Victoria Oil & Gas Plc

Annual Report and Accounts 2010

Reports and Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2010

Contents

Directors and Other Information

Current Directors	Kevin Foo, Chairman Grant Manheim, Deputy Chairman Robert Palmer, Finance Director Austen Titford, Executive Director Philip Rand, Non Executive Director
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 Adviser	Strand Hanson Limited 26 Mount Row London W1K 3SQ
Brokers	Fox-Davies Capital Limited 1 Tudor Street London EC4Y 0AH
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 39 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 was formerly the Chairman of Bramlin Limited, 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.

Austen Titford ACA (Executive Director) is a chartered accountant with more than 18 years financial and commercial experience from working for FTSE 100 and AIM-quoted natural resource companies, including Lonrho, LASMO, BHP Billiton and Celtic Resources Holdings Plc. He has worked on projects in Africa, Iran, Russia and Central Asia and brings a broad mix of financial experience, covering both the project development and operational phases.

Philip Rand (Non Executive Director) has over 30 years of financial experience, 18 of which have been in the upstream energy sector. Philip is currently Chairman of Worldwide Natural Resources Plc and a number of other resource companies. He was formerly Chief Executive Officer of AIM-quoted Equator Exploration Limited and 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.

Chairman's Statement

Dear Shareholder,

It is my pleasure to once again review Victoria's achievements for the year. We are close to achieving first gas sales in Logbaba, Cameroon, which will transform Victoria into a revenue generating exploration, gas production and distribution company. This has been a year like no other at Victoria, not without its challenges, but overall 2010 has been a truly transformational year.

Review of the Markets

Financial distress in the global economy, which began in the second half of 2008, continued throughout the year. This led to unprecedented efforts from governments around the world to provide fiscal stimulus programmes, designed to bring stability and liquidity to the market and to restore economic activity. Despite some encouraging signs, the uncertainty has continued and it looks likely to remain for the foreseeable future.

For some independents the lack of liquidity, allied to the fragility of the banking markets, proved too great, resulting in a number of failures and distressed sales. For companies able to raise funds, the cost of borrowing has increased substantially, even for the highest credit rated companies.

In this context, it is noteworthy that Victoria was able to raise US$51million this financial year to finance the Logbaba drilling programme.

Logbaba, Cameroon

Progress at Logbaba from the second half of 2009 to date has been exceptional. Last year I said that I had not seen a project so favourably positioned for swift development and monetisation. Despite some obstacles, our achievements this year have reinforced this view.

The Company has drilled and completed two successful production wells, concluded all engineering studies for bringing gas to market and secured key gas sales contracts. We are now within sight of having a gas treatment plant and pipeline to distribute gas from the field.

My colleague, Radwan Hadi, provides more detail on our drilling campaign in his Review of Operations but I wish to make a few comments. Firstly, delivering two out of two successful high pressure, high temperature production wells, La-105 and La-106, in an area largely devoid of oil and gas infrastructure is a great achievement. Both wells have been completed as producers, and tested at rates of up to 55 million standard cubic feet per day (MMscf/d) and up to 22 MMscf/d for La-105 and La-106 respectively.

Production from the wells will be capable of meeting anticipated market requirements until the next drilling programme. Recently, we were able to announce a five fold increase in Proved reserves to 49 Bcf, while Proved and Probable reserves more than doubled to 212 Bcf. These reserve upgrades represent the potential of an area covering only 10% to 20% of the licence block. Having defined new leads in other areas of the block, we were also able to announce prospective resources in excess of 1 Tcf. We are the first Company to drill onshore in Cameroon for over fifty years. Although we experienced some drilling difficulties that led to significant cost overruns, I remain confident that during our next anticipated drilling campaign in 2012, we will capitalise on our experiences and deliver even greater success.

All other aspects involved with bringing Logbaba gas to market have exceeded our expectations.

In July this year, we announced a reduction in capital expenditure saving in excess of $20 million with regard to facilities, pipeline costs and civil expenditure to achieve first gas sales. This was achieved by a restructuring of the project into three distinct phases, where all non-critical expenditure was deferred. Furthermore, our proposal to employ high density polyethylene pipe as a replacement to steel pipe complies with all necessary project safety and technical standards while saving considerable capital. Finally, we have deferred full purchase of the treatment facilities for a minimum of two years from first gas sales.

Concerning sales, our gas marketing team has signed key industrial customers, including some multinational firms, for gas delivery in 2011. This is an ongoing process and the Company expects many more customers to be signed up during the rest of this quarter and into 2011. Discussions with Douala industrial customers have been extremely positive and indicate the potential for significant market growth. The Company anticipates achieving daily gas sales of approximately 8 MMscf/d by the end of 2011 with potential to increase to 100 MMscf/d within five years.

Victoria has established first mover advantage in the Cameroon and Central African gas market and we shall own and control our own pipeline. Industry in Douala is handicapped by high energy costs and unreliable delivery. For some industries, each outage can cost tens of thousands of dollars in material wastage and lost time. Consequently, many of our customers are interested in utilising Logbaba gas supply as their prime energy source via gas powered generators on site. Our contracts allow customers to lock into fixed prices for five years at substantially lower rates than currently paid. Importantly for Victoria, this also means we are not exposed to the fluctuations in gas prices in other markets and in this regard, we could be seen as a utility company.

From a macro perspective, power supply in Cameroon is inadequate, hampering the prospect of foreign investment and expansion from existing industries. The government plans to increase power supply from an estimated current working capacity of 600 MW to 2,000 MW by the year 2020. Victoria is well placed to provide gas to thermal power projects currently being planned in Douala.

Finally, the Company awaits the issue of the Exploitation Authorisation and Domestic Transport Authorisation licences. A project delay is anticipated whilst the State Hydrocarbons Corporation (SNH), the Ministry of Mines and Technology and the Presidential Office undertake various levels of due diligence before these permits can be issued. It must be remembered that this will be the first such licence issued in Cameroon. However, we remain confident that these permits are imminent and that Victoria has fully complied with and satisfied all requests to date. We now expect to deliver first gas in Q1 2011.

West Medvezhye, Russia

West Medvezhye (West Med), strategically located in the Nenets region of Siberia with a licence area covering 1224km^2, represents an asset with major hydrocarbon potential. It lies just west of the super giant Medvezhye field where over 70 Tcf of dry gas has been produced. Further to our discovery well 103 drilled in 2006, the exploitation licence area has C1 and C2 (Russian classification) recoverable reserves of 14.4 million barrels of oil equivalent and C3 resources of 170 million barrels of oil equivalent approved by the Russian Ministry of Natural Resources. In addition, independent reserve auditors DeGolyer and MacNaughton have calculated best estimate gross prospective recoverable resources of approximately 1.1 billion barrels for the entire West Med Licence block.

During the past twelve months, Victoria completed a winter road and carried out passive seismic and geochemical studies to further delineate the field and to allow us to target more prospects for drilling. We are now integrating the new passive seismic and geochemical studies with existing data sets. Initial indications are highly encouraging with three further prospects identified. The Company plans to drill two more wells by 2012.

Victoria is actively evaluating all of its options concerning the future development of West Med.

Kemerkol, Kazakhstan

In the 2009 Annual Report and Accounts, the Directors made a provision of $35.5 million against the carrying value of the Kemerkol asset subsequent to our licence being revoked by the Economic Court of the Atyrau Oblast of Kazakhstan. We continue to fight our corner within the constraints of the Kazakhstani legal system and still remain hopeful of a positive outcome but Kemerkol's long-term economic importance within Victoria's overall portfolio of assets has been minimised.

Other Projects

Victoria extended its option in November 2009 to acquire Falcon Petroleum Limited (Falcon), a private company with 50% of a Production Sharing Agreement (PSA) covering one block in Mali and 90% of a PSA covering three blocks in Ethiopia. Total acreage in the two PSAs covers approximately 46,000 km^2. While these areas are relatively unexplored, both are highly prospective regions of Africa. Block Ab1 in Ethiopia has oil seeps, confirming an active petroleum system. Further subsurface exploration will greatly enhance our understanding of Falcon's potential and identify target locations for exploration drilling. The Company has an agreement with Falcon to extend the option for a further year and is planning to run a passive seismic surveying programme in Ethiopia before the year end.

In addition, Victoria has also applied for five blocks in Liberia's third offshore bid round and we hope to know the results of this bid by the end of the year.

Victoria's strategy remains to grow organically and via acquisition into a profitable company. The Company now has total recoverable Proved and Probable reserves of 35.6 MMboe and significant potential, with prospective resources of over 1.3 billion barrels of oil equivalent. We will endeavour to maximise shareholder value through further development and appraisal work on our existing assets. Furthermore, the Company will continue to appraise new opportunities and commercial transactions, where our technical expertise and experience gained to date, particularly in Africa, can be used to an advantage.

In conclusion, thank you to all employees and advisers of the Company and my fellow Directors for their hard work this year. Most of all, I thank Victoria's shareholders for your continued support. I shall continue to update you on progress via our quarterly letters and as news breaks.

Kevin Foo
Chairman

Review of Operations

Dear Shareholder,

It is my great pleasure to review the technical operations at Victoria for the year. With our Logbaba gas and condensate field in Cameroon soon to commence production and the ongoing appraisal of more than 5 Tcf of prospective gas resources in our West Med asset in Siberia in 2010, Victoria is emerging as a significant player in natural gas production, with a balanced portfolio of exploration and production assets.

Logbaba, Cameroon

On 1 January 2010, well La-105, the first well drilled by Victoria at Logbaba, was completed to a depth of 8,920 feet. Multiple pay zones were tested over a period of two weeks at depths between 7,018 - 8,566 feet. Over the testing period, various zones of La-105 flowed at rates between 11 - 56 MMscf/d of natural gas and 210 - 1,000 barrels per day of condensate. Flowing wellhead pressures varied between 2,750 - 4,552 psi. The gas is sweet with a high calorific value and the condensate has an API gravity of 47 degrees.

The testing programme was designed to open up the gas-bearing horizons in turn from the deepest to the shallowest until we were comfortable that a minimum production level of 8 MMscf/d of gas could be sustained. We only needed to test horizons of the Lower Logbaba formation, which had not been tested before, and the Upper Logbaba D sands to gain this comfort. This meant that the Upper Logbaba A through C sands, which the well logs indicated to be the best quality hydrocarbon-bearing sands encountered during drilling, were not perforated. The Upper Logbaba A through C sands will be perforated and added to the completion interval when required for production.

Victoria's second well, La-106, successfully reached a total measured depth of 10,509 feet on 17 April 2010. Its target had been revised following the passive seismic survey results and the well was eventually drilled deeper than planned because of the presence of sands at lower levels.

