

ANNUAL REPORT 2007

CONTENTS

- 2** Directors and Advisors
- 3** Directors' Biographies
- 4** Chairman's Statement
- 6** Operating Review

ANNUAL ACCOUNTS 2007

CONTENTS

- 1** Report of the Directors
- 5** Corporate Governance Report
- 7** Directors' Remuneration Report
- 8** Independent Auditors' Report
- 10** Consolidated Profit and Loss Account
- 11** Consolidated Statement of Total Recognised Gains and Losses
- 12** Balance Sheets
- 13** Consolidated Cash Flow Statement
- 14** Notes to the Consolidated Financial Statements
- 27** Notice of Annual General Meeting

DIRECTORS AND ADVISORS

Directors	Kevin Foo, Chairman Grant Manheim, Deputy Chairman Tony Porter, Chief Executive Officer Robert Palmer, Finance Director
Secretary	Leena Nagrecha
Company Number	5139892
Registered Office	Hatfield House 52/54 Stamford Street London SE1 9LX
Registered 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, 200 Strand London WC2R 1DJ
Nominated Advisor & Joint Broker	Jefferies International Limited Vintners Place, 68 Upper Thames Street London EC4V 3BJ
Joint Broker	Ambrian Partners Ltd 8 Angel Court London EC2R 7HP

DIRECTORS' BIOGRAPHIES

Kevin Foo M.Sc.,DIC, Dip Met, MIMMM (Chairman) has a 37 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 17 years in Kazakhstan and Russia and is a specialist in the development of mines in the Former Soviet Union (FSU). He is currently the non-executive chairman of Bramlin Limited and managing director of Celtic Resources Holdings Plc, two 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.

Tony Porter (Chief Executive Officer) has a career which includes more than 40 years in the energy and power generation sectors. With regional experience gained in the FSU since 1992, he has been intimately involved in such major projects as Tengiz and Kashagan and was retained to develop and advise on an indigenous national development programme through the expansion of the oil and gas market for the Government of Kazakhstan.

CHAIRMAN'S STATEMENT

Dear Shareholder,

Since the Company listed on AIM in July 2004 we have seen many changes in the markets and in our FSU operating environment. In this period our key successes have been the acquisition of the potentially very large West Medvezhye gas and gas condensate project in Russia and the Kemerkol oil project in Kazakhstan.

At West Medvezhye we have completed three exploration wells and are currently working on the fourth, number 103. This has shown modest condensate and light oil flows, which may or may not be economic. Importantly, our technical team demonstrated its ability to drill and complete successfully its first deep well to depths below 3,800 metres.

At Kemerkol, we have completed five out of our original six well drilling programme and current production is a steady 400 barrels per day. We hope to increase Kemerkol production in 2008 with the eventual goal of covering all Company overheads by income from this property.

Early in 2007 we appointed Tony Porter as Chief Executive Officer and his detailed report is attached. Tony was tasked with cutting costs and increasing revenue and he has successfully achieved this in a short time. Tony intends to finish up at the end of the year once his contract expires as he wishes to focus on his consulting business. We have already had discussions with a number of high-quality candidates for the role of CEO and I look forward to unveiling Tony's successor to you shortly.

Review

Recently, the Board undertook a fundamental internal review of the Company and we have reached several important conclusions that I wish to share with you:

- Drilling success rates at West Medvezhye and Kemerkol, whilst not below industry averages, have not met the strike rate that the Company expected and hoped for. Non-commercial wells not only cost millions of dollars, they also erode confidence in a company and the share price suffers. While we strive to achieve our drilling plans as efficiently as possible, there are no shortcuts to success and if further evaluation is needed we will do so, as can now be witnessed at Kemerkol
- There has been pressure on the Company to drill wells as fast as possible, usually to meet weather windows, to test structures and potential hydrocarbon flows whereas more considered evaluation of seismic and geological data may have improved the strike rate
- Operating in the FSU had become more difficult, with major challenges involving weather, local and federal politics, but our teams have met these challenges well and as a net result we feel that Victoria is more "battle hardened" than before
- Financing of the Company, via a \$38 million convertible bond in late 2006, was a welcome contribution, but it is in the long term interests of the Company to re-organise this component of our financial structure to more traditional equity
- Despite reviewing dozens of projects we have not succeeded in making any appropriate acquisitions. The reasons for this often involved the poor quality of data and projects, unrealistic expectations of vendors and the failure of projects to stand up to due diligence investigations
- Full time executive management and a strengthened technical group is needed to ensure focus, attention to detail and a better ability to support our acquisition teams

So, what is the Company doing about these issues? We are actively solving them and your Company is now undergoing a "top to bottom" review which involves assessment of all of our physical and human assets, the major challenges confronting us now and how we can improve our success rate in drilling and increasing production and new deal flow.

To assist us in this review, we have appointed the internationally renowned emerging markets investment bank Renaissance Capital as our financial advisors as we investigate all elements of the Company. Renaissance is a premier Russian financial advisory house and leads the market in equity and debt capital market transactions as well as having unsurpassed experience in mergers and acquisitions not only in Russia, but also in the FSU as well as other high opportunity emerging markets.

We are committed to ensure that the development strategy which emerges from this review will have the greatest chance of enhancing value for you and that any financing for our prospective activity during the coming year will be closely tailored to shareholders interests.

Outlook

I would remind shareholders that Victoria's prospective resource base remains in excess of one billion barrels of oil equivalent. It also has C1 and C2 proven and probable reserves totalling over 35 million barrels of oil. However this potential has not yet been realised so I see 2008 as a critical "turnaround" period for us.

Our objectives for 2008 are to:

- Restructure and strengthen Executive and Technical management, who are tasked with turning this potential into reality
- Re-finance the Company by changing existing financial arrangements and attracting appropriate strategic and industry investors that can ensure our financial strength under all market conditions
- Focus on improving our drilling strike rate at West Medvezhye and Kemerkol
- Use our hard-earned FSU project acquisition, operating and management experience to better advantage
- Acquire at least two value enhancing projects that will add production and reserves and not greater exploration risk
- Strengthen the Board with high quality non-executive independent directors
- Improve our investor relations skills and build our profile to attract more investors

I would like to extend my thanks to all of our employees and my fellow Directors for their endeavour this year and also thank you, our shareholders, for your patient support.

