RNS Number: 0644V
Victoria Oil & Gas PLC
23 October 2014
(AIM: VOG)

Victoria Oil & Gas Plc

("VOG" or "the Company")

Results for year ended 31 May 2014

Chairman's Statement & Review of Operations

Dear Shareholder

I am pleased to report progress made by the Group this reporting year and to share our expectations for the immediate future.

I will begin by listing some of the key advances made by Victoria Oil & Gas Plc ("VOG" or "the Company") and its wholly owned subsidiary, Gaz du Cameroun S.A. ("GDC") during the financial year ended 31 May 2014 in which we:

- Initiated major changes to the management team in October 2013;
- Reversed the declining supply rate and delivered a 60% mmscf/d increase in gas supply;
- Increased production levels from a seven day average of 2.0mmscf/d to 3.2mmscf/d during the period;
- Rolled out the first gas-fired electricity generation sets ("Gensets") to industrial customers;
- Signed supply agreements with major new customers;
- Commenced negotiations for GDC to supply gas to the national electricity generator, ENEO Cameroon ("ENEO");
- Completed company-wide management training; and
- Improved the financial position of the Group.

Moving Forward
In the 2013 Chairman's Statement, I gave details of the changes being made so that our energy supply operations in Cameroon could start delivering real value to shareholders. I believe that these changes have led to tangible improvements and the process continues.

When I undertook the dual role of Chairman and acting CEO in September 2013, I implemented fundamental changes within the Group to secure near term revenues and gas supply contracts.

One of the key drivers for change over the first part of this financial year was to ensure that shareholder capital invested to date was utilised efficiently to support GDC's operations. Specifically this meant increasing our cash flow to avoid having to return to the equity market for additional funds. I am pleased to say we have been successful in meeting that objective and that no shareholder dilution has occurred since the last equity issue in February 2013.

Our principal focus has been to move away from being an exploration and production company, to an integrated energy utility company with products to deliver into a new and growing African market.

GDC is meeting the challenge of becoming a utility company, selling gas that competes against established and much more expensive fuels such as diesel, Heavy Fuel Oil ("HFO") and Light Fuel Oil ("LFO").

The changes within VOG were achieved by recognising the unique position we have in Cameroon and the first mover advantages that we enjoy, but at the same time understanding our market, our customers' real needs and the company structure and approach to business that we had applied, often with mixed success. Strong guidance in this rebuilding was provided by business management consultants, Gallop Solutions International Limited of Australia, and I can report that I am very pleased with the management, workforce and our overall business strategy in Cameroon.

Logbaba Gas Project, Cameroon
(60% owned by GDC, a VOG subsidiary, and 40% by RSM Production Corporation ("RSM") of Denver Colorado)

In November 2013 we were greatly honoured when the Head of State, His Excellency President Paul Biya, officially opened our gas plant and pipeline network. This event, attended by over 5,000 delegates from all over Cameroon was a solid endorsement by the President of Cameroon and his government of our work in the country and the success we have achieved to date.

GDC achieved operational break-even on a cash flow basis in February 2014, with an average 3.2mmscf/d production rate achieved. The production rate was reached upon successful connection of SOCAVER.

By early July 2014, GDC had reached a 3.9mmscf/d seven-day average and rolled out its first Gensets to major customers in Douala. A key element of our business strategy is to support electric power supply to Cameroon businesses, through small-scale Genset installations.

To balance this, we are fully engaged in a process to become a key energy provider to the country's national electricity generator, working with ENEO (formerly Actis-Sonel), the private-public partnership that operates Cameroon's national electricity network.

We have achieved a lot. We have a secure customer base and hungry markets to sell gas to. Opportunities on the Bonaberi shore will open up with the crossing of the Wouri River. Discussions have progressed with new partners to help us grow the Genset business and we are looking to supplying the national utility company with gas. I am also excited by the prospect of developing a Compressed Natural Gas ("CNG") business which would allow us access to a much wider geographical range of customers.

Corporate
VOG is now a very different company compared to the one it was in May 2013. Changes at board and executive level, and more effective sales, engineering, finance and consultancy teams are working together to bring new customers online and to progress our long-term goals. We are focused on effective and safe use of resources as well as on increasing cost efficiency and cash flow.