La-106 was initially perforated in the bottom intervals of the Lower Logbaba Sands at the end of June and was open to flow gas for a few weeks as part of well clean-up operations, before the remaining intervals were successfully perforated. The well was re-opened to flow in August and flowed at rates up to 22 MMscf/d, (ca. 3,600 boepd,) at different choke sizes up to 36/64 inch and wellhead flowing pressures up to 3,078 psi.

Further to the drilling programme, the Company's reserves and resources estimates at Logbaba were updated by Blackwatch Petroleum Services Limited, (Blackwatch), which acts as consultants to the Company. The Proved and Probable (2P) gas reserves in the Logbaba field are contained in Campanian and Santonian age sands of the Logbaba Formation. New structure maps were constructed based on correlations of the Logbaba sands, incorporating new and old well data as well as existing seismic data. In addition, remotely sensed imagery was acquired and analysed to provide a structural framework for Logbaba.

All six of the wells drilled to date in the Logbaba block have encountered significant gas intervals and all of the five wells that were tested flowed gas to surface. To date, only the Logbaba Formation gas sands have been tested. The deepest well on the block, La-104, encountered good gas shows, not only in the Logbaba Formation but also in the deeper Turonian age gas-bearing sands, where the well reached a target depth of 13,688 feet.

The updated gross reserves potential for the Logbaba Field is highlighted in the table below. The Company holds a 60% working interest and is operator in the Logbaba block.

Logbaba Reserves, 100% basis (Bcf)

Category	July 2008	October 2010
Logbaba Field (10 to 20% of Block Area)		
Upper Logbaba Proved Reserves (1P)	10	49
Proved + Probable Reserves (2P)	104	212
Proved + Probable + Possible (3P)	202	350
Entire Logbaba Block		
Prospective Resources	n/a	>1 Tcf

The 2P reserves highlighted in the table are located in an area that covers some 10% - 20% of the total Logbaba block area, hence there is considerable potential in the remaining areas which share the same geology. This potential was confirmed by the results of the passive seismic survey that was conducted last year. The passive seismic survey provided the first new geophysical information to be acquired over Logbaba since the discovery was made in the 1950s. The survey findings are in line with the geological understanding of the Logbaba reservoir sands and correlate well with data from the four old wells and the newly drilled wells La-105 and La-106. We are particularly interested in the indications from the analysis of the passive seismic survey of a major potential hydrocarbon accumulation around two kilometres from the new wells' surface location. The accumulation, which lies entirely within Victoria's licence block, appears to be substantially larger than the existing discovery and has not been seen in any previous subsurface studies, due to the lack of geophysical data.

Conceptual Studies for the production facilities and pipeline were carried out in spring 2010, and front end engineering was completed during the summer. The gas processing plant contract was awarded to Expro International Group. All contracts for the trenching, laying, jointing and commissioning of the pipeline and all other mechanical, electrical and civil work for the production facilities have either been awarded, or are out to tender, and work is in progress.

Approximately 80% of our customers are within a 10km radius of central Douala. In 2011, the pipeline will be extended to the South East and South West regions of the city and the pipeline has been sized to handle the substantial anticipated future demand. Further, the pipeline route has been carefully chosen to avoid all private land, therefore minimising the impact on local landowners.

West Medvezhye, Russia

West Med is a large 1224km^2 area located in the Yamal Peninsula in the Nenets region of Siberia. The block, which has been independently assessed by DeGolyer and MacNaughten (D&M) to have resources of approximately 1.1 billion barrels of oil equivalent, is located in one of the most prolific areas of the world next to Gazprom's giant Medvezhye field that has already produced over 70 Tcf of gas.

We have been busy progressing technical studies at West Med and I am pleased to confirm the successful completion of our 2010 appraisal and delineation programme. Passive seismic and gas tomography surveys were run over part of the eastern section of the licence, where the main Medvezhye structure continues into the West Med licence. The surveys also covered other prospective parts of the block that were previously covered by conventional seismic. Data processing was completed and initial interpretation reports have just been issued by the contractors and are under review. The results of the passive seismic survey confirmed hydrocarbon presence in the area of three seismically defined structures mapped by D&M. The results of the gas tomography survey by CJSC "Catari-Seismo" indicate two new structures similar to the well 103 discovery.

In summary, the results of both 2010 surveys confirm our current expectation of the huge hydrocarbon potential in West Med. In the coming months, work will continue integrating the new data with the existing seismic and drilling data to firm up the appraisal, development and further exploration of West Med.

Radwan Hadi
Chief Operating Officer

Directors' Report

The Directors present their Annual Report and the audited financial statements for the year ended 31 May 2010.

PRINCIPAL ACTIVITIES, BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The principal activities of the Group are oil and gas exploration and development in the Former Soviet Union and Africa. The focus of activities in the year has been the development of the Logbaba gas and condensate field in Cameroon.

The Group has an exploration project in Russia and a development and appraisal project in Cameroon. The Group is also pursuing the reclaim of its title to a producing asset in Kazakhstan. This is being pursued within the legal framework of Kazakhstan and is ongoing. Other assets include an option over two exploration projects in Mali and Ethiopia.

A detailed review of the significant developments and operating activities of the Group, as well as the business environment, future prospects and the main trends and factors that are likely to affect the future development, performance and position of the Group's business are contained in the Chairman's Statement and the Review of Operations.

RESULTS AND DIVIDENDS

The consolidated loss for the year after taxation transferred to reserves was $6.1m (2009: $42.4m, which included an impairment charge of $35.5m). The Directors do not propose that a dividend be paid (2009: Nil).

DIRECTORS

The following Directors held office at the year end:

Executive Directors

Kevin Foo
Grant Manheim
Robert Palmer
Austen Titford (appointed 1 October 2009)

On 31 March 2010, George Donne resigned as an Executive Director.

Non Executive Directors

Philip Rand

On 22 October 2009, Rashed Al Suwaidi resigned as a Non Executive Director.

On 18 December 2009, at the Company's AGM, Mukhtar Tuyakbayev did not stand for re-election as a Non Executive Director.

Directors' Remuneration

An analysis of Directors' remuneration is given in Note 12 of the financial statements.

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 a 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 are available for issue to employees on an annual basis, in recognition of their contribution to the Group. The Trustees of the ESOP subscribed for 20,475,000 shares during the year. No discretionary awards were made.

A copy of the Service Agreement for each Director is 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. The Company is not subject to the Combined Code, but where practical and appropriate for a company of this size and nature, the Company complies with the Combined Code and takes account of the recommendations on corporate governance of the Quoted Companies Alliance.

The Board seeks to ensure that the Company is managed in an efficient, effective and entrepreneurial manner for the benefit of all shareholders over the longer term.

Board

The Board of Directors currently comprises of the Chairman, three Executive Directors (including the Finance Director) and one Non Executive Director. 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 have 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 and 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

The audit committee is chaired by Philip Rand and meets at least twice 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 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 respond to any shareholder questions on the committee's activities.

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 which is sent to all shareholders and the Interim Report. The Chairman also issues a quarterly letter to 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 an international oil and gas exploration and development 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, Kazakhstan and Cameroon 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 relevant ministry for natural resources in the host country. Typically 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.

Requirement for Further Funding

The Group may require 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 affect the Group's ability to execute its long term growth strategy.

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, 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

Whilst future sales are likely to be denominated in local currency, the selling price is fixed taking into consideration movement in the world price for oil and gas, which are US dollar denominated. The Group's expenses, which are primarily to contractors on exploration and development, are incurred primarily in US dollars but also in Russian Roubles, Sterling, Euros and Central African Franc, which is tied to the Euro. 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, Russian Rouble, Sterling and Euro.

Political Risk

The Group's principal assets are currently located in Russia and Cameroon and therefore the Group is exposed to country specific risks such as the 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 28.

KEY PERFORMANCE INDICATORS (KPI)

The Group is in the exploration phase of the West Medvezhye gas project and the development phase of the Logbaba gas project, so the relevant KPIs relate to the discovery and development of economic oil and gas deposits in Russia and Cameroon.

Accordingly, the Directors believe that the relevant 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 advisers as well as from the Group's internal calculations.

The capital expenditure is a reflection of the exploration and development activity of the Group. During the year, additions to intangible assets amounted to $36.0m, of which $33.8m relates to the Logbaba gas development in Cameroon and $2.2m to the West Medvezhye exploration project in Russia.

Net cash inflow from financing activities for the year was $49.4m compared to $4.0m for the previous period. The prime source of cash inflow has been through the issuance of new equity shares.

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. Sufficient funds are available in the short term to fund the working capital requirements of the Group and the Directors are currently pursuing further opportunities for raising finance for the Group with banks and specialist investors with regard to funding the development of existing projects. The Directors believe that this will enable the Group and the Company to continue in operational existence for the foreseeable future and to continue to meet obligations as they fall due. Further information in respect of going concern considerations is set out in Note 3.

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 16 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.

CHARITABLE AND POLITICAL DONATIONS

The Company made no political or charitable contributions during the year (2009: Nil).

DIRECTORS' INDEMNITIES

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

SUBSEQUENT EVENTS

On 1 September 2010, the Company announced that it had completed a £9.2m equity placing for funding of capital expenditure and working capital.

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 s418 of the Companies Act, 2006.

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 be held in London on 30 November 2010. A Notice of the Meeting is set out on pages 58 to 60. The Notice contains special business, relating to the renewal of authority for the Board to allot shares and the dis-application of statutory pre-emption rights on equity issues for cash. Shareholders should complete the Proxy Form accompanying this Report in accordance with the Notes contained in the Notice of Annual General Meeting.

By Order of the Board,

Leena Nagrecha
Company Secretary

Date: 5 November 2010

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare such 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. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements the Directors are 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 IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and

- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and 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's 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 financial statements of Victoria Oil & Gas Plc for the year ended 31st May 2010 which comprise Consolidated Income Statement, Consolidated Statement of Other Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Changes in Equity and the related Notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31st May 2010 and of the Group's loss for the year then ended;

- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to Notes 3, 15, 17 and 18 of the financial statements concerning going concern, the valuation of intangible assets, the valuation of investments and the recoverability of other receivables and amounts due from subsidiaries. The realisation of intangible assets of $115.9m and other receivables $20.5m included in the consolidated balance sheet and, investments of $68.4m and the amounts due by subsidiaries of $49.7m included in the Company balance sheet, is dependent on the successful development and completion of the Logbaba gas project in the Cameroon and the successful discovery and realisation of intangible assets in respect of the West Medvezhye project in Russia, as outlined in Note 15, including the ability of the Group to raise sufficient finance to develop current projects. The financial statements do not include any adjustments relating to these uncertainties and the ultimate outcome cannot, at present, be determined.

