



VICTORIA OIL & GAS PLC
ANNUAL REPORT AND ACCOUNTS 2008

REPORTS AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MAY 2008

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DIRECTORS AND OTHER INFORMATION

Current Directors	Kevin Foo, Chairman Grant Manheim, Deputy Chairman Robert Palmer, Finance Director George Donne, Executive Director Rashed Al Suwaidi, Non Executive Director (Abu Dhabi) Philip Rand, Non Executive Director Mukthar Tuyakbayev, Non Executive Director (Kazakhstan)
Secretary	Leena Nagrecha
Company Number	5139892
Registered Office	Hatfield House 52/54 Stamford Street London SE1 9LX
Auditors	Deloitte & Touche Deloitte & Touche House Earlsfort Terrace Dublin 2 Ireland
Bankers	Allied Irish Bank plc 9/10 Angel Court London EC2R 7AB
Solicitors	Kerman & Co LLP 200 Strand London WC2R 1DJ
Nominated Advisor	Strand Partners Limited 26 Mount Row London W1K 3SQ
Brokers	Jefferies International Limited Vintners Place 68 Upper Thames London EC4V 3BJ
Registrars	Computershare Investor Services plc The Pavilions, Bridgewater Road Bristol BS99 6ZY

DIRECTORS' BIOGRAPHIES

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

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

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

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

Rashed Al Suwaidi, (Non Executive Director). Rashed is a petroleum engineer, the former Exploration and Production Director for the Abu Dhabi National Oil Company (ADNOC). After leaving ADNOC, Rashed acquired Dalma Energy, a drilling company with operations in Oman, Qatar, Saudi Arabia and India and clients include Qatar Petroleum, Saudi Aramco and Cairn Energy. Dalma Energy was sold to Aabar Petroleum Investments Company in 2005, of which Rashed was appointed a director and Vice-Chairman. Rashed also holds directorships in some of the largest investment companies in the UAE including the Abu Dhabi National Investment Company, Noor Capital and is Chairman of Oman-based Al Maha Petroleum, the largest petrol station owner in that country.

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

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

CHAIRMAN'S STATEMENT

Dear Shareholder

It is my pleasure to discuss the year's progress at Victoria and our plans for growing the Company.

VICTORIA IN TURBULENT TIMES

The financial turbulence of the last few months and the global liquidity crisis has destroyed wealth and market value in almost all equities and Victoria has not been spared. However, your Board strongly feels that in these times it is critical to prevent external forces from obscuring the fundamental advantages of any business and more importantly, to position ourselves not only to survive the times but to thrive when markets inevitably turn.

The Board is focussed on the fundamental advantages of Victoria and how we can position ourselves to best capitalise on the situation. Our key advantages are:

- A strong shareholder base and a well financed company
- An outstanding oil, gas and gas condensate project in West Medvezhye, Russia, that has progressed well during the year
- A desire and a capability of the Company to expand into other geographic territories and to capitalise on our technical and economic strengths, whilst at the same time spreading our risk
- A very strong desire for success, overcoming all obstacles

Crucially for Victoria, in February we completed a £20 million fundraising, predominantly through the strategic investment from an Abu Dhabi consortium led by Noor Capital PSC. This refinancing guaranteed the Company funds for our operations during the year before the worst of the financial turmoil engulfed the market.

Furthermore, Noor's investment has brought additional expertise to the Board through Mr. Rashed S J Al Suwaidi and Mr. Philip Rand. Their vision has encouraged the Company to expand its horizons and be bold in our ambitions. We have also strengthened our Board with the addition of Mr. Mukhtar Tuyakbayev and Mr. George Donne and our technical group via Blackwatch Petroleum Services and GeoDynamics Research.

VICTORIA IN RUSSIA AND KAZAKHSTAN

WEST MEDVEZHYE (WEST MED)

Our team in Nadym, Siberia, deserves huge praise for their work in progressing the development of the West Med field during this year. Thanks to their extraordinary efforts, we successfully completed all requirements for the exploration period of the licence and have entered into the first phase of the 18 year production period.

This important development means that we now have more time to appraise and explore the subsurface and determine exactly the right locations to exploit the potential of the field. Given the extreme demands of the working environment in Western Siberia the ability to plan an exploration and development programme accurately is vital. To remind shareholders, West Med has over 1.1 billion barrels of oil equivalent in prospective recoverable resources and in March we received confirmation from the Russian Ministry of Natural Resources (MNR) that recoverable C1 and C2 reserves from Well 103 were 14.4 million barrels of oil equivalent. In consultation with Blackwatch and GeoDynamics, Victoria is formulating the programme for the drilling of another three appraisal and exploration wells over the next five years.

KEMERKOL

It is unfortunate that the events surrounding the legal attack on our Kemerkol oil field in Kazakhstan have overshadowed much of the work that we have done this year. We believe this unprovoked raid on our legally acquired asset is illegal and we are fighting the claim brought against our Kazakh subsidiary. We are taking our appeal all the way to the Supreme Court of Kazakhstan, where we hope that our good title to Kemerkol will be undisputedly recognised. We have received opinions from several senior law firms in the country that our ownership of the asset is sound and the transfer of the licence to our subsidiary is valid. It is therefore disappointing to see that the Rule of Law cannot be guaranteed in some jurisdictions in Kazakhstan. We have appealed directly to the office of the President, the General Prosecutor and the Anti-Raider and Anti-Corruption Commissions and we sincerely hope that our rights as *bona fide* investors will be protected.

In the UK, we have won a judgement against Ms. Elefteriadi for breach of warranties of the English Law Sale and Purchase Agreement, which she signed with the Company. This judgement should precipitate an award of damages to be determined by the court, but at a level no less than the consideration price paid of \$14.75 million. In Canada, we

successfully obtained an injunction prohibiting Ms. Elefteriadi or the previous licensee of Kemerkol, Alhambra Resources, from transferring the asset to third parties.

VICTORIA EXPANDING HORIZONS

We believe that the current financial climate has created some unprecedented opportunities for acquisitions and expansion.

Victoria has actively pursued new, value-enhancing projects in the FSU and has recently signed agreements on two new opportunities in Africa, which I believe will enhance our company significantly. These opportunities enable us to diversify our portfolio and have two regions of activity, the FSU and Africa.

BRAMLIN LIMITED

Victoria has signed a Heads of Agreement for the acquisition of Bramlin to take place via a Scheme of Arrangement.

Bramlin's principal asset is a farm-in agreement for 60% of the Logbaba gas field in Cameroon, West Africa. Logbaba was discovered in the late 1950s and three of its four discovery wells were tested and flowed at rates ranging from 12 to 62 million cubic feet of natural gas per day.

An independent study undertaken by RPS Energy during 2008 estimated the 2P reserves for Logbaba at over 21 million barrels of oil equivalent with an attributable NPV₁₀ to Bramlin of \$168 million. It is important to note that this estimation is only for approximately one square kilometre of the 64 square kilometre licence area.

Further to its subsurface potential, Logbaba is ideally located to access the undeveloped energy markets in Cameroon. The field is on the outskirts of Douala, the commercial capital of the Cameroon, where many industrial users are located. These companies currently rely on high-cost liquid fuels and a conversion to natural gas from Logbaba would be an attractive alternative. A number of these industrial consumers have already signed off-take agreements or letters of intent with Bramlin for over 7 million cubic feet per day at prices around \$16/thousand cubic feet. Plans for gas fired power generation are also part of the Logbaba field development.

The Board believes that the Bramlin acquisition will be a catalyst for major change and growth in Victoria Oil & Gas.

FALCON PETROLEUM LIMITED

Victoria has also signed an option agreement for the acquisition of Falcon Petroleum Limited for a consideration to be determined by an independent consultant, but for not more than \$12.5 million. Falcon is a private company with interests in two Production Sharing Agreements (PSAs) over oil exploration blocks in Africa.

In Ethiopia, Falcon has 90% of Blocks Ab1, Ab4 and Ab7 of the Blue Nile (Abay) Basin covering around 26,000 square kilometres and in Mali it has 50% of the 20,000 square kilometres Block 17 in the Nara Trough. Both of these assets offer low-cost entries into undeveloped regions with large hydrocarbon potential in ideal terrain for the application of GeoDynamics' technology.

FINANCIAL REPORT

You will see that the accounts are very much longer than, and in a different format to, the 2007 accounts. This has been caused by the adoption of International Financial Reporting Standards (IFRS) for the first time.

This change to IFRS has also meant that we have changed our accounting policies in some areas, and we have restated last year's figures to make them comparable. This change has significantly reduced the loss we are showing for 2007 and also affected our loss for 2008, primarily because of the different accounting treatment of the convertible loan notes.

With the support of our strategic partners and the opportunities for new acquisitions being realised, your Board believes that the future is very exciting for Victoria as we approach 2009. 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 shareholder, for your most patient support.

Kevin Foo
Chairman

REVIEW OF OPERATIONS

Dear Shareholder

I am very pleased to report to you for the first time on the development of Victoria's assets during 2008. In our capacity as technical advisers, Blackwatch have been heavily involved in the Company's operations throughout the year and have also assisted in evaluating and pursuing a number of acquisition opportunities.

WEST MEDVEZHYE

Following the completion of testing operations on Well 103, the well was suspended for future re-entry and reserve calculations were submitted to the MNR on schedule by the end of December 2007. After assessment of the test results and technical studies, the MNR duly recognised a commercial discovery at Well 103 and confirmed Russian category C1+C2 proven recoverable reserves of 14.4 million barrels of oil equivalent for the structures intersected in the Bazhenov and Jurassic intervals.

As a result, West Med has now commenced the first five-year period of its 18 year production licence. Our priority for this first period is to gather as much data as possible, with which to focus our upcoming exploration and appraisal programme. We hope this will allow us to prove the technical feasibility and commercial viability of the licence.

The acquisition of new data commenced in early 2008 when a geochemical survey was conducted centred on the Well 103 discovery. The geochemical survey highlighted a significant potential structure, possibly two miles in radius, updip from the 103 location. Further analysis and interpretation of the 2D seismic data for West Med using the drilling results of Well 103 was performed by the local subsoil institute, SibNats. This work shows the presence of a structure conforming to that found by the geochemical survey data.

