# VICTORIA OIL & GAS Plc

# INTERIM FINANCIAL REPORT FOR THE SIX MONTHS TO 30 NOVEMBER 2008

## CHAIRMAN'S STATEMENT

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Dear Shareholder

It is my pleasure to report to you again on the progress of your Company, Victoria Oil & Gas Plc ("VOG" or the "Company"). I have chosen not to talk about world-wide economic downturns, because we cannot influence such things and far too many people blame such conditions for poor performance. I actually believe that opportunities abound for our Company and we must leverage our competitive advantages to ensure that when the turnaround comes, as no doubt it will, we have been well positioned.

Since my last statement to you in November 2008, we have made significant advances in the development of your Company and in positioning ourselves for the future, including:

- Completion of the acquisition of Bramlin Limited and the Logbaba gas and condensate field in Cameroon;
- Successful acquisition of the first passive seismic survey on the West Medvezhye project in Siberia;
- Establishment of a new management team to ensure the development of the Company's assets in both Africa and the Former Soviet Union.

On 12 December 2008, VOG formally completed the acquisition of Bramlin Limited with the issue of approximately 163 million new shares to Bramlin shareholders. With the acquisition, we took control of 60% of a major energy development project in Cameroon, the Logbaba gas and condensate field.

Logbaba lies underneath Douala, the largest city and major port of Cameroon, very close to the primary industrial producers. The 64 square kilometre field was discovered in the 1950s when Elf, exploring for oil, drilled four exploration wells in a 6 square kilometre section of the southern part of the block. All four wells encountered natural gas, with one flowing at over 60 million cubic feet of gas per day.

Logbaba remained dormant for decades because no market for natural gas existed in the region, but times have certainly changed. Logbaba is now in prime position to feed both the local industrial users and, more importantly, the growing demand for electrical power generation. We are evaluating an appropriate finance structure for our first phase development programme entailing the drilling of a development well to twin Well La 104, originally drilled by Elf. Production will be fed to a processing facility and the gas piped short distances to nearby customers, with the liquid hydrocarbons sold separately. Cameroon currently imports almost all its fuel requirements - at a considerable cost - for the growing industrial demand. VOG has a unique opportunity, and responsibility, to supply natural gas to Cameroon and help relieve the high cost energy burden. We have signed a number of contracts and letters of intent with Douala-based manufacturers to supply 8 million cubic feet of gas per day. We expect this demand to double as soon as gas is available and almost double again as industry grows.

However, the real future of Logbaba will be to service the huge demand for power generation. Around 90% of Cameroon's estimated 900MW electricity generation capacity comes from hydroelectric power plants, but this has reached its limit and is becoming less reliable. The Government of Cameroon wishes to add another 450MW of power to the grid. We have been invited by the State power company to work with them in the installation and service of a 50MW gas fired power station in Douala. Such an enterprise would be expected to at least triple the initial demand for gas from Logbaba.

Preparations for drilling of the first well have begun. We have contracted a rig and a well design for the development well has been formulated to target the multiple productive sands down to a target depth of around 10,000 feet. Spudding is expected in the second half of this year and we are in the process of extending our exploration contract for six months.

VOG is also delighted to have recently announced the appointment of Mr. Radwan Hadi as Chief Operating Officer, with specific oversight of the development of Logbaba. Radwan is an experienced petroleum engineer and has led large-scale hydrocarbon development projects all over the world, including West Africa, during his tenures with ADCO and Blackwatch Petroleum Services. On Logbaba, Radwan will be assisted by Jim Ford, Ernie Miller and the existing Bramlin country team.

At West Medvezhye, we are very please to announce that the IPDS Geospectra passive seismic survey was successfully completed by GeoDynamics Research before the end of 2008. After some minor problems with the extreme cold, a good signal was recorded for the target area surrounding Well 103 and the results are now being interpreted. When finished, the survey will be mapped against the existing subsurface interpretations, from the local geological institute and the geochemical surveyors, to provide a more complete subsurface picture of the target location.

The defence of our good title to the Kemerkol licence is continuing, despite the Supreme Court declining to hear our appeal. The Company has appealed to the Kazakh General Prosecutor, who has the power to send decisions back to the Supreme Court for reconsideration, and we are awaiting his response. I am disappointed that the Rule of Law seems to apply selectively in Kazakhstan, but we are confident that eventually we will resolve this issue.

