



## Victoria Oil & Gas Plc

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Dear Shareholder,

It is my pleasure to report to you again on the progress of Victoria Oil and Gas (VOG) over the last three months. During this period, the market has shown a great deal of resilience and an improved level of optimism on equity stocks has returned, with resources stocks once again gaining attention. While we hope that this trend will continue, our focus remains to achieve revenue generation as soon as possible and develop VOG from an exploration to a development and production company. Then and only then will our true potential receive significant value.

On the back of this positive sentiment, in August we seized the opportunity to raise a further £6 million for the early commencement of the design and engineering of the gas processing unit and pipeline for our Logbaba gas project in Douala, Cameroon. The downstream element of the project, key to monetisation of a gas discovery, would typically be financed through debt after a successful well. This financing has allowed us to start preparations in advance of the first well being completed and should save us considerable time between our first successful drilling results and receiving first cash flows.

I also had the pleasure to welcome Austen Titford to the Board of VOG as Executive Director. Austen was our financial controller and has a wealth of experience in the natural resources sector with major companies such as BHP Billiton and LASMO and has worked in countries such as Iran and Uzbekistan. His addition will augment the Board's financial and commercial expertise at this important point in VOG's development.

### **Logbaba, Cameroon**

Attention is currently focused on our Logbaba gas project in Cameroon after the first new appraisal well, 105, was spudded on schedule at the end of August. The well, which is being drilled from our prepared site on the location of the old Well 104, will have a total depth of 10,000 feet (around 3,000 metres) and be deviated to twin Well 103, drilled by Elf in the 1950s. Well 103, which was drilled to a total depth of just over 9,000 feet, tested gas from the Campanian sands at almost 40 million cubic feet per day with no gas-water contact encountered. We are hoping for similar flows from Well 105.

We have successfully set 13 3/8 inch casing to a depth of around 4,250 feet and, in anticipation of an increase in pressure, have installed and tested a 10,000 psi blow-out preventer. Each of the wells drilled in the 1950s intersected high-pressured gas-bearing sands from depths of 5,500 feet and below and so as we drill the 12 1/4 inch

hole section we are entering into the truly prospective zones. As is usual for a new and untested drilling rig, there have been teething problems, but these have been remedied and we expect smooth progress through the rest of the well.

In event that we have a successful well, we will proceed immediately with testing while the rig is moved a short distance of 10 metres for spudding of the next well. The results of the well test will also be circulated to RPS Energy for a revision of their reserve estimate, which currently assigns 2P reserves of more than 100 billion cubic feet of gas to Logbaba.

Due to our recent financing we have been able to commence work on the FEED (Front-End Engineering and Design) study for the gas processing facility and the 15 kilometre pipeline to carry the gas to our industrial clients, some of whom have already purchased the equipment necessary to convert their burners from liquid fuels to natural gas. Engineering consultants have been engaged to begin the work with our aim to produce a complete design package before the end of this year.

As well as stimulating the economic advancement of the country through the provision of cheaper energy to the industrial market, an initiative to grow Cameroon's power generation capacity has become a firm priority. In July, a \$160 million deal was agreed between the State Electricity Company and Hyundai Engineering & Construction for a new 230 megawatt gas-fired power station to be located in Logbaba, with installation targeted by September 2010. Given that our Logbaba field is the only onshore gas discovery in the country, VOG is uniquely positioned to benefit from such a huge project.

We have also submitted our own proposals for a much smaller-scale power plant to be located adjacent to our current drilling location, which could be capable of generating up to around 75 megawatts for transmission into the local grid. VOG would not operate this plant, but we have proposed to the Government that we can assist in its installation and provide the gas feedstock.

### **West Medvezhye, Russia (West Med)**

The subsurface evaluation work at West Med continues to pay dividends. In August, the Russian Ministry of Natural Resources confirmed and approved the findings of local geological institute SibNats. As part of their study from the reinterpretation of the 2D seismic and drilling results from Well 103, SibNats have identified more than 30 potential hydrocarbon-bearing structures within the West Med licence area. Furthermore, SibNats calculated Russian category C3 resources for just three of the structures at over 170 million barrels of oil equivalent, including half a trillion cubic feet of gas. It should be stressed that these results are not based on the same methodology as the independent evaluation performed by DeGolyer and MacNaughton in August 2006, which calculated gross prospective resources for West Med of over 1.1 billion barrels of oil equivalent, including five trillion cubic feet of gas.

Our plan remains to continue with the exploration work to define as much of the subsurface as possible before we decide our next drilling locations. As well as the second passive seismic survey, which we are preparing to commission in the coming

winter, we are also considering a further geochemical study to give us even more information. Both of these studies will be undertaken over a large part of the eastern section of the licence block, where our field rises up to join Gazprom's super-giant Medvezhye field. There is a good chance that part of the Medvezhye structure extends into our licence and stratigraphic traps may exist where the fields join.

### **Kemerkol, Kazakhstan**

We continue to fight our corner in the Kazakhstan legal system on this project but its importance in the day to day business of VOG is minimal. We will continue to seek solutions within economic and legal limits.

### **Outlook**

The next few months will be dominated by the results of the drilling in Cameroon and I look forward to sharing these with you as they become available. The drilling of Wells 105 and 106 is just the start of a process, which we hope will lead us to a significant revenue generation within 12 months of spudding. However, this will not distract us from the important activities on West Med or diminish our appetite for new projects to add further value to our Company.

Kevin Foo  
Chairman