To enhance this new interpretation of the West Med target zones, Victoria is commissioning a GeoDynamics passive seismic survey to be conducted over the coming winter. The survey will again be focused on the new target location close to 103 and, on successful completion, should provide the basis for the selection of the final location of appraisal Well 105, to be drilled the following winter when conditions allow. The objective of Well 105 will be to prove up a much larger reserve than the current C1+C2 of 14.4 million barrels of oil equivalent. On completion of Well 105, we will then look to drill a further two wells before the end of the current five-year period in 2012.

KEMERKOL

Operations at the Kemerkol field in Kazakhstan were unfortunately interrupted in June 2008 as a result of the legal dispute over Victoria's title to the licence.

Prior to the suspension of operations, Kemerkol was producing around 140 barrels of oil per day from Wells 73 and 20. Our intention during the course of 2008 was to acquire a passive seismic survey from GeoDynamics to identify the next drilling locations and also analyse the subsalt and salt overhang potential of the field. Although the survey cannot be commenced until the legal dispute has been resolved in Victoria's favour, the equipment has been mobilised to Atyrau and is on stand-by for immediate implementation when permitted.

NEW PROJECTS

BRAMLIN LIMITED

In advance of drilling an appraisal and development well in the Logbaba field in the first quarter of 2009, Blackwatch have been assisting the management of Bramlin in sourcing a suitable rig. Bramlin has recently concluded a contract on a 2,000 horse-power land rig owned by Dalma Energy LLC, just coming off a contract in Oman, and preparations are underway to mobilise this rig to Cameroon. It is planned to drill a twin location to one of the four original exploration and appraisal wells drilled when Logbaba was discovered and the new well will be completed as a producer to supply the contracted gas quantities. Engineering has also commenced on the Logbaba gas plant, which will be built to process the produced good quality gas to sales specification and to extract LPG/LNG for sale on the local market.

FALCON PETROLEUM

Falcon has three very prospective blocks in Ethiopia's Abay (Blue Nile) Basin, Ab-1, Ab-4, and Ab-7, and initial findings are very promising. The blocks contain seeps, with oil sample analyses indicating maturity and migration from depth and gravity data indicating sediment thickness in the basin of circa five kilometres. These are very promising attributes in terms of prospectivity and a number of major companies are bidding for the surrounding blocks. Falcon's Mali Block 17 is situated in the Nara Trough and offset data from a passive seismic survey of a neighbouring block indicates that the basin is prospective. Mali has had very little oil and gas exploration activity in the past, but has attracted the interest of a number of major and independent oil companies in the last two years. Planning is underway for passive seismic surveys for Mali and Ethiopia.

Sam Metcalfe
Managing Director,
Blackwatch Petroleum

DIRECTORS' REPORT

The Directors present their Annual Report and the audited financial statements for the year ended 31 May 2008.

PRINCIPAL ACTIVITIES, BUSINESS REVIEW AND FUTURE DEVELOPMENTS

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

During the year the Group has continued to explore its principal prospects of Kemerkol and West Medvezhye.

During the year, Victoria drilled a further four explorations wells at Kemerkol. Three of the wells encountered hydrocarbons, however, the quantities were not economic and so the wells were suspended. Production during the year came solely from Wells 73 and 20.

At West Medvezhye, in Russia, the focus has been around Well 103. Following testing of Well 103 and submission of calculations of reserve estimates to the Ministry of Natural Resources, the Ministry recognized a commercial discovery and has issued a production licence. The Group continues to evaluate the prospect and has conducted a geochemical survey and analysed and interpreted the 2D seismic data around Well 103.

The Company continued to look at additional investment opportunities both inside and outside of the Former Soviet Union.

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 Review of Operations.

On 29th January 2008, the Company successfully completed a £15.25 million placing and issuance of \$2 million unsecured convertible loan notes that was agreed in late 2007. Proceeds from this fund raising exercise have been used as working capital to finance the Company's on-going exploration and production programmes at its assets in Russia and Kazakhstan and to fully retire the £18.75 million outstanding secured guaranteed convertible bond through partial payment (£8 million) in cash and the balance was converted to new equity shares.

At 31 May 2008, the Group had \$9.3 million of cash and cash equivalents and the right to issue \$8.0 million of unsecured convertible loan notes subject to the terms and conditions therein.

Effective 16 June 2008, the Company has temporarily suspended production at the Kemerkol oil field in Kazakhstan, pending resolution of the legal claim against its Kazakh subsidiary, Victoria Energy Central Asia LLP, concerning a transfer of the subsoil licence. Further information of this case is set out in Note 3.

RESULTS AND DIVIDENDS

The Group's financial statements have been prepared in compliance with IFRS, as adopted by the European Union, whereas previously they were in accordance with UK GAAP. Convertible loan notes were previously treated as a compound financial instrument under UK GAAP but this was reviewed and redesignated as a hybrid financial instrument comprising a host note with an embedded derivative.

These changes have had a significant impact on the loss for the year and the comparative figure. The 2007 loss of \$8.3 million as previously reported under UK GAAP has reduced to \$1.3 million. This difference is caused by the need to account for the derivative at fair value giving a gain for that year of \$9.6 million and \$2.7 million of additional interest expense in relation to the loan element. There are other IFRS adjustments of \$0.1 million.

The 2008 loss after tax is \$1.2 million and similarly reflects a fair value gain on the revaluation of the embedded derivative of \$10.8 million and additional interest of \$4.1 million in relation to the loan element.

The consolidated loss for the year after taxation transferred to reserves was \$1.2 million. (2007: \$1.3 million). The Directors do not propose that a dividend be paid (2007: \$Nil).

DIRECTORS

The following Directors held office at the year end:

EXECUTIVE DIRECTORS

Kevin Foo
Grant Manheim
Robert Palmer
Tony Porter resigned 28 December 2007
George Donne appointed 1 February 2008

NON EXECUTIVE DIRECTORS

Rashed Al Suwaidi appointed 1 February 2008
Philip Rand appointed 1 February 2008
Mukthar Tuyakbayev appointed 1 February 2008

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

REMUNERATION PAID

	Total 2008 \$000	Total 2007 \$000
Kevin Foo *	300	323
Grant Manheim	144	717
Robert Palmer **	239	244
Tony Porter***	142	96
George Donne	33	–
Rashed Al Suwaidi	10	–
Philip Rand	10	–
Mukthar Tuyakbayev	10	–
William Kelleher (resigned 30 January 2007)	–	264
	888	1,644

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

** Paid to The Gallagher Partnership LLP.

*** Paid by Victoria Oil & Gas International Limited.

The Company has a discretionary share incentive scheme whereby fully paid shares can be awarded by the Trustees of the Employee Share Ownership Plan ('ESOP') as long term incentive for the Directors, senior managers and staff. Under this scheme, the ESOP subscribes for shares up to a limit agreed annually by the shareholders, which is available for issue to employees on an annual basis in recognition of their contribution to the Group. During the year, the Trustees of the ESOP have subscribed for 5,980,000 shares in the Company at par, but no discretionary awards were made.

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

CORPORATE GOVERNANCE

The Directors support high standards of corporate governance and are committed to managing the Company in an honest and ethical manner, having regard to the Combined Code and 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.

DIRECTORS' REPORT *continued*

BOARD

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

The Board meets at least six times each year providing effective leadership and overall management of the Group's affairs. The Board approves the Group's strategy, investment plans and regularly reviews operational and financial performance and risk management matters. A schedule of matters reserved for Board decision is maintained. This includes the approval of the budget and business plan, major capital expenditure, acquisitions and disposals, risk management policies and the approval of the financial statements. Formal agendas, papers and reports are sent to the Directors in a timely manner prior to Board meetings. The Board delegates certain of its responsibilities to the Board committees, listed below, which have clearly defined terms of reference.

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

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

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

AUDIT COMMITTEE

An audit committee is chaired by Philip Rand 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 and Deputy Chairman are other members of the committee and the Finance Director attends the committee meetings by invitation.

REMUNERATION COMMITTEE

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

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

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 are currently being 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.

RISKS AND UNCERTAINTIES

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

TITLE TO ASSETS

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

LICENCE OBLIGATIONS

Operations must be carried out in accordance with the terms of each licence, field development plan, annual work programme and budgets agreed with the Ministry of Energy and Mineral Resources in Kazakhstan and the Ministry of Natural Resources in Russia. The law provides that fines may be imposed and operations suspended, amended or terminated if a contractor fails to comply with its obligations under such agreements or fails to make timely payments of levies and taxes for the sub-soil use, provide the required geological information or meet other reporting requirements. Failure to comply may also lead to suspension, revocation or termination of the licence.

REQUIREMENT FOR FURTHER FUNDING

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

DIRECTORS' REPORT *continued*

GEOLOGICAL AND DEVELOPMENT RISKS

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

PRICE OF CRUDE OIL AND GAS

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

TAX RISK

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

EXCHANGE RATE RISK

All risks and rewards of the Group are based in US dollars. Whilst, the Kazakh operations generate sales in Kazakh Tenge, the selling price is fixed taking into consideration movement in the world price for oil which is US dollar denominated. The Group's expenses, which are primarily to contractors on exploration and development, are incurred primarily in Kazakh Tenge, Russian Roubles and Sterling. However, this expenditure is also largely US dollar denominated. Therefore, the Group's policy is to conduct and manage its operations in US dollars and therefore it is exposed to fluctuations in the relative values of the US dollar, Kazakh Tenge, Russian Rouble and Sterling.

POLITICAL RISK

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

FINANCIAL RISK MANAGEMENT

Details of the Group's financial risk management policies are set out in Note 26.

KEY PERFORMANCE INDICATORS "KPIs"

The Group is in the exploration phase of the West Medvezhye gas project and has only limited pilot production at Kemerkol, so the relevant KPIs relate to the discovery and development of economic oil and gas deposits in Kazakhstan and Russia.

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

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

The level of capital expenditure is a reflection of the exploration and development activity of the Group. The total for the year was \$9.6 million (2007 \$29.0 million). Of this approximately 69% (2007: 47%) was spent in Kazakhstan and 31% (2007: 53%) was spent in Russia.

Net cash inflow from financing activities for the year was \$18.7 million compared to \$38.8 million for the previous period. The prime source of cash inflow has been through the issuing of new equity shares and issue of convertible loan notes.

