

VICTORIA OIL & GAS PLC
INTERIM FINANCIAL REPORT FOR THE SIX MONTHS TO
30 NOVEMBER 2009

VICTORIA OIL & GAS PLC

INTERIM FINANCIAL REPORT FOR THE SIX MONTHS TO 30 NOVEMBER 2009

CHAIRMAN'S STATEMENT

Dear Shareholder

It is my pleasure to report to you again on the progress of your Company, Victoria Oil & Gas Plc ("VOG" or the "Company").

Since the release of our 2009 annual accounts, we have made exceptional progress at the Logbaba gas and condensate field in Cameroon and it is worth reflecting briefly on these achievements:

- Completion of La-105, the first onshore well to be drilled in the Douala Basin in Cameroon for over 50 years. Despite some delays, the well encountered over 300 feet of gross sandstone pay and has been cased ready for testing and production;
- Spudding in early February of La-106, the second of our initial two-well campaign. Progress so far has been excellent and we hope to complete the well on schedule within 60 days;
- Testing of La-105, which commenced on 22 February and for which composite results should be available at the beginning of Q2;
- Completion and interpretation of a passive seismic spectroscopy survey, the first new geophysical data on the Logbaba block since Elf abandoned the field in the 1950s. The survey has not only given us valuable additional information on the existing discovery, which we have integrated into our design for La-106, but also highlighted a significant new prospect (potentially much larger than the existing discovery), which has not been seen before;
- Continuation of the design phase of the engineering for the gas processing facilities and pipeline.

Whilst it is easy to get distracted by the daily market movements, it is always important to keep a clear view of the fundamentals of your Company: Logbaba is the only proven onshore gas field in Cameroon and has had significant upside potential highlighted by the passive spectroscopy survey; the field lies beneath the largest industrial market in Central Africa, which is starved of cheap energy; Cameroon itself is facing a power crisis and recent initiatives announced by the Government point to huge future investment in thermal as well as hydroelectric power stations in the country.

At present, La-106 has reached a measured depth of 4,450 feet after the 13 3/8 - inch casing was set to 3,208 feet. With some hard-earned experience from our first well, our progress to date as been excellent. We are on course to reach total depth of around 8,700 feet within the 60 day schedule, possibly even earlier. The design of La-106 has been modified following the passive seismic spectroscopy survey to favour the northern flank of the sands intersected by La-101 in 1955 and access new areas with potentially higher prospectivity. If the drill bit continues to perform, we will have first data back from logging of this new well in early Q2.

Now that we are at a safe depth at La-106, testing of La-105 has commenced. The testing programme started in the lower sands and will progressively introduce shallower zones while monitoring flow rates, pressures and taking gas and liquid samples. The first sands being flowed are actually part of a new horizon, below the Logbaba Formation, and so could be an addition to the known reserves if productive. The total testing period will depend on the rates achieved at the various intervals, but by the beginning of Q2 we should have enough data to enable a recalculation of the July 2008 reserve estimate for the Logbaba field. At that time, using only data from Elf's operations in the 1950s, the independent reserve auditors calculated proven and probable reserves for the field of over 100 billion cubic feet of gas.

Since acquiring the asset and throughout all of the activities so far, we have worked closely with the Government of Cameroon and State companies to ensure their approval of our operations. We have been delighted by the interest and support of the local regulators in the development of Logbaba and we hope that this relationship will only strengthen as we progress. As announced previously, we are now qualified to apply for the exploitation rights to the field and we do not perceive any difficulties in process. Cameroon has a huge demand for energy and needs a great deal of foreign investment to assist in the development of its natural resources. This makes it an excellent location for companies such as VOG to do business. There is a structured process for the granting of an exploitation licence and we cannot accurately forecast when this might be achieved, but we anticipate that it will be by mid-year.

Of course, any natural resource is only as good as its available market and this is where the strength of Logbaba truly lies. When Elf abandoned the field 50 years ago it was because there was no market for

natural gas close to Douala to make the project economically viable, but now Douala is one of the trading and manufacturing hubs of Central Africa. Major international and domestic firms such as Guinness, SABC, Nestle and Chococam rely solely on imported liquid fuels to power their facilities and Douala has become the most expensive city in Africa. Half the available customers have signed in-principle agreements to take natural gas from us at a price of US\$16 per thousand cubic feet, which is a 30 percent or more discount to the equivalent fuel prices they are currently paying. So far, these agreements cover around 8 million cubic feet of gas per day from Logbaba and we know from speaking to our future consumers that their demand will grow. We expect new binding contracts will be signed as part of the financial closing of the project finance for the downstream elements of this project.