Kevin Foo
Chairman

OPERATING REVIEW

Dear Shareholder,

It is my pleasure to report to you for the second time on the development of our assets in Russia and Kazakhstan. I would like to share with you the significant events that have occurred since my last report and explain the strategies which underpin them and will determine our future operations.

Much of our work during 2007 has been geared towards streamlining the organisation, reducing our operating costs and developing a stable cash flow stream from our Kemerkol oil field in Kazakhstan from both production drilling and the increase of our reserve base through exploration. The purpose of our increased focus on Kemerkol has been to allow us to finance the development of our West Medvezhye gas and condensate project in Siberia. I would like to clarify, however, that whilst the oil revenues from Kemerkol will prove vital in the short-term, West Medvezhye still holds the most significant potential for the future of our company and its successful development remains a priority.

West Medvezhye

Presently, our activities remain centred on the testing of the two identified hydrocarbon-bearing formations at Well 103. These formations are the J2 (Jurassic) formation located at a depth between 3,794 – 3,799 metres and the Bazhenov formation between 3,718 – 3,741 metres. It should be noted that the Bazhenov shale is the source-rock for the entire Western Siberian Basin, one of the largest sedimentary basins in the world extending over two million square kilometres.

A test of the J2 horizon performed early this year utilised the standard practice of filling the well-bore with technical water to stabilise the down-hole pressures and control hydrocarbon flow. Unfortunately, not all of this water was able to be removed from the well during the test. Without being able to conclusively assess the potential impact that the residual water may have had on flow rates, our technical team recommended that the well be retested.

I can confirm that after major technical challenges, due to operating at these depths, all the technical water has now been displaced from the well using a gas condensate flush and the testing of the J2 and Bazhenov horizons is underway. On completion, the results from these tests will be submitted to the Russian Ministry of Natural Resources, as stipulated in our licence conditions, for calculation of reserves and the data will also be passed on to DeGolyer & MacNaughton, our independent reserve auditors, for revision of their resource estimate for the project.

The submission of the test data and reserve calculation are vital for the extension of our exploration licence and our Siberian management are already in discussions with the authorities on this process. We have worked closely with the local geological institute (a branch of the Ministry) and they support our intended testing strategy and proposed procedure for licence extension.

The work undertaken at Well 103 has been thorough, as is befitting the first exploration well of this depth in the licence area. Most of the main targets in the 1,200 square kilometre area are of similar depths to 103 and so the compilation of comprehensive subsurface data is vital not just for this location, but for the project as a whole. Given the importance of the project and this well we firmly believe that accuracy and detail should not be sacrificed for speed.

Well 105 remains our next exploration target and preparations for drilling will commence as soon as climatic conditions allow. Access to the well-site for heavy equipment must be via 'winter roads' composed of compacted ice and so we must wait for sufficiently low temperatures before we can re-establish a land connection. However, as soon as the ground starts to freeze we are planning to undertake a geochemical survey of the Well 105 location area to further refine our drill point.

Kemerkol

As mentioned earlier, our strategy for Kemerkol was founded on the principle of matching the exploitation of our existing reserve base with the addition of reserves from exploration in the greenfield locations in the east of the licence area. Oil production commenced from Kemerkol in late May and so far this year over 45,000 barrels of oil has been extracted from Wells 73 and 20.

Development was initiated with a six-well drill campaign, which began in April with the success of Well 73. This well was drilled into the proven structure in the south-western section of the licence area and flowed at a rate of 450 barrels of oil per day on a 12 millimetre choke. Since then we have undertaken a thorough testing regime on the well to

determine the exact reservoir characteristic for efficiency of future extraction and production during which production was limited to between 200 and 300 barrels of oil per day. With initial results obtained at stable operation we are now implementing planned increases through a gradual ramp up of production through the use of 'down hole' pumping.

Approximately 115 metres from 73 and targeting the same structure, work-over operations have been completed at our first producing well, Well 20. During last year we witnessed an increase in water-cut at Well 20 and consequently shut the well in for inspection and repair. With the well still likely to produce water, the decision was taken to recommission an old well, 45, as a re-injection well to allow the disposal of any produced water at very low cost. With Well 45 fully operational Well 20 has been reactivated and with the planned installation of a larger pump production will be increased from the current rate of 50 barrels per day to in excess of 100 barrels.

All production from these two wells is currently piped to our gathering facility, where water and salt is separated and the oil sold to a local trader. Following the approval by the Ministry of Energy and Mineral Resources of our Production Project for these wells, we are preparing to install a basic processing and certification facility to improve the quality of our saleable oil and improve the price achieved by up to 30%. The approval also means that our permitted production period for the wells has increased from three months to three years, by which time we aim to have achieved the necessary production capacity to enter the production phase of our licence agreement and secure the 25 year production period for all wells.

With the completion of Well 66 we have taken the opportunity to pause in our drilling campaign and reinterpret thoroughly the subsurface information with the data provided by the new drilling. Hydrocarbons have been encountered in each new exploration well and now we have the chance to augment our existing 2D and 3D seismic studies with down-hole sample data and re-examine the subsurface interpretation, focusing on migration, seal and trapping. The review will analyse potential leads on the basis of hydrocarbon prospectivity and certainty of trap and seal with the best structures then to be proposed for drilling, probably during the first quarter of next year.

Despite the significant challenges of this year we have successfully added to our commercial production output in Kemerkol and utilising the hard earned data from each of our exploration wells in both Kemerkol and West Med we look forward to even better results in 2008. The effort of all of our staff in the field and in the offices in facing these challenges has been unwavering and on your behalf I would like to thank them for all their loyalty, commitment and shear hard work. Finally, I should like to thank everyone for their support in my position over the last year and as mentioned in the Chairman's letter, I am leaving Victoria to focus on my consulting business, but I shall be available to support the Company on an as required basis.