GOING CONCERN

The Directors have given careful consideration to the appropriateness of the going concern basis in the preparation of the financial statements. The validity of the going concern concept is dependent on finance being available for the working capital requirements of the Group in order to finance the continuing development of the existing projects.

At 31 May 2008 the Group had \$9.3 million of cash and \$8.0 million of the \$10.0 million convertible loan notes created in December 2007 still available to be drawn down subject to certain conditions. (see Note 22).

To realise the full potential of its assets further working capital will be required. Notwithstanding the difficult economic climate at present, the Directors are currently considering further opportunities for raising finance for the Group and are in regular contact with specialist investors interested in providing finance to companies operating in our sector and geographical area.

As set out in Note 3, one of the Group's subsidiaries has lost on appeal a claim against it that the transfer of the subsoil licence for the Kemerkol oil field had been improperly executed. This is a significant asset and the Group's only producing asset. The Group, advised that the claim is without merit, is intending to submit an appeal against the decisions in the Supreme Court for the Republic of Kazakhstan and believes it will recover the licence. If the appeal is unsuccessful, the implications on the financial statements would be a write down of intangible assets of \$40 million. This may be offset by a successful claim against the original vendor of the subsidiary.

The Group has, subsequent to the year end, entered into two transactions, as noted in the Chairman's Statement, with the view to broadening the Group's portfolio of interest and to including opportunities outside of the Former Soviet Union.

Based on the assumption that finance will become available and the management's ability to develop a portfolio of assets with a more diversified spread of geological, political and economic risk, the Directors consider that the going concern basis is appropriate for the financial statements.

PROPERTY, PLANT AND EQUIPMENT

In the opinion of the Directors, the Group's property, plant and equipment have a value in excess of the balance sheet figure. Details of movements in such assets are shown in Note 15 to the financial statements.

CREDITOR PAYMENT POLICY

It is the Group's normal policy to agree the terms of payment at the start of business with each supplier, ensure that suppliers are aware of the terms of the payment and pay in accordance with contractual and other legal obligations. In the current and previous year creditors were paid to terms or within 15 days.

CHARITABLE AND POLITICAL DONATIONS

The Company made no political or charitable contributions during the year.

DIRECTORS' INDEMNITIES

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group's financial statements for the year are prepared in accordance with International Financial Reporting Standards (IFRS) – as described in Note 2.

SUBSEQUENT EVENTS

On 22nd September 2008, the Company announced that it has entered into an agreement to provide a \$5 million loan facility to Bramlin Limited ("the facility"). The Facility, which is repayable by 30 June 2009, is secured by a fixed and floating charge over the assets of Bramlin and bears interest at 1.5%, per month. The facility was granted in an effort to gain exposure to a broader spectrum of value-enhancing opportunities, including those outside the Company's core region of the Former Soviet Union.

On 17th October 2008, the Company announced that it has signed non-binding Heads of Agreement with the Directors of Bramlin covering an all share acquisition of Bramlin by Victoria, by way of a Scheme of Arrangement, which will require approval of the Guernsey court and the shareholders of Bramlin.

Bramlin's principal asset is a 60% interest in the on shore Logbaba gas exploration and development prospect in Cameroon.

DIRECTORS' REPORT *continued*

On 28th October 2008, the Company announced that it has agreed a 12 month option to acquire the entire share capital of Falcon Petroleum Limited, a Cypriot company with substantial exploration prospects in Ethiopia and Mali. The purchase price will be determined by an independent technical expert's report and cannot exceed \$12.5 million.

AUDITORS

To the best of the Directors' knowledge and belief, and having made appropriate enquiries of other officers of the Company, all information relevant to enable the auditors to provide their opinion on the financial statements has been provided. The Directors have taken all reasonable steps in order to ensure their awareness of any relevant audit information and to establish that the Company's auditors are aware of any such information. This confirmation is given and should be interpreted in accordance with the provisions of S234ZA of the Companies Act, 1985.

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

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will take place in London on 4 December 2008 at 11.00am. A Form of Proxy and reply paid envelope are enclosed with this document.

By Order of the Board,
Leena Nagrecha
Secretary

Date: 11 November 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to be properly prepared in accordance with IFRSs as adopted by the European Union and the Companies Act 1985.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the groups's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs.

However, Directors are also required to:

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

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

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

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF VICTORIA OIL & GAS PLC

We have audited the group and parent company financial statements of Victoria Oil & Gas Plc for the year ended 31 May 2008 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Company Cash Flow Statement and the related notes 1 to 33. 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' responsibilities for preparing the Annual Report, and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant 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 and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we 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 whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Review of Operations and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any 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 group's and company's circumstances, 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 group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 May 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 May 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matters

Without qualifying our opinion, we draw your attention to note 3 to the financial statements concerning fundamental uncertainties in respect of going concern and litigation and claims. Production in Kemerkol was temporarily suspended on 1 July 2008 pending the resolution of a legal claim against the Group. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability or impairment of assets that may result has been made in the financial statements. As per note 3 we also draw your attention to the fact that the Group incurred a loss for the year of \$1,168,000 (2007: \$1,319,000). These conditions indicate the existence of material uncertainties which may cast significant doubt about the company's ability to continue as a going concern. The directors have prepared cashflow projections for a period of not less than 12 months from the date of this report which indicates that the Group will have sufficient cash resources to continue in operational existence for the foreseeable future. Accordingly, the directors have prepared the financial statements on the basis that the company is a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

In addition, without qualifying our opinion, we draw your attention to note 14, 16 and 18 to the financial statements concerning the valuation of intangible assets, investments and amounts due from subsidiaries. The realisation of intangible assets of \$104,365,000 (2007: \$92,649,000) included in the consolidated balance sheet, and investments of \$34,378,000 (2007: \$33,682,000) and amounts due by subsidiaries of \$70,971,000 (2007: \$55,470,000) included in the Company balance sheet are dependent on the discovery and successful development of economic reserves, including the ability of the Group to raise sufficient finance to develop the projects and a successful outcome of the legal claims referred to above.

The financial statements do not include any adjustments relating to these uncertainties.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Dublin

Date: 11 November 2008

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MAY 2008

	Notes	2008 \$000	2007 \$000
Continuing operations			
REVENUE	4	1,726	373
Cost of sales		(1,655)	(199)
GROSS PROFIT		71	174
Other gains and (losses)	5	260	(3,053)
Administrative expenses		(4,857)	(3,460)
OPERATING LOSS		(4,526)	(6,339)
Interest received		248	151
Finance revenue	6	11,095	9,642
Finance costs	7	(7,985)	(4,773)
LOSS BEFORE TAXATION	8	(1,168)	(1,319)
Income tax expense	9	-	-
LOSS AFTER TAXATION FOR THE FINANCIAL YEAR		(1,168)	(1,319)
		Cents	Cents
Loss per share - basic	13	(0.70)	(1.17)
Loss per share - diluted	13	(0.70)	(1.17)

CONSOLIDATED BALANCE SHEET

AS AT 31 MAY 2008

	Notes	2008 \$000	2007 \$000
ASSETS:			
NON CURRENT ASSETS			
Intangible assets	14	104,365	92,649
Property, plant and equipment	15	2,008	1,363
Investments	16	696	–
Restricted cash	17	122	–
		107,191	94,012
CURRENT ASSETS			
Inventory		3	–
Receivables	18	1,226	1,821
Cash and cash equivalents	19	9,270	9,945
		10,499	11,766
TOTAL ASSETS		117,690	105,778
LIABILITIES:			
CURRENT LIABILITIES			
Trade and other payables	20	(4,947)	(5,706)
NET CURRENT ASSETS		5,552	6,060
NON-CURRENT LIABILITIES			
Borrowings	21	(3,693)	–
Convertible loan – debt portion	22	(212)	(14,399)
Derivative financial instruments	22	(1,518)	(13,636)
Provisions	23	(1,393)	–
		(6,816)	(28,035)
NET ASSETS		105,927	72,037
EQUITY:			
Called-up share capital	27	2,621	1,129
Share premium		100,133	71,935
ESOP Trust reserve	28	(124)	(74)
Investment revaluation reserve	25	295	–
Translation reserve		110	–
Other reserve	24	2,852	–
Retained earnings – surplus/(deficit)		40	(953)
TOTAL EQUITY		105,927	72,037

The financial statements were approved by the Board of Directors on 11 November 2008

KEVIN A FOO

ROBERT PALMER

COMPANY BALANCE SHEET

AS AT 31 MAY 2008

	Notes	2008 \$000	2007 \$000
ASSETS:			
NON-CURRENT ASSETS			
Property, plant and equipment	15	8	10
Investments	16	34,378	33,682
		34,386	33,692
CURRENT ASSETS			
Receivables	18	71,512	56,116
Cash and cash equivalents	19	8,806	9,215
		80,318	65,331
TOTAL ASSETS		114,704	99,023
LIABILITIES:			
CURRENT LIABILITIES			
Trade and other payables	20	(4,014)	(757)
NET CURRENT ASSETS		76,304	64,574
NON-CURRENT LIABILITIES			
Borrowings	21	(3,693)	–
Convertible loan – debt portion	22	(212)	(14,399)
Derivative financial instrument	22	(1,518)	(13,636)
		(5,423)	(28,035)
NET ASSETS		105,267	70,231
EQUITY			
Called-up share capital	27	2,621	1,129
Share premium	24	100,133	71,935
Investment revaluation reserve	25	295	–
Other reserve	24	2,852	–
Retained earnings – (deficit)		(634)	(2,833)
TOTAL EQUITY		105,267	70,231

The financial statements were approved by the Board of Directors on 11 November 2008

KEVIN A FOO
CHAIRMAN

ROBERT PALMER
FINANCE DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MAY 2008

	Called up share capital \$000	Share premium \$000	ESOP Trust reserve \$000	Investment revaluation reserve \$000	Retained earnings/ (deficit) \$000	Translation reserve \$000	Other reserve \$000	Total \$000
At 1 June 2006	1,044	68,153	(53)	–	(2,545)	–	–	66,599
Shares issued for cash	85	4,853	(45)	–	–	–	–	4,893
Transfer concerning issue expenses of loan notes	–	(1,071)	–	–	1,071	–	–	–
Credit re value of shares vested by ESOP	–	–	24	–	1,840	–	–	1,864
Loss for the year	–	–	–	–	(1,319)	–	–	(1,319)
At 31 May 2007	1,129	71,935	(74)	–	(953)	–	–	72,037
Shares issued for cash	1,063	29,205	(50)	–	–	–	–	30,218
Share issue costs	–	(3,353)	–	–	–	–	–	(3,353)
Conversion of loan notes	429	4,507	–	–	–	–	–	4,936
Transfer concerning issue expenses of loan notes	–	(2,161)	–	–	2,161	–	–	–
Revaluation to fair value	–	–	–	295	–	–	–	295
Currency translation adjustment	–	–	–	–	–	110	–	110
Gain on redemption of embedded derivative	–	–	–	–	–	–	2,852	2,852
Loss for the year	–	–	–	–	(1,168)	–	–	(1,168)
At 31 May 2008	2,621	100,133	(124)	295	40	110	2,852	105,927

SHARE PREMIUM RESERVE

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

ESOP TRUST RESERVE

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

INVESTMENTS REVALUATION RESERVE

The investments revaluation reserve includes revaluation of available for sale investments to market value.