Current conditions demand tight cash control and creative, energetic management to meet our goals and I can say that we now have such a team in place. We are totally focused on the commercial development of Logbaba as profits and cash flow are the best defence against hard times. To keep shareholders fully informed of our progress, in addition to our regular RNS announcements, we will publish a quarterly letter from the Chairman.

I would like to thank all our employees and my fellow Directors for their untiring efforts and support in turning VOG around.

Kevin Foo
Chairman

**UNAUDITED INTERIM CONSOLIDATED INCOME STATEMENT**
**FOR THE HALF YEAR ENDED 30 NOVEMBER 2008**

| | Notes | 6 months ended 30 November 2008 $000 | 6 months ended 30 November 2007 $000 |
|---|---|---|---|
| **Continuing operations** | | | (restated) |
| **REVENUE** | 4 | 63 | 853 |
| Cost of sales | | (131) | (753) |
| **GROSS (LOSS) / PROFIT** | | (68) | 100 |
| Other gains and (losses) | 5 | (5,631) | (3,022) |
| Administrative expenses | | (4,689) | (1,321) |
| **OPERATING LOSS** | | (10,388) | (4,243) |
| Interest received | | 116 | 107 |
| Finance revenue | 6 | 1,230 | 12,632 |
| Finance costs | 7 | (282) | (2,898) |
| **(LOSS) / PROFIT BEFORE TAXATION** | | (9,324) | 5,598 |
| Income tax expense | 8 | - | - |
| **(LOSS) / PROFIT AFTER TAXATION FOR THE PERIOD** | | (9,324) | 5,598 |
| | | Cents | Cents |
| (Loss) / Earnings per share – basic | 9 | (3.35) | 4.51 |
| (Loss) / Earnings per share – diluted | | (3.35) | 4.51 |

## UNAUDITED INTERIM CONSOLIDATED BALANCE SHEET
## AS AT 30 NOVEMBER 2008

| | Notes | 30 November 2008 $000 | 30 November 2007 $000 | 31 May 2008 $000 |
|---|---|---|---|---|
| **ASSETS:** | | | | |
| **NON CURRENT ASSETS** | | | | |
| Intangible assets | | 100,180 | 101,028 | 104,365 |
| Property, plant and equipment | | 1,926 | 1,958 | 2,008 |
| Investments | | 258 | - | 696 |
| Restricted cash | | 123 | - | 122 |
| | | 102,487 | 102,986 | 107,191 |
| **CURRENT ASSETS** | | | | |
| Inventory | | - | - | 3 |
| Receivables | 10 | 3,070 | 1,978 | 1,226 |
| Cash and cash equivalents | | 268 | 560 | 9,270 |
| | | 3,338 | 2,538 | 10,499 |
| **TOTAL ASSETS** | | 105,825 | 105,524 | 117,690 |
| **LIABILITIES:** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Trade and other payables | 11 | (1,578) | (4,653) | (4,947) |
| Borrowings | | - | (3,061) | - |
| | | (1,578) | (7,714) | (4,947) |
| **NET CURRENT ASSETS** | | 1,760 | (5,176) | 5,552 |
| **NON-CURRENT LIABILITIES** | | | | |
| Borrowings | | (3,086) | - | (3,693) |
| Convertible loan – debt portion | | (240) | (883) | (212) |
| Derivative financial instruments | | (288) | (19,292) | (1,518) |
| Provisions | | (1,440) | - | (1,393) |
| | | (5,054) | (20,175) | (6,816) |
| **NET ASSETS** | | 99,193 | 77,635 | 105,927 |
| **EQUITY:** | | | | |
| Called-up share capital | 12 | 2,708 | 1,129 | 2,621 |
| Share premium | | 103,010 | 71,935 | 100,133 |
| ESOP Trust reserve | | (95) | (74) | (124) |
| Investment revaluation reserve | 13 | - | - | 295 |
| Translation reserve | | 2 | - | 110 |
| Other reserve | | 2,852 | - | 2,852 |
| Retained earnings – surplus/(deficit) | | (9,284) | 4,645 | 40 |
| **TOTAL EQUITY** | | 99,193 | 77,635 | 105,927 |

