other payables	21	**(3,885)**	(4,947)
Borrowings	22	**(1,000)**	–
		(4,885)	(4,947)
NET CURRENT (LIABILITIES)/ASSETS		**(3,437)**	5,552
NON-CURRENT LIABILITIES			
Borrowings	22	**–**	(3,693)
Convertible loan – debt portion	23	**(1,055)**	(212)
Derivative financial instruments	23	**(642)**	(1,518)
Deferred tax liabilities	10	**(6,599)**	–
Provisions	24	**(2,882)**	(1,393)
		(11,178)	(6,816)
NET ASSETS		**68,571**	105,927
EQUITY:			
Called-up share capital	25	**4,289**	2,621
Share premium		**114,620**	100,133
ESOP Trust reserve	26	**(124)**	(124)
Investment revaluation reserve	27	**–**	295
Translation reserve		**(10,774)**	110
Other reserve	28	**2,882**	2,852
Retained earnings – (deficit)/surplus		**(42,322)**	40
TOTAL EQUITY		**68,571**	105,927

The financial statements were approved by the Board of Directors on 24 November 2009

KEVIN A FOO
CHAIRMAN

ROBERT PALMER
FINANCE DIRECTOR

Company Balance Sheet
AS AT 31 MAY 2009

	Notes	2009 $000	2008 $000
ASSETS:			
NON-CURRENT ASSETS			
Property, plant and equipment	16	**5**	8
Investments	17	**69,416**	72,440
		69,421	72,448
CURRENT ASSETS			
Receivables	19	**11,068**	33,450
Cash and cash equivalents	20	**416**	8,806
		11,484	42,256
TOTAL ASSETS		**80,905**	114,704
LIABILITIES:			
CURRENT LIABILITIES			
Trade and other payables	21	**(2,221)**	(4,014)
Borrowings	22	**(1,000)**	–
		(3,221)	(4,014)
NET CURRENT ASSETS		**8,263**	38,242
NON-CURRENT LIABILITIES			
Borrowings	22	**–**	(3,693)
Convertible loan – debt portion	23	**(296)**	(212)
Derivative financial instrument	23	**(247)**	(1,518)
		(543)	(5,423)
NET ASSETS		**77,141**	105,267
EQUITY			
Called-up share capital	25	**4,289**	2,621
Share premium		**114,620**	100,133
Investment revaluation reserve	27	**–**	295
Other reserve	28	**2,882**	2,852
Retained earnings – (deficit)		**(44,650)**	(634)
TOTAL EQUITY		**77,141**	105,267

The financial statements were approved by the Board of Directors on 24 November 2009

KEVIN A FOO
CHAIRMAN

ROBERT PALMER
FINANCE DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MAY 2009

	Called up share capital $000	Share premium $000	ESOP Trust reserve $000	Investment revaluation reserve $000	Retained earnings/ (deficit) $000	Translation reserve $000	Other reserve $000	Total $000
At 31 May 2007	1,129	71,935	(74)	–	(953)	–	–	72,037
Shares issued for cash	1,063	29,205	(50)	–	–	–	–	30,218
Shares issue costs	–	(3,353)	–	–	–	–	–	(3,353)
Conversion of loan notes	429	4,507	–	–	–	–	–	4,936
Transfer concerning issue expenses of loan notes	–	(2,161)	–	–	2,161	–	–	–
Revaluation to fair value	–	–	–	295	–	–	–	295
Currency translation adjustment	–	–	–	–	–	110	–	110
Settlement of embedded derivative	–	–	–	–	–	–	2,852	2,852
Loss for the year	–	–	–	–	(1,168)	–	–	(1,168)
At 31 May 2008	2,621	100,133	(124)	295	40	110	2,852	105,927
Shares issued	451	4,832	–	–	–	–	–	5,283
Bramlin acquisition	1,217	9,859	–	–	–	–	–	11,076
Share issue costs	–	(204)	–	–	–	–	–	(204)
Recognition of share based payments	–	–	–	–	–	–	30	30
Reversal of revaluation following acquisition	–	–	–	(295)	–	–	–	(295)
Currency translation adjustment	–	–	–	–	–	(10,884)	–	(10,884)
Loss for the year	–	–	–	–	(42,362)	–	–	(42,362)
At 31 May 2009	4,289	114,620	(124)	–	(42,322)	(10,774)	2,882	68,571

SHARE PREMIUM RESERVE

The share premium reserve comprises of the excess of monies received in respect of share capital over the nominal value of shares issued, less share and debenture issue costs.

ESOP TRUST RESERVE

The ESOP Trust reserve comprises of shares in the Company held by Victoria Oil & Gas ESOP Trust.

INVESTMENTS REVALUATION RESERVE

The investments revaluation reserve included revaluations of available for sale investments to market value. These available for sale investments consisted of shares in Bramlin Limited. This revaluation was reversed during the year as a result of the acquisition by the Group of Bramlin Limited.

RETAINED EARNINGS DEFICIT

Retained earnings comprises accumulated losses in the current year and prior years.

TRANSLATION RESERVE

The translation reserve includes movements that relate to the retranslation of non-monetary items whose functional currencies are not US dollars.

OTHER RESERVE

The other reserve includes an amount of $2.85m which relates to the settlement of the embedded derivative following the early redemption of the associated convertible loan note in the prior year.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MAY 2009

	Called up share capital $000	Share premium $000	Investments revaluation reserve $000	Retained earnings/ (deficit) $000	Other reserve $000	Total $000
At 31 May 2007	1,129	71,935	–	(2,833)	–	70,231
Shares issued for cash	1,063	29,205	–	–	–	30,268
Share issue costs	–	(3,353)	–	–	–	(3,353)
Conversion of loan notes	429	4,507	–	–	–	4,936
Transfer concerning issue expenses of loan notes	–	(2,161)	–	2,161	–	–
Revaluation to fair value	–	–	295	–	–	295
Settlement of embedded derivative	–	–	–	–	2,852	2,852
Profit for the year	–	–	–	38	–	38
At 31 May 2008	2,621	100,133	295	(634)	2,852	105,267
Shares issued	451	4,832	–	–	–	5,283
Bramlin acquisition	1,217	9,859	–	–	–	11,076
Share issue costs	–	(204)	–	–	–	(204)
Reversal of revaluation following acquisition	–	–	(295)	–	–	(295)
Recognition of share based payments	–	–	–	–	30	30
Loss for the year	–	–	–	(44,016)	–	(44,016)
At 31 May 2009	4,289	114,620	–	(44,650)	2,882	77,141

SHARE PREMIUM RESERVE

The share premium reserve comprises of the excess of monies received in respect of share capital over the nominal value of share issued, less share issue costs.

INVESTMENTS REVALUATION RESERVE

The investments revaluation reserve included revaluations of available for sale investments to market value. These available for sale investments consisted of shares in Bramlin Limited. This revaluation was reversed during the year as a result of the acquisition by the Company of Bramlin Limited.

RETAINED EARNINGS DEFICIT

Retain earnings comprises accumulated losses in the current year and prior years.

OTHER RESERVES

The other reserve includes an amount of $2.85m which relates to the settlement of the embedded derivative following the early redemption of the associated convertible loan note in the prior year.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MAY 2009

	Notes	2009 $000	2008 $000
CASH FLOW FROM OPERATING ACTIVITIES			
Loss for the year		**(42,362)**	(1,168)
Finance costs recognised in income statement		**606**	7,985
Gain on third party loan assigned to Group company	22	**(3,100)**	–
Investment revenue recognised in income statement		**–**	(248)
Impairment provision recognised in income statement		**35,541**	–
Depreciation and amortisation of non-current assets		**563**	671
Fair value gain on embedded derivatives		**(1,401)**	(11,095)
Net foreign exchange loss/(gain)		**2,514**	(3,695)
		(7,639)	(7,550)
MOVEMENTS IN WORKING CAPITAL			
Decrease/(increase) in trade and other receivables		**337**	(106)
Decrease/(increase) in inventories		**3**	(3)
Increase/(decrease) in trade and other payables		**512**	(3,137)
CASH USED IN OPERATIONS		**(6,787)**	(10,796)
Interest paid		**–**	(867)
NET CASH USED IN OPERATING ACTIVITIES		**(6,787)**	(11,663)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**–**	248
Acquisition costs of subsidiary	34	**(949)**	–
Cash acquired on acquisition		**63**	–
Amounts advanced to third parties	34	**(2,216)**	–
Payments for intangible fixed assets		**(1,069)**	(7,236)
Payments for tangible fixed assets		**(48)**	(949)
Proceeds from sale of tangible fixed assets		**37**	12
Proceeds from sale of intangible assets		**–**	300
Transfer to fund for asset retirement obligations		**–**	(122)
NET CASH USED IN INVESTING ACTIVITIES		**(4,182)**	(7,747)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of equity shares		**1,938**	30,218
Proceeds from issue of convertible loan notes		**1,188**	2,000
Repayment of convertible loan notes		**–**	(15,717)
Payment of equity issue costs		**–**	(990)
Payment of loan issue costs		**(174)**	(265)
Proceeds from borrowings		**1,000**	3,410
NET CASH GENERATED FROM FINANCING ACTIVITIES		**3,952**	18,656
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(7,017)**	(754)
CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR		**9,270**	9,945
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(1,542)**	79
CASH AND CASH EQUIVALENTS END OF THE YEAR		**711**	9,270

Company Cash Flow Statement
FOR THE YEAR ENDED 31 MAY 2009

	Notes	2009 $000	2008 $000
CASH FLOW FROM OPERATING ACTIVITIES			
(Loss)/profit for the year		**(44,016)**	38
Finance costs recognised in Income Statement		**473**	7,785
Investment revenue recognised in Income Statement		**–**	(247)
Impairment recognised in Income Statement		**41,440**	–
Depreciation and amortisation of non-current assets		**3**	2
Fair value gain on embedded derivatives		**(1,271)**	(11,095)
Net foreign exchange gain/(loss)		**452**	(88)
		(2,919)	(3,605)
MOVEMENTS IN WORKING CAPITAL			
Increase in trade and other receivables		**(5,944)**	(14,883)
Increase in trade and other payables		**2,219**	877
CASH USED IN OPERATIONS		**(6,644)**	(17,611)
Interest paid		**–**	(867)
NET CASH USED IN OPERATING ACTIVITIES		**(6,644)**	(18,478)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**–**	247
Acquisition costs of subsidiary	34	**(949)**	–
Cash acquired on acquisition		**63**	–
Amounts advanced to third parties	34	**(2,216)**	–
Payments for intangible fixed assets		**–**	(914)
NET CASH USED IN INVESTING ACTIVITIES		**(3,102)**	(667)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of equity shares		**1,938**	30,268
Proceeds from issue of convertible loan notes		**–**	2,000
Repayment of convertible loan notes		**–**	(15,717)
Payment of equity shares issue costs		**(174)**	(990)
Payment of loan issue costs		**–**	(265)
Proceeds from borrowings		**1,000**	3,410
NET CASH GENERATED FROM FINANCING ACTIVITIES		**2,764**	18,706
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(6,982)**	(439)
CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR		**8,806**	9,215
Effects of exchange on the balance of cash held in Foreign currency		**(1,408)**	30
CASH AND CASH EQUIVALENTS END OF THE YEAR		**416**	8,806

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group and Company are summarised below.