RETAINED EARNINGS DEFICIT

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

TRANSLATION RESERVE

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

OTHER RESERVE

The Other reserve includes gains and losses arising on redemption of the embedded derivative component of hybrid financial instruments stated at fair value.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MAY 2008

	Called up share capital \$000	Share premium \$000	Investments revaluation reserve \$000	Retained earnings/ (deficit) \$000	Other reserve \$000	Total \$000
At 1 June 2006	1,044	68,153	–	(2,584)	–	66,613
Shares issued for cash	85	4,853	–	–	–	4,938
Transfer concerning issue expenses of loan notes	–	(1,071)	–	1,071	–	–
Credit re value of shares vested by ESOP	–	–	–	1,840	–	1,840
Revaluation to fair value	–	–	–	–	–	–
Loss for the year	–	–	–	(3,160)	–	(3,160)
At 31 May 2007	1,129	71,935	–	(2,833)	–	70,231
Shares issued for cash	1,063	29,205	–	–	–	30,268
Share issue costs	–	(3,353)	–	–	–	(3,353)
Conversion of loan notes	429	4,507	–	–	–	4,936
Transfer concerning issue expenses of loan notes	–	(2,161)	–	2,161	–	–
Revaluation to fair value	–	–	295	–	–	295
Gain on redemption of embedded derivative	–	–	–	–	2,852	2,852
Profit for the year	–	–	–	38	–	38
At 31 May 2008	2,621	100,133	295	(634)	2,852	105,267

SHARE PREMIUM RESERVE

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

INVESTMENTS REVALUATION RESERVE

The investments revaluation reserve includes revaluation of available for sale investments to market value.

RETAINED EARNINGS DEFICIT

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

OTHER RESERVES

The Other reserve includes gains and losses arising on redemption of the embedded derivative component of hybrid financial instruments stated at fair value.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MAY 2008

	2008 \$000	2007 \$000
CASH FLOW FROM OPERATING ACTIVITIES		
Loss for the year	(1,168)	(1,319)
Finance costs recognised in income statement	7,985	4,773
Investment revenue recognised in income statement	(248)	(151)
Impairment loss recognised in income statement	–	2,293
Depreciation and amortisation of non-current assets	671	242
Fair value gain on embedded derivatives	(11,095)	(9,642)
Net foreign exchange gain	(3,695)	(712)
Value of shares vested by Victoria Oil & Gas Plc ESOP Trust	–	750
	(7,550)	(3,766)
MOVEMENTS IN WORKING CAPITAL		
Decrease/ (increase) in trade and other receivables	(106)	(225)
(Increase)/decrease in inventories	(3)	16
(Decrease)/increase in trade and other payables	(3,137)	1,715
	(10,796)	(2,260)
CASH USED IN OPERATIONS		
Interest paid	(867)	(982)
	(11,663)	(3,242)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	248	151
Payments for intangible fixed assets	(7,236)	(27,441)
Payments for tangible fixed assets	(949)	(766)
Proceeds from sale of tangible fixed assets	12	–
Proceeds from sale of intangible assets	300	–
Transfer to fund for asset retirement obligations	(122)	–
	(7,747)	(28,056)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of equity shares	30,218	4,893
Proceeds from issue of convertible loan notes	2,000	37,100
Repayment of convertible loan notes	(15,717)	–
Payment of equity issue costs	(990)	–
Payment of loan issue costs	(265)	(3,214)
Proceeds from borrowings	3,410	–
	18,656	38,779
	(754)	7,481
CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR		
Effects of exchange rate changes on the balance of cash held in foreign currencies	79	84
	9,270	9,945
CASH AND CASH EQUIVALENTS END OF THE YEAR		

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MAY 2008

	2008 \$000	2007 \$000
CASH FLOW FROM OPERATING ACTIVITIES		
Loss for the year	38	(3,160)
Finance costs recognised in income statement	7,785	4,773
Investment revenue recognised in income statement	(247)	(151)
Depreciation and amortisation of non-current assets	2	2
Fair value gain on embedded derivatives	(11,095)	(9,642)
Net foreign exchange gain	(88)	(82)
Impairment loss recognised in income statement	–	3,682
Value of shares vested by Victoria Oil & Gas Plc ESOP Trust	–	750
	(3,605)	(3,828)
MOVEMENTS IN WORKING CAPITAL		
Increase in trade and other receivables	(14,883)	(22,433)
Increase in trade and other payables	877	(197)
	(17,611)	(26,458)
CASH USED IN OPERATIONS		
Interest paid	(867)	81
	(18,478)	(26,377)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	247	151
Payments for intangible fixed assets	(914)	(5,631)
Payments for tangible fixed assets	–	(2)
	(667)	(5,482)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of equity shares	30,268	4,938
Proceeds from issue of convertible loan notes	2,000	37,100
Repayment of convertible loan notes	(15,717)	–
Payment of equity issue costs	(990)	–
Payment of loan issue costs	(265)	(3,214)
Proceeds from borrowings	3,410	–
	18,706	38,824
NET CASH GENERATED FROM FINANCING ACTIVITIES	18,706	38,824
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(439)	6,965
CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR		
Effects of exchange on the balance of cash held in Foreign currency	30	82
	9,215	2,168
CASH AND CASH EQUIVALENTS END OF THE YEAR	8,806	9,215

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

1. PRINCIPAL ACCOUNTING POLICIES

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

(i) Basis of preparation

For all periods up to and including the year ended 31 May 2007, the Group and Company prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). In accordance with AIM rules, the Group is required to present its annual consolidated financial statements for the year ended 31 May 2008 in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) as adopted by the EU and IFRIC interpretations adopted by the EU and with those parts of the Companies Act 1985, applicable to companies reporting under IFRS. The Group’s and Company’s transition date to IFRS is 1 June 2006. The comparative financial information for the year ended 31 May 2007 has been restated on a consistent basis with those accounting policies applied by the Group and Company in preparing its first full financial statements in accordance with IFRS as at 31 May 2008, except where otherwise required or permitted by IFRS 1 “First Time Adoption of International Accounting Standards”.

The impact of IFRS on the financial statements for the year ended 31 May 2007 and the significant decisions taken in respect of availing, or otherwise, of the exemptions available on the transition to IFRS are outlined in Note 2 to the financial statements.

The financial statements have been prepared in accordance with International Financial Reporting Standards, and also International Financial Reporting Standards as adopted by the European Union.

(ii) Accounting convention

The financial statements are prepared under the historical cost convention other than available for sale assets at fair value.

(iii) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 May each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits 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 income statement 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 period are included in the consolidated income statement from the effective date of acquisition or to the effective date of disposal.

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

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

(iv) Revenue recognition

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

Interest income is accrued on a timely basis by reference to the principal amount and the effective interest rate applicable.

(v) Operating Profit/(Loss)

Operating Profit / (Loss) represents revenue less cost of sales and administration expenses. It is stated before investment revenue and finance costs and other gains and losses.

(vi) Foreign currencies

The presentation currency of the Group financial statements is US Dollars and the functional currency and the presentation currency of the parent company is US Dollars. The individual financial statements of each Group company are maintained in the currency of the primary economic environment in which it operates (its functional currency). Whilst, the Kazakh operations generate sales in Kazakh Tenge, the selling price is fixed taking into consideration movement in the world price for oil which is US Dollar denominated. The Group's expenses, which are primarily to contractors on exploration and development, are incurred primarily in Kazakh Tenge, Russian Roubles and Sterling. However, this expenditure, is also largely US Dollar denominated. Therefore, the Group's policy is to conduct and manage its operations in US Dollars. For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in US Dollars, the presentation currency.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was re-determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the year, other than when a monetary item forms part of a net investment in a foreign operation, then exchange differences on that item are recognised in equity. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity.

(viii) Capitalisation of interest

Finance costs are charged to the income statement, except in the case of development finance on specific capital projects where interest and related financing costs are capitalised as part of the cost of the project development.

(ix) Employee Share Ownership Plan ("ESOP")

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

(x) Inventories

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

(xi) Intangible assets

Exploration and evaluation assets

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

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

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

Exploration costs include an allocation of administration and salary costs, including share based payments as determined by management. Exploration costs are capitalised until technical feasibility and commercial viability of extraction of reserves are demonstratable. Prior to reclassification to property, plant and equipment (Note 1 xii), exploration and evaluation assets are assessed for impairment, and any impairment loss recognised immediately in the income statement.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

(xii) Property, Plant & Equipment

Plant & Equipment

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

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

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

Plant and equipment 10%

Fixtures and fittings 15%

Oil and gas interests

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

A review is performed annually for any indication that the value of the Group's oil and gas interest may be impaired.

Depreciation and depletion of costs in depreciable pools is provided under the unit of production method based on estimated commercial reserves in each regional cost pool. Commercial reserves are developed and undeveloped oil and gas reserves, not proven and probable reserves.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

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

(xiv) Decommissioning

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

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

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

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

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

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

(xv) Financial Instruments

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

Cash and cash equivalents

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the Income Statement when there is objective evidence that the asset is impaired.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Convertible bond – hybrid financial instruments

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

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

The fair value of the embedded derivatives are calculated using Binomial Lattice and simulation models depending on the characteristics of the loan notes.

Interest expense is calculated using the effective interest rate method.