Tony Porter
Chief Executive Officer

ANNUAL ACCOUNTS 2007

CONTENTS

- 1 Report of the Directors
- 5 Corporate Governance Report
- 7 Directors' Remuneration Report
- 8 Independent Auditors' Report
- 10 Consolidated Profit and Loss Account
- 11 Consolidated Statement of Total Recognised Gains and Losses
- 12 Balance Sheets
- 13 Consolidated Cash Flow Statement
- 14 Notes to the Consolidated Financial Statements

REPORT OF THE DIRECTORS

YEAR ENDED 31 MAY 2007

The Directors present their report and audited Consolidated Financial Statements for the year ended 31 May 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Group is the exploration for and development and management of oil and gas projects in Russia, Kazakhstan and other countries in the Former Soviet Union.

REVIEW OF THE BUSINESS

A detailed review of the significant developments and operating activities of the Group, as well as the business environment and future prospects for the Group are contained in the Chairman's Statement and the Operating Review.

On 17 October 2006, the Company completed a private placement of up to £20 million of Secured Guaranteed Convertible Bonds due 2009 (the Bonds). The Company issued £11.5 million of the Bonds at that time. On 12 April 2007, the Company completed the issue of a further £7.25 million of the Bonds and was granted a put option by the subscriber over the remaining £1.25 million of the Bonds. Proceeds from this fund raising exercise have been used for the Company's on-going exploration and production programmes at its assets in Russia and Kazakhstan.

The Directors believe that given the Group's current stage of development, the relevant key performance indicators are capital expenditure and net cash inflow. This information is set out in the financial statements together with comparative information for the previous year.

The capital expenditure is a reflection of the exploration and development activity of the Group. The total for the year was \$28.9 million* (2006: \$23.5 million), an increase of almost \$5.4 million over the previous year. Of this total approximately 53% was spent in Russia and 47% was spent in Kazakhstan.

Gross cash inflow for the year was \$37.8 million compared to \$23.6 million for the previous year. The prime source of cash inflow has been the issuing of the Bonds. This year a small proportion of cash inflow was also generated by operations and it is expected that this will continue to increase for future periods.

The Group's operating activities are undertaken through subsidiaries in the relevant jurisdictions and the Group seeks to manage and mitigate where possible the risks inherent in its activities, both external and internal.

External risks include political conditions, changes in legislation, environmental issues and foreign exchange matters. These are largely outside the control of the Group, but all of these issues are carefully monitored to ensure that effective responses are made to changes. Where possible and cost effective, the risks are transferred to others through insurance policies.

Internal risks cover exploration and development risk, evaluation of acquisitions and internal control failures. The Group seeks to mitigate these risks by the use of experienced and suitably qualified specialists, both internal and external, to advise on exploration, development and acquisition strategies. The Group has also established internal control procedures to minimise the risk of a control failure.

RESULTS AND DIVIDENDS

The results for the year are set out in the consolidated profit and loss account. The Directors do not propose payment of a dividend in the current year (2006: nil).

* All reference to \$ are US\$

REPORT OF THE DIRECTORS *continued*

DIRECTORS

The Directors who served during the year, except as noted were as follows:

Kevin Foo

Grant Manheim

Robert Palmer

Tony Porter (appointed on 30 January 2007), William Kelleher (resigned on 30 January 2007)

Tony Porter will not be standing for re-election at the forthcoming Annual General Meeting

DIRECTORS' INTERESTS

The beneficial interests of the Directors at 31 May 2007 including those of spouses and minor children, in the shares of the Company are as follows:

	1 November 2007 Ordinary shares	31 May 2007 Ordinary shares	31 May 2006 Ordinary shares	31 May 2007 Options over ordinary shares	31 May 2006 Options over ordinary shares
Kevin Foo	3,248,730	3,248,730	2,914,944	N/A	N/A
Grant Manheim	497,304	497,304	497,304	1,000,000	1,000,000
Tony Porter	–	–	N/A	N/A	N/A
Robert Palmer	213,630	213,630	204,031	250,000	250,000

The shares shown against Kevin Foo's name are held by H J Resources Ltd on behalf of a discretionary trust of which he and his wife are possible beneficiaries.

Pursuant to provision 2(7) of the relevant Share Option agreements, the period for the exercise of options expires 30 days after a written notice that the Company is no longer in a closed period has been issued by the Board.

CREDITOR PAYMENT POLICY

It is the Group's 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.

SUBSTANTIAL SHAREHOLDINGS

On 15 November 2007, the Company had been notified, in accordance with Sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the Company:

	Number of shares	%
Barclays PLC	14,011,283	11.28%
JCS Compass Asset Management	10,681,035	8.60%
M F Global	4,207,842	3.39%

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will take place in London on 28 December 2007 at 11.00am. A Form of Proxy and reply paid envelope are enclosed with this document.

BUSINESS AT THE ANNUAL GENERAL MEETING

DIRECTORS

Grant Manheim will retire by rotation at the Annual General Meeting and being eligible, offers himself for re-election. A short biography for Grant Manheim is on page 3.

SHARE CAPITAL

Resolution 5 authorises the Directors to allot relevant securities up to one third of the issued share capital.

Resolution 6 renews authority granted at the previous Annual General Meeting. This authorises the Directors to issue equity securities for cash on a non-pre-emptive basis limited to situations where it is proposed to issue shares:

- i. pursuant to a rights issue; or
- ii. in connection with an employee incentive scheme and equal to no more than 5% of the issued share capital in any calendar year; or
- iii. in respect of applications from staff, consultants and advisors representing their remuneration and/or fees and equal to no more than 3% of issued share capital in any calendar year; or
- iv. that amount no more than 20% of the issued share capital of the Company (disregarding (i) to (iii) above). The Board is seeking renewal of the authority on the same basis as previous year. This enables the Board to allot shares from time to time as it deems appropriate without recourse to the shareholders so that it can move quickly to raise further cash for development of existing projects and conclude transactions when new opportunities arise.