(i) Basis of preparation

These financial statements, for the year ended 31 May 2009, for the Group and Company have been prepared in accordance with IFRS. These financial statements have also been prepared in accordance with IFRSs as adopted by the European Union and in accordance with the Companies Act 2006. The financial statements are presented in US dollars, rounded to the nearest thousand ($000) except where otherwise indicated.

(ii) Accounting convention

The financial statements are prepared under the historical cost convention except for the revaluation of certain non-current assets, derivative financial instruments, non current liabilities and available for sale assets which have been measured at fair value.

(iii) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Victoria Oil & Gas Plc ("the Company") and its subsidiaries (together "the Group") made up to 31 May each year. All Group transactions, balances, income and expenses are eliminated on consolidation.

Subsidiaries

Subsidiaries are entities over which the Company has the power to govern the financial and operating policies in order to obtain benefits from their activities. Control is presumed to exist where the Company owns more than one half of the voting rights (which does not always equate to percentage ownership) unless it can be demonstrated that ownership does not constitute control. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. The consolidated financial statements included all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-company balances, transactions and unrealised gains.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill and any deficiency credited to income statement in the period of acquisition.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or to the effective date of disposal.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

(iv) Revenue recognition

Sales of oil and gas products are recognised when the significant risks and rewards of oil and gas products pass to the customer, which is normally when oil and gas is delivered to the customer.

Interest income is accounted for on an accruals basis by reference to the principal amount and the effective interest rate applicable.

(v) Operating profit/(loss)

Operating profit/(loss) represents revenue less cost of sales and administration expenses, impairment charges and other gains and losses. It is stated before investment revenue and finance costs.

(vi) Foreign currencies

The presentation currency of the Group financial statements is US dollars and the functional currency and the presentation currency of the parent company is US dollars. The individual financial statements of each Group company are maintained in the currency of the primary economic environment in which it operates (its functional currency). The Group's expenses, which are primarily to contractors on exploration and development, are incurred primarily in US dollars but also Russian Roubles, Sterling, Euros and CFA. For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in US dollars, the presentation currency.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was re-determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the year, other than when a monetary item forms part of a net investment in a foreign operation, then exchange differences on that item are recognised in equity. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity.

The assets and liabilities of foreign operations are translated into US dollars at the rate of exchange ruling at the balance sheet date and their income statements are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

(vii) Capitalisation of interest

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred

(viii) Employee Share Ownership Plan (ESOP)

The Victoria Oil & Gas ESOP Trust was established on 22 February 2006 to hold ordinary shares purchased to satisfy share scheme awards made to the employees of the Group, which are transferred to the members of the scheme on grant which is also the relevant vesting date. The Trust is consolidated in the financial statements in accordance with SIC 12 "Special Purpose Entities". From the perspective of the consolidated financial statements, the shares of the Company held by the Trust are treasury shares and are deducted from equity in accordance with IAS 32.

(ix) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(x) Intangible assets

Exploration and evaluation assets

Expenditure incurred in respect of research of potential hydrocarbon exploration, prior to the Group acquiring an exploration licence, is expensed in the income statement.

Exploration expenditure relates to the initial search for deposits with economic potential. Evaluation expenditure arises from a detailed assessment of deposits that have been identified as having economic potential.

The costs of exploration assets, which are based in geographic areas, include the cost of acquiring rights to explore. Rights and costs incurred in relation to evaluating the technical feasibility and commercial viability of extracting a hydrocarbon resource are capitalised as part of exploration and evaluation assets.

Exploration costs include an allocation of administration and salary costs, including share based payments as determined by management.

Exploration costs are capitalised until technical feasibility and commercial viability of extraction of reserves are demonstrable. At that point, all costs which have been capitalised to date and included in exploration and evaluation assets, are assessed for impairment. If they are not impaired, then they are reclassified as either tangible assets or intangible assets. Costs which are deemed to be intangible assets are written off over the life of the estimated reserve on a unit of production basis (accounted for under IAS 38 Intangible assets). Costs which are tangible are accounted for under IAS 16 Property, Plant and Equipment.

Impairment of intangible fixed assets

At each balance sheet date, the Group and Company reviews its intangible assets to determine whether there is any indication that those assets may have been impaired, in accordance with IFRS 6. If any such indication exists, the recoverable amount of the asset is assessed in order to determine the extent of the impairment loss (if any).

Any impairment review, where required, involves significant judgement related to matters such as recoverable reserves, production profiles, hydrocarbon prices, development, operating and off take costs and other matters.

(xi) Property, Plant & Equipment

Plant & Equipment

Plant and equipment is stated at cost less any subsequent accumulated depreciation and any accumulated impairment losses.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is de-recognised.

Depreciation is charged so as to write off the cost of plant and equipment, over their useful lives using the straight line method, on the following basis:

Plant and equipment 10%

Fixtures and fittings 15%

Oil and gas interests

Costs are transferred to property, plant and equipment assets in each regional cost pool when technical feasibility and commercial viability of extraction of reserves are demonstrated.

Depreciation and depletion of costs in depreciable pools is provided under the unit of production method based on estimated commercial reserves in each regional cost pool. Commercial reserves are developed and undeveloped oil and gas reserves.

Changes in estimates affecting unit of production calculations for depreciation, decommissioning and production tax provisions are accounted for prospectively.

Expected decommissioning costs of a property are provided on the basis of net present value of the liability. An equivalent amount is added to the oil and gas asset and charged to the income statement on a unit of production basis.

(xii) Decommissioning

Decommissioning costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas.

Decommissioning provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a decommissioning provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Decommissioning costs are a normal consequence of exploration, development and production activities and the majority of such expenditure is incurred at the end of the life of the field. Although the ultimate cost to be incurred is uncertain, the provision has been estimated in accordance with the management's expectation of the decommissioning costs and of the period when those costs are to be incurred.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The amortisation or "unwinding" of the discount applied in establishing the net present value of provisions is charged to the income statement in each accounting period. The amortisation of the discount is shown as a finance cost, rather than as an operating cost.

The initial decommissioning provision, together with other movements in the provision, including those resulting from new disturbance, updated cost estimates, changes to the estimated lives of operations and revisions to discount rates are included within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate. Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each balance sheet date and the cost is charged to the income statement.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(xiii) Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

Financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial

assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurements, loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are de-recognised or impaired, as well as through the amortisation process.

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the assets is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are de-recognised when they are assessed as uncollectible.

Investment in subsidiaries
Investments in subsidiaries in the Company balance sheet are stated at cost, less any accumulated impairments.

Available for sale (AFS) financial assets
Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as available for sale and are stated at fair value.

Cash and cash equivalents
Cash and cash equivalents comprises cash held by the Group and short-term bank deposits with an original maturity of three months or less.

Financial liabilities
Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities depending on the substance of the contractual arrangements entered into.

Financial liabilities at fair value through profit or loss
The Group does not have any financial liabilities at fair value through the profit or loss other than the embedded derivatives included in the convertible bond – hybrid financial instruments, which are discussed below.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

De-recognition of financial liabilities
The Group de-recognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Convertible bond – hybrid financial instruments
Where a convertible loan meets the definition of a compound financial instrument, the component parts are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements. However, where, at inception, the conversion option is such that the option will not be settled by the Company exchanging a fixed number of its own equity instruments for a fixed amount of cash, the convertible loan does not meet the definition of a compound financial instrument. In such cases, the convertible loan (the host contract) is a hybrid financial instrument and the option to convert is an embedded derivative. Attached options (options entered into in consideration for entering into the host contract) on similar terms are also embedded derivatives.

The embedded derivatives are separated from the host contract as their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. At each reporting date, the embedded derivatives are measured at fair value with the changes in fair value recognised in the income statement as they arise. The host contract carrying value on initial recognition is based on the net proceeds of issuance of the convertible loan reduced by the fair value of the embedded derivatives and is subsequently carried at each reporting date at amortised cost. The embedded derivatives and host contract are presented under separate headings in the balance sheet.

The fair values of the embedded derivatives are calculated using appropriate valuation models depending on the characteristics of the derivates.

Interest expense is calculated using the effective interest rate method.

On conversion or redemption, the embedded derivative is reflected at fair value immediately prior to redemption or conversion and the resulting change is recognised in the income statement. Any difference between the fair value and the redemption or conversion value is recognised directly in equity through other reserves.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(xiv) Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

The current tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities recognised for deductible temporary differences arising on investments in subsidiaries and associates, only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(xv) Share based payments

The Group has applied the requirements of IFRS 2 "Share-Based Payment". In accordance with the transitional provisions, IFRS 2 has been applied to all equity instruments vesting after 1 June 2006.

When the Group issues equity-settled share based payments to suppliers or employees, they are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Where the value of the goods or services received in exchange for the share-based payment cannot be reliably estimated the fair value is measured by use of an appropriate valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

(xvi) Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies above, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations), which are dealt with below.

Impairment of intangible assets

The assessment of intangible assets for any indications of impairment involves judgement. If an indication of impairment exists, a formal estimate of recoverable amount is performed and an impairment loss recognised to the extent that carrying amount exceeds recoverable amount. Recoverable amount is determined as the higher of fair value less costs to sell and value in use. This assessment requires judgement as to: the likely future commerciality of the asset; when such commerciality should be determined; future revenues; capital and operating costs; and the discount rate to be applied to such revenues and costs.

Going concern

The assessment of the Group's ability to execute its strategy by funding future working capital requirements involves judgement. The Directors monitor future cash requirements and are confident that the Group is able to continue as a going concern and no adjustment is required to the financial statements. Further information regarding going concern is outlined in Note 3.

Convertible bonds

The estimation of the fair value of embedded derivatives requires the selection of an appropriate valuation model and consideration as to the assumptions used as inputs necessary for the valuation model chosen. The

Group has made estimates as to the volatility of its own shares, the probable life of operations granted and the time of exercise of those options.

Exploration and evaluation
The assessment of the classification of costs between intangible assets and tangible assets and whether general administration costs and salary costs are capitalised or expensed involves judgement. Management consider the nature of each cost incurred and whether it is deemed appropriate to capitalise it and the appropriate classification. Costs which can be demonstrated as project related and not a corporate cost are included in the cost of exploration and evaluation assets.