There remains the obvious question of how we would monetise any additional reserves that may be proven up, for instance through exploration of the big prospect revealed by the passive seismic spectroscopy, given that the industrial market can only grow to a certain size. In our eyes and those of the Government, the answer lies in the massive drive for power which has already begun in Cameroon. Through the addition of new hydroelectric and thermal, gas-fired power stations, the Government is looking to treble its generating capacity to 3,000 megawatts by 2020 and any source of accessible natural gas will be a key player in helping to achieve this aim. We have been working with the State electricity company on a small-scale project to take gas from Logbaba for purely local power generation, but we have also seen the reports of a deal for a much larger gas-fired power station to be constructed in Douala by Hyundai. If such a project does come into fruition then it would be excellent news for us, but we are in no way dependent upon it.

Accessing the industrial market, through a basic processing facility and a short pipeline, is not a huge feat in engineering terms, but is a significant step for VOG and Cameroon as it would be the only gas infrastructure in the whole region. Whilst it is rare for small upstream companies to get involved in downstream facilities, owning our own transmission system will cement our competitive advantage. At present, there is no competition for gas in the country as all offshore operations currently face major problems in bringing production to land. As the onshore potential is explored, our status as the sole gas provider will change, but we have a valuable opportunity to mould the market with our first mover advantage.

We have recently engaged a major international engineering group to head up the engineering of the downstream phase and are assessing a number of options for efficient transport of the gas to the customers. We are under no illusions as to how long these projects can take, but we have challenged both management and our advisers to find a process to allow early-stage revenue production, even if this begins before the pipeline is completed. As fellow investors, I am sure you will agree that cash flow is the key to re-rating VOG as a growth company and so getting revenue from Logbaba as soon as possible is our priority. A number of banks have approached us with interest in financing and so we are confident that this stage of the project can be funded with debt.

The West Medvezhye story should not be forgotten in the excitement surrounding Logbaba. For us, it is still the Company's most exciting asset. With recoverable prospective resources of over a billion barrels of oil equivalent, West Med dwarfs Logbaba, but it is still in its infancy and the pace of development is slow. Given the long periods when activity on the ground is impossible, it is best to have multiple target locations before embarking on any prolonged drilling campaign to save on costs. With that in mind, most of 2010 will be dedicated to adding further prospects to the existing discovery location around Well 103. We have two surveys, one passive and one geochemical, planned for the coming spring and we hope that the findings will give us enough information to be able to specify areas for acquisition of further 2D seismic or justify new drilling. Ideally, we could be drilling in 2011 if the analysis shows clear areas for exploration and we are able to mobilise swiftly. By that time, we should also be producing significant revenues from Logbaba to help support West Med's development.

Despite the amount of activity going on in Russia and Africa at the moment, we feel that it is very important that VOG maintains a strong pipeline of new projects and I am pleased to announce that we recently signed the 12 month extension to our option to acquire Falcon Petroleum Limited. Falcon has over 45,000 square kilometers of exploration acreage in Ethiopia and Mali, two very prospective new regions which have already stirred up interest with major producers. We are also seeing more and more attractive projects coming to market both in Africa and the FSU, which could augment our portfolio and ensure we have a clear path to further growth. Logbaba is forging a solid platform, but the real excitement of VOG is yet to come.

Kevin Foo
Chairman

**UNAUDITED INTERIM CONSOLIDATED INCOME STATEMENT
FOR THE HALF YEAR ENDED 30 NOVEMBER 2009**

		6 months ended 30 November 2009 \$000	6 months ended 30 November 2008 \$000
Continuing operations			
Other losses	6	(472)	(5,631)
Administrative expenses		(3,155)	(4,757)
		<hr/>	<hr/>
OPERATING LOSS		(3,627)	(10,388)
Interest received		18	116
Finance revenue	7	–	1,230
Finance costs	8	(863)	(282)
		<hr/>	<hr/>
LOSS BEFORE TAXATION		(4,472)	(9,324)
Income tax expense	9	–	–
		<hr/>	<hr/>
LOSS AFTER TAXATION FOR THE PERIOD		(4,472)	(9,324)
		<hr/>	<hr/>
		Cents	Cents
Loss per share – basic	4	(1.11)	(3.35)
Loss per share – diluted		(1.11)	(3.35)