SEPARATE OPINION IN RELATION TO IFRSS AS ISSUED BY THE IASB

As explained in Note 1(i) to the financial statements, the group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB). In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Kevin Sheehan (Senior Statutory Auditor)
for and on behalf of Deloitte & Touche
Chartered Accountants and Statutory Auditors
Dublin
Ireland

5 November 2010

Consolidated Income Statement

FOR THE YEAR ENDED 31 MAY 2010

	Notes	2010 $000	2009 $000
Impairment of exploration and evaluation assets	5	**–**	(35,541)
Administrative expenses		**(5,796)**	(6,336)
Other (losses) and gains	6	**(133)**	(1,402)
OPERATING LOSS		**(5,929)**	(43,279)
Interest received		**71**	122
Finance revenue	7	**617**	1,401
Finance costs	8	**(866)**	(606)
LOSS BEFORE TAXATION	4,9	**(6,107)**	(42,362)
Income tax expense	10	**–**	–
LOSS AFTER TAXATION FOR THE FINANCIAL YEAR		**(6,107)**	(42,362)
		Cents	Cents
Loss per share – basic	14	**(0.63)**	(11.91)
Loss per share – diluted	14	**(0.63)**	(11.91)

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MAY 2010

	2010 $000	2009 $000
Loss for the year	**(6,107)**	(42,362)
Exchange differences on translation of foreign operations	**70**	(10,884)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(6,037)**	(53,246)

Consolidated Balance Sheet

AS AT 31 MAY 2010

	Notes	2010 $000	2009 $000
ASSETS:			
NON CURRENT ASSETS			
Intangible assets	15	**115,917**	83,149
Property, plant and equipment	16	**221**	37
Receivables	18	**19,916**	–
		136,054	83,186
CURRENT ASSETS			
Receivables	18	**1,776**	737
Cash and cash equivalents	19	**6,034**	711
		7,810	1,448
Held for sale assets	20	**1,829**	–
		9,639	1,448
TOTAL ASSETS		**145,693**	84,634
LIABILITIES:			
CURRENT LIABILITIES			
Trade and other payables	21	**(17,595)**	(3,885)
Borrowings	22	**(1,854)**	(1,000)
		(19,449)	(4,885)
NET CURRENT LIABILITIES		**(9,810)**	(3,437)
NON CURRENT LIABILITIES			
Convertible loan – debt portion	23	**(529)**	(1,055)
Derivative financial instruments	23	**(24)**	(642)
Deferred tax liabilities	10	**(6,599)**	(6,599)
Provisions	24	**(7,406)**	(2,882)
		(14,558)	(11,178)
NET ASSETS		**111,686**	68,571
EQUITY:			
Called-up share capital	25	**11,648**	4,289
Share premium		**155,636**	114,620
ESOP Trust reserve	26	**(293)**	(124)
Translation reserve		**(10,704)**	(10,774)
Other reserve	27	**3,828**	2,882
Retained earnings – deficit		**(48,429)**	(42,322)
TOTAL EQUITY		**111,686**	68,571

The financial statements of Victoria Oil & Gas Plc, registered number 5139892, were approved by the Board of Directors on 5 November 2010.

KEVIN A FOO
CHAIRMAN

ROBERT PALMER
FINANCE DIRECTOR

Company Balance Sheet

AS AT 31 MAY 2010

	Notes	2010 $000	2009 $000
ASSETS:			
NON CURRENT ASSETS			
Property, plant and equipment	16	**6**	5
Investments	17	**68,446**	69,416
		68,452	69,421
CURRENT ASSETS			
Receivables	18	**49,841**	11,068
Cash and cash equivalents	19	**5,473**	416
		55,314	11,484
TOTAL ASSETS		**123,766**	80,905
LIABILITIES:			
CURRENT LIABILITIES			
Trade and other payables	21	**(1,378)**	(2,221)
Borrowings	22	**(1,000)**	(1,000)
		(2,378)	(3,221)
NET CURRENT ASSETS		**52,936**	8,263
NON CURRENT LIABILITIES			
Convertible loan – debt portion	23	**(529)**	(296)
Derivative financial instrument	23	**(24)**	(247)
		(553)	(543)
NET ASSETS		**120,835**	77,141
EQUITY			
Called-up share capital	25	**11,648**	4,289
Share premium		**155,636**	114,620
Other reserve	27	**3,828**	2,882
Retained earnings – deficit		**(50,277)**	(44,650)
TOTAL EQUITY		**120,835**	77,141

The financial statements of Victoria Oil & Gas Plc, registered number 5139892, were approved by the Board of Directors on 5 November 2010.

KEVIN A FOO
CHAIRMAN

ROBERT PALMER
FINANCE DIRECTOR

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 MAY 2010

	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 31 May 2008	2,621	100,133	(124)	295	40	110	2,852	105,927
Shares issued	451	4,832	–	–	–	–	–	5,283
Bramlin acquisition	1,217	9,859	–	–	–	–	–	11,076
Share issue costs	–	(204)	–	–	–	–	–	(204)
Recognition of share based payments	–	–	–	–	–	–	30	30
Reversal of revaluation following acquisition	–	–	–	(295)	–	–	–	(295)
Total comprehensive income for the year	–	–	–	–	(42,362)	(10,884)	–	(53,246)
At 31 May 2009	4,289	114,620	(124)	–	(42,322)	(10,774)	2,882	68,571
Shares issued	7,359	44,930	(169)	–	–	–	(655)	51,465
Share issue costs	–	(3,914)	–	–	–	–	–	(3,914)
Recognition of share based payments	–	–	–	–	–	–	1,601	1,601
Total comprehensive income for the year	–	–	–	–	(6,107)	70	–	(6,037)
At 31 May 2010	11,648	155,636	(293)	–	(48,429)	(10,704)	3,828	111,686

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 Victoria Oil & Gas ESOP Trust.

Investments revaluation reserve

The investments revaluation reserve included revaluations of available for sale investments to market value. These available for sale investments consisted of shares in Bramlin Limited.

Retained deficit

Retained deficit comprises accumulated losses and total comprehensive income 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 the Share based payment reserve, warrants exercised during the year of $0.7m and an amount of $2.85m which relates to the settlement of the embedded derivative following the early redemption of the associated convertible loan note in a prior year.

Company Statement of Changes in Equity

FOR THE YEAR ENDED 31 MAY 2010

	Called up Share capital $000	Share premium $000	Investments revaluation reserve $000	Retained deficit $000	Other reserve $000	Total $000
At 31 May 2008	2,621	100,133	295	(634)	2,852	105,267
Shares issued	451	4,832	–	–	–	5,283
Bramlin acquisition	1,217	9,859	–	–	–	11,076
Share issue costs	–	(204)	–	–	–	(204)
Reversal of revaluation following acquisition	–	–	(295)	–	–	(295)
Recognition of share based payments	–	–	–	–	30	30
Total comprehensive income for the year	–	–	–	(44,016)	–	(44,016)
At 31 May 2009	4,289	114,620	–	(44,650)	2,882	77,141
Shares issued	7,359	44,930	–	–	(655)	51,634
Share issue costs	–	(3,914)	–	–	–	(3,914)
Recognition of share based payments	–	–	–	–	1,601	1,601
Total comprehensive income for the year	–	–	–	(5,627)	–	(5,627)
At 31 May 2010	11,648	155,636	–	(50,277)	3,828	120,835

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 issue costs.

Investments revaluation reserve

The investments revaluation reserve included revaluations of available for sale investments to market value. These available for sale investments consisted of shares in Bramlin Limited.

Retained deficit

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

Other reserves

The other reserve includes the share based payment reserve, warrants exercised during the year of $0.7m and an amount of $2.85m which relates to the settlement of the embedded derivative following the early redemption of the associated convertible loan note in a prior year.

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 MAY 2010

	Notes	2010 $000	2009 $000
CASH FLOW FROM OPERATING ACTIVITIES			
Loss for the year		**(6,107)**	(42,362)
Finance costs recognised in income statement		**866**	606
Gain on third party loan assigned to Group company		**–**	(3,100)
Impairment provision recognised in income statement		**–**	35,541
Release of share based payment reserve		**(655)**	–
Depreciation and amortisation of non current assets		**207**	563
Fair value gain on embedded derivatives		**(617)**	(1,401)
Net foreign exchange (gain)/loss		**(568)**	2,514
		(6,874)	(7,639)
MOVEMENTS IN WORKING CAPITAL			
(Increase)/decrease in trade and other receivables		**(17,365)**	337
(Increase)/decrease in available for sale assets and inventories		**(1,829)**	3
Increase in trade and other payables and provisions		**17,523**	512
NET CASH USED IN OPERATING ACTIVITIES		**(8,545)**	(6,787)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition costs of subsidiary	33	**–**	(949)
Cash acquired on acquisition		**–**	63
Amounts advanced to third parties	33	**–**	(2,216)
Payments for intangible fixed assets		**(35,212)**	(1,069)
Payments for property, plant and equipment		**(310)**	(48)
Proceeds from sale of property, plant and equipment		**–**	37
NET CASH USED IN INVESTING ACTIVITIES		**(35,522)**	(4,182)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of equity shares		**51,624**	1,938
Proceeds from issue of convertible loan notes		**–**	1,188
Payment of equity issue costs		**(2,193)**	–
Payment of loan issue costs		**–**	(174)
Proceeds from borrowings		**–**	1,000
NET CASH GENERATED FROM FINANCING ACTIVITIES		**49,431**	3,952
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**5,364**	(7,017)
CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR		**711**	9,270
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(41)**	(1,542)
CASH AND CASH EQUIVALENTS END OF THE YEAR		**6,034**	711

Company Cash Flow Statement

FOR THE YEAR ENDED 31 MAY 2010

	Notes	2010 $000	2009 $000
CASH FLOW FROM OPERATING ACTIVITIES			
Loss for the year		**(5,627)**	(44,016)
Finance costs recognised in Income Statement		**233**	473
Investment revenue recognised in Income Statement		**–**	–
Impairment recognised in Income Statement		**–**	41,440
Release of share based payment reserve		**(655)**	–
Depreciation of non current assets		**–**	3
Fair value gain on embedded derivatives		**(223)**	(1,271)
Net foreign exchange gain		**43**	452
		(6,229)	(2,919)
MOVEMENTS IN WORKING CAPITAL			
Increase in trade and other receivables		**(35,629)**	(5,944)
Increase/(decrease) in trade and other payables		**(2,521)**	2,219
NET CASH USED IN OPERATING ACTIVITIES		**(44,379)**	(6,644)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition costs of subsidiary	33	**–**	(949)
Cash acquired on acquisition		**–**	63
Amounts advanced to third parties	33	**–**	(2,216)
Payments for property, plant and equipment		**(2)**	–
NET CASH USED IN INVESTING ACTIVITIES		**(2)**	(3,102)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of equity shares		**51,793**	1,938
Payment of equity shares issue costs		**(2,313)**	(174)
Proceeds from borrowings		**–**	1,000
NET CASH GENERATED FROM FINANCING ACTIVITIES		**49,480**	2,764
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**5,099**	(6,982)
CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR		**416**	8,806
Effects of exchange on the balance of cash held in foreign currencies		**(42)**	(1,408)
CASH AND CASH EQUIVALENTS END OF THE YEAR		**5,473**	416

1. PRINCIPAL ACCOUNTING POLICIES

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

(i) Statement of Compliance

These financial statements, of Victoria Oil & Gas Plc and its subsidiaries (the Group) for the year ended 31 May 2010, have been prepared in accordance with the International Financial Reporting Standards (IFRS). These financial statements have also been prepared in accordance with the International Financial Reporting Standards adopted for use by the European Union. They have also been prepared in accordance with the Companies Act 2006.