Recoverability of VAT
The Group has recognised the potential difficulty of recovering VAT paid during the exploration and development phase of the project. In the light of this uncertainty, judgements have been made as to the extent of provision required against this VAT.

Deferred tax assets
The assessment of availability of future taxable profits involves judgement. A deferred tax asset is recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

Key sources of estimation uncertainty
The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual outcomes could differ from those estimates. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Going concern
The preparation of financial statements requires an assessment on the validity of the going concern assumption. The validity of the going concern concept is dependent on finance being available for the continuing working capital requirements of the Group and finance for the development of the Group's projects becoming available. Further details concerning going concern are set out in Note 3.

Oil and gas reserves
Reserves and resources are used in the units of production calculation for depreciation as well as the determination of the timing of well closure costs and impairment analysis.

There are numerous uncertainties inherent in estimating oil and gas reserves. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being restated.

Impairment of intangible assets
The assessment of intangible assets for any indication of impairment involves uncertainty. There is uncertainty as to whether the exploration activity will yield any economically viable discovery. Aspects of uncertainty surrounding the Group's intangible assets include the amount of potential reserves, ability to be awarded exploration licenses and the ability to raise sufficient finance to develop the Group's projects. If the Directors determine that the intangible asset is impaired, a provision is made in the income statement. Following a review of the activities in the Company's Kazakh subsidiary, Victoria Energy Central Asia LLP (VECA), the Directors have decided to provide in full against the carrying value of $35.5m of the Kemerkol assets. Further details concerning the current year impairment charge are set out in Note 6.

Convertible bonds
The carrying value of the derivative financial instrument in the Balance Sheet is derived from a valuation model. Assumptions used in this model are subject to inherent uncertainties and may change significantly if the volatility in the Company's share price changes. An example of the effects of such changes is shown in Note 23.

Operating in Russia, Cameroon and Kazakhstan
The Group's activities are conducted through its investments and subsidiaries operating in the oil and gas industry. These operations are subject to political, economic and regulatory uncertainties prevailing in these countries.

The legislation regarding taxation and foreign exchange transactions is constantly evolving and many new laws and regulations are not always clearly written and their interpretation is subject to the opinions of local inspectors.

Decommissioning provision
The amount of provisions is respect of decommissioning costs is based on legal requirements currently enacted or substantially enacted, assumptions regarding the life of certain exploration, development and production assets, expected site restoration costs, current prices for similar activities and the discount rate.

Similarly, the laws and regulations concerning environmental assessments and site rehabilitation continue to evolve. Accordingly, the Group may be liable to substantial costs in the future relating to past and current operations.

2. STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET ADOPTED

Three interpretations issued by the international financial reporting interpretations committee are effective for the current period. These are: IFRIC 11 Group and Treasury Share Transactions; IFRIC 12 Service Concession Arrangements; and IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interactions. The adoption of these interpretations has not led to any changes in the Group's accounting policies.

At the date of authorisation of these financial statements the following standards and interpretations which have not been applied in these financial statements were in issue but not yet adopted:

Name of new Standards/amendments	Effective from accounting periods beginning on or after
IAS 1 (Amendment) – Presentation of financial Statements	1 January 2009
IAS 23 (Amendment) – Borrowing Cost	1 January 2009
IAS 24 (Amendment) – Related Party Disclosures	1 January 2011
IAS 27 (Amendment) – Consolidated and Separate Financial Statements	1 July 2009
IAS 32 & IAS 1 (Amendment)- Puttable Financial Instruments & Obligations Arising on Liquidation	1 January 2009
IAS 32 (Amendment) – Classification of rights issues	1 February 2010
IFRS 1 & IAS 27 (Amendment) – Cost of investment in subsidiary, Jointly controlled entity or Associates	1 January 2009
IAS 39 (Amendment) – Eligible hedged items	1 July 2009
IFRS 1 (Amendment) – Firs time adoption of Financial reporting Standards	1 July 2009
Amendments to IFRS 1 Additional Exemptions for First-time Adopters	1 January 2010
IFRS 2 (Amendment) – Vesting conditions and Cancellations	1 January 2009
Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions	1 January 2010
IFRS 3 – Business combinations	1 July 2009
FRS 7 (Amendment) – Improving Disclosures about Financial Instruments.	1 January 2009
IFRS 9 – Financial Instruments	1 January 2013
IFRIC 13 – customer Loyalty Programmes	1 July 2008
IFRIC 15 – Agreement for Construction of Real Estate	1 January 2009
IFRIC 16 – Hedges of Net Assets in a Foreign Operation	1 October 2008
IFRIC 17 – Distribution of Non-Cash Assets to Owners	1 July 2009
IFRIC 18 Transfers of Assets from Customers	1 July 2009

Improvements to IFRSs 2008 (effective for accounting periods beginning on or after 1 January 2009).

Improvements to IFRSs 2009 (some changes effective for accounting periods beginning on or after 1 January 2010, others effective for accounting periods beginning on or after 1 July 2009).

The Directors are currently assessing the impact in relation to the adoption of these standards and interpretations for future periods of the Group. Given the current Group operation, in the opinion of the Directors, the above should have no material impact on the Group financial statements.

3. GOING CONCERN

The Directors have given careful consideration to the appropriateness of the going concern basis in the preparation of the financial statements particularly as the Income Statement states that the Group incurred a loss of $42.4m for the year ended 31 May 2009 and the Consolidated Balance Sheet shows that the Group had net current liabilities of $3.4m at that date.

At 31 May 2009 the Group had $0.7m of cash. However, as stated in Note 37, the Group raised more than $28m in the period between the year end and the date of approval of these financial statements and has extended the £5m Standby Equity Distribution Agreement (SEDA) facility (see Note 25) by a further £5m, so that at 31 October 2009 the Group had cash of $8m and undrawn facilities of £6.2m ($10.2m) in respect of the SEDA.

Based on forecasts prepared by the Group, the Directors have estimated that the Group will need to spend approximately $4m to maintain its base operations across the Group (excluding its exploration and development programme) for the twelve month period from the date of approval of these financial statements.

The Directors have also reviewed Budgets and forecasts in respect of the planned work programme on its Cameroon and Russian assets. The funds available, after allowing for funds required for administration and operating costs, cover a significant portion of the cost of these activities but the Group will need to raise additional finance to complete all the planned works and to continue to participate in the development and exploration of the assets in the Cameroon.

The Directors are currently pursuing a number of opportunities for raising finance for the Group with banks and specialist investors interested in providing finance to companies operating in the Group's sector and geographical areas and are confident that the Group will secure the additional funding necessary to meet its planned work commitments. These circumstances represent a material uncertainty that may cast significant doubt upon the Group's ability to realise these assets and which could result in the value included in the balance sheet becoming subject to an impairment charge if additional funding is not obtained.

On this basis, the Directors have concluded that the Group and Company currently have adequate resources available to maintain the Group and Company's base operations and to continue in operational existence for the foreseeable future.

4. SEGMENTAL ANALYSIS

The Group's primary format for segmental reporting is geographical. The Group operates in one class of business being the exploration for, development and production of oil and gas and in three geographical segments, namely the Russian Federation, the Republic of Cameroon and the Republic of Kazakhstan.

The analysis of turnover, the profit before taxation, assets, liabilities, depreciation and additions to non current assets by geographical segment is shown below:

4A. SEGMENT REVENUE AND SEGMENT RESULT

	Revenue		Loss before tax	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
Russian Federation	**–**	–	**(592)**	(107)
Republic of Cameroon	**–**	–	**(2)**	–
Republic of Kazakhstan	**–**	1,726	**(40,942)**	(974)
Total for continuing operations	**–**	1,726	**(41,536)**	(1,081)
Unallocated Head Office	**–**	–	**(826)**	(87)
	–	1,726	**(42,362)**	(1,168)

There was no inter-segmental revenue.

4B. SEGMENT ASSETS AND LIABILITIES

	Assets		Liabilities	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
Russian Federation	**58,653**	66,518	**1,228**	1,240
Republic of Cameroon	**24,398**	–	**8,263**	–
Republic of Kazakhstan	**103**	41,449	**542**	1,086
Total for continuing operations	**83,154**	107,967	**10,033**	2,326
Unallocated Head Office	**1,480**	9,723	**6,030**	9,437
	84,634	117,690	**16,063**	11,763

4C. OTHER SEGMENTAL INFORMATION

	Depreciation and amortisation		Additions to non current assets	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
Russian Federation	**386**	–	**569**	2,501
Republic of Cameroon	**2**	–	**24,905**	–
Republic of Kazakhstan	**187**	670	**–**	6,448
Total for continuing operations	**575**	670	**25,474**	8,949
Unallocated Head Office	**3**	1	**–**	–
	578	671	**25,474**	8,949

The impairment charge against the carrying value of Kemerkol assets of $35.5m is in the Republic of Kazakhstan geographical segment.

In 2009, $15,000 of depreciation of plant and equipment was capitalised as exploration and evaluation expenditure (2008: $56,000).

5. OTHER GAINS AND LOSSES

	2009	2008
	$000	$000
Gain on third party loan assigned to Group company (Note 22)	**3,100**	–
Foreign exchange (losses) and gains	**(4,359)**	260
Fair value on AFS financial assets	**(143)**	–
	(1,402)	260

The Group funds exploration expenditure mainly through US dollar intra-group loans. The foreign exchange loss in the year arises principally from the impact on the intra-group loans of the devaluation of the Kazakh Tenge against the US dollar.

6. IMPAIRMENT OF OIL & GAS ASSETS

	2009 $000	2008 $000
Impairment of carrying value of Kemerkol licence interest:		
Property, plant and equipment (Note 16)	**1,510**	–
Intangible assets (Note 15)	**33,055**	–
Current assets	**219**	–
Release of asset retirement obligation	**(562)**	–
Associated legal fees and closure costs	**1,319**	–
	35,541	–

The provision for impairment is made against the cost of investment in and the assets of Victoria Energy Central Asia LLP (VECA) and other costs capitalised associated with the Kemerkol licence.

In February 2008, a claim was brought against the Company's Kazakh subsidiary, VECA, in the Economic Court of the Atyrau Oblast in Kazakhstan by Cypriot company Rasova Enterprises Company Limited. Despite the Company receiving legal advice that the claim was invalid under Kazakh law, it was upheld at a Court hearing in March 2008 and following a ruling of the Ministry of Energy and Mineral Resources in June 2008, the exploration licence in relation to the Kemerkol field was transferred to the previous licencee, Saga Creek Gold Company LLP (Saga Creek).

Production was suspended on 16 June 2008 pending resolution of the claim against VECA and has not recommenced since.