**UNAUDITED INTERIM CONSOLIDATED BALANCE SHEET
AS AT 30 NOVEMBER 2009**

		30	30	31 May
	Notes	November	November	2009
		2009	2008	2009
		\$000	\$000	\$000
ASSETS:				
NON CURRENT ASSETS				
Intangible assets	10	102,360	100,180	83,149
Property, plant and equipment		143	1,926	37
Investments		–	258	–
Restricted cash		–	123	–
		<u>102,503</u>	<u>102,487</u>	<u>83,186</u>
CURRENT ASSETS				
Receivables	11	1,038	3,070	737
Cash and cash equivalents		14,196	268	711
		<u>15,234</u>	<u>3,338</u>	<u>1,448</u>
TOTAL ASSETS		<u>117,737</u>	<u>105,825</u>	<u>84,634</u>
LIABILITIES:				
CURRENT LIABILITIES				
Trade and other payables	12	(11,635)	(1,578)	(3,885)
Borrowings		(1,184)	–	(1,000)
		<u>(12,819)</u>	<u>(1,578)</u>	<u>(4,885)</u>
NET CURRENT ASSETS		<u>2,415</u>	<u>1,760</u>	<u>(3,437)</u>
NON-CURRENT LIABILITIES				
Borrowings		(762)	(3,086)	–
Convertible loan – debt portion		(1,150)	(240)	(1,055)
Derivative financial instruments		(925)	(288)	(642)
Deferred tax liabilities		(6,599)	–	(6,599)
Provisions		(2,945)	(1,440)	(2,882)
		<u>(12,381)</u>	<u>(5,054)</u>	<u>(11,178)</u>
NET ASSETS		<u>92,537</u>	<u>99,193</u>	<u>68,571</u>
EQUITY:				
Share capital	13	8,351	2,708	4,289
Share premium		137,987	103,010	114,620
ESOP Trust reserve		(271)	(95)	(124)
Translation reserve		(10,556)	2	(10,774)
Other reserves		3,820	2,852	2,882
Retained earnings – deficit		(46,794)	(9,284)	(42,322)
TOTAL EQUITY		<u>92,537</u>	<u>99,193</u>	<u>68,571</u>

**UNAUDITED CONSOLIDATED STATEMENT OF CHANGES
IN EQUITY FOR THE HALF YEAR ENDED 30 NOVEMBER 2009**

	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 2008	2,621	100,133	(124)	295	40	110	2,852	105,927
Shares issued for cash	87	2,877	-	-	-	-	-	2,964
Loss for the period	-	-	-	-	(9,324)	-	-	(9,324)
Exchange differences on translation of foreign operations	-	-	-	-	-	(108)	-	(108)
Revaluation to fair value	-	-	-	(295)	-	-	-	(295)
Credit re value of shares vested by ESOP	-	-	29	-	-	-	-	29
At 30 November 2008	2,708	103,010	(95)	-	(9,284)	2	2,852	99,193
Shares issued	364	1,955	-	-	-	-	-	2,319
Bramlin acquisition	1,217	9,859	-	-	-	-	-	11,076
Share issue costs	-	(204)	-	-	-	-	-	(204)
Recognition of share based payments	-	-	-	-	-	-	30	30
Currency translation adjustment	-	-	-	-	-	(10,776)	-	(10,776)
Movement in ESOP trust	-	-	(29)	-	-	-	-	(29)
Loss for the period	-	-	-	-	(33,038)	-	-	(33,038)
At 31 May 2009	4,289	114,620	(124)	-	(42,322)	(10,774)	2,882	68,571
Shares issued	4,062	25,416	(147)	-	-	-	-	29,331
Loss for the period	-	-	-	-	(4,472)	-	-	(4,472)
Exchange differences on translation of foreign operations	-	-	-	-	-	218	-	218
Share issue costs (note 3)	-	(2,049)	-	-	-	-	938	(1,111)
At 30 November 2009	8,351	137,987	(271)	-	(46,794)	(10,556)	3,820	92,537