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

Equity instruments

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

Investment in subsidiaries

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

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

(xvi) Taxation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

Deferred tax is the tax expected to be payable or 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 liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profits will be available against which deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences arising on investments in subsidiaries and associates, only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

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

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

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

(xvii) Share based payments and share options

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

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

Critical judgements in applying the Group's accounting policies

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

Impairment of intangible assets

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

Going Concern

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

Convertible bonds

The estimation of the fair value of embedded derivatives requires the selection of an appropriate valuation model and consideration as to the assumptions used as inputs necessary for the valuation model chosen. The Group has made estimates as to the volatility of its own shares, the probable life of options granted and the time of exercise of those options.

Exploration and evaluation

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

Recoverability of VAT

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

Deferred tax assets

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

Key sources of estimation uncertainty

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

Decommissioning provision

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

Oil and gas reserves

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

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

Convertible Bonds

The carrying value of the derivative financial instrument in the Balance Sheet is derived from a valuation model. Assumptions used in this model are subject to inherent uncertainties and may change significantly if the volatility in the Company's share price changes. An example of the effects of such changes is shown in Note 26.

Operating in Russia and Kazakhstan

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

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

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

2. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

First time adoption of IFRS

Up to and including the financial year ended 31 May 2007 the Group and Company prepared its financial statements in accordance with UK GAAP. These financial statements, for the year ended 31 May 2008, are the first annual financial statements required to be prepared in accordance with IFRS as adopted by the European Union.

Accordingly, the Group and Company has prepared financial statements that comply with IFRS applicable for periods beginning on or after 1 June 2006 and the significant accounting policies meeting those requirements are described in Note 1. In preparing these financial statements, the Group and Company has started from an opening consolidated balance sheet as at 1 June 2006, the Group's and Company's date of transition to IFRS and made those changes in accounting policies required by IFRS 1, First-time Adoption of International Financial Reporting Standards.

Reconciliations between the previously reported losses after tax for the year ended 31 May 2007 and the Balance Sheet as at 31 May 2007 and those presented under IFRS are included at the end of this note.

The presentation of certain items in the cash flow statement prepared under IAS 7 "Cash Flow Statements" differs to the previous presentation under UK GAAP. Under IAS 7, the cash flow statement is presented to show movements in cash and cash equivalents, whilst under UK, the cash flow statement is prepared to show movements in cash only. Under IFRS, cash flows are segregated into three categories: operating, investing and financing. This differs from UK GAAP which requires additional sub categories.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

Exemptions applied

IFRS 1 allows first time adopters to IFRS to take advantage of a number of voluntary exemptions from the general principle of retrospective restatement. The Group has taken the following exemptions:

IFRS 2: Share-based Payment has not been applied in respect of share options granted before 7 November 2002.

IFRS 21: Cumulative translation difference for all foreign operations have been set to zero at the date of transition to IFRS.

Standards and interpretations in issue but not yet effective

Four interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current year. These are: IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies; IFRIC 8 Scope of IFRS 2; IFRIC 9 Reassessment of embedded derivatives; and IFRIC 10 Interim reporting and impairments. The adoption of these interpretations has not led to any changes in the Group's accounting policies.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue, but not yet effective:

- IAS 1 (Revised) Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2008);
- IAS 23 (Revised) Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009);
- IAS 27 (Revised) Consolidated and Separate Financial Statements (effective for accounting periods beginning on or after 1 July 2009);
- IFRS 2 (Revised) Share Based Payment (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 3 (Revised) Business Combinations (effective for accounting periods beginning on or after 1 July 2009);
- IFRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009);
- IFRIC 11 IFRS 2: Group and Treasury Share Transactions (effective for accounting periods beginning on or after 1 January 2008);
- IFRIC 12 Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2009);
- IFRIC 13 Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008);
- IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2008);
- IFRIC 15 Agreements for the Construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009); and
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008).

A full analysis of the above standards and interpretations has yet to be completed but given the current Group operations, in the opinion of the Directors, the above are unlikely to have a material impact on the Group and Company financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

RECONCILIATIONS FROM PREVIOUS UK GAAP TO IFRS COMPARATIVE FIGURES

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MAY 2007

	As previously measured under UK GAAP \$000	Transition adjustments \$000	Under IFRS \$000
Revenue	373	–	373
Cost of Sales	(199)	–	(199)
Gross profit	174	–	174
Other gains and losses	(3,053)	–	(3,053)
Administrative expenses	(3,513)	53	(3,460)
Operating loss	(6,392)	53	(6,339)
Interest received	151	–	151
Finance revenue	–	9,642	9,642
Finance costs	(2,053)	(2,720)	(4,773)
Loss before taxation	(8,294)	6,975	(1,319)
Taxation	–	–	–
Loss after taxation	(8,294)	6,975	(1,319)
Loss per share (Cents)			
Basic	(7.06)	(5.89)	(1.17)
Diluted	(7.06)	(5.89)	(1.17)

The transition adjustments reflect the following changes:

ADMINISTRATION EXPENSES

Adjustment arises on consolidation of the ESOP Trust in accordance with IAS27.

FINANCE REVENUE

The convertible loan notes have been redefined as hybrid financial instruments. The Finance income arises on taking the reduction in the fair value of the embedded derivative element to the Income Statement.

FINANCE COST

The increase in the finance cost reflects the accrual for interest at the effective interest rate, being the rate necessary to increase the initial value of the debt portion of the convertible loan to the repayable amount at the end of the term.

LOSS PER SHARE

The decrease in the loss per share is as a result of the above adjustments, partially offset by reducing the weighted average number of shares in issue by the weighted average number of shares held by the ESOP Trust.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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RECONCILIATION FROM PREVIOUS UK GAAP TO IFRS COMPARATIVE FIGURES

CONSOLIDATED BALANCE SHEET AS AT 31 MAY 2007

	As previously measured under UK GAAP \$000	Transition adjustments \$000	Under IFRS \$000
NON-CURRENT ASSETS			
Intangible assets	93,708	(1,059)	92,649
Property, plant and equipment	874	489	1,363
	94,582	(570)	94,012
CURRENT ASSETS			
Receivables	1,442	379	1,821
Cash and cash equivalents	9,924	21	9,945
	11,366	400	11,766
TOTAL ASSETS	105,948	(170)	105,778
LIABILITIES:			
CURRENT LIABILITIES			
Trade and other payables	(5,702)	(4)	(5,706)
NET CURRENT ASSETS	5,664	396	6,060
NON-CURRENT LIABILITIES			
Borrowings	(31,241)	31,241	–
Convertible loan – debt portion	–	(14,399)	(14,399)
Derivative financial instrument	–	(13,636)	(13,636)
NET ASSETS	69,005	3,032	72,037
EQUITY:			
Called-up share capital	1,129	–	1,129
Share premium	71,935	–	71,935
ESOP Trust reserve	–	(74)	(74)
Equity component of convertible loan	3,716	(3,716)	–
Retained earnings – (deficit)	(7,775)	6,822	(953)
TOTAL EQUITY	69,005	3,032	72,037

The transition adjustments reflect the following changes:

INTANGIBLES

In accordance with IFRS 6, the following amounts have been transferred out of intangibles:

Property, plant and equipment acquired for the exploration programme, previously included as deferred development expenditure. Subsequent depreciation is charged to the Exploration and Evaluation cost pool in intangible fixed assets. (NBV \$489,000)

Pre licence expenditure previously capitalised as deferred development costs within intangible fixed assets, which is now written off. (\$194,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

Pre licence expenditure in respect of the element that is recoverable from 3rd parties which is now included in receivables (\$376,000).

PROPERTY, PLANT AND EQUIPMENT

As stated above, in accordance with IFRS6 plant and equipment acquired for the exploration programme is included within P, P&E whereas previously it had been included within deferred development expenditure.

RECEIVABLES

Pre licence study costs which the Group expects to sell to a third party for value. Previously included within intangible assets.

CASH AND CASH EQUIVALENTS

Increase resulting from consolidation of the ESOP Trust in accordance with SIC 12 'Special Purpose Entities'.

TRADE AND OTHER PAYABLES

Increase resulting from consolidation of the ESOP Trust.

BORROWINGS

The convertible loan note was previously treated as a compound financial instrument under UK GAAP, but this was reviewed and redesignated as a hybrid financial instrument comprising a host note with an embedded derivative in accordance with IAS 32 (Borrowings \$31,241,000, equity component of convertible loan \$3,716,000 and credit to retained earnings \$7,424,000).

CONVERTIBLE LOAN-DEBT PORTION

This represents the difference at date of issue between the fair value of the financial instrument and the fair value of the embedded derivative contained within it plus subsequent interest accrued using the effective interest rate less interest paid.

DERIVATIVE FINANCIAL INSTRUMENT

Fair value of the embedded derivative contained within the convertible loan notes. The basis of valuation is set out in Note 22.

ESOP TRUST RESERVE

The Victoria Oil & Gas ESOP Trust has been consolidated on the basis that it is controlled by the Company. The ESOP Trust reserve represents the value of shares in the Company held by the Trust which are deductible from equity in accordance with IAS 32.

EQUITY COMPONENT OF CONVERTIBLE LOAN

Convertible loan notes had previously been accounted for as compound financial instruments and split between the liability element and an equity component which are now shown as convertible loan note-debt portion and derivative financial instrument.

RETAINED EARNINGS

This represents the effect of the net impact of the above adjustments.

3. FUNDAMENTAL UNCERTAINTIES

Going Concern

The Directors have given careful consideration to the appropriateness of the going concern basis in the preparation of the financial statements particularly as the income statement states that the Group incurred a loss of \$1,168,000 for the year ended 31 May 2008. The validity of the going concern assumption is dependent on finance being available for the continuing working capital requirements of the Group in order to finance the continuing development of the existing projects and title to the Group's assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

To realise the full potential of its assets further working capital will be required. The Directors have prepared financial projections which show that the Company will have sufficient cash resources available for at least 12 months from the date of this report to continue in operational existence. These projections include assumptions in respect of raising further capital. Notwithstanding the difficult economic climate at present, the Directors are currently considering further opportunities for raising finance for the Group and are in regular contact with specialist investors interested in providing finance to companies operating in our sector and geographical area.

At 31 May 2008 the Group had \$9.3 million of cash and \$8.0 million of the \$10.0 million convertible loan notes created in December 2007 still available to be drawn down subject to certain conditions. (see Note 22).