VECA is currently pursuing a claim against Saga Creek in the Kokshetau property court to ensure that its rights of ownership to the field equipment still in place at Kemerkol are respected.

VECA also lodged appeals to the Atyrau Appeal Court, the Supervisory Collegium and the Kazakh Supreme Court for the ruling in respect to the ownership of the licence to be overturned, but these appeals were rejected. Both VECA and Victoria Oil & Gas Plc (VOG) have also highlighted the case to the Office of the Kazakh President, his Anti-Corruption and Anti-Raider Commissions and to the UK Ambassador to Kazakhstan.

At present, VECA is evaluating its further options for appeal including a possible petition to the Kazakh General Prosecutor, as advised by the Supreme Court.

In addition, the Company commenced proceedings in the English Courts against the vendor for breach of warranties under the original sale and purchase agreements signed in 2005 for the acquisition of Kemerkol. On 15 September 2008, the UK High Court ruled in favour of VOG, but the Company has not yet pursued its rights to sue for damages against the vendor.

In September 2008, the Company successfully filed for an injunction in the Court of the Queen's Bench in Alberta, Canada against Alhambra Resources Ltd, the parent company of Saga Creek and others, prohibiting them from transferring any rights of the Kemerkol licence to any third party. After Alhambra Resources itself was subject to a legal claim in validating their ownership of Saga Creek, VOG signed a mutual release of the injunction in July 2009.

Management are currently investigating potential options of recovering rights of the licence including further appeals in Kazakhstan.

As a result of the events outlined above, the Directors have decided to provide in full against the carrying value of $35.5m of the Kemerkol assets.

7. FINANCE REVENUE

	2009 $000	2008 $000
Fair value gain on embedded derivatives	**1,401**	11,095

The above gains represent reductions in the fair value of the embedded derivatives in the convertible loan notes described more fully in Note 23. At each year end, and immediately prior to redemption or conversion, the embedded derivatives are revalued to fair value as explained in Note 1 (xiii) – Financial Instruments – Convertible bond – hybrid financial instruments.

8. FINANCE COSTS

	2009 $000	2008 $000
Convertible loan interest	**(131)**	(7,212)
Other interest expense	**(417)**	(571)
Unwind of discount on decommissioning costs	**(58)**	(202)
	(606)	(7,985)

Interest payable on the convertible loan includes both the stated and the effective interest charges.

9. LOSS BEFORE TAXATION

	2009 $000	2008 $000
The profit before taxation is stated after charging:		
Directors' remuneration (Note 12)	**803**	888
Auditors' remuneration	**228**	172
Depreciation	**177**	264
Amortisation of intangibles	**386**	351
and after crediting:		
Fair value gain on embedded derivatives	**1,401**	11,095

The Chairman was the highest paid Director and received $245,000 (2008: $300,000).

The analysis of auditors' remuneration is as follows:

	Total 2009 $000	Total 2008 $000
Audit fee	**228**	172
Remuneration for non audit work	**–**	–
	228	172

Expenses comprise:

	2009 $000	2008 $000
Direct materials	**–**	429
Wages and salaries	**2,481**	2,485
Professional fees	**2,134**	1,617
Office and other administrative expenditure	**687**	876
Travel	**269**	313
Rent	**187**	177
Depreciation & amortisation	**578**	615
	6,336	6,512

The above has been disclosed in the income statement as follows:

	2009 $000	2008 $000
Cost of sales	**–**	1,655
Administrative expenses	**6,336**	4,857
	6,336	6,512

10. INCOME TAX EXPENSE

	2009 $000	2008 $000
Income tax expense	–	–

Factors affecting the tax expense:

	2009 $000	2008 $000
Loss on ordinary activities before tax	(42,362)	(1,168)
Income tax calculated at 28% (2008: 30%)	(11,861)	(350)
Effects of:		
Impairment losses that are not deductible for tax	9,951	–
Effect of expenses not deductible for tax	158	205
Effect of finance costs not deductible for tax	153	1,847
Fair value adjustment on derivative not taxable	(392)	(3,329)
Effect of other timing differences	129	–
Effects of losses taxable at a lower rate	(528)	–
Increase in tax losses not utilised	2,390	1,627
Income tax expense	–	–
Deferred tax liability		
Arising on Bramlin acquisition	6,599	–

At the balance sheet date, the Group has unused tax losses of $35.0m (2008: $24.3m) available for offset against future profit. No deferred tax asset has been recognised in either year due to the unpredictability of future profit streams. Accordingly, at the year end, deferred tax assets amounting to $9.3m (2008: $6.9m) have not been recognised.

Factors that may affect future tax charges

The Group expects to commence production in the future. Such production is likely to result in taxable profits in Cameroon and Russia, where the applicable tax rates are 38.5% and 20% respectively.

11. EMPLOYEE INFORMATION

The average number of persons employed by the group during the year was:

Staff costs for the above persons were:

	2009 Number	2008 Number
Directors	**7**	5
Technical	**19**	53
Management and administration	**25**	30
	51	88

Staff costs for the above persons were:

	2009 $000	2008 $000
Wages and salaries	**2,426**	3,154
Social security costs	**146**	407
	2,572	3,561

Included in the above is $91,000 (2008: $1,076,000) of wages and salaries which were capitalised within exploration and evaluation assets.

12. DIRECTORS' REMUNERATION

	2009 $000	2008 $000
Remuneration		
– Short term employee benefits	**803**	888

The number of Directors to whom retirement benefits are accruing is nil.

During the year, no short term employee benefits or share based payments were capitalised within exploration and evaluation (2008: nil).

13. KEY MANAGEMENT COMPENSATION

	2009 $000	2008 $000
The compensation paid to key management personnel is set out as follows:		
Short term employee benefits	**1,474**	1,929
Professional fees (Note 35)	**926**	–
	2,400	1,929

Key management comprise the Directors of the Company, the Chief Operating Officer and the General Managers of each operation. The Company does not provide a pension scheme or other post employment benefits to any employees, including Directors and there were no termination benefits paid.

14. LOSS PER SHARE

Basic earnings or loss per share is computed by dividing the profit or loss after tax for the year available to ordinary shareholders by the weighted average number of ordinary shares in issue and ranking for dividend during the year, excluding those held by the ESOP Trust. Diluted earnings or loss per share is computed by dividing the profit or loss after taxation for the financial year by the weighted average number of ordinary shares in issue, each adjusted for the effect of all dilutive potential ordinary shares that were outstanding during the year.

The following table sets forth the computation for basic and diluted loss per share.

	2009	2008
	$000	$000
Numerator:		
Numerator for basic EPS – retained loss	**(42,362)**	(1,168)
	Number	Number
Denominator:		
Denominator for basic EPS and diluted EPS	**355,751,584**	166,118,178
	Cents	Cents
Loss per share – basic and diluted	**(11.91)**	(0.70)

Basic and diluted loss per share are the same, as the effect of the outstanding share options is anti-dilutive and is therefore excluded.

Refer to Notes 23, 24, 25 and 37 for details of transactions which could have a dilutive effect on EPS.

15. INTANGIBLE ASSETS

	Group	
	2009	2008
Exploration and evaluation assets:	**$000**	$000
Cost		
Opening balance	**104,880**	92,809
Exchange adjustments	**(13,075)**	3,442
Additions	**1,903**	8,629
Subsidiaries acquired (Note 34)	**24,304**	–
Disposals	**(1,255)**	–
Closing balance	**116,757**	104,880
Accumulated amortisation and impairment		
Opening balance	**515**	160
Exchange adjustments	**(9)**	4
Charge for the year	**386**	351
Disposals	**(339)**	–
Provision for impairment (Note 6)	**33,055**	–
Closing balance	**33,608**	515
Net book amount		
Opening balance	**104,365**	92,649
Closing balance	**83,149**	104,365

SEGMENTAL ANALYSIS

	Group	
	2009	2008
Exploration and evaluation assets:	**$000**	$000
Russian Federation	**58,494**	66,504
Republic of Cameroon	**24,655**	–
Republic of Kazakhstan	**–**	37,861
	83,149	104,365

Exploration and evaluation assets relate to expenditure incurred in oil and gas and related expenditure on the West Medvezhye project in Russia and the Logbaba gas exploration and development project in Cameroon. An impairment provision was made in the year against the Kemerkol project in Kazakhstan following the loss of the licence (see Note 6).

All present indications are that exploration projects in the Russia and Cameroon will have a value in excess of the accumulated costs to date.

The Directors are aware that by its nature there is an inherent uncertainty in exploration and evaluation, and therefore inherent uncertainty in relation to the carrying value of capitalised exploration and evaluation assets.

The realisation of this intangible asset is dependent on the discovery and successful development of economic reserves and is subject to a number of significant potential risks including:

- Funding requirements (see Note 3);
- Uncertainties over development and operational costs;
- Price fluctuations; and
- Political and legal risks, including arrangements with governments for licences, profit sharing and taxation.

Should this prove unsuccessful, the value included in the Balance Sheet would be written off to the Income Statement.

Having reviewed the exploration and evaluation expenditure at 31 May 2009, the Directors are satisfied that the value of the intangible asset is not less than carrying value.

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Plant & Equipment $000	Oil and Gas Interests $000	Total $000
Cost:			
At 31 May 2007	15	1,554	1,569
Exchange adjustments	–	31	31
Additions	–	949	949
Disposals	–	(24)	(24)
At 31 May 2008	15	2,510	2,525
Exchange adjustments	–	(381)	(381)
Additions	–	48	48
Subsidiaries acquired	–	54	54
Disposals	–	(88)	(88)
At 31 May 2009	15	2,143	2,158
Accumulated depreciation and accumulated impairment losses			
At 31 May 2007	5	201	206
Exchange adjustments	–	3	3
Disposals	–	(12)	(12)
Charge for year	2	318	320
At 31 May 2008	7	510	517
Exchange adjustments	–	(63)	(63)
Charge for the year	3	189	192
Subsidiaries acquired	–	16	16
Disposals	–	(51)	(51)
Impairment provision (Note 6)	–	1,510	1,510
At 31 May 2009	10	2,111	2,121
Net book amount:			
At 31 May 2009	5	32	37
At 31 May 2008	8	2,000	2,008

Company

	Plant & Equipment $000
Cost:	
At 31 May 2007	15
Additions	–
At 31 May 2008	15
Additions	–
At 31 May 2009	15
Depreciation:	
At 31 May 2007	5
Charge for year	2
At 31 May 2008	7
Charge for the year	3
At 31 May 2009	10
Net book amount:	
At 31 May 2009	5
At 31 May 2008	8

17. INVESTMENTS

	Group		Company	
	2009 $000	2008 $000	**2009 $000**	2008 $000
Listed investments (A)	**–**	696	**–**	696
Investments in subsidiaries (B)	**–**	–	**29,789**	33,682
Advances to subsidiary (C)	**–**	–	**39,627**	38,062
	–	696	**69,416**	72,440

17A LISTED INVESTMENTS

	Group		Company	
	2009 $000	2008 $000	**2009 $000**	2008 $000
Available for sale investments	**–**	696	**–**	696

The Group and Company had previously carried its interest in Bramlin Limited at fair value and as an available for sale investment. On acquisition of the remaining shares in Bramlin Limited, the Group and Company restated its original investment to historical cost and reclassified the balance as Investments in Subsidiaries.