(ii) Basis of Preparation

The financial statements are prepared under the historical cost convention except for the revaluation of certain non current assets, derivative financial instruments, non current liabilities and available for sale assets which have been measured at fair value. The financial statements are presented in US dollars, rounded to the nearest thousand ($000) except where otherwise indicated.

(iii) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and the Group made up to 31 May each year. All Group transactions, balances, income and expenses are eliminated on consolidation.

Subsidiaries

Subsidiaries are entities over which the Company has the power to govern the financial and operating policies in order to obtain benefits from their activities. Control is presumed to exist where the Company owns more than one half of the voting rights (which does not always equate to percentage ownership) unless it can be demonstrated that ownership does not constitute control. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. The consolidated financial statements included all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-company balances, transactions and unrealised gains.

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 results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up 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.

(iv) Interest Income

Interest income is accounted for on an accruals basis by reference to the principal amount and the effective interest rate applicable.

(v) Operating Loss

Operating loss comprises general administration expenses, impairment charges and other gains and losses, which are not specific to evaluation and exploration projects. It is stated before finance income and finance costs.

(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). The Group's expenses, which are primarily to contractors on exploration and development, are incurred primarily in US dollars but also Russian Roubles, Sterling, Euros and Central African Francs. 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 translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated 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.

The assets and liabilities of foreign operations are translated into US dollars at the rate of exchange ruling at the balance sheet date and their income statements are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year in which case the exchange rates at the date of transaction are used. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

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

(vii) 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.

(viii) 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. Evaluation expenditure arises from a detailed assessment of deposits that have been identified as having economic potential.

The costs of exploration assets, which are based in geographic areas, 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 demonstrable. At that point, all costs which have been capitalised to date and included in exploration and evaluation assets, are assessed for impairment. All impairment losses are recognised immediately in the income statement. If they are not impaired, then they are reclassified as either tangible assets or intangible assets. Costs which are deemed to be intangible assets are written off over the life of the estimated reserve on a unit of production basis (accounted for under IAS 38 Intangible assets). Costs which are tangible are accounted for under IAS 16 Property, Plant and Equipment.

Impairment of intangible assets

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. The Company reviews and tests for impairment on an ongoing basis and specifically if the following occurs:

a) The period for which the group has a right to explore in the specific area has expired or is expected to expire;

b) The exploration and evaluation has not led to the discovery of economic reserves;

c) The development of the reserves is not economically or commercially viable;

d) The exploration is located in an area that has become politically unstable.

(ix) Property, Plant & Equipment

Plant & Equipment

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

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 de-recognised.

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.

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.

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

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 asset and charged to the income statement on a unit of production basis.

(x) Available for Sale Assets

Available for sale assets represents tangible assets no longer required in the Group's business which are actively being marketed for sale and are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less costs to make the sale.

(xi) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount, taking into account the risks and uncertainties surrounding the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material. The amortisation or "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.

Decommissioning provision

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

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. 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.

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 is 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.

(xii) Financial Instruments

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

Financial assets

Financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurements, loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are de-recognised or impaired, as well as through the amortisation process.

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the assets is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in profit or loss.

Investment in subsidiaries

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

Available for sale (AFS) financial assets

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as available for sale and are stated at fair value.

Trade Receivables

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are de-recognised when they are assessed as uncollectible.

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.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities depending on the substance of the contractual arrangements entered into.

Financial liabilities at fair value through profit or loss

The Group does not have any financial liabilities at fair value through the profit or loss other than the embedded derivatives included in the convertible bond – hybrid financial instruments, which are discussed below.

Trade Payables

Trade payables classified as financial liabilities are initially measured at fair value and are subsequently measured at amortised cost using the effective rate method.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

De-recognition of financial liabilities

The Group de-recognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

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 the 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 values of the embedded derivatives are calculated using appropriate valuation models depending on the characteristics of the derivates.

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.

(xiii) 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 it further 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.

Deferred tax is recognised on temporary 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.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductable temporary differences to the extent that it is probable that taxable profits will be available against which those deductable temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition 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 associated with investments in subsidiaries and associates, and interests in joint ventures, 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 arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 assets and liabilities are measured 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. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

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.

(xiv) Share Based Payments

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 the fair value at the date of grant. The fair value at the grant date 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 and 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.

(xv) 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; 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 operations 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 involves judgement. 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 projects. 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.

Going concern

The preparation of financial statements requires an assessment on the validity of the going concern assumption. The validity of the going concern concept is dependent on finance being available for the continuing working capital requirements of the Group and finance for the development of the Group's projects becoming available. Further details concerning going concern are set out in Note 3.

Impairment of intangible assets

The assessment of intangible assets for any indication of impairment involves uncertainty. There is uncertainty as to whether the exploration activity will yield any economically viable discovery. Aspects of uncertainty surrounding the Group's intangible assets include the amount of potential reserves, ability to be awarded exploration licenses and the ability to raise sufficient finance to develop the Group's projects. If the Directors determine that the intangible asset is impaired, a provision is made in the income statement. In the prior year, following a review of the activities in the Company's Kazakh subsidiary, Victoria Energy Central Asia LLP (VECA), the Directors decided to provide in full against the carrying value of $35.5m of the Kemerkol assets. Further details concerning that impairment charge are set out in Note 5.

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 23.

Operating in Russia, Cameroon and Kazakhstan

The Group's activities are conducted through its investments and 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.

Decommissioning provision

The amount of provisions is 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.

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

2. ADOPTION OF NEW AND REVISED STANDARDS & INTERPRETATIONS

In the current year, the following new and revised Standards and Interpretations have been adopted

Standards affecting measurement

Name of new Standards/amendments	Effective from
IFRS 2 (Amendment) – Vesting conditions and Cancellations	1 January 2009
IAS 23 (Revised 2007) – Borrowing Cost	1 January 2009

Standards affecting presentation and disclosure

IFRS 7 (Amendment) – Improving Disclosures about Financial Instruments.	1 January 2009
IFRS 8 Operating Segments	1 January 2009
IAS 1 (Revised 2008) – Presentation of Financial Statements	1 January 2009
IFRS 1 (Amendment)/IAS 27 (Amendment) – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009
IAS 20 (Amendment) Accounting for Government Grants and Disclosure of Government Assistance	1 January 2009
IAS 32 (Amendment)/ IAS 1 (Amendment) Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
IAS 38 (Amendment) Intangible Assets	1 January 2009
IAS 39 (Amendment) Financial Instruments: Recognition and Measurement - Eligible Hedged Items	1 January 2009
IAS 40 (Amendment) Investment Properties	1 January 2009
IFRIC 9 (Amendment) Reassessment of Embedded Derivatives	1 January 2009
IFRIC 15 Agreements for the Construction of Real Estate	1 January 2009

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

STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET ADOPTED

At the date of approval of these financial statements the following standards and interpretations which have not been applied in these financial statements were in issue but not yet adopted:

Name of new Standards/amendments	Effective from
IFRS 3 (Amendment 2008) – Business Combinations	1 July 2009
IAS 27 (Amendment 2008) – Consolidated and Separate Financial Statements	1 July 2009
IAS 39 Financial Instruments: Recognition & Measurement	1 July 2009
IFRIC 17 Distribution of Non-Cash Assets to Owners	1 July 2009
IFRIC 18 Transfers of Assets from Customers	1 July 2009

In addition, the Directors are currently considering the impact of:

Name of new Standards/amendments	Effective from
IFRS 3 (Amendment 2009) Business Combinations	1 July 2009
IFRS 9 Financial Instruments	1 January 2013
IAS 24 (Amendment 2009) Related Party Disclosure	1 January 2011
IAS 27 (Amendment 2009) Consolidated and Separate Financial Statements	1 July 2009
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

The Directors are currently assessing the impact in relation to the adoption of these standards and interpretations for future periods of the Group. Given the current Group operation, in the opinion of the Directors, the above should have no material impact on the Group financial statements.

3. 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 reports that the Group incurred a loss of \$6.1m for the year ended 31 May 2010 and the Consolidated Balance Sheet shows that the Group had net current liabilities of \$9.8m at the year end date.

At 31 May 2010 the Group had \$6.0m of cash. However, as stated in Note 36, the Group raised more than \$14.2m in the period between the year end and the date of approval of these financial statements. At 30 September 2010 the Group had cash of \$9.6m and undrawn facilities of £4.6m (\$7.4m) in respect of the SEDA.

Based on their forecasts, the Directors expect that the Group will need to spend approximately \$5m to maintain its base operations (excluding its exploration and development programme) for the twelve month period from the date of approval of these financial statements.

The Directors have also reviewed forecasts in respect of the planned work programme on the Group's Cameroon and Russian assets. The funds and facilities available, after allowing for funds required for administration and development costs, cover the cost of these activities through to first gas sales in Q1 2011 from the Logbaba project. These sales are expected to grow from initially \$1m per month. In the event of delay or significant cost overruns the Group may need to raise additional debt or equity finance to complete all the planned activities.

The Directors are reviewing a number of opportunities for raising finance for the Group in such an event with banks and specialist investors interested in providing finance to companies operating in the Group's industrial and geographical areas and are confident that if necessary the Group will secure the additional funding necessary to meet its planned work commitments.

On this basis, the Directors have concluded that the Group and Company currently have adequate resources available to maintain the Group and Company's base operations and to continue in operational existence for the foreseeable future.

4. SEGMENTAL ANALYSIS

The group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about the Group that are regularly reviewed by the chief operating decision maker. The Board is deemed the chief operating decision maker within the Group. As a result of this adoption, there has not been a change in the identification of the Group's reportable segments as, for management purposes, the Group has one class of business, exploration and development and these are analysed on a location basis.

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

4a. Segment Revenue and Segment Result

There was no revenue or inter-segmental revenue.