Following the arbitration decision handed down in December 2013, VOG received $20.4 million from RSM in part payment of their share of Logbaba post-exploration costs and RSM agreed that any balance payable would be determined by an independent process managed by Akintola Williams Deloitte, Nigeria, a member firm of the global professional services firm Deloitte Touche Tohmatsu Limited.

In January 2014, GDC secured a XAF 4.0 billion ($8.3 million) loan facility with BGFIBank ("BGFI"), an African bank with operations in Cameroon, to help fund our capital projects. Funds from the loan facility were used to complete the Dangote pipeline and installation of Gensets at customer sites. A further XAF 0.8 billion ($1.7 million) customs bond was provided by BGFI to support the temporary import of the Gensets. An agreement with the Customs Agency of Cameroon was concluded to ensure no duty was to be paid on the Gensets for a 12-month period and at the end of the 12-month period an automatic one year extension can be requested or the equipment can be re-exported with no customs duties payable.

We are also strengthening the Board of VOG and in June 2014 we welcomed James McBurney as an independent Non-Executive Director to the Company. In his career, James has headed up the European Natural Resources investment banking group at Bank of America Securities in London, which followed his role as a Managing Director with Merrill Lynch & Co. Inc.'s Energy & Power Group in New York. We are looking to make additional appointments to the Board in the near future.

The Company has been working to enhance our corporate profile and recognition in the equity markets. This work comprises of two initial key elements: appointing a new broker and a capital reorganisation. Numis Securities Limited ("Numis") is one of the UK's leading independent institutional stockbrokers and corporate advisors and has been appointed as a broker to VOG. With the support of Numis through their institutional research, sales and corporate finance teams we shall look to build real value for shareholders from future operational achievements.

In addition to the usual business being dealt with at the annual general meeting ("AGM") this year, the Company is seeking shareholder approval for a capital reorganisation, comprising a consolidation and a sub-division of shares. Following a period of consultation with constituents of the UK equity investment community, a consolidation is proposed by the Board in order to set the number of shares in issue that better reflects the Company's profile as an established revenue-generating supplier of gas listed on AIM. The Board believes that the capital reorganisation will support the Company's corporate profile in terms of delivering shareholder value. Accordingly, a consolidation of every 40 existing ordinary shares into one new consolidated ordinary share is proposed.

The AGM of the Company will be held on 26 November 2014 and a formal notice of the meeting as well as a detailed explanation of the capital reorganisation and each resolution to be proposed at the AGM is provided in the shareholder circular which will be distributed to all shareholders on 31 October 2014.

I would like to thank shareholders for their support through a year of substantial change in which we have made real progress. My belief is that VOG's next challenge will be to manage delivery of significant levels of gas to major new customers and markets.

REVIEW OF OPERATIONS

Logbaba Gas Project, Cameroon

The period under review began with pipeline infrastructure being rolled out across Douala to establish the core gas distribution network. The work completed by GDC enabled us to understand the seasonal supply trends within the regional energy market and the real motivating factors which were driving customers to transfer from HFO for thermal needs. Usage of GDC thermal gas depends on customers having a consistent supply of electricity and customers who relied on the grid for electricity were unable to utilise thermal gas during the frequent brownout and blackout periods.

Observing the grid power supply issues Douala faced, coupled with requests from existing customers to provide electricity solutions, GDC began development of a gas-to-power strategy, as a result of which we decided to provide small-scale Gensets to facilitate the self-generation of electricity at selected customer sites.

In July 2013, a contract was signed with Energyst International France SAS (''Energyst'') for the operation and maintenance of six 1.5MW uniform Caterpillar generation units. The units were rented, therefore alleviating import duty on shipment into Cameroon. This approach was initially disputed by Cameroon customs and the first Gensets were held at the port of Douala for over six months before being released in early 2014. These first Gensets were used to prove the concept of the power generation model and following its success we now plan to source bespoke sized Gensets for future customers.

During the first part of the financial year, pipeline expansion was seen as a priority for GDC and a 100 tonne horizontal directional drilling unit was purchased to pursue this objective. An operations supervision contract was also signed with Britanica Horizontal Directional Drilling Ltd ("Britanica"), initially for the river-bed drilling project under the Wouri River.