This authority will expire at the start of the next Annual General Meeting

POLITICAL CONTRIBUTIONS

The Company made no political contributions during the year.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors have chosen to prepare the accounts for the Company and the Group in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

Company law requires the Directors to prepare such financial statements for each financial year which give a true and fair view, in accordance with UK GAAP, of the state of affairs of the Company and of the Group and of the profit or loss of the Company for that period and comply with UK GAAP and the Companies Act 1985. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE DIRECTORS *continued*

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 continuing working capital requirements of the Group and to finance for the continuing development of the existing projects. The Directors are currently considering opportunities for raising finance for the Group. Based on the assumptions that such finance will become available, the Directors believe that the going concern basis is appropriate for the financial statements

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 enabling 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.

Deloitte & Touche were appointed at the 2006 Annual General Meeting. A resolution proposing that they be re-appointed will be put to the forthcoming Annual General Meeting.

LEENA NAGRECHA
SECRETARY

29 November 2007

CORPORATE GOVERNANCE REPORT

The Directors support high standards of corporate governance and where practical and appropriate for a company of this size and nature, comply with the Combined Code and in this context follow 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 the Chairman, non-executive Deputy Chairman, the Chief Executive Officer and the Finance Director. As Tony Porter, our Chief Executive Officer will not be standing for re-election at the forthcoming AGM, our search for a replacement is currently underway and we hope to appoint a new Chief Executive shortly. In the meantime, the Chairman, Kevin Foo will be responsible for running the Board as well as the Company's business, where he will be assisted by other Board members. 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. The Directors believe that with the current scale of operations, the present Board and operational management structure has been appropriate. However, with the Company's growth and future plans, it is planned to strengthen the Board and the management. Summary biographies for each Director are set out on page 3.

The Board meets at least six times each year providing effective leadership and overall management of the Group's affairs through the schedule of matters reserved for its decision. 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 the Deputy Chairman, Grant Manheim and meets at least once 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 and the Group's external auditors 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 is the second member of the committee and the Finance Director attends the committee meetings by invitation.

CORPORATE GOVERNANCE REPORT *continued*

REMUNERATION COMMITTEE

The remuneration committee, which consists of the Deputy Chairman 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 allocation of incentive shares to employees. No Director participates in discussions or decisions concerning his own remuneration.

The Chairman of the committee, Grant Manheim, will attend the Annual General Meeting and is prepared to respond to any shareholder questions on the committee's activities. The other member at present is Robert Palmer.

INTERNAL CONTROLS

The Directors acknowledge their responsibility for the Company's system of internal controls and for reviewing their effectiveness. These internal controls are designed to safeguard the assets of the Company and to ensure the reliability of financial information for both internal use and external publication. The effectiveness of the system of internal controls has been reviewed by the Directors and whilst they are aware that no system can provide absolute assurance against material misstatement or loss, they are satisfied that the controls are adequate and effective with regard to the size of the Company and the stage of its development.

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. 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.

DIRECTORS REMUNERATION REPORT

FOR THE YEAR ENDED 31 MAY 2007

The terms of the Directors' employment by the Company are:

REMUNERATION PAID

	Paid in Cash \$000	Paid in shares \$000	Distribution from ESOP \$000	Total 2007 \$000	Total 2006 \$000
Kevin Foo	198	125**	–	323	846
Grant Manheim	137	–	580	717	230
Robert Palmer *	137	107	–	244	229
Tony Porter***	96	–	–	96	–
William Kelleher****	209	55	–	264	780
	777	287	580	1,644	2,085

*Paid to The Gallagher Partnership LLP

** Paid by Victoria Oil & Gas International Limited, a subsidiary incorporated in the British Virgin Islands, to HJ Resources Limited

*** Paid by Victoria Oil & Gas International Limited

**** Paid by Victoria Oil & Gas International Limited to Hydrocarbons Technologies Limited

The Company has a discretionary share incentive scheme whereby fully paid shares would 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, up to 5% of the issued share capital of the Company is available for issue to employees and officers on an annual basis, in recognition of their contribution to the growth of the Company. During the year, the Trustees of the ESOP have subscribed for 5,000,000 shares in the Company at par, pending confirmation of the discretionary awards under the Company's 5% share incentive scheme for the year ended 31 May 2007.

During the year, 386,250 shares were awarded to Grant Manheim under the discretionary share incentive scheme. Copies of the Service Agreement for each Director are available for inspection at the Company's Registered Office.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF VICTORIA OIL AND GAS PLC

We have audited the financial statements of Victoria Oil & Gas Plc for the year ended 31 May 2007 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related Notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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

The Directors are responsible for the preparation of the financial statements as set out in the Statement of Directors' Responsibilities, in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility, as independent auditors, is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

The other information comprises only the Chairman's Statement, Operating Review, Report of the Directors, Corporate Governance Report and Directors' Remuneration Report. Our responsibilities do not extend to other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations, which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the affairs of the Company and the Group as at 31 May 2007 and of the loss of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- The Report of the Directors is consistent with the financial statements.

Emphasis of matter – going concern and recoverability of intangible assets

Without qualifying our opinion, we draw your attention to Notes 1, 7, 9 and 10 in the financial statements concerning going concern, the valuation of intangible assets, value of investments and amounts due by Group undertakings. The realisation of the intangible assets of \$93,708,000 included in the consolidated balance sheet, and of investments of \$33,682,000 and amounts due by Group undertakings of \$55,664,000 included in the Company balance sheet is dependent on the successful development of economic reserves including the ability of the Group to raise sufficient finance to develop the projects. The financial statements do not include any adjustments relating to these uncertainties.

Deloitte & Touche
Dublin

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MAY 2007

	Notes	2007 \$000	2006 \$000
Turnover	2	373	166
Cost of sales		(199)	(133)
Gross profit		174	33
Administrative expenses		(3,513)	(1,851)
Realised foreign exchange (losses)/gains		(760)	338
Operating loss	2	(4,099)	(1,480)
Provision against fair value adjustment to the assets of deconsolidated subsidiary		(2,293)	–
Costs of issuing debentures during the year	21	(1,071)	–
Interest payable	3	(982)	(1)
Interest receivable		151	335
Loss on ordinary activities before taxation		(8,294)	(1,146)
Taxation	4	–	–
Loss on ordinary activities after taxation		(8,294)	(1,146)
Retained loss for the year		(8,294)	(1,146)
		Cents	Cents
Group loss per share	6	(7.06)	(1.21)
Group loss per share – diluted	6	(7.06)	(1.21)

The profit and loss account has been prepared on the basis that all operations are continuing operations.