Litigation and Claims

In February 2008, a claim was brought against the Company's Kazakh subsidiary, Victoria Energy Central Asia LLP (VECA), in the Economic Court of the Atyrau Oblast in Kazakhstan by Cypriot company Rasova Enterprises Company Limited. The claim was brought on the basis that the agreement for the transfer of the subsoil use rights for the Kemerkol oil field from the previous licensee, Saga Creek Gold Company LLP, to VECA had been improperly executed. At the time of the transfer, legal opinions were obtained by the Company, which confirmed that the transfer had been undertaken correctly. In March 2008, the Economic Court ruled in favour of Rasova Enterprises Company Limited and declared the agreement for the transfer of the subsoil licence to VECA invalid, but did not invalidate the registration of the licence in the name of VECA by the Kazakh Ministry of Energy and Mineral Resources. It is the intention of the Company to submit an appeal against the decision to the Supreme Court for the Republic of Kazakhstan.

Following the decision of the Economic Court, the Company commenced proceedings in the English Courts against the vendor for breach of warranties under the original sale and purchase agreements signed in 2005 for the acquisition of Kemerkol. In September 2008, the High Court of Justice ruled in favour of the Company and a 'Case Management Conference' is due to be convened in November 2008 to determine the quantum of damages due to the Company.

In September 2008, the Company successfully filed for an injunction in the Court of the Queen's Bench in Alberta, Canada against Alhambra Resources Ltd, the parent company of Saga Creek Gold Company LLP and others. The injunction prohibits those parties from in any way transferring any rights to the Kemerkol licence to any third party. Alhambra is currently appealing the injunction.

Production was temporarily suspended on 16 June 2008 pending resolution of the claim against VECA. In the event that the Group is unsuccessful in retaining the licence an impairment provision will be necessary against the \$40 million investment by the group in the net assets associated with VECA and the Kemerkol licence. In such an event, the Directors will look to recover the Group's investment by pursuing a claim for damages.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

4. SEGMENTAL ANALYSIS

The Group operates in one class of business being the exploration for, development and production of oil and gas, and in two geographical segments, namely the Russian Federation and the Republic of Kazakhstan.

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

4A. SEGMENT REVENUE AND SEGMENT RESULT

	Revenue		Loss before tax	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Russian Federation	–	–	(107)	–
Republic of Kazakhstan	1,726	373	(974)	(471)
Total for continuing operations	–	–	(1,081)	(471)
Unallocated Head Office	–	–	(87)	(848)
	1,726	373	(1,168)	(1,319)

There was no inter-segmental revenue.

4B. SEGMENT ASSETS AND LIABILITIES

	Assets		Liabilities	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Russian Federation	66,518	60,771	1,240	4,080
Republic of Kazakhstan	41,449	34,929	1,086	863
Total for continuing operations	107,967	95,700	2,326	4,943
Unallocated Head Office	9,723	10,078	9,437	28,798
	117,690	105,778	11,763	33,741

4C. OTHER SEGMENTAL INFORMATION

	Depreciation and amortization		Additions to non current assets	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Russian Federation	–	10	2,501	21,179
Republic of Kazakhstan	670	230	6,448	6,901
Total for continuing operations	670	240	8,949	28,080
Unallocated Head Office	2	2	–	920
	672	242	8,949	29,000

In 2008, \$56,000 of depreciation of plant and equipment was capitalised as exploration and evaluation expenditure (2007:\$55,000)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

5. OTHER GAINS AND LOSSES

	2008	2007
	\$000	\$000
Impairment of carrying value of Olager Oil LLP	–	(2,293)
Foreign exchange gains and (losses)	260	(760)
	260	(3,053)

In 2007, Olager Oil LLP, a group company, sold its only potentially income earning asset, an interest in the Tamdykol field, for \$300,000. As a result an impairment provision was created to reduce its net assets and the investment in subsidiary shown in the parent company Balance Sheet appropriately.

6. FINANCE REVENUE

	2008	2007
	\$000	\$000
Fair value gain on embedded derivatives	11,095	9,642

The above gains represent reductions in the fair value of the embedded derivatives in the convertible loan notes described more fully in Note 22. At each year end, and immediately prior to redemption or conversion, the embedded derivatives are revalued to fair value as explained in Note 1 (xv) – Financial Instruments – Convertible bond – hybrid financial instruments.

7. FINANCE COSTS

	2008	2007
	\$000	\$000
Convertible loan interest	(7,212)	(4,773)
Other interest expense	(571)	–
Unwind of discount on decommissioning costs	(202)	–
	(7,985)	(4,773)

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

8. LOSS BEFORE TAXATION

	2008	2007
	\$000	\$000
The profit before taxation is stated after charging/crediting:		
Directors' remuneration	888	1,644
Auditors' remuneration	172	38
Depreciation	264	75
Amortisation of intangibles	351	112
and after crediting		
Fair value gain on embedded derivatives	11,095	9,642

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

In 2008 the Chairman was the highest paid Director and received \$300,000. In 2007 the remuneration of the highest paid Director was \$717,000 and that of the Chairman was \$323,000.

The analysis of auditors' remuneration is as follows:

	Total 2008 \$000	Total 2007 \$000
Audit fee	172	106
Remuneration for non audit work	-	-
	172	106

Expenses comprise:	2008 \$000	2007 \$000
Direct materials	429	82
Wages and salaries	2,485	2,197
Professional fees	1,617	418
Office and other administrative expenditure	876	453
Travel	313	120
Rent	176	202
Depreciation & amortisation	616	187
	6,512	3,659

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

	2008 \$000	2007 \$000
Cost of sales	1,655	199
Administrative expenses	4,857	3,460
	6,512	3,659

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

9. INCOME TAX EXPENSE

The following deferred tax asset has not been recognised at the balance sheet date:

	2008 \$000	2007 \$000
Tax losses - revenue	4,057	2,430

Factors affecting the tax expense:

	2008 \$000	2007 \$000
Loss on ordinary activities before tax	(1,168)	(1,319)
Income tax calculated at 30% (2007 : 30%)	(350)	(395)

Effects of:

Effect of expenses not deductible for tax	205	742
Effect of finance costs not deductible for tax	1,847	899
Fair value adjustment on derivative not taxable	(3,329)	(2,893)
Increase of tax losses	1,627	1,647
Tax charge	0	0

At the balance sheet date, the Group had unused tax losses of \$13.6 million (2007: \$8.1 million) available for offset against future profit. No deferred tax asset has been recognised due to the unpredictability of future profits streams. Losses may be carried forward indefinitely.

10. EMPLOYEE INFORMATION

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

	2008 Number	2007 Number
Directors	5	4
Technical	53	45
Management and administration	30	40
	88	89

	\$000	\$000
Staff costs for the above persons were:		
Wages and salaries	3,154	2,923
Social security costs	407	482
Share based payments	-	750
	3,561	4,155

Included in the above is \$1,076,000 (2007: \$1,958,000) of wages and salaries which were capitalised within exploration and evaluation assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

11. DIRECTORS REMUNERATION

	2008 \$000	2007 \$000
Remuneration		
- Short term employee benefits	888	1,064
- Distribution from ESOP Trust	-	580
	888	1,644

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

During the year, no short term employee benefits or share based payments were capitalised within exploration and evaluation. In 2007, short term employee benefits of \$277,000 were capitalised.

12. KEY MANAGEMENT COMPENSATION

	2008 \$000	2007 \$000
The compensation paid to key management personnel is as set out as follows;		
Short term employee benefits	1,929	2,230
Termination benefits	-	10
Distribution from ESOP Trust	-	580
	1,929	2,820

The Company does not provide a pension scheme or other post employment benefits to any employees, including Directors.

13. EARNINGS PER SHARE

The loss per share is based on the Group loss after taxation for the financial year of \$1,168,000 (2007 - Loss \$1,319,000) and on 166,118,178 (2007 -112,932,204) ordinary shares being the weighted average number of shares in issue during the year, excluding those held by the ESOP Trust. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

14. INTANGIBLE ASSETS

	Group	
	2008	2007
Exploration and evaluation assets:	\$000	\$000
Cost		
Opening balance	92,809	66,464
Exchange adjustments	3,442	620
Additions	8,629	28,234
Impairment loss	–	(2,509)
Closing balance	104,880	92,809
Accumulated amortisation		
Opening balance	160	48
Exchange adjustments	4	–
Charge for the year	351	112
Closing balance	515	160
Net book amount		
Opening balance	92,649	66,416
Closing balance	104,365	92,649

SEGMENTAL ANALYSIS

	Group	
	2008	2007
Exploration and evaluation assets:	\$000	\$000
Russian Federation	66,504	59,908
Republic of Kazakhstan	37,861	32,741
	104,365	92,649

Exploration and evaluation assets relate principally to expenditure incurred in oil and gas and related expenditure on the West Medvezhye project in Russia and Kemerkol in Kazakhstan.

All present indications are that exploration projects will have a value in excess of the accumulated costs to date. An impairment provision was made in 2007 against the carrying value of the net assets of Olager Oil LLP following the sale of its only potentially income earning asset (see Note 5).

The realisation of this intangible asset is dependent on the discovery and successful 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 would be written off to the income statement.