17B INVESTMENTS IN SUBSIDIARIES

Unlisted investments

	Company	
	2009	2008
	$000	$000
Cost:		
Cost of investments at beginning of the year	**37,364**	37,364
Acquisition of Bramlin Limited (Note 34)	**12,400**	–
Cost of investments at end of the year	**49,764**	37,364
Impairment:		
Opening balance	**(3,682)**	(3,682)
Charge for the year	**(16,293)**	–
Closing balance	**(19,975)**	(3,682)
Net book value:		
Closing balance	**29,789**	33,682

The value of the Company's unlisted investments at 31 May 2009 represents the investment in the subsidiaries owning the West Medvezhye gas project and the Logbaba gas exploration and development project. The realisation of investments in and advances to subsidiaries by the Company is dependent on the development of economic reserves and the ability of the group to raise sufficient funds to develop these interests. Should the development of economic reserves prove unsuccessful, the carrying value in the balance sheet will be written off.

The Group created an impairment provision of $35.5m against its investment in Victoria Energy Central Asia LLP following the loss of its licence in Kemerkol.

17C ADVANCES TO SUBSIDIARY

Advances to subsidiary include an amount of $39.6m (2008: $38m) due from the Company's Russian subsidiary, ZAO SeverGas-Invest. Following a review of intercompany arrangements during the year, the Directors are of the view that this amount is and always was in substance part of the Company's net investment in the Russian operations for which settlement is neither planned nor likely to occur in the foreseeable future. As a result, the amounts due from the Russian subsidiary have been reclassified from Amounts due within one year to Investments in Subsidiaries. The comparative numbers have also been reclassified to reflect this. Furthermore, as in prior years, the Company has not accrued interest on these intercompany advances on the basis that settlement is not likely to occur in the foreseeable future.

17D SEGMENTAL ANALYSIS OF INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES

	Company	
	2009	2008
	$000	$000
Listed		
UK	**–**	696
Unlisted		
Russian Federation	**57,016**	55,451
Republic of Cameroon	**12,400**	–
Republic of Kazakhstan	**–**	16,293
	69,416	71,744
Total Investments in and Advances to Subsidiaries	**69,416**	72,440

The prior year figures include $16.3m for the Kemerkol project which has been fully impaired in 2009.

HOLDING

The principal holdings of the Group are:

Company	Country of incorporation	Class of shares	Percentage of capital	Status
Victoria Petroleum Limited	England & Wales	Ordinary	100%	Holding company
Victoria Oil & Gas International Limited	British Virgin Islands	Ordinary	100%	Active
ZAO SeverGas-Invest	Russia	Ordinary	100%	Active
Bramlin Limited	Guernsey	Ordinary	100%	Holding company
Rodeo Development Limited	British Virgin Islands	Ordinary	100%	Active
Bramlin RDL Limited	USA	Ordinary	100%	Active
Victoria Oil & Gas Central Asia Limited	England & Wales	Ordinary	100%	Representative office
Feax Investments Company Limited	Cyprus	Ordinary	100%	Holding company
Victoria Energy Central Asia UK Limited	England & Wales	Ordinary	100%	Holding company
Victoria Energy Central Asia LLP	Kazakhstan	Ordinary	100%	Active
Olager Oil LLP	Kazakhstan	Ordinary	90%	Dormant
Mogol LLP	Kazakhstan	Ordinary	100%	Dormant

The principal activity of these undertakings for the relevant financial period was exploration for and development of oil and gas assets. The investments of the Group at 31 May 2009 principally represent investments in the Logbaba gas project in Cameroon, which was acquired as part of the Bramlin acquisition and the West Medvezhye project in the Russian Federation. Following a review by the Company of the carrying amounts of its subsidiary undertakings for impairment, the investment in Kemerkol was fully provided against in 2009 (2008: $nil), as noted in Note 6.

The significant investments in the Company's Balance Sheet were $17.4m in respect to West Medvezhye (2008:$17.4m) and $12.4m in the Logbaba project (2008:$0.7m).

18. RESTRICTED CASH

	Group		Company	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
Restricted cash	**–**	122	**–**	–

Restricted cash in the prior year represented amounts placed in a separate deposit account for the purpose of rehabilitating the Kemerkol site as required under its exploration licence. The Group has provided for the loss of these funds as part of the Kemerkol impairment charge.

19. RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
Amounts due within one year:				
VAT recoverable	**13**	486	**13**	113
Prepayments	**31**	310	**–**	20
Amounts due by subsidiaries	**–**	–	**10,387**	32,909
Other receivables	**693**	430	**668**	408
	737	1,226	**11,068**	33,450

The carrying value of the receivables approximates to their fair value. The Directors review all receivables that are past their agreed terms and assess whether any amounts are irrecoverable, which is determined with reference to past default experience. Typical terms for trade receivables are 100% prepayment. No trade debts were overdue at the year end.

As outlined in Note 15, the value of the amounts due from Group undertakings is dependent on the successful discovery and development of economic reserves.

An amount of $16.7m due to the Company from Victoria Energy Central Asia LLP has been fully provided against in 2009. The amount due at 31 May 2008 was $15.7m but no provision was considered necessary at that time.

Included in other receivables is an amount due of $0.2m (2008: $0.4m) from Flair Petroleum Limited, which is fully secured on shares in FEC Resources Inc. and shares in Flair Petroleum Limited. The debt is expected to be repaid in the next 12 months.

20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
Cash	**711**	9,270	**416**	8,806

Funds are held in US dollars, Sterling, Russian Roubles, CFA and Kazakh Tenge in order to enable the Group to trade and settle its debts in the local currency in which they occur and in order to mitigate the Group's exposure to short term foreign exchange fluctuations. Cash is also held in floating rate accounts or deposits maturing in three months or less. The carrying amount of these assets approximates to their fair value.

Denomination:

	Group		Company	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
US dollar	**109**	918	**46**	908
Sterling	**462**	8,020	**370**	7,898
Russian Rouble	**1**	8	**–**	–
CFA	**36**	–	**–**	–
Kazakh Tenge	**103**	324	**–**	–
	711	9,270	**416**	8,806

21. TRADE AND OTHER PAYABLES

	Group		Company	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
Trade creditors	**2,052**	512	**1,393**	2
Taxes and social security costs	**31**	74	**–**	–
Accruals and deferred income	**1,028**	4,148	**828**	4,012
Other creditors	**774**	213	**–**	–
	3,885	4,947	**2,221**	4,014

It is the Group's normal practice to agree terms of transactions with suppliers, including payment terms. Provided suppliers perform in accordance with the agreed terms, payment is made accordingly. In the absence of agreed terms it is the Group's policy that payment is made within 30 days. The carrying value of approximates to their fair value.

22. BORROWINGS

	Group		Company	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
Current				
Loan from other entity	**1,000**	–	**1,000**	–

This loan is unsecured, non-interest bearing and repayable on demand.

Non-current				
Loans from related parties	**–**	3,693	**–**	3,693

In May 2009, the balance payable of £1.9m ($3.1m) to Millennium Projects Limited, which is owned by a discretionary trust of which Mukhtar Tuyakbayev, a Director of the Company is a potential beneficiary, was assigned to a Group company.

23. CONVERTIBLE LOAN NOTES

	Group		Company	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
Debt				
HJ Resources Limited convertible loans	**759**	–	**–**	–
Noor Petroleum convertible loan	**296**	212	**296**	212
	1,055	212	**296**	212
Derivative financial instruments				
HJ Resources Limited convertible loan	**395**	–	**–**	–
Noor Petroleum convertible loan	**247**	1,518	**247**	1,518
	642	1,518	**247**	1,518

HJ RESOURCES LIMITED CONVERTIBLE LOAN

In December 2008, HJ Resources Limited, a company in which Kevin Foo, the Chairman of the Company, has an interest provided unsecured loans to Victoria Oil & Gas International Limited totalling $1,188,000. On 11 May 2009 the terms of the loan agreements were amended to enable the lender to elect to convert the loans to ordinary shares in Victoria Oil & Gas Plc at a price of 3.70 pence per share. The initial term was for six months and has subsequently been extended through to 11 May 2010. Interest accrues at 0.5% per month. These loans are accounted for as hybrid financial instruments.

The fair value of the derivative financial instruments was calculated using a Black-Scholes model for the conversion option.

The inputs used were as follows:

	2009
Option term – years	1
Share price – pence Sterling	3.7
Risk-free rate	0.24%
Expected volatility	150.7%
Dividend yield	nil

NOOR PETROLEUM CONVERTIBLE LOAN ($2M)

In December 2007 the Company created a $10m unsecured convertible loan note with United Arab Emirates based Noor Petroleum Limited, a company of which former Company Director Rashed Al Suwaidi is a director. $2m was placed on 29 January 2008.

The Note is due for repayment on 31 December 2012 and bears interest at the rate of 2.5% per annum, payable biannually and is convertible into ordinary shares of the Company at a conversion price of 16.5 pence per ordinary share. In the event that the note is redeemed at term, the effective interest rate increases to 6.5% per annum and interest will be payable accordingly. This loan is accounted for as hybrid financial instrument.

The fair value of the derivative financial instrument was calculated using a Binomial Lattice model for the conversion option.

The inputs used were as follows:

	2009	2008
Option term – years	3.6	4.6
Share price – pence Sterling	16.5	16.5
Risk-free rate	2.25%	4.94%
Expected volatility	126.7%	78.3%
Dividend yield	nil	nil

The Directors consider that the expected volatility assumption is the most important driver of the fair value of the embedded derivative within the hybrid financial instruments. The following table provides an analysis of the fair value of the derivative based on an expected volatility figure 25 percentage points lower and 25 percentage points higher.

Expected volatility

	Embedded derivative	Gain/ (loss)
2009	$000	$000
Fair value at 31 May 2009	642	
25 percentage points higher	764	122
25 percentage points lower	441	(136)

24. PROVISIONS

	Group	
	2009	2008
	$000	$000
Contingent consideration provision	**1,993**	–
Decommissioning provision	**889**	1,393
	2,882	1,393

CONTINGENT CONSIDERATION PROVISION

As part of the consideration for the acquisition of Rodeo Development Limited by Bramlin Limited, a further 24,062,134 ordinary shares in Bramlin Limited were to be issued if certain conditions relating to the Logbaba licence in Cameroon are achieved. On acquisition of Bramlin this liability was converted to 29,355,804 ordinary shares of the Company. The Directors are of the view that the conditions will be met within the foreseeable future and have recognised the liability and valued the shares at the share price ruling on acquisition of Bramlin Limited. When the shares are issued any difference between the market value on issue and the provision will be recognised in exploration and development expenditure.