	Loss before tax	
	2010	2009
	$000	$000
Russian Federation	**(413)**	(592)
Republic of Cameroon	**(33)**	(2)
Republic of Kazakhstan	**–**	(40,942)
Total for continuing operations	**(446)**	(41,536)
Unallocated Head Office	**(5,661)**	(826)
	(6,107)	(42,362)

4b. Segment Assets and Liabilities

	Assets		Liabilities	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
Russian Federation	**57,657**	58,653	**1,506**	1,228
Republic of Cameroon	**82,211**	24,398	**12,770**	8,263
Republic of Kazakhstan	**124**	103	**–**	542
Total for continuing operations	**139,992**	83,154	**14,276**	10,033
Unallocated Head Office	**5,701**	1,480	**19,731**	6,030
	145,693	84,634	**34,007**	16,063

4c. Other Segmental Information

	Depreciation and amortisation		Additions to non current assets	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
Russian Federation	**170**	386	**2,591**	569
Republic of Cameroon	**123**	2	**33,728**	24,905
Republic of Kazakhstan	**–**	187	**–**	–
Total for continuing operations	**293**	575	**36,319**	25,474
Unallocated Head Office	**37**	3	**–**	–
	330	578	**36,319**	25,474

The impairment charge in 2009 against the carrying value of Kemerkol assets of $35.5m was in the Republic of Kazakhstan geographical segment.

In 2010, $123,000 of depreciation of plant and equipment was capitalised as exploration and evaluation expenditure (2009: $15,000).

	Provisions	
	2010	2009
	$000	$000
Russian Federation	**996**	889
Republic of Cameroon	**6,410**	1,993
	7,406	2,882

5. IMPAIRMENT OF OIL & GAS ASSETS

	2010	2009
	$000	$000
Impairment of carrying value of Kemerkol licence interest:		
Property, plant and equipment (Note 16)	**–**	1,510
Intangible assets (Note 15)	**–**	33,055
Current assets	**–**	219
Release of asset retirement obligation	**–**	(562)
Associated legal fees and closure costs	**–**	1,319
	–	35,541

6. OTHER GAINS AND LOSSES

	2010	2009
	$000	$000
Gain on third party loan assigned to Group company	**–**	3,100
Foreign exchange losses	**(133)**	(4,359)
Fair value on AFS financial assets	**–**	(143)
	(133)	(1,402)

The provision for impairment was made in the prior year against the cost of investment in and the assets of Victoria Energy Central Asia LLP (VECA) and other costs capitalised associated with the Kemerkol licence.

In February 2008, a claim was brought against the Company's Kazakh subsidiary, VECA, in the Economic Court of the Atyrau Oblast in Kazakhstan by Cypriot company Rasova Enterprises Company Limited. Despite the Company receiving legal advice that the claim was invalid under Kazakh law, it was upheld at a Court hearing in March 2008 and following a ruling of the Ministry of Energy and Mineral Resources in June 2008, the exploration licence in relation to the Kemerkol field was transferred to the previous licencee, Saga Creek Gold Company LLP (Saga Creek).

VECA also lodged appeals to the Atyrau Appeal Court, the Supervisory Collegium and the Kazakh Supreme Court for the ruling in respect to the ownership of the licence to be overturned, but these appeals were rejected. Both VECA and the Company have also highlighted the case to the Office of the Kazakh President, his Anti-Corruption and Anti-Raider Commissions and to the UK Ambassador to Kazakhstan.

During the year, VECA won a claim against Saga Creek in the Kokshetau property court for the rights of ownership to certain field equipment still in place at Kemerkol.

On 15 September 2008, the UK High Court ruled in favour of the Company against the vendor for breach of warranties under the original sale and purchase agreements signed in 2005 for the acquisition of Kemerkol. The Company is not pursing its rights to sue for damages against the vendor whilst the legal challenge is being pursued in Kazakhstan.

Management are actively considering further options for appeal, including a possible petition to the Kazakh General Prosecutor, as advised by the Supreme Court.

7. FINANCE REVENUE

	2010	2009
	\$000	\$000
Fair value gain on embedded derivatives	**617**	1,401

The above gains represent reductions in the fair value of the embedded derivatives in the convertible loan notes described more fully in Note 23. At each year end, and immediately prior to redemption or conversion, the embedded derivatives are revalued to fair value as explained in Note 1 (xii) Financial Instruments: Convertible bond – hybrid financial instruments.

8. FINANCE COSTS

	2010	2009
	\$000	\$000
Convertible loan interest	**(759)**	(131)
Other interest expense	**–**	(417)
Unwind of discount on decommissioning costs	**(107)**	(58)
	(866)	(606)

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

9. LOSS BEFORE TAXATION

	2010	2009
	$000	$000
The loss before taxation is stated after charging:		
Directors’ remuneration (Note 12)	**908**	803
Auditors’ remuneration	**200**	228
Depreciation	**4**	177
Amortisation of intangibles	**203**	386
and after crediting:		
Fair value gain on embedded derivatives	**617**	1,401

The Chairman was the highest paid Director and received $251,000 (2009: $245,000).

The analysis of auditors’ remuneration is as follows:

	2010	2009
	$000	$000
Fees payable to the Group auditors for the audit of the Group’s annual accounts	**200**	228

Administrative expenses comprise:

	2010	2009
	$000	$000
Wages and salaries	**1,491**	2,481
Professional fees	**2,982**	2,134
Office and other administrative expenditure	**682**	687
Travel	**190**	269
Rent	**244**	187
Depreciation & amortisation	**207**	578
	5,796	6,336

10. INCOME TAX EXPENSE

	2010 $000	2009 $000
Income tax expense	–	–

Factors affecting the tax expense:

	2010 $000	2009 $000
Loss on ordinary activities before tax	**(6,107)**	(42,362)
Income tax calculated at 28%	**(1,710)**	(11,861)
Effects of:		
Impairment losses that are not deductible for tax	–	9,951
Effect of expenses not deductible for tax	**88**	158
Effect of finance costs not deductible for tax	**213**	153
Fair value adjustment on derivative not taxable	**(173)**	(392)
Effect of other temporary differences	–	129
Effects of losses taxable at a lower rate	–	(528)
Increase in tax losses not utilised	**1,582**	2,390
Income tax expense	–	–

Deferred tax liability		
Arising on Bramlin acquisition (Note 33)	**6,599**	6,599

At the balance sheet date, the Group has unused tax losses of $36.6m (2009: $35.0m) available for offset against future profit. No deferred tax asset has been recognised in either year due to the unpredictability of future profit streams in the Group companies where the losses have been incurred. Accordingly, at the year end, deferred tax assets amounting to $10.9m (2009: $9.3m) have not been recognised.

Factors that may affect future tax charges

The Group expects to commence production in the future. Such production is likely to result in taxable profits in Cameroon and Russia, where the applicable tax rates are 38.5% and 20% respectively.

11. EMPLOYEE INFORMATION

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

	2010 Number	2009 Number
Directors	**5**	7
Technical	**10**	19
Management and administration	**13**	25
	28	51

Staff costs for the above persons were:

	2010 $000	2009 $000
Wages and salaries	**1,685**	2,426
Social security costs	**198**	146
	1,883	2,572

Included in the above is $392,000 (2009: $91,000) of wages and salaries which were capitalised within exploration and evaluation assets.

12. DIRECTORS' REMUNERATION

	Payable	**Shares**	**Total**	**Total**
	in cash	in lieu	**2010**	2009
	$000	$000	**$000**	$000
Kevin Foo *	173	78	**251**	245
Grant Manheim	116	–	**116**	113
Robert Palmer **	127	72	**199**	195
Austen Titford	128	–	**128**	–
George Donne	176	–	**176**	202
Rashed Al Suwaidi	–	–	**–**	–
Philip Rand	24	–	**24**	24
Mukhtar Tuyakbayev	14	–	**14**	24
	758	150	**908**	803

* Part paid to HJ Resources Limited.

** Paid to The Gallagher Partnership LLP.

The number of Directors to whom retirement benefits are accruing is nil and all remunerations were short term employee benefits.

During the year, no short term employee benefits or share based payments were capitalised within exploration and evaluation expenditure (2009: nil).

13. KEY MANAGEMENT COMPENSATION

	2010	2009
	$000	$000
The compensation paid to key management personnel is set out as follows:		
Short term employee benefits	**1,043**	1,474
Termination benefits	**67**	–
Professional fees	**926**	926
	2,036	2,400

Key management comprise the Directors of the Company, the Chief Operating Officer and the General Managers of each operation. The Company does not provide a pension scheme or other post employment benefits to any employees, including Directors.

14. LOSS PER SHARE

Basic earnings or loss per share is computed by dividing the profit or loss after tax for the year available to ordinary shareholders by the weighted average number of ordinary shares in issue and ranking for dividend during the year, excluding those held by the ESOP Trust. Diluted earnings or loss per share is computed by dividing the profit or loss after taxation for the financial year by the weighted average number of ordinary shares in issue, each adjusted for the effect of all dilutive potential ordinary shares that were outstanding during the year.

The following table sets forth the computation for basic and diluted loss per share.

	2010	2009
	$000	$000
Numerator:		
Numerator for basic EPS – retained loss	**(6,107)**	(42,362)
	Number	Number
Denominator:		
Denominator for basic EPS and diluted EPS	**968,919,960**	355,751,584
	Cents	Cents
Loss per share – basic and diluted	**(0.63)**	(11.91)

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

Refer to Notes 23, 24, 25 and 36 for details of transactions which could have a dilutive effect on EPS.

15. INTANGIBLE ASSETS

	Group	
	2010	2009
Exploration and evaluation assets:	**$000**	$000
Cost		
Opening balance	**116,757**	104,880
Exchange adjustments	**553**	(13,075)
Additions	**36,009**	1,903
Subsidiaries acquired (Note 33)	**–**	24,304
Disposals	**(3,591)**	(1,255)
Closing balance	**149,728**	116,757
Accumulated amortisation and impairment		
Opening balance	**33,608**	515
Exchange adjustments	**–**	(9)
Charge for the year	**203**	386
Disposals	**–**	(339)
Provision for impairment (Note 5)	**–**	33,055
Closing balance	**33,811**	33,608
Net book amount		
Opening balance	**83,149**	104,365
Closing balance	**115,917**	83,149

Segmental Analysis

	Group	
	2010	2009
Exploration and evaluation assets:	**$000**	$000
Russian Federation	**58,205**	58,494
Republic of Cameroon	**57,712**	24,655
	115,917	83,149

Exploration and evaluation assets relate to expenditure incurred on the West Medvezhye project in Russia and the Logbaba gas exploration and development project in Cameroon. Assets will be transferred to Property, Plant & Equipment if and when the project reaches technical feasibility, which for the Logbaba project will be on the delivery of first gas to customers.

An impairment provision was made in the prior year against the Kemerkol project in Kazakhstan following the loss of the licence (see Note 5).

The Directors are aware that by its nature there is an inherent uncertainty in exploration and evaluation, and therefore inherent uncertainty in relation to the carrying value of capitalised exploration and evaluation assets.

The realisation of this intangible asset is dependent on the discovery and successful development of economic reserves and is subject to a number of significant potential risks including:

- Funding requirements (see Note 3);
- Uncertainties over development and operational costs, including taxation;
- Other operational risk including access to active markets and suitable supply chain;
- Currency and commodity price fluctuations;
- Political and legal risks;
- Environmental risks; and
- Market risk, including demand for natural resources.