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED
GAINS AND LOSSES**
FOR THE YEAR ENDED 31 MAY 2007

	Notes	2007 \$000	2006 \$000
Loss for the financial year		(8,294)	(1,146)
Value of shares vested in beneficiaries by Victoria Oil & Gas Plc ESOP Trust		1,840	–
Transfer from share premium account relating to costs of issue of convertible loan	15	1,071	–
Total recognised losses for the financial year		(5,383)	(1,146)

BALANCE SHEETS

AS AT 31 MAY 2007

	Notes	Consolidated		Company	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
Fixed assets					
Intangible fixed assets	7	93,708	67,178	–	–
Tangible fixed assets	8	874	614	10	10
Financial assets	9	–	–	33,682	37,364
		94,582	67,792	33,692	37,374
Current assets					
Stocks		–	16	–	–
Debtors	10	1,442	1,215	56,310	27,941
Cash at bank and in hand		9,924	2,380	9,215	2,168
		11,366	3,611	65,525	30,109
Creditors					
Amounts falling due within one year	11	(5,702)	(4,598)	(757)	(676)
Net current (liabilities)/assets		5,664	(987)	64,768	29,433
Creditors:					
Amounts falling due in more than one year	12	(31,241)	–	(31,241)	–
Net assets	13	69,005	66,805	67,219	66,807
Capital and reserves					
Called up share capital	14	1,129	1,044	1,129	1,044
Share premium account	15	71,935	68,153	71,935	68,153
Equity component of convertible loan	21	3,716	–	3,716	–
Profit and loss account	15	(7,775)	(2,392)	(9,561)	(2,390)
Shareholders' funds – equity	16	69,005	66,805	67,219	66,807

The financial statements were approved by the Board on 29 November 2007

KEVIN A FOO
CHAIRMAN

ROBERT PALMER
FINANCE DIRECTOR

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MAY 2007

	2007 \$000	2006 \$000	
Cash flow from operating activities			
Operating loss	(4,099)	(1,480)	
Deprecation	187	96	
Stocks decrease	16	2	
Debtors increase	(227)	(372)	
Creditors increase	826	4,112	
Currency translation adjustment	(608)	(325)	
Provision against debt due from deconsolidated subsidiary	282	–	
Value of shares vested by Victoria Oil & Gas Plc ESOP Trust	750	–	
Net cash (outflow)/inflow from operating activities	(2,873)	2,033	
Returns on investments and debt service costs			
Interest received	151	335	
Interest paid	(704)	(1)	
Net cash inflow from returns on investments and servicing of finance	(553)	334	
Tax paid	–	–	
Capital expenditure and financial investment			
Acquisition of intangible fixed assets net of value of shares vested by Victoria Oil & Gas Plc ESOP Trust	(27,441)	(23,086)	
Acquisition of tangible fixed assets	(413)	(452)	
Acquisition of shares in subsidiaries	–	(11,069)	
Net cash outflow from capital expenditure	(27,854)	(34,607)	
Net cash outflow before financing	(31,280)	(32,240)	
Financing			
Issue of ordinary shares	1,724	23,136	
Issue of convertible loan note	37,100	–	
Net cash inflow from financing	38,824	23,136	
Increase/(decrease) in cash in the year	7,544	(9,104)	
Analysis of net cash			
	31 May 2006 \$000	Cash flow \$000	31 May 2007 \$000
Cash at bank and in hand	2,380	7,544	9,924

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2007

1. ACCOUNTING POLICIES

GOING CONCERN

The financial statements are prepared on a going concern basis, the validity of which is dependent on finance being available for the continuing working capital requirements of the Group and for the development of the existing projects. The Directors are currently considering opportunities for raising finance for the Group. Based on the assumption that such finance will become available, the Directors believe that the going concern basis is appropriate for the financial statements. Should the going concern basis not be appropriate, adjustments would have to be made to reduce the value of the Group's assets, in particular the intangible fixed assets, to their realisable values.

ACCOUNTING CONVENTION

The financial statements have been prepared on the historical cost basis.

BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards.

The consolidated financial statements are stated in thousands of US Dollars, which is the reporting currency of the Group.

BASIS OF GROUP CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and entities controlled by it, made up to 31 May 2007. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to benefit from its activities.

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 profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The results of subsidiaries acquired or disposed of during the year 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.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

INTANGIBLE ASSETS – DEFERRED DEVELOPMENT EXPENDITURE

Exploration costs, which are based on geographical areas, are capitalised until the results of the projects are known in accordance with the UK Statement of Recommended Practice on Accounting for Oil and Gas Exploration and Development, Production and Decommissioning Activities. Exploration costs include an allocation of administrative and salary costs as determined by management. When a project proves successful the costs are then transferred to depreciable cost pools within tangible assets. An annual assessment is made of whether the economic value of the interest is in excess of costs capitalised as deferred development expenditure. Any impairment is transferred to depreciable regional cost pools within tangible fixed assets and depreciated. Where a project is terminated, which is ascertained on a country basis, the related exploration costs are written off immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2007

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS INCLUDING GOODWILL

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the geographical cost pool to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or geographical cost pool) is estimated to be less than its carrying amount, the carrying amount of the asset (or geographical cost pool) is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or geographical cost pool) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or geographical cost pool) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

TANGIBLE FIXED ASSETS

Tangible fixed assets are recorded at cost net of accumulated depreciation and any provision for impairment.

Depreciation is charged on the following basis:

Plant and equipment	–	10% straight line
Fixtures and fittings	–	15% straight line

TURNOVER

Turnover is the value of net sales to customers outside the Group and excludes VAT. Revenue is recognised when physical delivery occurs

FOREIGN CURRENCIES

Transactions in currencies other than US Dollars 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 retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Profit and loss items are translated at the average exchange

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2007

rates for the year. Exchange differences arising, if any, are recognised as income or as expenses in the year.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

CAPITALISATION OF INTEREST

Finance costs are charged to the profit and loss account, except in the case of development financings where interest and related financing costs are capitalised as part of the cost of development.