**UNAUDITED CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 30 NOVEMBER 2009**

	6 months ended 30 November	
	2009	2008
	\$000	\$000
CASH FLOW FROM OPERATING ACTIVITIES		
Loss for the period	(4,472)	(9,324)
Finance costs recognised in the income statement	63	282
Investment revenue recognised in income statement	–	(116)
Fair value loss / (gain) on embedded derivatives	373	(1,230)
Loss on revaluation of listed investments	–	143
Depreciation and amortisation of non-current assets	104	125
Net foreign exchange (gain) / loss	(500)	4,551
Value of shares vested by Victoria Oil & Gas ESOP Trust	–	29
	<u>(4,432)</u>	<u>(5,540)</u>
MOVEMENTS IN WORKING CAPITAL		
Decrease in trade and other receivables	(293)	(1,844)
Decrease in inventories	–	3
Increase / (decrease) in trade and other payables	8,697	(3,369)
	<u>3,972</u>	<u>(10,750)</u>
CASH GENERATED / USED IN OPERATIONS		
Interest paid	–	–
NET CASH USED IN OPERATING ACTIVITIES	3,972	(10,750)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	–	116
Payments for intangible fixed assets	(22,291)	(1,296)
Payments for tangible fixed assets	(124)	(53)
VAT recovered that had previously been capitalised	3,569	–
Proceeds from sale of tangible fixed assets	–	13
Transfer to fund for asset retirement obligations	–	(1)
	<u>(18,846)</u>	<u>(1,221)</u>
NET CASH USED IN INVESTING ACTIVITIES		
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of equity shares	29,331	2,964
Payment of equity share issue costs	(1,111)	–
	<u>28,220</u>	<u>2,964</u>
NET CASH GENERATED FROM FINANCING ACTIVITIES		
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	13,346	(9,007)
CASH AND CASH EQUIVALENTS BEGINNING OF THE PERIOD	711	9,270
Effects of exchange rate changes on the balance of cash held in foreign currencies	139	5
	<u>14,196</u>	<u>268</u>
CASH AND CASH EQUIVALENTS END OF THE PERIOD		

SELECTED EXPLANATORY NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 NOVEMBER 2009

1. GENERAL INFORMATION

The information for the six months ended 30 November 2009 and the comparative amounts for the six months ended 30 November 2008 are unaudited. The financial information above does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those financial statements was unqualified, but it did include a reference to going concern, the valuation of intangible assets, the valuation of investments and the recoverability of amounts due from subsidiaries, to which the auditors drew attention by way of emphasis without qualifying the report. There has been no change in respect to these matters in the period. The auditors' report did not contain a statement under section 498 (2) or 498 (3) of the Companies Act 2006.

The interim financial statements have not been audited or reviewed by the auditors of the Group pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

2. PRINCIPAL ACCOUNTING POLICIES

The annual financial statements of Victoria Oil & Gas Plc are prepared in accordance with IFRSs as adopted by the European Union. The financial statements included in this half-yearly financial report have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 May 2009.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 May 2009.

The Group has adopted the following new or revised standards:

IFRS8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009)

IAS1 (Revised 2007) Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2009)

The adoption of these standards has not led to any changes in the Group's accounting policies.

3. Share option expense

The fair value of warrants issued by the Company in respect of fees for share placings has been offset against Share Premium. The amount for the six months to 30 November 2009 was \$938,000 (six months to 30 November 2008: Nil).

4. 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.

	30 November 2009 \$000	30 November 2008 \$000
Numerator:		
Numerator for basic EPS – retained loss	(4,472)	(9,324)
	<u>Number</u>	<u>Number</u>
Denominator:		
Denominator for basic EPS and diluted EPS	403,555,842	278,232,720
	<u>Cents</u>	<u>Cents</u>
Loss per share – basic and diluted	(1.11)	(3.35)

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

5. SEGMENTAL ANALYSIS

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, Republic of Cameroon and the Republic of Kazakhstan.

The analysis of the loss before taxation by geographical segment is shown below:

	2009 \$000	2008 \$000
Russian Federation	12	(5,840)
Republic of Cameroon	–	–
Republic of Kazakhstan	–	(1,156)
Total for continuing operations	12	(6,996)
Unallocated Head Office	(4,484)	(2,328)
	<u>(4,472)</u>	<u>(9,324)</u>

There was no inter-segmental revenue and the operations are not seasonal or cyclical.

The analysis of total assets by geographical segment is shown below:

	30 November 2009 \$000	30 November 2008 \$000	31 May 2009 \$000
Russian Federation	59,334	59,850	58,653
Republic of Cameroon	47,513	–	24,398
Republic of Kazakhstan	–	42,672	103
Total for continuing operations	106,847	102,522	83,154
Unallocated Head Office	10,890	3,303	1,480
	<u>117,737</u>	<u>105,825</u>	<u>84,634</u>

The above analysis is based on the location of the assets.