Should this prove unsuccessful, the value included in the Balance Sheet would be written off to the Income Statement.

The West Medvezhye licence in Russia represents a large exploration prospect which includes an oil discovery made in 2006 for which a 20 year exploitation licence has been granted. Because of constraints on the availability of both human and financial resources to the Group, management has focussed its efforts and available resources primarily on the development of the Logbaba project in the Cameroon. However, the Group has also completed geochemical and passive seismic surveys in Russia. The purpose of these studies is to identify the location and size of prospects, the hydrocarbon potential and ultimately to decide on the next drilling locations. In view of the potential scale of the project and risks to delivery, the Board continues to appraise all strategic options for maximising the Group's return on investment including a variety of development scenarios, funding strategies and sale of the asset. In completing their assessment of the recoverable amount of the Group's investment to date in the project, the Directors have taken into account the various options outlined above and the risks associated with each option. Whereas the Directors are unable to accurately determine the recoverable amount of the assets due to insufficient current market data for similar assets, they are confident that the capitalised value of the asset is recoverable.

The Directors also reviewed the carrying value of the Logbaba gas and condensate project in the Cameroon and are satisfied that the project will have a value in excess of the accumulated costs to date.

Having reviewed the exploration and evaluation expenditure as at 31 May 2010, the Directors are satisfied that the value of the intangible asset is not less than the carrying value of the exploration and evaluation expenditure at 31 May 2010.

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Plant & Equipment $000	Oil and Gas Interests $000	Total $000
Cost:			
At 31 May 2008	15	2,510	2,525
Exchange adjustments	–	(381)	(381)
Additions	–	48	48
Subsidiaries acquired	–	54	54
Disposals	–	(88)	(88)
At 31 May 2009	**15**	**2,143**	**2,158**
Exchange adjustments	**–**	**1**	**1**
Additions	**310**	**–**	**310**
Disposals	**(17)**	**(54)**	**(71)**
At 31 May 2010	**308**	**2,090**	**2,398**
Accumulated depreciation and accumulated impairment losses			
At 31 May 2008	7	510	517
Exchange adjustments	–	(63)	(63)
Charge for the year	3	189	192
Subsidiaries acquired	–	16	16
Disposals	–	(51)	(51)
Impairment provision (Note 5)	–	1,510	1,510
At 31 May 2009	**10**	**2,111**	**2,121**
Charge for the year	**127**	**–**	**127**
Disposals	**(2)**	**(69)**	**(71)**
At 31 May 2010	**135**	**2,042**	**2,177**
Net book amount:			
At 31 May 2010	**173**	**48**	**221**
At 31 May 2009	5	32	37

Company

	Plant & Equipment 2010 $000	Plant & Equipment 2009 $000
Cost:		
Opening balance	**15**	15
Additions	**3**	–
Disposals	**(3)**	–
Closing balance	**15**	15
Depreciation		
Opening balance	**10**	7
Charge for the year	**2**	3
Disposals	**(3)**	–
Closing balance	**9**	10
Net book amount	**6**	5

17. INVESTMENTS

	Group		**Company**	
	2010 $000	2009 $000	**2010 $000**	2009 $000
Investments in subsidiaries (A)	**–**	–	**29,789**	29,789
Advances to subsidiary (B)	**–**	–	**38,657**	39,627
	–	–	**68,446**	69,416

17A Investments in Subsidiaries

Unlisted investments

	Company	
	2010 $000	2009 $000
Cost:		
Cost of investments at beginning of the year	**49,764**	37,364
Acquisition of Bramlin Limited (Note 33)	**–**	12,400
Cost of investments at end of the year	**49,764**	49,764
Impairment:		
Opening balance	**(19,975)**	(3,682)
Charge for the year	**–**	(16,293)
Closing balance	**(19,975)**	(19,975)
Net book value:		
Closing balance	**29,789**	29,789

The value of the Company's unlisted investments at 31 May 2010 represents the investment in the subsidiaries owning the West Medvezhye gas project and the Logbaba gas exploration and development project. The realisation of investments in and advances to subsidiaries by the Company is dependent on the development of economic reserves and the ability of the group to raise sufficient funds to develop these interests. Should the development of economic reserves prove unsuccessful, the carrying value in the balance sheet will be written-off.

The Group created an impairment provision of $35.5m against its investment in Victoria Energy Central Asia LLP following the loss of its licence in Kemerkol.

17b Advances to Subsidiary

Advances to subsidiary include an amount of $38.1m (2009: $39.6m) due from the Company's Russian subsidiary, ZAO SeverGas-Invest. The Directors are of the view that these advances are in substance part of the Company's net investment in the Russian operations, as settlement is neither planned nor likely to occur in the foreseeable future. The Company has not accrued interest on these intercompany advances on the basis that settlement is not likely to occur in the foreseeable future. However, the advance has decreased in the year due to the one-off repayment of $2.1m following the successful recovery of VAT on past exploration expenditure.

17c Segmental Analysis of Investments in and Advances to Subsidiaries

	Company	
	2010	2009
	$000	$000
Unlisted		
Russian Federation	**56,046**	57,016
Republic of Cameroon	**12,400**	12,400
Republic of Kazakhstan	**–**	–
Total Investments in and Advances to Subsidiaries	**68,446**	69,416

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
Bramlin Limited	Guernsey	Ordinary	100%	Holding company
Rodeo Development Limited	British Virgin Islands	Ordinary	100%	Active
Bramlin RDL Limited	USA	Ordinary	100%	Dormant
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 these undertakings for the relevant financial period was exploration for and development of oil and gas assets. The investments of the Group at 31 May 2010 principally represent investments in the Logbaba gas project in Cameroon, which was acquired as part of the Bramlin acquisition and the West Medvezhye project in Russia. Following a review by the Company of the carrying amounts of its subsidiary undertakings for impairment, the investment in Kemerkol was fully provided against in 2009, as noted in Note 5.

The significant investments in the Company's Balance Sheet were $17.4m in respect to West Medvezhye (2009: $17.4m) and $12.4m in the Logbaba project (2009: $12.4m).

As outlined in Note 15, the value of the investments is dependent on the successful discovery and development of economic reserves.

18. RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
Amounts due within one year:				
VAT recoverable	**278**	13	**142**	13
Prepayments	**254**	31	**–**	–
Amounts due by subsidiaries	**–**	–	**49,685**	10,387
Other receivables	**1,244**	693	**14**	668
	1,776	737	**49,841**	11,068

	Group		Company	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
Amounts due in more than one year:				
Other receivables	**19,916**	–	**–**	–

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.

As outlined in Note 15, the value of the amounts due from Group undertakings is dependent on the successful discovery and development of economic reserves.

Total other receivables include $20.5m relating to RSM Production Corporation. This relates to their funding obligation for their 40% interest in the Logbaba gas development, which is carried by the Group as part of the Farm-in Agreement. This amount will be recovered from RSM's share of initial net cash flows and is therefore dependent on the successful construction and commissioning of facilities and sales to customers. $0.7m is recoverable within 12 months and the balance is due after more than one year.

An amount of $16.7m due to the Company from Victoria Energy Central Asia LLP was fully provided against in 2009.

The carrying value of these assets approximates to their fair value.

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
Cash	**6,034**	711	**5,473**	416

Funds are held in US dollars, Sterling, Russian Roubles, Central African Franc and Tenge 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	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
US dollar	**204**	109	**147**	46
Sterling	**5,393**	462	**5,326**	370
Russian Rouble	**12**	1	**–**	–
Central African Franc	**301**	36	**–**	–
Kazakh Tenge	**124**	103	**–**	–
	6,034	711	**5,473**	416

20. HELD FOR SALE ASSETS

	Group		Company	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
Drilling equipment	**1,829**	–	**–**	–

21. TRADE AND OTHER PAYABLES

	Group		Company	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
Trade creditors	**15,907**	2,052	**1,167**	1,393
Taxes and social security costs	**754**	31	**–**	–
Accruals and deferred income	**211**	1,028	**211**	828
Other creditors	**723**	774	**–**	–
	17,595	3,885	**1,378**	2,221

It is the Group's normal practice to agree terms of transactions with suppliers, including payment terms. Provided suppliers perform in accordance with the agreed terms, payment is made accordingly. In the absence of agreed terms it is the Group's normal policy that payment is made within 30 days.

The carrying value of these liabilities approximates to their fair value.

22. BORROWINGS

	Group		Company	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
Current				
Loan from other entities	**1,854**	1,000	**1,000**	1,000

Borrowings include a $1.0m unsecured, non-interest bearing loan, repayable on demand from a shareholder of the Company and $854,000 due to HJ Resources Limited which is unsecured and accrues interest at a fixed rate of 0.5% per month (see Note 34).

HJ Resources Limited Convertible Loan

In the prior year, HJ Resources Limited, a company owned by a discretionary trust of which Kevin Foo and certain members of his family are potential beneficiaries, provided unsecured loans to Victoria Oil & Gas International Limited totalling $1,188,000. The terms of the loan agreements gave to the lender the right to elect to convert the loans to ordinary shares in the Company at a price of 3.70 pence per share. The initial term was for six months and was subsequently extended through to 11 May 2010. Interest accrues at 0.5% per month. On 24 July 2009, $427,324 of the loan was converted to 7,000,0000 ordinary shares in Victoria Oil & Gas Plc. The conversion option lapsed on 11 May 2010 and thereafter the remainder of the loans ceased to be accounted for as hybrid financial instruments. The fair value gain of $395,000 is included in Finance Revenue in the Income Statement.

The 2009 fair value of the derivative financial instruments was calculated using a Black-Scholes model for the conversion option.

The inputs used were as follows:

	2009
Option term – years	1
Share price – pence Sterling	3.7
Risk-free rate	0.24%
Expected volatility	150.7%
Dividend yield	nil

23. CONVERTIBLE LOAN NOTES

	Group		Company	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
Debt				
Noor Petroleum convertible loan	**529**	296	**529**	296
HJ Resources Limited convertible loans	**–**	759	**–**	–
	529	1,055	**529**	296
Derivative financial instruments				
Noor Petroleum convertible loan	**24**	247	**24**	247
HJ Resources Limited convertible loans	**–**	395	**–**	–
	24	642	**24**	247

Noor Petroleum Convertible Loan ($2.0M)

In December 2007, the Company created a $10.0m unsecured convertible loan note with United Arab Emirates based Noor Petroleum Limited, a company of which former Company Director Rashed Al Suwaidi is a director. $2.0m was placed on 29 January 2008.

The Note is due for repayment on 31 December 2012 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 that the note is redeemed at term, the effective interest rate increases to 6.5% per annum and interest will be payable accordingly. This loan is accounted for as hybrid financial instrument.