The Directors are aware that by its nature there is an inherent uncertainty in such exploration and evaluation expenditure as to the value of the asset. Having reviewed the exploration and evaluation expenditure at 31 May 2008, the Directors are satisfied that the value of the intangible asset is not less than carrying value, subject to the outcome of the legal case as explained in Note 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Plant & Equipment \$000	Oil and Gas Interests \$000	Total \$000
Cost:			
At 1 June 2006	13	877	890
Exchange adjustments	–	(13)	(13)
Additions	2	764	766
Disposals	–	(74)	(74)
At 31 May 2007	15	1,554	1,569
Exchange adjustments	–	31	31
Additions	–	949	949
Disposals	–	(24)	(24)
At 31 May 2008	15	2,510	2,525
Accumulated Depreciation:			
At 1 June 2006	3	82	85
Exchange adjustments	–	(1)	(1)
Disposals	–	(8)	(8)
Charge for year	2	128	130
At 31 May 2007	5	201	206
Exchange adjustments	–	3	3
Charge for the year	2	318	320
Disposals	–	(12)	(12)
At 31 May 2008	7	510	517
Net book amount:			
At 31 May 2008	8	2,000	2,008
At 31 May 2007	10	1,353	1,363

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

Company

	Plant \$000
Cost:	
At 1 June 2006	13
Additions	2
At 31 May 2007	15
Additions	–
At 31 May 2008	15
Depreciation:	
At 1 June 2006	3
Charge for year	2
At 31 May 2007	5
Charge for the year	2
At 31 May 2008	7
Net book amount:	
At 31 May 2008	8
At 31 May 2007	10

16 INVESTMENTS

	Group		Company	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Listed investments (A)	696	–	696	–
Investments in subsidiaries (B)	–	–	33,682	33,682
	696	–	34,378	33,682

A Listed Investments

	Group		Company	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Available for sale investments	696	–	696	–

Listed investments are all in the UK and are stated at fair value. The Company owns 1,902,627 ordinary shares of £0.01 each in Bramlin Limited (1.4% of the issued share capital of that company).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

b. INVESTMENTS IN SUBSIDIARIES

Unlisted

	Company	
	2008	2007
	\$000	\$000
Cost:		
Cost of investments	37,364	37,364
Impairment:		
Opening balance	(3,682)	–
Charge for the year	–	(3,682)
Closing balance	(3,682)	(3,682)
Net book value:		
Closing balance	33,682	33,682
Opening balance	33,682	37,364

The value of the Company's unlisted investments at 31 May 2008 represents the investment in the subsidiaries owning West Medvezhye gas project and Kemerkol. The realisation of these assets by the Group and the Company is dependent on the development of economic reserves and the ability of the Group to raise sufficient funds to develop these interest. Should the development of economic reserves prove unsuccessful, the carrying value in the balance sheet will be written off.

Having reviewed the carrying value of each asset, the Directors are satisfied that the recoverable amount is not less than the carrying value.

In 2007, the Group and Company created an impairment provision against its investment in Olager Oil LLP following the sale of its principal asset, an investment in the Tamdykol licence in Kazakhstan.

SEGMENTAL ANALYSIS OF INVESTMENTS

	Company	
	2008	2007
	\$000	\$000
Listed		
UK	696	–
Unlisted		
Russian Federation	17,390	17,390
Republic of Kazakhstan	16,292	16,292
	33,682	33,682
Total Investments	34,378	33,682

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

HOLDING

The principal holdings of the group are:

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

The principal activity of all active companies for the relevant financial period was exploration for and development of oil and gas assets.

The investments of the Group at 31 May 2008 and 31 May 2007 principally represent investments in the West Medvezhye project in the Russian Federation and the Kemerkol project in Kazakhstan

Included in the investments in the Company balance sheet is an amount of \$17.4 million in respect of West Medvezhye (2007:\$17.4 million) and \$16.3 million (2007:\$16.3 million) relating to the investment in Kemerkol and \$0.7 million (2007: nil) relating to Bramlin Limited. The recovery of the investments in West Medvezhye and Kemerkol are dependent on the successful realisation of intangible assets through the development of economic oil and gas reserves and other items.

17. RESTRICTED CASH

	Group		Company	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Restricted cash	122	–	–	–

The Group is required under its exploration licence in Kazakhstan to deposit 1% of its exploration expenditure into a separate deposit account for the purpose of rehabilitating the site. The funds may only be used following approval of the rehabilitation program by the relevant authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

18. RECEIVABLES

	Group		Company	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<i>Amounts due within one year:</i>				
VAT recoverable	486	482	113	99
Prepayments	310	98	20	46
Amounts due from subsidiaries	–	–	70,971	55,470
Other receivables	430	1,241	408	501
	1,226	1,821	71,512	56,116

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

As outlined in Note 14, the value of the amounts due from Group undertakings is dependent on the successful discovery and development of economic reserves.

Included in Other receivables of both the Group and the Company is an amount of \$357,745 receivable from Flair Petroleum Limited which is part due and is fully secured on shares in FEC Resources Inc. and shares in Flair Petroleum Limited. The debt is expected to be repaid in the next 12 months.

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Cash and cash equivalents	9,270	9,945	8,806	9,215

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

Denomination:	Group		Company	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
US Dollar	918	4,943	908	4,937
Sterling	8,020	4,299	7,898	4,278
Kazakh Tenge	324	263	–	–
Russian Rouble	8	440	–	–
	9,270	9,945	8,806	9,215

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Trade creditors	512	4,225	2	183
Taxes and social security costs	74	763	–	–
Accruals and deferred income	4,148	718	4,012	574
Other creditors	213	–	–	–
	4,947	5,706	4,014	757

It is the Group's normal practice to agree terms of transactions, including payment terms, with suppliers and provided suppliers perform in accordance with the agreed terms, payment is made accordingly. In the absence of agreed terms it is the Group's policy that payment is made between 15 and 30 days. The carrying value of trade and other payables approximates to their fair value.

21. BORROWINGS

	Group		Company	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Loans from related parties	3,693	–	3,693	–

Millennium Projects Limited is a discretionary trust of which Mukhtar Tuyakbayev, a Director of the Company is a potential beneficiary. On 10 September 2007, the Company concluded an agreement with Millennium Projects Limited for an unsecured loan of up to £3,000,000. Interest accrues at 1% per month and is payable on redemption of the loan. During the year the Company drew down £1,750,652. This loan has no fixed repayment date.

22 CONVERTIBLE LOAN NOTES

NOOR PETROLEUM CONVERTIBLE LOAN

On 21 December 2007, the Company announced the creation of a \$10 million unsecured convertible loan note (the "Note"). The Note is due for repayment on 31 December 2010 and bears interest at the rate of 2.5% per annum, payable biannually and is convertible into ordinary shares of the Company at a conversion price of 16.5 pence per ordinary share. In the event the Note is redeemed at term, the effective interest rate increase to 6.5% per annum and interest will be payable accordingly.

As the conversion option is denominated in foreign currency terms such that the option will not be settled by the Company exchanging a fixed number of its own equity instruments for a fixed amount of cash, the Note does not meet the definition of a compound financial instrument. Instead the Note (the host contract) is a hybrid financial instrument and the option to convert is an embedded derivative. The host contract carrying value on initial recognition is based on the net proceeds of issuance of the Note reduced by the fair value of the embedded derivatives and is subsequently carried at each reporting date at amortised cost.

The embedded derivatives are separated from the host contract as their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. At each reporting date the embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss as they arise. The embedded derivatives and host contract are presented under separate headings in the balance sheet.

On 29 January 2008, the Company announced the closing of the placing of the first \$2 million of the Note with UAE based Noor Petroleum Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

These principles have been reflected as follows:

	Group and Company
	2008
	\$000
Proceeds from issue of convertible loan	2,000
Loan transaction costs	(265)
Net Proceeds from convertible loan	1,735
Convertible loan debt portion – amortised cost	212
Derivative financial instruments – fair value	1,518
	1,730
Convertible loan debt portion at inception	172
Interest charged	40
Closing convertible loan debt portion – amortised cost	212
Derivative financial instruments – conversion option at inception	1,829
Fair value movement – gain	(311)
Closing derivative financial instruments conversion option	1,518

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

The inputs used were as follows:

Option Term – years	3
Share Price – pence sterling	16.5
Risk-free rate	4.94%
Expected volatility	78.3%
Dividend yield	nil

The fair value of the derivative financial instruments disclosed in the financial statements was determined using a valuation technique based on assumptions that are not supported by prices from observable current market transaction in the same instrument.

£20 MILLION SECURED CONVERTIBLE LOAN NOTE

On 17 October 2006 the Company completed a private placement of Secured Guaranteed Convertible bonds due October 2009. The Company issued £11.5 million of the bonds at that time and a further £7.25 million on 12 April 2007. Interest on the loans was 2.5% per annum, for the period to 17 April 2007, and 6.25% per annum thereafter, payable biannually. The loan was convertible into ordinary shares of the Company at a price of 61 pence per share until 3 April 2007, thereafter at an adjusted 3 day weighted average share price, subject to a minimum conversion price of 43 pence per share.

The loan was secured by charges over all of the shares in the operating subsidiaries and supported by cross-guarantees from all group companies.

£8 million of the loan notes were redeemed in cash on 1 February 2008 from the £20 million fund raising. £10.75 million was converted into new shares at an agreed share price of 25 pence per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

These principles have been reflected as follows:

	Group and Company
	2007
	\$000
Proceeds from issue of convertible loan	37,100
Loan transaction costs	(3,214)
Net Proceeds from convertible loan	33,886
Convertible loan debt portion – amortised cost	14,399
Derivative financial instruments – fair value	13,636
	28,035
Convertible loan debt portion at inception	10,608
Interest charged	4,773
Interest paid	(982)
Convertible loan debt portion – amortised cost at 31 May 2007	14,399
Interest charged	7,172
Interest paid	(884)
Balance on redemption of loan, 1 February 2008	20,687
	2007
	\$000
Derivative financial instruments – conversion option at inception	23,278
Fair value movement – gain	(9,642)
Derivative financial instruments conversion option at 31 May 2007	13,636
Fair value movement – gain	(10,784)
Balance on redemption, 1 February 2008	2,852

The fair value of the derivative financial instrument was calculated using a simulation model.

The inputs used were as follows:

Option Term – years	3
Share Price – pence sterling	61p, reducing to 43p
Risk-free rate	5.64%
Expected volatility	69%
Dividend yield	nil

The fair value of the derivative financial instruments disclosed in the financial statements was determined using a valuation technique based on assumptions that are not supported by prices from observable current market transaction in the same instrument.

Summary of fair value movements

	Group		Company	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
£20m secured convertible loan	10,784	9,642	10,784	9,642
Noor Petroleum convertible loan	311	–	311	–
Total fair value movement	11,095	9,642	11,095	9,642

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

23. PROVISIONS FOR DECOMMISSIONING COSTS

	Group	
	2008 \$000	2007 \$000
Decommissioning costs		
At 1 June	–	–
Additional provision in year	1,191	–
Unwinding of discount charged to the income statement	202	–
At 31 May	1,393	–

The provision has been recognised at the present value of the Group's year end obligation for expected decommissioning costs based on an estimate of the decommissioning costs and of the year when those costs are likely to be incurred.