PROVISION FOR DECOMMISSIONING COSTS

A provision has been recognised at the present value of the Group's year end obligation for expected decommissioning costs of the West Medvezhye project based on an estimate of the decommissioning costs and of the year when those costs are likely to be incurred. The provision previously made for the Kemerkol project has been released following the loss of the licence.

	Group	
	2009	2008
	$000	$000
Decommissioning costs		
At 1 June	**1,393**	–
Additional provision in year	**–**	1,191
Impairment of Kazakhstan assets	**(562)**	–
Unwinding of discount charged to the income statement	**58**	202
At 31 May	**889**	1,393

25. CALLED-UP SHARE CAPITAL

	2009	2008
Group and Company	**£000**	£000
Authorised:		
800 million (2008: 400 million) ordinary shares of 0.5p each	**4,000**	2,000

Allotted Called-Up and Fully Paid:	**2009**	2008
	$000	$000
Ordinary shares of 0.5p each:		
Opening balance: 275,673,258 shares (2008: 124,125,207)	**2,621**	1,129
Issued during the year: 221,242,631 shares (2008: 151,548,051)	**1,668**	1,492
Closing balance: 496,915,889 shares (2008: 275,673,258)	**4,289**	2,621

Translated at the exchange rate prevailing at the date of issue.

SHARE ISSUES

The Company issued the following shares during the period:

	Number	Date	Issue Price pence
Placing for working capital	8,000,000	8 Oct 08	17.3
Settlement of amounts due to creditors	583,872	8 Oct 08	16.5
Settlement of amounts due to directors	249,671	8 Oct 08	16.5
Acquisition of Bramlin Limited	163,121,316	12 Dec 08	4.6
Placing for working capital	22,500,000	8 Apr 09	3.0
Settlement of amounts due to creditors	8,968,115	8 Apr 09	3.0
Placing for working capital	2,083,333	16 Apr 09	3.6
Settlement of amounts due to directors	965,129	16 Apr 09	5.1
Settlement of amounts due to creditors	166,667	16 Apr 09	3.0
Settlement of amounts due to employees	437,346	16 Apr 09	5.0
Placing for working capital	5,694,979	11-May-09	3.5
Placing for working capital	6,359,527	27-May-09	3.0
Settlement of amounts due to creditors	2,112,676	27-May-09	3.6
	221,242,631		

STANDBY EQUITY DISTRIBUTION AGREEMENT (SEDA)

On 1st April 2009 the Company entered into a £5.0m SEDA with YA Global Master SPV Limited (the Investor). The SEDA enables the Company, at its discretion during the next two years (the Commitment Period), to draw down funds in exchange for ordinary shares in the Company under the SEDA in tranches subject to the terms of the agreement. The primary terms of the agreement are:

- At any time during the Commitment Period, the Company may draw down an amount up to £200,000 per tranche. Higher amounts may be drawn down if agreed with the Investor in advance of the drawdown.
- The purchase price of the ordinary shares shall be 93% of the lowest daily Volume Weighted Average Price of the ordinary shares in the five trading days following the notification of a draw down.
- The Investor is also entitled to a placing fee of 3% of each draw down.

At 31 May 2009, £4.6m of the facility remained undrawn. Refer to Note 37 for details of a further SEDA entered into after the year end.

26. ESOP TRUST RESERVE

The Victoria Oil & Gas ESOP Trust is consolidated in these accounts as if it were a subsidiary undertaking in accordance with SIC 12. The ESOP Trust Reserve eliminates the value of the shares in the Company held by the ESOP trust, by treating these as treasury shares.

The balance on the reserve is analysed separately in the Consolidated Statement of Changes in Equity, shown on page 20, and reflects the subscription for new shares by the ESOP Trust and the distribution of shares to beneficiaries.

27. INVESTMENTS REVALUATION RESERVE

	Group		**Company**	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
At 1 June	**295**	–	**295**	–
Reversal on Bramlin Limited acquisition	**(295)**	–	**(295)**	–
Increase arising on revaluation	**–**	295	**–**	295
At 31 May	**–**	295	**–**	295

The revaluation reserve arose on the revaluation of the Group and Company's investment in Bramlin Limited, at current market price. The investment was transferred to Non Current – Investments as part of the acquisition accounting for Bramlin Limited (see Note 34).

28. OTHER RESERVE

	Group		**Company**	
	2009	2008	2009	2008
	$000	$000	$000	$000
At 1 June	**2,852**	–	2,852	–
Gain on redemption of fair valued embedded derivative	**–**	2,852	–	2,852
Share based payments	**30**	–	30	–
At 31 May	**2,882**	2,852	2,882	2,852

The opening balance arose on the settlement of an embedded derivative following the early redemption of an associated convertible loan note.

29. FINANCIAL RISK MANAGEMENT

The Group's financial instruments comprise cash balances and various items such as trade receivables and trade payables which arise directly from trading operations.

The Group undertakes certain transactions denominated in foreign currencies. Hence, it has an exposure to exchange rate fluctuations that arise. Exchange rate exposures are managed within approved policy parameters.

The Group holds cash as a liquid resource to fund the obligations of the Group. The Group's cash balances are held in US dollar, Sterling, CFA, Russian Roubles and Tenge. 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. This is achieved by regular monitoring of interest rates and monthly review of expenditure.

Except for embedded derivatives contained in hybrid financial instruments, the Group does not enter into any derivative transactions and it is the Group's policy that no trading in derivatives shall be undertaken. The issue of hybrid financial instruments forms an important part of the Group's funding of working capital and the associated risks are considered by the Board at that time.

The main financial risks arising from the Group's financial instruments are as follows:

LIQUIDITY RISK

As regards liquidity, the Group's exposure is confined to meeting obligations under short term trade payables agreements and under longer term borrowing arrangements. This exposure is considered significant. The risk is partially managed by the majority of longer term borrowings being taken on terms that allow conversion to new shares.

The Group's commitments have been fully met from cash flows generated from trading and equity and loan finance raised to date. The Directors are confident that adequate cash resources exist to finance operations for the future including exploration and development. Controls over expenditure are carefully managed.

The Company's and the Group's contractual maturity for its non derivative long term financial liabilities is more than one but not more than five years.

At 31 May 2009 and 31 May 2008, the Group and Company's other non derivative financial liabilities were payable on demand.

FOREIGN CURRENCY RISK

Although the Group is based in the UK, it has significant investments in overseas subsidiaries which operate in Russia, Cameroon and Kazakhstan. These overseas operations are funded in US dollars, which is largely converted to local currency to fund operations, as it is a legal requirement to make all in country payments in local currency. The Group holds surplus cash in both US dollars and Sterling, and buys Roubles, CFA and Tenge as required at the most advantageous rates available to meet short term creditor obligations and fund other expenditure.

The Group is exposed at any point in time to exchange rate fluctuations.

The Group seeks to minimise its exposure to currency risk by closely monitoring exchange rates and restricting the buying and selling of currencies to predetermined exchange rates within specified bands.

The functional currency of the majority of the Group's operations is in US dollars, and the reporting currency is US dollars. The carrying amounts of the Group's significant foreign currency denominated monetary assets and liabilities at the reporting dates are as follows:

	Assets		Liabilities	
Group	**2009**	2008	**2009**	2008
	$000	$000	**$000**	$000
US dollar	**806**	2,272	**6,862**	1,349
Sterling	**462**	7,895	**1,971**	8,088
Roubles	**13**	8	**339**	1,240
Tenge	**103**	324	**292**	1,086
CFA	**64**	–	**–**	–
	1,448	10,499	**9,464**	11,763

	Assets		Liabilities	
Company	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
US dollar	53,974	72,424	**1,861**	1,349
Sterling	370	7,894	**1,903**	8,088
	54,344	80,318	**3,764**	9,437

The Group does not utilise swaps or forward contracts to manage its currency exposures.

FOREIGN CURRENCY SENSITIVITY ANALYSIS

If the US dollar had gained/(lost) 5% against all currencies significant to the Group at 31 May 2009, the loss would have been $0.1m lower/(higher) (2008: $0.1m) and the net equity would have been $1.4m lower/(higher) (2008: $2.7m). The impact on the Company's Income Statement and net equity would be immaterial.

PRICE RISK

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting similar financial instruments traded in the market. The Group's overall market positions are monitored on a monthly basis by the Directors.

INTEREST RATE RISK

The Group had no outstanding bank borrowings at the year end or at the end of the prior year. The Group has interest bearing non bank borrowings of $1.2m from HJ Resources Limited. These accrue interest at a fixed rate of 0.5% per month.

New projects and acquisitions are financed by a combination of existing cash surpluses and through funds raised from equity share issues and other instruments. The Group may use project finance in the future to finance exploration and development costs on existing licences. The Company manages its interest rate exposure by borrowing at fixed rates of interest.

CAPITAL MANAGEMENT

The objective of managing capital is to maximise shareholder value. The capital structure of the Group and Company consists of equity attributable to equity holders of the parent company, comprising issued capital, reserves and retained earnings and convertible loans (see Note 23).

The Group reviews the capital structure on an annual basis. As part of this review, the Group considers the cost of capital and the risks associated with each class of capital.

FAIR VALUES

The carrying amount of the Group and Company's financial assets and financial liabilities (excluding those that are recorded at fair value) is a reasonable approximation of the fair value.

30. SHARE BASED PAYMENTS

Other than as disclosed below, no grants were made in the current or prior year.

WARRANTS TO SUBSCRIBE FOR ORDINARY SHARES

On 1 April 2009, the Company issued 1,035,167 warrants to Fox Davies Capital Limited as part of the placing agreement fee. Each warrant entitles the holder to purchase an ordinary share in the Company for 3 pence per share at any time up to 31 March 2011. None of the warrants were exercised or forfeited by the year-end.

The warrants have been fair valued using a Black-Scholes option pricing model and the fair value of $30,000 was charged against share issue costs in Share Premium. The inputs into the Black-Scholes model were as follows:

	2009
Weighted average share price – pence sterling	3.88
Option term – years	2
Share exercise price – pence Sterling	3
Risk-free rate	0.13%
Expected volatility	151%
Expected dividend yield	nil

The expected volatility was determined based on the historical movement in the Company's share price over a period equivalent to the option period.