TAXATION

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax payable or expected to be recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised.

EMPLOYEE SHARE OWNERSHIP PLAN (ESOP)

In accordance with UITF abstract 38, subscriptions for shares by the Trustees of the ESOP are accounted for in the year in which the shares are allotted. The cost of assets vesting unconditionally in identified beneficiaries is treated as expenditure incurred during the year and is capitalised or written off to the Profit and loss account as appropriate at market value at the date of vesting.

STOCKS

Stocks 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.

2. REPORTABLE INCOME AND EXPENSES

All turnover relates to the sale of oil in Kazakhstan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2007

Reportable expenses charged in arriving at the operating loss and capitalised in deferred development expenditure are as follows:

	Charged to profit and loss account 2007 \$000	Capitalised in deferred development costs 2007 \$000	Total 2007 \$000	Total 2006 \$000
Depreciation of tangible assets	35	40	75	48
Amortisation of intangible assets	112	–	112	48
Rent payments	149	223	372	423
Payments to Auditors				
Audit fee	38	68	106	83
Remuneration of auditors for non-audit work	–	–	–	37
	38	68	106	120

3. INTEREST PAYABLE

	Charged to profit and loss account 2007 \$000	Capitalised in deferred development costs 2007 \$000	Total 2007 \$000	Total 2006 \$000
Loan interest	982	–	982	1

4. TAXATION

No provision is required for tax because no member of the Group reported a taxable profit.

The Group has losses of approximately \$8.1 million available to offset against future taxable profits, but no deferred tax asset has been recorded because it is uncertain that profits to utilise the losses will be made in the appropriate jurisdictions.

Factors affecting the tax charge:

	2007 \$000	2006 \$000
Loss on ordinary activities before tax	(8,294)	(1,146)
Tax thereon at UK standard rate of 30% (2006: 30%)	(2,488)	(344)
Effect of expenses not deductible for tax	742	14
Increase in losses not utilised	1,746	330
Tax charge per accounts	0	0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2007

5. LOSS FOR THE FINANCIAL YEAR

As permitted by Section 230 of the Companies Act 1985, the holding Company's profit and loss account has not been included in these financial statements. The loss for the financial year is \$10,082,000 (2006: \$1,250,000).

6. LOSS PER SHARE

The loss per share is based on the Group loss for the financial year of \$8,294,000 (2006: \$1,146,000) and on 117,431,043 (2006: 94,649,723) ordinary shares being the weighted average number of shares in issue during the year. Diluted earnings per share is computed by dividing the loss 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.

7. INTANGIBLE FIXED ASSETS

Deferred development expenditure

Group	2007	2006
	\$000	\$000
Cost		
At 1 June	67,226	21,730
Deconsolidation of subsidiary	(2,509)	–
Arising on acquisition of shares in subsidiaries	–	22,101
Additions	28,531	23,086
Currency translation adjustment	620	309
At 31 May	93,868	67,226
Amortisation		
At 1 June	48	–
Charge for the year	112	48
At 31 May	160	48
Net book value	93,708	67,178

The Group's activities include prospecting for and production of oil and gas in Russia and Kazakhstan and are subject to a number of significant potential risks including:

- Price fluctuations
- Uncertainties over development and operational costs
- Operational and environmental risks
- Political and legal risks, including arrangements with the governments for licences, profit sharing and taxation
- Funding developments.

The realisation of these intangible assets is dependent on the discovery and development of economic reserves, including the ability to raise finance to develop future projects. Should this prove unsuccessful the value included in the balance sheet will be written off to the profit and loss account.

The Directors are aware that by its nature there is an inherent uncertainty in such development expenditure as to the value of the asset. Having reviewed the deferred development expenditure at

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2007

31 May 2007, the Directors are satisfied that the value of the intangible asset is not less than net book value.

8. TANGIBLE FIXED ASSETS

	Group		Company	
	Fixtures, fittings & equipment		Fixtures, fittings & equipment	
	2007	2006	2007	2006
	\$000	\$000	\$000	\$000
Cost				
At 1 June	689	221	13	10
Deconsolidation of subsidiary	(74)	–	–	–
Additions	413	452	2	3
Currency translation adjustment	(13)	16	–	–
At 31 May	1,015	689	15	13
Depreciation				
At 1 June	75	27	3	1
Deconsolidation of subsidiary	(8)	–	–	–
Charge for the year	75	48	2	2
Currency translation adjustment	(1)	–	–	–
At 31 May	141	75	5	3
Net book value	874	614	10	10

9. FINANCIAL ASSETS

INVESTMENTS

Company	Unlisted investments	
	2007	2006
Cost	\$000	\$000
At 1 June	37,364	14,545
Acquisition of shares in subsidiaries		
Cash consideration	–	11,069
Shares allotted	–	11,042
Provision against investment in subsidiary	(3,682)	–
Capital contribution to subsidiary	–	708
At 31 May	33,682	37,364

As outlined in Note 7, the value of the Company's investments is dependent on the development of economic mineral reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2007

HOLDINGS OF MORE THAN 20%

The Company holds more than 20% of the share capital of the following companies:

Company	Country of registration	Class of shares	Percentage of capital
Victoria Petroleum Limited	England & Wales	Ordinary	100%
Victoria Oil & Gas International Limited	British Virgin Islands	Ordinary	100%
Olager Oil LLP	Kazakhstan	Ordinary	90%
ZAO SeverGas-Invest	Russia	Ordinary	100%
Victoria Oil & Gas Central Asia Limited	England & Wales	Ordinary	100%
Feax Investments Company Limited	Cyprus	Ordinary	100%
Victoria Energy Central Asia UK Limited	England & Wales	Ordinary	100%
Victoria Energy Central Asia LLP	Kazakhstan	Ordinary	100%
Mogol LLP	Kazakhstan	Ordinary	100%

The principal activity of these undertakings for the relevant financial period was exploration for and development of oil and gas assets.