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:

	2010	2009
Option term – years	**2.6**	3.6
Conversion price – pence Sterling	**16.5**	16.5
Risk-free rate	**1.36%**	2.25%
Expected volatility	**124.5%**	126.7%
Dividend yield	**nil**	nil

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 impact on the fair value of the derivative based on an expected volatility figure 25 percentage points lower and 25 percentage points higher.

Expected volatility

	Embedded derivative	Gain/(loss)
2010	$000	$000
Fair value at 31 May 2010	24	–
25 percentage points higher	32	8
25 percentage points lower	14	(10)

24. PROVISIONS

	Group	
	2010	2009
	$000	$000
Development funding obligation	**4,000**	–
Contingent consideration provision	**1,993**	1,993
Decommissioning provision	**1,413**	889
	7,406	2,882

DEVELOPMENT FUNDING OBLIGATION AND ROYALTY

As part of the drilling contract for the two development wells at the Logbaba field, the Group received an amount of $4.0m, which is to be offset against royalties payable on future production. Further details are provided in Note 34. The Directors are of the view that royalty payments will commence within the next 12 months. The payment is entirely dependent on the level of future production and the timing can not be predicted with any degree of certainty.

CONTINGENT CONSIDERATION PROVISION

As part of the consideration for the acquisition of Rodeo Development Limited by Bramlin Limited, a further 24,062,134 ordinary shares in Bramlin Limited are to be issued if certain conditions relating to the Logbaba licence in Cameroon are achieved. On acquisition of Bramlin this liability was converted to 29,355,804 ordinary shares of the Company. The Directors are of the view that the conditions will be met within the next 12 months and have recognised the liability and valued the shares at the share price ruling on acquisition of Bramlin Limited. When the shares are issued, any difference between the market value on issue and the provision will be recognised in exploration and development expenditure.

Provision For Decommissioning Costs

A provision has been recognised at the present value of the Group's year end obligation for expected decommissioning costs of the West Medvezhye project and the Logbaba gas and condensate project based on an estimate of the decommissioning costs and of the year when those costs are likely to be incurred. While it is certain decommissioning will take place, the cost and timing can not be predicted with any certainty.

	Group	
	2010	2009
	$000	$000
Decommissioning costs		
At 1 June	**889**	1,393
Additional provision in year	**417**	–
Impairment of Kazakhstan assets	**–**	(562)
Unwinding of discount charged to the income statement	**107**	58
At 31 May	**1,413**	889

25. CALLED-UP SHARE CAPITAL

Group and Company	**2010**	2009
	$000	$000
Allotted Called-Up and Fully Paid:		
Ordinary shares of 0.5p each:		
Opening balance: 496,915,889 shares (2009: 275,673,258)	**4,289**	2,621
Issued during the year: 930,878,558 shares (2009: 221,242,631)	**7,359**	1,668
Closing balance: 1,427,794,447 shares (2009: 496,915,889)	**11,648**	4,289

Shares issued are translated at the exchange rate prevailing at the date of issue.

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital. As a result, the Company's Articles of Association were amended at the AGM on 18 December 2009 to remove all reference to an authorised share capital.

The Directors of the Company continue to be limited as to the number of shares they can allot at any time and remain subject to the allotment authority granted by the shareholders pursuant to section 551 of the Companies Act 2006.

Share Issues

The Company issued the following shares during the period:

	Number	Date	Issue price (pence)
Placing for working capital	8,939,502	12-Jun-09	3.9
Placing for working capital	100,000,001	17-Jun-09	3.0
Placing for working capital	101,630,696	24-Jul-09	3.0
Loan convert by HJ Resources	7,000,000	24-Jul-09	3.7
Exercise of warrants	947,667	24-Jul-09	3.0
Subscription by ESOP Trust	17,775,000	24-Jul-09	0.5
Placing for working capital	11,650,979	6-Aug-09	3.4
Placing for working capital	32,000,000	17-Aug-09	3.8
Exercise of warrants	3,916,667	18-Aug-09	6.3
Placing for working capital	26,996,456	25-Aug-09	5.6
Shares in lieu of salary to employees	616,038	25-Aug-09	3.7
Placing for working capital	141,327,058	28-Aug-09	4.3
Subscription by ESOP Trust	2,700,000	1-Oct-09	0.5
Settlement of amounts due to creditors	3,494,070	1-Oct-09	4.4
Shares in lieu of salary to directors	834,765	1-Oct-09	3.7
Exercise of warrants	4,087,500	26-Oct-09	3.0
Placing for working capital	31,361,746	24-Nov-09	4.8
Settlement of amounts due to creditors	3,520,907	10-Feb-10	4.6
Shares in lieu of salary to employees	398,733	10-Feb-10	5.4
Placing for working capital	223,973,077	1-Mar-10	3.3
Shares in lieu of salary to directors	911,542	1-Mar-10	5.4
Placing for working capital	206,796,154	12-Mar-10	3.3
	930,878,558		

Standby Equity Distribution Agreement (SEDA)

On 1 April 2009, the Company entered into a £5.0m SEDA with YA Global Master SPV Limited (the Investor) which was extended to £10.0m on 17 June 2009. The SEDA enables the Company, at its discretion, during the next two years (the Commitment Period), to draw down funds in exchange for ordinary shares in the Company in tranches subject to the terms of the agreement. The primary terms of the agreement are:

- At any time during the Commitment Period, the Company may draw down an amount up to £200,000 per tranche. Higher amounts may be drawn down if agreed with the Investor in advance of the drawdown.
- The purchase price of the ordinary shares shall be 93% of the lowest daily Volume Weighted Average Price of the ordinary shares in the five trading days following the notification of a draw down.
- The Investor is also entitled to a placing fee of 3% of each draw down.

At 31 May 2010, £4.7m of the facility remained undrawn.

26. 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.

27. OTHER RESERVE

	Group		Company	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
At 1 June	**2,882**	2,852	**2,882**	2,852
Share based payments	**1,402**	30	**1,402**	30
Exercise of warrants	**(456)**	–	**(456)**	–
At 31 May	**3,828**	2, 882	**3,828**	2,882

Other Reserve comprises $2.85m in respect to the settlement of an embedded derivative following the early redemption of the associated convertible loan note and a reserve for share based payments. Further details of share based payments in the year are given in Note 29.

28. FINANCIAL RISK MANAGEMENT

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

The Group undertakes certain transactions denominated in foreign currencies. Hence, it has an exposure to exchange rate fluctuations that arise. Exchange rate exposures are managed within approved policy parameters.

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, Central African Franc, Russian Roubles and Tenge. 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.

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:

Credit Risk

The majority of the receivables relate to contributions due from the Group's 40% partner in the Logbaba development under the Farm-in Agreement. As more fully explained in Note 18, the balance due at 31 May 2010 was $20.5m, which was the maximum due during the year.

There are no financial assets that are past due.

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 longer term borrowings being taken on terms that allow conversion to new shares.

The Group's commitments have been fully met from cash flows generated from equity and loan 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.

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

At 31 May 2010 and 31 May 2009, the Group and Company's other non derivative financial liabilities were payable on demand.

Foreign Currency Risk

Although the Group is based in the UK, it has significant investments in overseas subsidiaries which operate in Russia, Cameroon and Kazakhstan. These overseas operations 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. The Group holds surplus cash in both US dollars and Sterling, and buys Roubles, Central African Franc 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.

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:

	Assets		Liabilities	
Group	**2010**	2009	**2010**	2009
	\$000	\$000	**\$000**	\$000
US dollar	**21,559**	806	**24,883**	6,862
Sterling	**5,549**	462	**1,712**	1,971
Roubles	**193**	13	**510**	339
Tenge	**124**	103	**–**	292
CFA	**301**	64	**303**	–
	27,726	1,448	**27,408**	9,464

	Assets		Liabilities	
Company	**2010**	2009	**2010**	2009
	\$000	\$000	**\$000**	\$000
US dollar	**49,832**	53,974	**1,219**	1,861
Sterling	**5,482**	370	**1,712**	1,903
	55,314	54,344	**2,931**	3,764

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

Foreign Currency Sensitivity Analysis

If the US dollar had gained/(lost) 5% against all currencies significant to the Group at 31 May 2010, the loss would have been \$0.2m lower/(higher) (2009: \$0.1m) and the net equity would have been \$0.6m lower/(higher) (2009: \$1.4m). The impact on the Company's Income Statement and net equity would be immaterial.

Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument 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.

Interest Rate Risk

The Group had no outstanding bank borrowings at the year end or at the end of the prior year. The Group has interest bearing non bank borrowings of \$0.9m from HJ Resources Limited. These accrue interest at a fixed rate of 0.5% per month.

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.

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 and convertible loans (see Note 23).

The Group reviews the capital structure from time to time during the year in relation to its future capital expenditure requirements based on forecasts prepared by management. When required, the Board decide on the mix and level of capital to raise in order to allow all ongoing projects to continue without delay. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

Fair Values

The carrying amount of the Group and Company's financial assets and financial liabilities (excluding those that are recorded at fair value) is a reasonable approximation of the fair value.

29. SHARE BASED PAYMENTS

Other than as disclosed below, no grants were made in the current or prior year.

Warrants to Subscribe for Ordinary Shares

Details of warrants outstanding during the year are as follows (monetary amounts are denominated in pence sterling, this being the currency in which the shares are quoted):

	2010		2009	
	No. of warrants 000's	**Weighted average exercise price pence**	No. of warrants 000's	Weighted average exercise price pence
1 June	**1,035**	**3.0**	–	–
Granted during the year	**14,983**	**4.5**	1,035	3.0
Exercised during the year	**(8,952)**	**3.0**	–	–
31 May	**7,066**	**6.2**	1,035	3.0

During the year, the Company issued 12,156,479 warrants to Fox Davies Capital Limited as part of their placing agreement fees and 2,826,541 warrants to Richard Griffiths as part of fees for fund raising. Each warrant entitles the holder to purchase an ordinary share in the Company. The warrants have been fair valued using a Black-Scholes option pricing model. The inputs into the Black-Scholes model were as follows:

	2010	2009
Number of warrants	**14,983,020**	1,035,167
Weighted average share price – pence sterling	**3.77 to 6.02**	3.88
Option term – years	**3 to 5**	2
Share exercise price – pence Sterling	**4.51**	3.00
Risk-free rate	**0.25%**	0.13%
% Expected volatility	**122%**	151%
Expected dividend yield	**nil**	nil

The expected volatility was determined based on the historical movement in the Company's share price over a period equivalent to the option period.

The total fair value of the warrants of $1,601,000 (2009: $30,000) was charged to the Consolidated Income Statement and a corresponding credit charged to Other Reserve.

During the year 8,951,834 warrants were exercised for consideration of £272,055. The weighted average share price on the date of exercise was 4.5 pence.