In October 2013, GDC operational priorities were reviewed and a decision was made to concentrate on near-term customer connections and to utilise the existing pipeline infrastructure more economically. As part of this review, a further economic analysis was undertaken of all existing gas supply agreements and new pipeline work was prioritised only if it could rapidly connect customers.

During January 2014, the Group made significant operational progress on a number of fronts. Pursuing the grid power supply strategy, GDC signed a collaboration agreement with ENEO, the private-public partnership that operates Cameroon's national electricity network, to examine ways of increasing power supply by the use of Logbaba gas.

Our first project involves working with ENEO and selected Genset providers to connect gas to rented Gensets for power generation at two power stations, Bassa and Logbaba in Douala. Currently these stations use HFO and by installing rented units for an initial two year period, it will allow ENEO time to determine longer term solutions. The rental units are expected to have a peak capacity of approximately 50MW. We expect to finalise contracts with ENEO soon and begin the roll out of power in early 2015.

Significant gas supply agreements were signed in January 2014, with Dangote for the provision of gas to a major cement plant under construction in Douala, and SOCAVER, the bottling plant operated by Société Anonyme des Brasseries du Cameroun ("SABC").

Post Period

Following the period ending 31 May 2014, GDC has continued to make significant progress. All six Gensets were installed at customer sites with successful connections to the GDC gas supply network and Socapursel, a food manufacturing business, was also connected for thermal gas usage. The pipeline to the Dangote construction site has been completed, ready for gas connection which is expected to occur in late 2014.

A re-negotiated agreement was signed with Energyst in July 2014 covering the supply of any future Gensets, giving GDC the flexibility to propose outright purchase or sale-and-leaseback arrangements to new customers as well as the existing rental model. GDC is now working to deliver the next phase of Gensets to other thermal supply clients and new customers.

All pipe-laying operations have now also been outsourced to contractor, Britanica. The new Britanica contract is a fixed cost-per-metre agreement with all work approved by GDC management.

In July 2014, we announced a seven-day week average of 3.9mmscf/d and a 4.5mmscf/d average was established for the five-day working week when most GDC customers are at peak demand.

Condensate production increased during the period as higher levels of gas were produced for delivery through the pipeline infrastructure. In total 14,107bbls (2013: 7,774bbls) of condensate was produced at the well head to be sold to a local refinery.

The Wouri River crossing, connecting the Bonaberi shore to the main Logbaba gas pipeline, commenced in July 2014. Installation of 678m of 400mm gas pipe 15m under the Wouri River bed will extend the reach of the GDC gas supply network to a new major industrial area within Douala. In anticipation, we have laid 1.5km of pipeline on the North shore to three customers ready for connection to the main pipeline when it is completed.

A CNG project is also being evaluated. CNG would be transported by road tanker or rail from a compressor station to customers without the capital-intensive requirement of a pipeline. CNG enables gas to be sold economically to businesses via a ‘virtual pipeline’ within a 200km radius of our operations, therefore increasing our customer reach considerably.

West Medvezhye, Russia

Our 100%-owned West Medvezhye ("West Med") field has C1 plus C2 reserves of 14.4mmboe (under the Russian resource classification system, analogous to proven and probable reserves under Western conventions), from its discovery Well-103. In addition, our best estimate prospective resources of 1.4bboe have been calculated comprising 722mmbbl of oil and condensate and 695mmboe of gas.

The West Med block, which covers 1,224km², is located in North-Western Siberia, in one of the most prolific oil and gas producing areas in the world. Administratively, the block is located in the Nadym sub-district of the Yamal-Nenets Autonomous District of Tyumen and our block neighbours are Gazprom’s giant Medvezhye field and Urengoy gas and condensate fields. The main productive horizon in Western Siberia is the vast Bazhenov Shale, shown in recent studies to be geologically very similar to the liquids-rich Bakken Shale in the United States. A recent study estimated the Bazhenov resource at two trillion barrels of oil in place, around five times larger than the Bakken, and recoverable resources are believed to represent around 40% of all U.S. shales combined.

During the period, parties were engaged to investigate possible divestment or joint venture partnership opportunities in relation to further development of the West Med block and the Company continues to pursue options for our Russian assets.