During the year the Board approved the disposal of Olager LLP, the carrying value of the Group's investment was written down to its estimated recoverable amount and included within current assets (see Note 10).

10. DEBTORS

Amounts due within one year

	Group		Company	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
VAT recoverable	482	386	99	129
Other debtors	621	790	508	728
Victoria Oil & Gas Plc ESOP	39	39	39	39
Amounts due from Group undertakings	300	–	55,664	27,045
	1,442	1,215	56,310	27,941

As outlined in Note 7, the value of the amounts due from Group undertakings is dependent on the development of economic mineral reserves.

Included in other debtors of both the Group and the Company is an amount of \$345,733 receivable from Flair Petroleum fully secured over an investment held by Flair Petroleum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2007

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Trade creditors	4,222	4,137	183	516
Taxes and social security costs	763	362	–	108
Accruals and deferred income	717	99	574	52
	5,702	4,598	757	676

12. CREDITORS: AMOUNTS FALLING DUE IN MORE THAN ONE YEAR

	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Convertible loan note	31,241	–	31,241	–

Further details are included in Note 21

13. NET ASSETS – GEOGRAPHICAL ANALYSIS

The Group's management centre is in the United Kingdom and it has exploration and development activities in Kazakhstan and Russia.

	Net Assets		Additions to tangible and intangible fixed assets		Profit/(loss)	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000	2007 \$000	2006 \$000
United Kingdom	11,857	6,006	2	3	(8,487)	(1,242)
Kazakhstan	27,233	26,578	13,499	26,382	193	96
Russia	29,915	34,221	15,443	19,254	–	–
	69,005	66,805	28,944	45,639	(8,294)	(1,146)

14. SHARE CAPITAL

	2007 £	2006 £
Authorised		
400,000,000 (2006 – 400,000,000) ordinary shares of 0.5p each	2,000,000	2,000,000
Allotted, called up and fully paid	\$000	\$000
Opening balance: 115,362,424 (2006: 81,819,915) ordinary shares of 0.5p each	1,044	751
Issued during the year 8,762,783 ordinary shares of 0.5p each (2006: 33,542,509)	85	293
Closing balance: 124,125,207 (2006:115,362,424) ordinary shares of 0.5p each	1,129	1,044

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2007

SHARE ISSUES

The Company issued the following shares during the year:

	Number	Date	Issue Price
Placing for working capital	215,000	04-Aug-06	71.5p
Placing for working capital	72,640	06-Dec-06	142.0p
Placing for working capital	225,143	12-Mar-07	71.0p
Subscription by ESOP Trust	5,000,000	12-Mar-07	0.5p
Placing for working capital	3,000,000	12-Mar-07	66.0p
Exercise of warrants	250,000	13-Mar-07	60.0p

OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES

The Company has granted options to subscribe for 1,250,000 ordinary shares of 0.5p each at 20p per share. These are exercisable within one month of the Board giving notice to the option holders that the Company is not in a closed period.

15. STATEMENT OF MOVEMENTS ON SHARE PREMIUM AND RESERVES

	Share premium account		Profit and loss account	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Group				
At 1 June	68,153	34,268	(2,392)	(1,246)
Premium on shares issued in the year	4,853	34,869	–	–
Share issue expenses	–	(984)	–	–
Transfer concerning issue expenses of loan notes	(1,071)	–	1,071	–
Credit re value of shares vested by ESOP	–	–	1,840	–
Total recognised loss for the year	–	–	(8,294)	(1,146)
At 31 May	71,935	68,153	(7,775)	(2,392)
Company				
At 1 June	68,153	34,268	(2,390)	(1,140)
Premium on shares issued in the year	4,853	34,869	–	–
Share issue expenses	–	(984)	–	–
Transfer concerning issue expenses of loan notes	(1,071)	–	1,071	–
Credit re value of shares vested by ESOP	–	–	1,840	–
Retained loss for the year	–	–	(10,082)	(1,250)
At 31 May	71,935	68,153	(9,561)	(2,390)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2007

16. STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS

Group	2007 \$000	2006 \$000
Opening shareholders' funds	66,805	33,773
Total recognised loss for the financial year	(5,383)	(1,146)
Issue of shares	4,938	34,178
Share premium transfer relating to issue costs of loan note	(1,071)	–
Equity component of convertible loan note	3,716	–
Closing shareholders' funds	69,005	66,805
Company		
Opening shareholders' funds	66,807	33,879
Loss for the financial year	(7,171)	(1,250)
Issue of shares	4,938	34,178
Share premium transfer relating to issue costs of loan note	(1,071)	–
Equity component of convertible loan note	3,716	–
Closing shareholders' funds	67,219	66,807

17. DIRECTORS' EMOLUMENTS

	Charged to profit and loss account \$000	Capitalised in deferred exploration costs \$000	Total 2007 \$000	Total 2006 \$000
Paid in cash	705	72	777	694
Incentive shares	287	–	287	1,390
Shares distributed by Victoria Oil & Gas Plc ESOP Trust	580	–	580	–
	1,572	72	1,644	2,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2007

18. EMPLOYEES

NUMBERS OF EMPLOYEES

The average monthly number of employees (including Directors) during the year was:

	Number
Directors	4
Technical	21
Field services	24
Management and Administration	40
	89

EMPLOYMENT COSTS

	\$000
Wages and salaries	3,673
Social security costs	482
	4,155
Charged to profit and loss account	2,197
Capitalised in deferred exploration costs	1,958
	4,155

19. RELATED PARTY TRANSACTIONS

Robert Palmer is a Director of the Company and a member of The Gallagher Partnership LLP, an accountancy practice. These accounts include \$37,000 in relation to general accountancy services provided by The Gallagher Partnership LLP to the Company.

Celtic Resources Holdings Plc (CER), a company where Kevin Foo is a director, made a loan to the Company on 28 June 2006 of \$6,000,000. The loan was repaid on 19 October 2006 with interest of \$360,000. In consideration, the Company granted CER a warrant over 250,000 shares in the Company at 90p per share.