31. NON-CASH TRANSACTIONS

During the 2009 financial year, the Group entered into the following non-cash investing and financing activities which are not reflected in the statement of cash flows:

- Shares were issued as of settlement of professional fees and services rendered of $2.9m (2008: nil).
- Shares were issued as part payment of a seismic survey $0.3m (2008: nil).
- Third Party loan of £1.9m ($3.1m) was assigned to a Group company.
- Shares issued in lieu of salary $0.3m (2008: $0.2m).

32. FINANCIAL COMMITMENTS

LOGBABA GAS DEVELOPMENT

The Group is required, under the Farm in Agreement to acquire a 60% interest in the Logbaba gas project in Cameroon from RSM Production Corporation, to re-enter or twin two wells previously drilled by Elf SEREPCA. This worked commenced in the current year and is expected to be completed by Quarter 2 2010 at a cost of $33m, a significant portion of which has been spent between the year end and the date of approval of these financial statements.

WEST MEDVEZHYE

During the year, the Group negotiated a five year minimum work programme with the Russian Ministry of Natural Resources on the West Medvezhye gas project, whereby the Group is required to drill two wells by 31 December 2013.

KEMERKOL

The Group has no outstanding financial commitments in respect to the Kemerkol licence (2008: $6.3m).

33. PARENT COMPANY INCOME STATEMENT

As permitted by Section 408 of the Companies Act, 2006 the parent company's Income Statement has not been presented in this document. The loss after taxation for the parent company for the year is $44.0m (2008 profit: $38,000).

34. ACQUISITIONS

In December 2008, the Company completed the acquisition of Bramlin Limited and its subsidiaries (Bramlin). Bramlin is registered in Guernsey and was listed on the Alternative Investment Market of the London Stock Exchange.

	Principal activity	Date of acquisition	Proportion of shares acquired	Cost of acquisition $000
Bramlin Limited	Oil and gas Exploration	12/12/08	remaining	12,400 99.6%*

* The Company already owned the other 0.4% of the shares in Bramlin.

Analysis of assets and liabilities assumed at the date of acquisition:

	Book value $000	Provisional fair value adjustments $000	Provisional fair value on acquisition $000
Current assets:			
Cash and cash equivalents	63	–	63
Trade & other receivables	613	(569)	44
Prepayments	104	–	104
Non-current assets:			
Exploration and development expenditure	43,651	(19,347)	24,304
Plant & equipment	32	–	32
Current liabilities:			
Trade & other payables	(1,339)	–	(1,339)
Loan from Victoria Oil & Gas Plc	(2,216)	2,216	–
Non current liabilities:			
Deferred taxation	(21,689)	15,090	(6,599)
Contingent consideration	–	(1,993)	(1,993)
Reserve bonus provision	(9,403)	9,403	–
	9,816	4,800	14,616

FAIR VALUE ADJUSTMENTS

Trade & other receivables: This fair value adjustment was made to write receivables down to their recoverable amounts.

Exploration and development expenditure: The Directors are of the view that the fair value of exploration and development expenditure (including the cost of the licence) is equal to the consideration adjusted for net working capital assumed, required deferred tax adjustments and other fair value adjustments as necessary.

Deferred taxation: This relates to the deferred adjustments arising as part of the provisional purchase price allocation.

Reserve bonus provision: The Reserve bonus provision has been reversed and is included in these financial statements as a contingent liability as payment is contingent on a number of medium to long term variables including the availability of project finance, execution of the development plan for the field and the level of reserves at an undetermined future point in time. Refer to Note 36 for further details.

Loan from Victoria Oil & Gas: This consisted of advances from Victoria Oil & Gas Plc prior to acquisition. These amounts were not settled as part of the acquisition and remain outstanding in the Company balance sheet at 31 May 2009.

Contingent considerations: As part of Bramlin's acquisition of Rodeo Development Limited (RDL), it was agreed that Bramlin would issue a further 24,062,134 ordinary shares to the previous shareholders of RDL if certain conditions relating to the Logbaba licence in Cameroon are achieved. As part of this acquisition, Victoria Oil & Gas Plc have agreed to issue 29,355,803 ordinary shares if these conditions are satisfied. In that event, Bramlin will reimburse Victoria Oil & Gas Plc for the value of the shares issued to settle this contingent consideration.

Any amendments to these provisions fair values made during the subsequent period will be included in the consolidated financial statements for the year ending 31 May 2010.

COST OF ACQUISITION

The cost of acquisition of the remaining shares in Bramlin Limited was discharged by the issue of 163,121,316 new ordinary shares in the Company. The total purchase consideration is determined by valuing these shares at the share price on acquisition of 4.55 pence per share, plus the historic cost of shares already owned and acquisition expenses.

Analysis of consideration

	2009 $000
Cost of investment in shares (already owned)	**375**
Non-cash consideration for Bramlin Limited	**11,076**
Acquisition expenses	**949**
Total purchase consideration	**12,400**
Pre-acquisition advances	**2,216**
	14,616

Net cash outflow on acquisition

Consideration paid in cash	**949**
Less: cash and cash equivalent balances acquired	**(63)**
	886

IMPACT OF ACQUISITION ON THE RESULTS OF THE GROUP

The group loss for the year includes post acquisition losses of $334,000 attributable to companies of the Bramlin group. The activities of the Bramlin group are expected to have little impact on the results of the Group until the Logbaba project is in operation as administrative overheads have been significantly reduced and direct project related expenditure is capitalised in line with the Group's accounting policy.

35. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of Victoria Oil & Gas Plc and the subsidiaries listed in Note 17. Victoria Oil & Gas Plc is the ultimate parent entity of the Group.

Related parties include key management personnel, payments to Directors and other key management are set out in Notes 12 and 13.

The following table provides the total amount of transactions entered into by the Company with other related parties:

2009	**Purchases from related parties during the year $000**	**Loans from related parties during the year $000**	**Cash advances to related parties during the year $000**	**Amounts due from/(to) related parties at the year end $000**
Subsidiaries	–	–	6,151*	50,014
Directors' other interests	–	1,188	–	(1,188)
Unpaid Directors' remuneration	–	–	–	(155)
Professional fees	926	–	–	–

2008	**Purchases from related parties during the year $000**	**Loans from related parties during the year $000**	**Cash advances to related parties during the year $000**	**Amounts due from/(to) related parties at the year end $000**
Subsidiaries	–	–	15,127	70,971
Directors' other interests	38	3,410	–	(3,410)
Unpaid Directors'remuneration	–	–	–	(20)

* Includes amounts advanced to Bramlin Limited prior to acquisition.

There was no intergroup trading or transactions between Group subsidiaries.

Robert Palmer is a Director of the Company and a member of The Gallagher Partnership LLP, an accountancy practice. These accounts include 2008: $38,000 in relation to general accountancy services provided by The Gallagher Partnership LLP to the Company.

Radwan Hadi is Chief Operating Officer of the Company and a manager of Blackwatch Petroleum Services Limited, a firm of upsteam oil and gas consultants. These accounts include $926,000 in relation to oil and gas technical services provided by Blackwater Petroleum Services Limited to the Company.

As noted in Note 22, Millennium Projects Limited is a company owned by a trust where by Mukhtar Tuyakbayev is a potential beneficiary. On 15 May 2009, a loan from Millennium Projects Limited to the Company for £1.9m was assigned to Victoria Oil & Gas International Limited for nominal consideration. An amount of $3.1m has been netted-off amounts due from subsidiaries in respect of this transaction.

In December 2008, HJ Resources Limited, a company in which Kevin Foo, the Chairman of the Company, has an interest, provided unsecured loans to Victoria Oil & Gas International Limited totalling $1,188,000. On 11 May 2009 the terms of the loan agreements were amended to enable the lender to elect to convert the loans to ordinary shares in Victoria Oil & Gas Plc at a price of 3.70 pence per share. The initial term was for six months and has subsequently been extended through to 11 May 2010. Interest accrues at 0.5% per month.

In December 2008, the Company completed the acquisition of Bramlin Limited, a company in which Kevin Foo, the Chairman of the Company, was also a shareholder and Chairman immediately prior to completion of the acquisition. Grant Manheim and George Donne, Executive Directors of the Company, were also shareholders in Bramlin immediately prior to the completion of the acquisition. Kevin Foo, Grant Manheim and George Donne were excluded from participation in negotiations and Board dicsussions and decision making relating to this acquisition.

Amounts due from subsidiaries in 2009 is stated net of a provision against the amount due from Victoria Energy Central Asia LLP of $16.7m (2008: nil). There were also movements during the year as a result of changes in foreign exchange rates.

36. CONTINGENT LIABILITIES

RESERVE BONUS LIABILITY

As indicated in Note 34, the Group has a contingent liability arising under an agreement between Bramlin Limited and Rodeo Resources Inc on the Logbaba gas exploration and development project. The amount of the liability will be determined four years after commencement of hydrocarbon production by reference to the reserves of the field, as assessed at that time, with a maximum amount of $10m being payable over a period of not less than four years from the date of calculation of the reserves. While the most recent information that the Company possesses indicates that the existing estimated reserves of the Logbaba field would be sufficient to justify the maximum bonus, there are still significant uncertainties relating to the raising of the necessary finance, the execution of the development plan and the timing and eventual commencement of hydrocarbon production. In view of these circumstances and the fact that the estimation of reserves is highly subjective and involves a high degree of judgement, the Directors are of the view that this represents a contingent liability at the year end and no amount has been provided in respect of this.

37. SUBSEQUENT EVENTS

Subsequent to the year end the Company has raised more than $28m to fund working capital and drilling in the Cameroon as follows:

On 17 June 2009, the Company announced that it had completed a £5.3m equity placing ($8.7m) and increased the SEDA to £10m for funding working capital;

On 9 July 2009, the Company announced that it had signed agreements for the provision of drilling and other services for the Logbaba gas field and the provision of a minimum of $4m of additional project funding;

On 28 August 2009, the Company announced that it had completed a £6m ($9.7m) equity placing for funding working capital; and

The Company drew down in tranches a total of £3.5m ($5.7m) of the SEDA from with YA Global Master SPV Limited.

Other subsequent events:

On 16 June 2009, the Company agreed to repay two promissory notes issued by Bramlin Limited with a total value of $350,000 by the issue of 5,052,658 new ordinary shares and settlement of $131,472 legal fees on behalf of the loan note holders. Kevin Foo, the Chairman of Victoria Oil & Gas Plc, has an interest in HJ Resources Limited which was beneficially entitled to 12.4% of the loan notes.

NOTICE OF THE ANNUAL GENERAL MEETING

VICTORIA OIL & GAS PLC

Notice is hereby given that the Annual General Meeting ("AGM") of Victoria Oil & Gas Plc (the "Company") will be held on 18 December 2009, at 11.00 am at 1st floor Meeting Room, Hatfield House, 52-54 Stamford Street, London SE1 9LX to consider and if thought fit to pass the following Resolutions of which 1 to 5 will be proposed as Ordinary Resolutions and Resolutions 6 to 8 will be proposed as Special Resolutions.