During 2014, Russia has seen deterioration in diplomatic relations with other G8 regions primarily due to the Ukrainian situation and the destruction of a Malaysia Airlines plane over eastern Ukraine on 17 July. VOG continues to monitor both the situation and the sanctions targeted towards Russian companies and individuals, primarily enforced by the US and the EU, to assess potential implications for the Company's Russian assets. To date, gas supplies from Russia to regions including the EU remain unaffected by any sanctions, with measures mostly restricted to individual travel bans, loan agreements, arms sales, and the supply of certain technologies and services relating to the oil industry.

Kevin Foo
Executive Chairman
Date: 22 October 2014

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MAY 2014

	2014 $000	2013 $000
Continuing operations		
Revenue	14,729	6,934
Cost of sales		
Production royalties	(3,953)	(1,100)
Other cost of sales	(6,295)	(5,519)
	(10,248)	(6,619)
Gross profit	4,481	315
Other income	11	51
Sales and marketing expenses	(620)	(437)
Administrative expenses	(9,303)	(11,201)
Other losses	(3,978)	(286)
Adjustment resulting from arbitration decision	6,543	–
Operating loss	(2,866)	(11,558)
Finance revenue	146	367
Finance costs	(2,004)	(4,744)
Loss before taxation	(4,724)	(15,935)
Income tax credit	3,059	–
Loss after taxation for the financial year	(1,665)	(15,935)
	Cents	**Cents**
Loss per share – basic	(0.04)	(0.52)
Loss per share – diluted	(0.04)	(0.52)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MAY 2014

	2014 $000	2013 $000
Loss for the financial year	(1,665)	(15,935)
Exchange differences on translation of foreign operations	1,348	1,000
Total comprehensive income/(loss) for the year	(317)	(14,935)

CONSOLIDATED BALANCE SHEET
AS AT 31 MAY 2014

	2014 $000	2013 $000
Assets:		
Non-current assets		
Intangible assets	57,797	59,970
Property, plant and equipment	121,772	133,038
Unlisted investments	6,600	6,600
Deferred tax assets	3,297	–
	189,466	199,608
Current assets		
Inventories	38	56
Trade and other receivables	14,026	5,793
Cash and cash equivalents	17,018	13,107
	31,082	18,956
Total assets	**220,548**	**218,564**
Liabilities:		
Current liabilities		
Trade and other payables	12,452	11,007
Borrowings	10,563	8,011
Convertible loan – debt portion	–	1,482
Derivative financial instrument	–	131
	23,015	20,631
Net current assets/(liabilities)	**8,067**	**(1,675)**
Non-current liabilities		
Borrowings	86	267
Deferred tax liabilities	6,599	6,599
Provisions	9,551	9,664
	16,236	16,530
Net assets	**181,297**	**181,403**
Equity:		
Called-up share capital	34,240	34,240
Share premium	229,556	229,556
ESOP Trust reserve	(1,165)	(1,061)
Translation reserve	(10,063)	(11,411)
Other reserve	4,197	4,583
Retained earnings – deficit	(75,468)	(74,504)
Total equity	**181,297**	**181,403**

The financial statements of Victoria Oil & Gas Plc, registered number 5139892, were approved by the Board of Directors on 22 October 2014.

Kevin A. Foo
Executive Chairman

Robert Palmer
Finance Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MAY 2014

	Share capital $000	Share premium $000	ESOP Trust reserve $000	Translation reserve $000	Other reserves $000	Retained earnings / (accumulated deficit) $000	Total $000
At 31 May 2012	20,803	200,059	(860)	(12,411)	5,440	(60,851)	152,180
Shares issued	13,437	32,519	(3)	–	–	–	45,953
Share issue costs	–	(3,022)	–	–	–	–	(3,022)
Shares purchased by ESOP Trust	–	–	(509)	–	–	–	(509)
Shares granted to ESOP members	–	–	266	–	–	1,270	1,536
Exchange adjustments	–	–	45	–	–	–	45
Transfer expired warrants to retained earnings	–	–	–	–	(1,012)	1,012	–
Warrants issued	–	–	–	–	155	–	155
Total comprehensive income/(loss) for the year	–	–	–	1,000	–	(15,935)	(14,935)
At 31 May 2013	34,240	229,556	(1,061)	(11,411)	4,583	(74,504)	181,403
Exchange adjustments	–	–	(104)	–	–	–	(104)
Transfer expired warrants to retained earnings	–	–	–	–	(701)	701	–
Warrants issued	–	–	–	–	315	–	315
Total comprehensive income/(loss) for the year	–	–	–	1,348	–	(1,665)	(317)
At 31 May 2014	**34,240**	**229,556**	**(1,165)**	**(10,063)**	**4,197**	**(75,468)**	**181,297**