20. CAPITAL COMMITMENTS

The Company has Minimum Work Programme commitments for the Kemerkol oil field of at least a further \$7.78 million over the next three years. The Minimum Work Programme for the West Medvezhye gas project requires the submission of reports on reserves and exploration activity before the end of 2007.

21. CONVERTIBLE LOAN NOTES

A £20 million secured guaranteed convertible loan note repayable in 2009 was approved in October 2006.

Convertible loan notes for £11.5 million and a further £7.25 million were placed on 17 October 2006 and 17 April 2007 respectively. The notes are convertible into ordinary shares of the Company at any time between the date of issue of the notes and their settlement date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2007

The fair values of the liability component and equity conversion component were determined at issuance of the Bond. The fair value of the liability component, included in Creditors: Amounts falling due in more than one year was calculated using a market rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity (Note 16).

The convertible notes recognised in the balance sheet are calculated as follows:

	\$000
Nominal value of convertible loan notes issued	37,100
Equity component	(3,716)
Liability component at date of issue	33,384
Less total issue expenses	(3,214)
Add issue expenses recognized as charge against profit in current year	1,071
Liability component as at 31 May 2007	31,241

The Directors estimate the fair value of the liability component of the convertible loan notes at 31 May 2007 to be approximately \$31,241,000. The fair value has been calculated by discounting the future cash flows at the market rate.

22. RISK MANAGEMENT

The Group's financial instruments at 31 May 2007 comprise the Secures Guaranteed Convertible Bond, (the Bond) issued during the year, cash balances and items such as trade debtors and trade creditors, which arise directly from trading operations. The main purpose of these financial instruments is to raise finance to fund Group operations.

The Group has not entered into any derivative transactions. Currently it is the Group's policy that no trading in financial instruments shall be undertaken.

The main financial risks arising from the Group's financial instruments are currency risk and liquidity risk.

The Board reviews and agrees policies for managing each of these risks.

FINANCIAL ASSETS

The Group has financial assets, which include short term debtors, stocks and cash at bank. The Group has no significant monetary assets.

FINANCIAL LIABILITIES

The Group's most significant financial liability is the Bond. It has other financial liabilities which comprise trade and other creditors. Only the Bond bears interest, at a fixed rate of 6.25 % pa.

LIQUIDITY RISK

The Directors regularly review the options available to the Group to ensure continuity of funding. This review encompasses the availability of funding through the issue of shares and other financial instruments and by utilisation of existing cash balances. The funding raised during the year is detailed in Notes 14 and 21 above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2007

FOREIGN CURRENCY RISK

Although the Company is incorporated in England, the Group's financial statements are denominated in US Dollars, as this is the principal trading currency for the Group's activities.

The share issues and the Bond issue have been priced in Sterling. Expenditure is in US Dollars, Sterling, Roubles and Tenge.

The Group has subsidiaries which operate in Russia and Kazakhstan. Their expenditure is in Roubles and Tenge and their Financial Statements are maintained in those currencies. The Group's policy for dealing with exchange differences is outlined in the Statement of Accounting Policies under the heading "Foreign Currencies".

The Group does not presently utilise swaps or forward contracts to manage its currency exposures, although such facilities are considered and may be used where appropriate in the future.

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 with specified bands.

The functional currency of the majority of the Group's operations is in US Dollars, which is also the reporting currency. The net currency exposure of the net assets of the Group at the balance sheet dates was as follows:

	2007	2006
	\$000	\$000
Currency		
US Dollars	3,708	1,359
Sterling	(27,749)	1,169
Roubles	47,597	34,221
Tenge	39,836	30,056
	63,393	66,805

NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting (AGM) of Victoria Oil & Gas Plc (the Company) will be held on 28 December 2007, 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 Resolution 6 will be proposed as a Special Resolution:

ORDINARY BUSINESS:

1. To consider the financial statements and report of the auditors and the Directors for the year ended 31 May 2007.
2. To re-elect Grant Manheim as a Director who retires in rotation in accordance with the Company's Articles of Association.
3. To re-appoint Deloitte & Touche as auditors.
4. To authorise the Directors to fix the remuneration of the auditors.

SPECIAL BUSINESS:

5. As an Ordinary Resolution:

THAT the Directors be and they are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of that section of the Act) up to an aggregate nominal amount of £204,990 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.

6. As a Special Resolution:

THAT (subject to the passing of resolution number 5 as an Ordinary Resolution) the Directors be and they are hereby empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of s. 94(2) of the Act) wholly for cash pursuant to the authority conferred by resolution number 5 above as if Section 89(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 resolution referred to in above 6(a) 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 above 6(a) and (b) 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

NOTICE OF THE ANNUAL GENERAL MEETING

Company in any calendar year in connection with applications received from staff, consultants and advisors 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.

BY ORDER OF THE BOARD

Leena Nagrecha
Company Secretary
29 November 2007

Notes

- (1) A member entitled to attend, speak and vote is entitled to appoint one or more proxies (who may not need to be a member of the Company) to attend, speak and vote on his behalf.
- (2) Forms of Proxy, together with any Power of Attorney or other authority under which it is executed or a notarially certified copy thereof, must be completed and, to be valid, must reach the Registrar of the Company at Computershare Investor Services PLC, PO Box 1075, The Pavilions, Bridgwater Road, Bristol, BS99 3FA not less than forty-eight hours before the time appointed for the holding of the meeting.
- (3) If the appointer is a corporation, this Form of Proxy must be under its common seal or under the hand of an officer or attorney duly authorised.
- (4) The appointment of a proxy does not preclude a member from attending and voting at the meeting.
- (5) In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote of the other registered holders(s) and for this purpose seniority shall be determined by the order in which the names stand in the register of members.
- (6) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (SI 2001/3755). Reg. 41(1) and (2), only those shareholders on the Register of Shareholders at 11.00am on 26 December 2007 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their names at that time. If the meeting is adjourned by more than 48 hours, then to be so entitled, shareholders must be entered on the Company's Register of Shareholders at the time which is 48 hours before the time appointed for holding the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.