Ordinary Business:

1. To consider the financial statements and report of the auditors and the Directors for the year ended 31 May 2009.

2. To re-elect Kevin Foo as a Director of the Company.

3. To elect Austen Titford as a Director of the Company.

4. To re-appoint Deloitte & Touche as auditors of the Company and to authorise the Directors to fix their remuneration.

Special Business:

As Ordinary Resolution:

5. That the Directors be and they are hereby generally and unconditionally authorised for the purposes of Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £2,216,276 provided that such authority shall expire at the commencement of the Annual General Meeting next held after the passing of this resolution save that the Company may pursuant to the authority make offers or agreements before the expiry of the authority which would or might require relevant securities to be allotted after such expiry, and the Directors may allot relevant securities in pursuance of such offers or agreements as if the power conferred thereby had not expired.

As Special Resolutions:

6. That (subject to the passing of Resolution 5 as an Ordinary Resolution) the Directors be and they are hereby empowered pursuant to Section 570 and 573 of the Act to allot equity securities (within the meaning of Section 561(1) of the Act) wholly for cash pursuant to the authority conferred by Resolution 5 above as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

   (a) in connection with an offer of such securities by way of rights (including without limitation, under a rights issue, open offer or similar arrangement) to holders of equity securities in proportion (as nearly as may be practicable) to their respective holdings of such securities, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements, record dates or any other legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange;

   (b) otherwise than pursuant to the resolutions referred to in above 6(a) above and 6 (c) and (d) below of up to an aggregate nominal amount equal to five per cent. of the issued share capital of the Company in any calendar year for applications in connection with the discretionary employee share incentive scheme operated by the Company;

   (c) otherwise than pursuant to the resolutions referred to in 6(a) and (b) above and 6(d) below of up to an aggregate nominal amount equal to twenty per cent. of the issued ordinary share capital of the Company from time to time; and

(d) otherwise than pursuant to the resolutions referred to in above 6(a), (b) and (c) of up to an aggregate nominal amount equal to three per cent. of the issued ordinary share capital of the Company in any calendar year in connection with applications received from staff, consultants, and advisers representing their remuneration and/or fees from time to time;

provided that (unless renewed):

(i) the authority contained in this resolution shall expire at the commencement of the Annual General Meeting held next after the passing of this resolution, and

(ii) the Company may before such expiry make such offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred hereby has expired.

7 That Articles of Association of the Company be amended by deleting all the provisions of the Company's Memorandum of Association which, by virtue of section 28 Companies Act 2006, are to be treated as provisions of the Company's Articles of Association.

8 That the new Articles of Association produced at the Meeting and initialled by the Chairman of the Meeting for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

BY ORDER OF THE BOARD

Leena Nagrecha

Company Secretary

24 November 2009

Hatfield House

52-54 Stamford Street

London

SE1 9LX

Notes to the notice of Annual General Meeting:

Appointment of proxies

1. As a member of the Company, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
2. A proxy does not need to be a member of the Company but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the meeting you must appoint your own choice of proxy (not the Chairman) and give your instructions directly to the relevant person.
3. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, you must complete a separate proxy form for each proxy and specify against the proxy's name the number of shares over which the proxy has rights. If you are in any doubt as to the procedure to be followed for the purpose of appointing more than one proxy you must speak with the company secretary. If you fail to specify the number of shares to which each proxy relates, or specify a number of shares greater than that held by you on the record date, proxy appointments will be invalid.
4. If you do not indicate to your proxy how to vote on any resolution, your proxy will vote or abstain from voting at his discretion. Your proxy will vote (or abstain from voting) as he thinks fit in relation to any other matter which is put before the meeting.

Appointment of proxy using hard copy proxy form

5. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold his vote.
6. To appoint a proxy using the proxy form, it must be:
   - 6.1 completed and signed;
   - 6.2 sent or delivered to Registrar of the Company at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY; and
   - 6.3 received by the Registrar no later than 11 a.m. on 16 December 2009.
7. In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.
8. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

Appointment of proxy by joint members

9. In the case of joint holders of shares, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder (being the first named holder in respect of the shares in the Company's register of members) will be accepted.

Changing proxy instructions

10. To change your proxy instructions simply submit a new proxy appointment using the method set out in paragraphs 5 to 9 above. Note that the cut off time for receipt of proxy appointments specified in those paragraphs also applies in relation to amended instructions. Any amended proxy appointment received after the specified cut off time will be disregarded.
11. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

12. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Registrar of the Company at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.
13. The revocation notice must be received by the Registrar of the Company no later than 11 a.m. on 16 December 2009.
14. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to paragraph 0 below, your proxy appointment will remain valid.
15. Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

EXPLANATORY NOTES OF PRINCIPAL PROPOSED CHANGES TO THE ARTICLES OF ASSOCIATION (Resolutions 7 and 8)

We are asking the shareholders of the Company to approve a number of amendments to its articles of association primarily to reflect the implementation of the provisions of the Companies Act 2006 (the "Act"). An explanation of the main changes between the proposed and the current articles of association is set out below.

1. Variation of class rights

The current articles of association of the Company contain provisions regarding the variation of class rights. The proceedings and specific quorum requirements for a meeting convened to vary class rights are contained in the Act. The relevant provisions have therefore been amended in the Company's new articles of association (the "Articles").

2. Convening extraordinary and annual general meetings

The provisions in the Articles dealing with the convening of general meetings and the length of notice required to convene general meetings has been amended to conform to new provisions in the Act. In particular a general meeting to consider a special resolution can be convened on 14 days notice whereas previously 21 days notice was required.

3. Votes of members

The time limits for the appointment or termination of a proxy appointment in the case of a poll taken more than 48 hours after a general meeting at which a resolution is considered has been changed and cannot now be more than 24 hours before the time for the taking of a poll.

4. Conflicts of interest

The Articles contain a new provision, dealing with conflicts of interest. With effect from 1 October 2008, under section 175 of the Act, a director of a company came under a duty to avoid a situation in which he has, or can have, a direct or indirect interest which conflicts or possibly may conflict with the interests of the company. This duty is not infringed if the relevant conflict situation is authorised by the other directors of the company, and in order to give that authorisation the directors must be permitted to do so by the company's articles of association. The Articles include provision for the Directors to authorise such conflict situations and include related amendments to the provisions in the current articles which refer to Directors' interests.

5. Notice of board meetings

Under the current articles, when a director is abroad he can request that notices of directors' meetings are sent to him at a specified address and if he does not do so he is not entitled to receive notice while he is away. This provision has been removed, as modern communications mean that there may be no particular obstacle to giving notice to a director who is abroad. It has been replaced with a more general provision that a director is treated as having waived his entitlement to notice, unless he supplies the Company with the information necessary to ensure that he receives notice of a meeting before it takes place.

6. Distribution of assets otherwise than in cash

The current articles contain provisions dealing with the distribution of assets in kind in the event of the Company going into liquidation. These provisions have been removed on the grounds that a provision about the powers of liquidators is a matter for insolvency law rather than the articles and that the Insolvency Act 1986 confers powers on the liquidator which would enable it to do what is envisaged by the Articles.

7. Electronic and web communications

The Articles authorise the Company to communicate with its shareholders by electronic means.

8. Directors

The Act contains no restrictions on a director remaining in, or being appointed to office after the age of 70. Provisions in the current articles setting out special steps to appoint or re-elect in such circumstances have been removed.

The Act has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. In addition, the existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.

9. The Company's objects

The provisions regulating the operations of the Company are currently set out in the Company's memorandum and articles of association. The Company's memorandum contains, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake.

The Companies Act 2006 significantly reduces the constitutional significance of a company's memorandum. The Companies Act 2006 provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the Companies Act 2006 the objects clause and all other provisions which are currently contained in a company's memorandum, for existing companies at 1 October 2009, will be deemed to be contained in a company's articles of association but the company can remove these provisions by special resolution.

Further the Companies Act 2006 states that unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the Companies Act 2006, are to be treated as forming part of the Company's articles of association as of 1 October 2009. Resolution 8 confirms the removal of these provisions for the Company. As the effect of this resolution will be to remove the statement currently in the Company's memorandum of association regarding limited liability, the New Articles also contain an express statement regarding the limited liability of the shareholders.

10. Change of name

Currently, a company can only change its name by special resolution. Under the Companies Act 2006 a company will be able to change its name by other means provided for by its articles. To take advantage of this provision, the New Articles enable the Directors to pass a resolution to change the Company's name.

11. Authorised share capital and unissued shares

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital and the New Articles reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Companies Act 2006, save in respect of employee share schemes.

12. Redeemable shares

At present if a company wishes to issue redeemable shares, it must include in its articles the terms and manner of redemption. The Companies Act 2006 enables directors to determine such matters instead provided they are so authorised by the articles. The Articles contain such an authorisation. The directors would need shareholders' authority to issue new shares in the usual way.

13. Authority to purchase own shares, consolidate and sub-divide shares, and reduce share capital

Under the law currently in force a company requires specific enabling provisions in its articles to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves as well as shareholder authority to undertake the relevant action. The current articles include these enabling provisions. Under the Companies Act 2006 a company will only require shareholder authority to do any of these things and it will no longer be necessary for articles to contain enabling provisions. Accordingly the relevant enabling provisions have been removed in the Articles.

14. Use of seals

A company currently requires authority in its articles to have an official seal for use abroad. After 1 October 2009 such authority will no longer be required. Accordingly the relevant authorisation has been removed in the Articles.

The Articles provide an alternative option for execution of documents (other than share certificates). Under the Articles, when the seal is affixed to a document it may be signed by one authorised person in the presence of a witness, whereas previously the requirement was for signature by either a Director and the company secretary or two Directors or such other person or persons as the Directors may approve.

15. Suspension of registration of share transfers

The current articles permit the Directors to suspend the registration of transfers. Under the Act share transfers must be registered as soon as practicable. The power in the current articles to suspend the registration of transfers is inconsistent with this requirement. Accordingly, this power has been removed in the Articles.

16. Vacation of office by directors

The current articles specify the circumstances in which a Director must vacate office. The Articles update these provisions to reflect the approach taken on mental and physical incapacity in the model articles for public companies produced by the Department for Business, Enterprise and Regulatory Reform.

17. General

The Company has taken this opportunity to bring clearer language into the Articles, and to update the references to relevant sections of legislation which has been enacted and come into force since the time when the current articles were adopted and/or last amended, including specifically references to the Act.

18. Additional amendments

The Company has considered any additional amendments which are deemed to be necessary/advisable following a substantive review of the current articles.