30. NON-CASH TRANSACTIONS

During the 2010 financial year, the Group entered into the following non-cash investing and financing activities which are not reflected in the statement of cash flows:

- Shares were issued as settlement of professional fees and services rendered of $1.4m (2009: $2.9m).
- Shares were issued as part payment of a seismic survey $0.3m (2009: $0.3m).
- Shares issued in lieu of salary $0.2m (2009: $0.3m).
- Shares issued as settlement of loans $0.4m (2009: Nil).

In 2009, a third Party loan of $3.1m was assigned to a Group company.

31. FINANCIAL COMMITMENTS

Logbaba Gas and Condensate Development

The Group has no outstanding financial commitments in respect of the licence for the Logbaba gas and condensate project or under its Farm-in agreement with RSM Production Corporation.

West Medvezhye

The Group has a five year minimum work programme with the Russian Ministry of Natural Resources on the West Medvezhye oil and gas project, whereby the Group is required to drill two wells by 31 December 2012. The cost will be dependent on the location of the wells and target depth.

Kemerkol

The Group has no outstanding financial commitments in respect of the Kemerkol licence (2009: nil).

32. PARENT COMPANY INCOME STATEMENT

As permitted by Section 408 of the Companies Act 2006, the parent Company's Income Statement has not been presented in this document. The loss after taxation for the parent company for the year is $5.6m (2009 Loss: $44.0m).

33. ACQUISITION IN PRIOR YEAR

In December 2008, the Company completed the acquisition of Bramlin Limited (Bramlin) and its subsidiaries. Bramlin is registered in Guernsey and was listed on the Alternative Investment Market of the London Stock Exchange.

	Principal activity	Date of acquisition	Proportion of shares acquired	Cost of acquisition $000
Bramlin Limited	Oil and gas Exploration	12/12/08	remaining 99.6%*	12,400

* The Company already owned the other 0.4% of the shares in Bramlin.

Analysis of assets and liabilities assumed at the date of acquisition:

	Book value $000	Fair value adjustments $000	Fair value on acquisition $000
Current assets:			
Cash and cash equivalents	63	–	63
Trade & other receivables	613	(569)	44
Prepayments	104	–	104
Non current assets:			
Exploration and development expenditure	43,651	(19,347)	24,304
Plant & equipment	32	–	32
Current liabilities:			
Trade & other payables	(1,339)	–	(1,339)
Loan from Victoria Oil & Gas Plc	(2,216)	2,216	–
Non current liabilities:			
Deferred taxation	(21,689)	15,090	(6,599)
Contingent consideration	–	(1,993)	(1,993)
Reserve bonus provision	(9,403)	9,403	–
	9,816	4,800	14,616

Fair Value Adjustments

Trade & other receivables: This fair value adjustment was made to write receivables down to their recoverable amounts.

Exploration and development expenditure: The Directors are of the view that the fair value of exploration and development expenditure (including the cost of the licence) is equal to the consideration adjusted for net working capital assumed, required deferred tax adjustments and other fair value adjustments as necessary.

Deferred taxation: This relates to the deferred tax adjustments arising as part of the purchase price allocation.

Reserve bonus provision: The Reserve bonus provision has been reversed and is included in these financial statements as a contingent liability as payment is contingent on a number of medium to long term variables including the availability of project finance, execution of the development plan for the field and the level of reserves at an undetermined future point in time. Refer to Note 35 for further details.

Loan from Victoria Oil & Gas: This consisted of advances from the Company prior to acquisition. These amounts were not settled as part of the acquisition and remain outstanding in the Company balance sheet at 31 May 2010.

Contingent considerations: As part of Bramlin's acquisition of Rodeo Development Limited (RDL), it was agreed that Bramlin would issue a further 24,062,134 ordinary shares to the previous shareholders of RDL if certain conditions relating to the Logbaba licence in Cameroon are achieved. As part of this acquisition, the Company have agreed to issue 29,355,803 ordinary shares in the parent company if these conditions are satisfied. In that event, Bramlin will reimburse the Company for the value of the shares issued to settle this contingent consideration.

Cost of Acquisition

The cost of acquisition of the remaining shares in Bramlin was discharged by the issue of 163,121,316 new ordinary shares in the Company. The total purchase consideration is determined by valuing these shares at the share price on acquisition of 4.55 pence per share, plus the historic cost of shares already owned and acquisition expenses.

Analysis of consideration

	2009 $000
Cost of investment in shares (already owned)	**375**
Non-cash consideration for Bramlin Limited	**11,076**
Acquisition expenses	**949**
Total purchase consideration	**12,400**
Pre-acquisition advances	**2,216**
	14,616
Net cash outflow on acquisition	
Consideration paid in cash	**949**
Less: cash and cash equivalent balances acquired	**(63)**
	886

Impact of acquisition on the results of the Group

The group loss in 2009 included post acquisition losses of $334,000 attributable to companies of the Bramlin group. The activities of the Bramlin group are expected to have little impact on the results of the Group until the Logbaba project is in operation as administrative overheads have been significantly reduced and direct project related expenditure is capitalised in line with the Group's accounting policy.

34. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of the Company and the subsidiaries listed in Note 17. The Company 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 12 and 13.

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

2010	**Purchases from related parties during the year $000**	**Loans from/(repaid) to related parties during the year $000**	**Cash advances to related parties during the year $000**	**Amounts due from/(to) related parties at the year end $000**
Subsidiaries	–	–	8,296	49,685
Directors' other interests	3	(418)	–	(876)
Professional fees	1,285	–	–	–

2009	**Purchases from related parties during the year $000**	**Loans from related parties during the year $000**	**Cash advances to related parties during the year $000**	**Amounts due from/(to) related parties at the year end $000**
Subsidiaries	–	–	6,151	41,389
Directors' other interests	–	1,188	–	(1,188)
Unpaid Directors' remuneration	–	–	–	(155)
Professional fees	926	–	–	–

Amounts due from subsidiaries in 2010 is stated net of a provision against the amount due from Victoria Energy Central Asia LLP of $16.7m (2009: $16.7m). There were also movements during the year as a result of changes in foreign exchange rates.

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 $3,000 (2009: nil) in relation to general accountancy services provided by The Gallagher Partnership LLP to the Company.

Radwan Hadi is Chief Operating Officer of the Company and a manager of Blackwatch Petroleum Services Limited, a firm of upstream oil and gas consultants. These accounts include $1,285,000 (2009: $926,000) in relation to oil and gas technical services provided by Blackwatch Petroleum Services Limited to the Company.

HJ Resources Limited

In December 2008, HJ Resources Limited, a company owned by a discretionary trust of which Kevin Foo and certain members of his family are potential beneficiaries, provided unsecured loans to Victoria Oil & Gas International Limited totalling $1,188,000. On 11 May 2009, the terms of the loan agreements were amended to enable the lender to elect to convert the loans to ordinary shares in the Company at a price of 3.7 pence per share. The initial term was for six months and has subsequently been extended through to 11 May 2010. Interest accrues at 0.5% per month. On 24 July 2009, HJ Resources elected to convert $418,000 to shares at 3.7 pence per share.

Cameroon Holdings Limited

On 9 July 2009, through its subsidiary Rodeo Development Limited (RDL), the Group signed agreements for the provision of drilling services at the Logbaba project with a private company, Cameroon Holdings Limited (CH). HJ Resources Limited is a significant shareholder in CH.

The drilling rate was discounted, mobilisation and demobilisation fees of $4.5m were waived and CH provided $4.0m of funding for operational costs and expenses in exchange for a sliding scale production royalty averaging 6.8% of revenue over the 20 year project life. This is entirely payable out of future production. In addition, CH will provide local advisory services for a period of 300 days at $5,000 per day.

Details of the development funding are provided in note 24

During the year CH charged RDL $6.4m for drilling and advisory services, of which $2.0m was outstanding at the year end.

35. CONTINGENT LIABILITIES

Reserve bonus liability

As indicated in Note 33, the Group has a contingent liability arising under an agreement between Bramlin Limited and Rodeo Resources Inc. on the Logbaba gas exploration and development project. The amount of the liability will be determined four years after commencement of hydrocarbon production by reference to the reserves of the field, as assessed at that time, with a maximum amount of $10m being payable over a period of not less than four years from the date of calculation of the reserves. While the most recent information that the Company possesses indicates that the existing estimated reserves of the Logbaba field would be sufficient to justify the maximum bonus, there are still significant uncertainties relating to the raising of the necessary finance, the execution of the development plan and the timing and eventual commencement of hydrocarbon production. In view of these circumstances and the fact that the estimation of reserves is highly subjective and involves a high degree of judgement, the Directors are of the view that this represents a contingent liability at the year end and no amount has been provided in respect of this.

36. SUBSEQUENT EVENTS

On 1 September 2010, the Company announced that it had completed a £9.2m equity placing ($14.2m) for funding capital expenditure and working capital.

Notice of the Annual General Meeting

Victoria Oil & Gas Plc

Notice is hereby given that the Annual General Meeting of Victoria Oil & Gas Plc (the Company) will be held on 30 November 2010, 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 4 will be proposed as Ordinary Resolutions and Resolution 5 will be proposed as a Special Resolution:

Ordinary Business:

As Ordinary Resolutions:

1. To consider the financial statements and reports of the Auditors and the Directors for the year ended 31 May 2010.

2. To re-elect Robert Palmer as a Director of the Company.

3. To re-appoint Deloitte & Touche as Auditors of the Company and to authorise the Directors to fix their remuneration.

Special Business:

As Ordinary Resolution:

4. That the Directors be and they are hereby generally and unconditionally authorised for the purposes of Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of section 560(1)) up to an aggregate nominal amount of £3,500,000 provided that such authority shall expire at the commencement of the Annual General Meeting next held after the passing of this resolution save that the Company may pursuant to the authority make offers or agreements before the expiry of the authority which would or might require relevant securities to be allotted after such expiry, and the Directors may allot relevant securities in pursuance of such offers or agreements as if the power conferred thereby had not expired.

As Special Resolution:

5. That (subject to the passing of Resolution 4 as an Ordinary Resolution) the Directors be and they are hereby empowered pursuant to Section 570 and 573 of the Act to allot equity securities (within the meaning of Section 561(1) of the Act) wholly for cash pursuant to the authority conferred by Resolution 4 above as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall not exceed the aggregate nominal amount of £3,500,000 and 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 5(a) above and 5(c) and (d) below of up to an aggregate nominal amount equal to five per cent of the issued share capital of the Company in any calendar year for applications in connection with the discretionary employee share incentive scheme operated by the Company;

   (c) otherwise than pursuant to the resolutions referred to in 5(a) and (b) above and 5(d) below 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 5(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
5 November 2010
Hatfield House
52-54 Stamford Street
London
SE1 9LX

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 they think 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 26 November 2010.
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 26 November 2010.
14. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, 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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