Share premium reserve
The share premium reserve is comprised of the excess of monies received in respect of share capital over the nominal value of shares issued, less direct and incremental share issue costs.

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

Translation reserve
The translation reserve represents the foreign exchange gain/loss on translation of financial statements of foreign subsidiaries.

Other reserve
The other reserve includes the share-based payment reserve and an amount of $2.9 million which was the difference between the fair value on redemption and the redemption value of a convertible loan note settled in 2008.

Accumulated deficit
Accumulated deficit comprises accumulated losses in the current and prior years.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MAY 2014

	2014 $000	2013 $000
Cash flows from operating activities		
Loss for the year	(1,665)	(15,935)
Income tax credit recognised in the Income Statement	(3,059)	–
Finance revenue recognised in the Income Statement	(146)	(367)
Finance costs recognised in the Income Statement	2,004	4,744
Depreciation and amortisation of non-current assets	4,608	2,955
Other losses recognised in the Income Statement	3,978	286
Shares vested by ESOP Trust recognised in the Income Statement	–	609
	5,720	(7,708)
Movements in working capital		
Decrease/(increase) in trade and other receivables	4,727	(3,984)
Increase in inventories	(4)	(56)
Increase/(decrease) in trade and other payables	3,140	(1,696)
Net cash generated from/(used in) operating activities	**13,583**	**(13,444)**
Cash flows from investing activities		
Proceeds from disposal of intangible assets	115	–
Payments for intangible assets	(752)	(1,765)
Payments for property, plant and equipment	(10,807)	(7,763)
Interest received	15	17
Net cash used in investing activities	**(11,429)**	**(9,511)**
Cash flows from financing activities		
Proceeds from issue of equity shares	–	44,516
Payment of equity share issue costs	–	(2,867)
Proceeds from borrowings	5,234	2,783
Repayment of borrowings	(3,140)	(7,630)
Finance costs	(493)	(2,186)
Net cash generated from financing activities	**1,601**	**34,616**
Net increase/(decrease) in cash and cash equivalents	**3,755**	**11,661**
Cash and cash equivalents – beginning of year	13,107	1,887
Effects of exchange rate changes on the balance of cash held in foreign currencies	156	(441)
Cash and cash equivalents – end of year	**17,018**	**13,107**

Notes

1. **Publication of non-statutory accounts**
The financial information set out in this preliminary announcement does not constitute statutory accounts.

The Balance Sheet as at 31 May 2014 and Income Statement, Cash Flow Statement and associated Notes for the year ended 31 May 2014 have been extracted from the Group's 2014 statutory financial statements upon which the auditors' opinion is unqualified.

2. **Annual Report**
The Annual Report and Accounts and the Notice of the Annual General Meeting for the year ended 31 May 2014 will be available on the Company's website at www.victoriaoilandgas.com by no later than 4 November 2014. These documents will also be posted to those shareholders that requested it. The Annual General Meeting of the Company will be held on 26 November 2014 at the Coin Street Neighbourhood Centre, South Bank Room 1, 108 Stamford Street, South Bank, London SE1 9NH at 11.00 am.

For further information, please contact:

Victoria Oil & Gas Plc
Kevin Foo/Laurence Read Tel: +44 (0) 20 7921 8820

Numis Securities
John Prior/Ben Stoop Tel: +44 (0) 207 260 1000

Fox-Davies Capital
Oliver Stansfield Tel: +44 (0)20 3463 5061

Strand Hanson Limited
Angela Hallett / Stuart Faulkner Tel: +44 (0) 20 7409 3494

Tavistock Communications
Ed Portman / Simon Hudson Tel: +44 (0) 20 7920 3150