6. OTHER LOSSES

	2009	2008
	\$000	\$000
Write-off of intangibles	(43)	–
Foreign exchange losses	(429)	(5,631)
	<u>(472)</u>	<u>(5,631)</u>

7. FINANCE REVENUE

	2009	2008
	\$000	\$000
Fair value gain on embedded derivatives	–	1,230
	<u>–</u>	<u>1,230</u>

8. FINANCE COSTS

	2009	2008
	\$000	\$000
Convertible loan interest	(427)	(48)
Other interest expense	–	(187)
Fair value loss on embedded derivatives	(373)	–
Unwinding of discount on decommissioning costs	(63)	(47)
	<u>(863)</u>	<u>(282)</u>

Interest payable relating to the convertible loans includes both the stated and effective interest charge.

9. INCOME TAX EXPENSE

	30	30	31 May
	November	November	2009
	2009	2008	2009
	\$000	\$000	\$000
Income tax expense	–	–	–
Factors affecting the tax expense:			
Loss on ordinary activities before tax	(4,472)	(9,324)	(42,362)
Group corporation tax calculated at 28% (30 November 2008 30%)	(1,252)	(2,797)	(11,861)
Impairment losses that are not deductible for tax	–	–	9,951
Effect of expenses not deductible for tax	29	80	158
Effect of finance costs not deductible for tax	120	85	153
Fair value adjustment on derivative not taxable	104	(369)	(392)
Effect of other timing differences	–	–	129
Effects of losses taxable at a lower rate	–	–	(528)
Increase of income tax losses	999	3,001	2,390
Tax charge	<u>0</u>	<u>0</u>	<u>0</u>

10. INTANGIBLE ASSETS

	30 November 2009 \$000	30 November 2008 \$000	31 May 2009 \$000
<i>Exploration and evaluation assets</i>			
Cost			
Opening balance	116,757	104,880	104,880
Exchange adjustments	573	(5,473)	(13,075)
Additions	22,291	1,281	1,903
Subsidiaries acquired	–	–	24,304
Disposals	–	–	(1,255)
Transfers to current assets	(3,569)	–	–
Closing balance	<u>136,052</u>	<u>100,688</u>	<u>116,757</u>
Accumulated amortisation and impairment			
Opening balance	33,608	515	515
Exchange adjustments	(1)	(7)	(9)
Charge for the year	85	–	386
Disposals	–	–	(339)
Provision for impairment	–	–	33,055
Closing balance	<u>33,692</u>	<u>508</u>	<u>33,608</u>
Net book amount			
Opening balance	<u>83,149</u>	<u>104,365</u>	<u>104,365</u>
Closing balance	<u>102,360</u>	<u>100,180</u>	<u>83,149</u>

11. RECEIVABLES

	30 November 2009 \$000	30 November 2008 \$000	31 May 2009 \$000
<i>Amounts due within one year:</i>			
VAT recoverable	137	498	13
Prepayments	31	27	31
Other receivables	870	2,545	693
	<u>1,038</u>	<u>3,070</u>	<u>737</u>

12. TRADE AND OTHER PAYABLES

	30 November 2009 \$000	30 November 2008 \$000	31 May 2009 \$000
<i>Amounts due within one year:</i>			
Trade creditors	10,199	1,011	2,052
Taxes and social security costs	10	8	31
Accruals and deferred income	242	559	1,028
Other creditors	1,184	–	774
	<u>11,635</u>	<u>1,578</u>	<u>3,885</u>

13. SHARE CAPITAL

Share capital as at 30 November 2009 amounted to \$8.35 million. During the six months to 30 November 2009, the Group issued 494,343,098 shares for cash or in settlement of amounts due to creditors, increasing the number of shares in issue from 496,915,889 to 991,258,987

14. RELATED PARTY TRANSACTIONS

Payments to Directors and other key management personnel are set out below. No retirement benefits were paid in either period

	6 months to 30 November	
	2009	2008
	\$000	\$000
Directors' remuneration	354	352
Other key management – short term benefits	82	327
Other key management – termination benefits	–	27

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

	Purchases from related parties \$000	Loans from related parties \$000	Cash advances to related parties \$000	Amounts due from / (to) related parties \$000
6 months to 30 November 2009				
Subsidiaries	–	–	33,275	83,289
Directors' other interests	–	(414)	–	(810)
Professional fees	705	–	–	–
6 months to 30 November 2008				
Subsidiaries	–	–	2,239	61,667
Directors' other interests	–	–	–	(3,086)

There was no intergroup trading or transactions between Group subsidiaries.

15. APPROVAL OF INTERIM FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 25th February 2010.