24. OTHER RESERVE

	Group		Company	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
At 1 June	–	–	–	–
Gain on redemption of fair valued embedded derivative	2,852	–	2,852	–
At 31 May	2,852	–	2,852	–

This reserve arises through the partial conversion and partial redemption of a hybrid financial instrument during the year at the amortised cost of the lost loan note. The embedded derivative was revalued to fair value immediately prior to the redemption and conversion and the fair value adjustment was reflected in the income statement.

25. INVESTMENTS REVALUATION RESERVE

	Group		Company	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
At 1 June	–	–	–	–
Increase arising on revaluation	295	–	295	–
At 31 May	295	–	295	–

The revaluation reserve arises on the revaluation of the Group and Company's investment in Bramlin Limited, which is quoted on AIM and valued at current market price.

26. FINANCIAL RISK MANAGEMENT

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

The Group undertakes certain transactions denominated in foreign currencies. Hence, it has an exposure to exchange rate fluctuation.

The Group holds cash as a liquid resource to fund the obligations of the Group. The Group's cash balances are held in US Dollar, Sterling, Kazakh Tenge and Russian Roubles. The Group's strategy for managing cash is to maximise interest income whilst ensuring its availability to match the profile of the Group's expenditure. This is achieved by regular monitoring of interest rates and monthly review of expenditure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

The Company has a policy of not hedging due to no significant dealings in currencies other than the reporting currency and Sterling denominated transactions and therefore takes market rates in respect of foreign exchange risk; however, it does review its currency exposures on an ad hoc basis.

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

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

INTEREST RATE RISK

The Group had no outstanding bank borrowings at the year end or prior year end. During the year the Group drew down £1.75 million of a £3.0 million loan facility from Millennium projects at a fixed rate of 1% per month to assist with working capital requirements.

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

LIQUIDITY RISK

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

The Group's commitments have been fully met from cash flows generated from trading and equity finance raised to date. The Directors are confident that adequate cash resources exist to finance operations for the future including exploration and development. Controls over expenditure are carefully managed. Long term liabilities, such as decommissioning costs will be met from funds deposited in designated bank accounts.

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

FOREIGN CURRENCY RISK

Although the Group is based in the UK, it has significant investments in overseas subsidiaries which operate in Russia and Kazakhstan. These overseas subsidiaries are funded in US Dollars which is largely converted to local currency to fund operations as it is a legal requirement to make all in country payments in local currency. Whilst, the Kazakh operations generate sales in Kazakh Tenge, the selling price is fixed taking into consideration movement in the world price for oil which is US Dollar denominated. Expenditure, which is primarily to contractors on exploration and development, is also largely US Dollar denominated. The Group holds surplus cash in Sterling and buys US Dollars, Roubles and Tenge as required at the most advantageous rates available to meet short term creditor obligations and fund other expenditure.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

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

Group	Assets		Liabilities	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
US \$	15,210	18,581	1,349	28,037
Sterling	9,092	4,977	8,808	761
Roubles	57,369	52,128	1,240	4,080
Tenge	36,019	30,092	1,086	863
	117,690	105,778	11,763	33,741

Company	Assets		Liabilities	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
US \$	105,734	94,161	1,349	28,035
Sterling	8,970	4,862	8,088	757
	114,704	99,023	9,437	28,792

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

PRICE RISK

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

The Directors consider that the expected volatility assumption is the most important driver of the fair value of the embedded derivative within the hybrid financial instruments. The following table provides an analysis of the fair value of the derivative based on an expected volatility figure five percentage points lower and five percentage points higher respectively than the assumptions set out in Note 22.

Expected volatility	Embedded Derivative	Embedded Derivative	Gain/ (loss)	Gain/ (loss)
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Per Note 22	1,518	13,636	–	–
5 percentage points higher	1,575	14,442	57	806
5 percentage points lower	1,461	12,803	(57)	(833)

CAPITAL MANAGEMENT

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

27. CALLED-UP SHARE CAPITAL

	2008	2007
	£'000	£'000
Group and Company		
Authorised:		
400,000,000 ordinary shares of 0.5p each	2,000	2,000
Allotted Called-Up and Fully Paid:		
	2008	2007
	\$000	\$000
Ordinary shares of 0.5p each:		
Opening balance 124,125,207 shares (2007: 115,362,424)	1,129	1,044
Issued during the year: 151,548,051 shares (2007: 8,762,783)	1,492	85
Closing balance 275,673,258 shares (2007: 124,125,207)	2,621	1,129

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

SHARE ISSUES

The Company issued the following shares during the period:

	Number	Date	Issue Price(p)
Placing for working capital	111,466	15 Aug 07	49.0
Exercise of convertible loan notes	43,604,651	1 Feb 08	25.0
Placing for working capital	101,666,667	1 Feb 08	15.0
Placing for working capital	165,267	13 Mar 08	19.0
Subscription by ESOP Trust	5,980,000	13-Mar-08	0.5
Placing for working capital	20,000	13-Mar-08	19.0

OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES

At flotation in July 2004, the Company granted options to subscribe for 1,250,000 Ordinary shares of 0.5p each at 20p per share. These vested when granted and they are exercisable within 30 days of the Board giving notice to the option holders that the Company is not in a closed period. The option price was the exercise price and no value was placed on the options at the point that they vested.

28. ESOP TRUST RESERVE

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

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

29. SHARE BASED PAYMENTS AND ESOP TRUST

The Victoria Oil & Gas ESOP Trust was established on 22 February 2006 to hold ordinary shares purchased to satisfy share scheme awards made to the employees of the Group, which are transferred to the members of the scheme on grant, which is also the relevant vesting date.

No grants were made during the year. In 2007, shares with a fair value of \$1,840,000 were granted and vested.

The Group did not issue any share based payments in the current or prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

30. COMMITMENTS

The Company has Minimum Work Programme commitments for the Kemerkol oil field of at least a further \$6.3 million over the next 2½ years. The West Medvezhye gas project was upgraded to a production licence in the year, the Company is currently negotiating a five year minimum work programme with the Russian Ministry of Natural Resources.

31. PARENT COMPANY INCOME STATEMENT

As permitted by Section 230 of the Companies Act, 1985 the parent company's Income Statement has not been presented in this document. The profit after taxation for the parent company for the year is \$38,000 (2007 loss: \$3,160,000)

32. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of Victoria Oil & Gas Plc and the subsidiaries listed in Note 15. Victoria Oil & Gas Plc is the ultimate parent entity of the Group.

Related parties include key management personnel, payments to Directors and other key management are set out in Notes 10 and 11.

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

2008	Purchases from related parties \$000	Loans from related parties \$000	Cash advances to related parties \$000	Amounts due from/(to) related parties \$000
Subsidiaries	–	–	15,127	70,791
Directors' other interests	38	3,410	–	(3,410)
2007	Purchases from related parties \$000	Loans from related parties \$000	Cash advances to related parties \$000	Amounts due from/(to) related parties \$000
Subsidiaries	–	–	28,619	55,664
Directors' other interests	37	–	–	–

There was no intergroup trading or transactions between Group subsidiaries.

Robert Palmer is a Director of the Company and a member of The Gallagher Partnership LLP, an accountancy practice. These accounts include \$38,000 (2007: \$37,000) in relation to general accountancy services provided by The Gallagher Partnership LLP to the Company.

As noted in Note 20b, Millennium Projects Limited is a discretionary trust, of which Mukhtar Tuyakbayev is a potential beneficiary. On 10 September 2007 the Company concluded an agreement with Millennium Projects Limited for an unsecured loan of up to £3,000,000. Interest accrues at 1% per month and is payable on redemption of the loan. During the year the Company drew down £1,750,652.

33. SUBSEQUENT EVENTS

Details of subsequent events are given in the Directors' Report.

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 4 December 2008, 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 7 will be proposed as Ordinary Resolutions and Resolution 8 will be proposed as a Special Resolution:

Ordinary Resolutions:

1. To consider the financial statements and report of the auditors and the Directors for the year ended 31 May 2008.
2. To elect the following Directors who retire in accordance with Article 109 of the Company’s Articles of Association:
 - (a) Rashed Al-Suwaidi
 - (b) Philip Rand
 - (c) Mukthar Tuyakbayev
 - (d) George Donne
3. To re-elect Robert Palmer as a Director who retires in rotation in accordance with the Article 105 of Company’s Articles of Association.
4. To re-appoint Deloitte & Touche as auditors.
5. To authorise the Directors to fix the remuneration of the auditors.
6. THAT the authorised share capital of the Company be increased to £4,000,000 by creation of an additional 400,000,000 ordinary shares of £0.005 each.
7. 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) up to an aggregate nominal amount of £2,577,466 provided that such authority shall expire unless renewed, varied or revoked by the Company in general meeting 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.

Special Resolutions:

8. THAT (subject to the passing of resolution number 7 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 7 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 8(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;

NOTICE OF THE ANNUAL GENERAL MEETING *continued*

- (c) otherwise than pursuant to the resolutions referred to in above 8(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 8(a), (b) and (c) of up to an aggregate nominal amount equal to three per cent. of the issued ordinary share capital of the Company in any calendar year in connection with applications received from staff, consultants, and advisers representing their remuneration and/or fees from time to time;

provided that (unless renewed):

- (i) the authority contained in this resolution shall expire at the commencement of the Annual General Meeting held next after the passing of this resolution, and
- (ii) the Company may before such expiry make such offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred hereby has expired.

BY ORDER OF THE BOARD

Leena Nagrecha

Company Secretary

11 November 2008

NOTICE OF THE ANNUAL GENERAL MEETING *continued*

Notes to the notice of annual general meeting:

Appointment of proxies

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

Appointment of proxy using hard copy proxy form

5. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold his vote.
6. To appoint a proxy using the proxy form, it must be:
 - 6.1 completed and signed;
 - 6.2 sent or delivered to Registrar of the Company at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY; and
 - 6.3 received by the Registrar no later than 11 a.m. on 2 December 2008.
7. In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.
8. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

Appointment of proxy by joint members

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

Changing proxy instructions

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

Termination of proxy appointments

12. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Registrar of the Company at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.
13. The revocation notice must be received by the Registrar of the Company no later than 11 a.m. on 2 December 2008.
14. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to paragraph 15 below, your proxy appointment will remain valid.
15. Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.



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