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 NOVEMBER 2008

| | Called up share capital | Share premium | ESOP Trust reserve | Investment revaluation reserve | Retained earnings / (deficit) | Translation reserve | Other reserve | Total |
|---|---|---|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 | $000 | $000 | $000 |
| At 31 May 2007 | 1,129 | 71,935 | (74) | - | (953) | - | - | 72,037 |
| Profit for the period | - | - | - | - | 5,598 | - | - | 5,598 |
| At 30 November 2007 | 1,129 | 71,935 | (74) | - | 4,645 | - | - | 77,635 |
| Shares issued for cash | 1,063 | 29,205 | (50) | - | - | - | - | 30,218 |
| Share issue costs | - | (3,353) | - | - | - | - | - | (3,353) |
| Conversion of loan notes | 429 | 4,507 | - | - | - | - | - | 4,936 |
| Loss for the period | - | - | - | - | (6,766) | - | - | (6,766) |
| Transfer concerning issue expenses of loan notes | - | (2,161) | - | - | 2,161 | - | - | - |
| Currency translation adjustment | - | - | - | - | - | 110 | - | 110 |
| Revaluation to fair value | - | - | - | 295 | - | - | - | 295 |
| Gain on redemption of embedded derivative | - | - | - | - | - | - | 2,852 | 2,852 |
| At 31 May 2008 | 2,621 | 100,133 | (124) | 295 | 40 | 110 | 2,852 | 105,927 |
| Shares issued for cash | 87 | 2,877 | - | - | - | - | - | 2,964 |
| Loss for the period | - | - | - | - | (9,324) | - | - | (9,324) |
| Exchange differences on translation of foreign operations | - | - | - | - | - | (108) | - | (108) |
| Revaluation to fair value | - | - | - | (295) | - | - | - | (295) |
| Credit re value of shares vested by ESOP | - | - | 29 | - | - | - | - | 29 |
| At 30 November 2008 | 2,708 | 103,010 | (95) | - | (9,284) | 2 | 2,852 | 99,193 |

**UNAUDITED CONSOLIDATED CASH FLOW STATEMENT**
**FOR THE HALF YEAR ENDED 30 NOVEMBER 2008**

| | 6 months ended 30 November | |
|---|---|---|
| | 2008 | 2007 |
| | $000 | $000 |
| | | (restated) |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| (Loss) / Profit for the period | (9,324) | 5,598 |
| Finance costs recognised in income statement | 282 | 2,898 |
| Investment revenue recognised in income statement | (116) | (107) |
| Fair value gain on embedded derivatives | (1,230) | (12,632) |
| Loss on revaluation of listed investments | 143 | - |
| Depreciation and amortisation of non-current assets | 125 | 193 |
| Net foreign exchange loss | 4,551 | 1,555 |
| Value of shares vested by Victoria Oil & Gas Plc ESOP Trust | 29 | - |
| | (5,540) | (2,495) |
| **MOVEMENTS IN WORKING CAPITAL** | | |
| (Increase) / decrease in trade and other receivables | (1,844) | 157 |
| Decrease in inventories | 3 | - |
| Decrease in trade and other payables | (3,369) | (1,023) |
| **CASH USED IN OPERATIONS** | (10,750) | (3,361) |
| Interest paid | - | - |
| **NET CASH USED IN OPERATING ACTIVITIES** | **(10,750)** | **(3,361)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest received | 116 | 107 |
| Payments for intangible fixed assets | (1,296) | (8,432) |
| Payments for tangible fixed assets | (53) | (730) |
| Proceeds from sale of tangible fixed assets | 13 | - |
| Transfer to fund for asset retirement obligations | (1) | - |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(1,221)** | **(9,055)** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Proceeds from issue of equity shares | 2,964 | - |
| Proceeds from borrowings | - | 3,031 |
| **NET CASH GENERATED FROM FINANCING ACTIVITIES** | **2,964** | **3,031** |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(9,007)** | **(9,385)** |
| **CASH AND CASH EQUIVALENTS BEGINNING OF THE PERIOD** | 9,270 | 9,945 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | 5 | - |
| **CASH AND CASH EQUIVALENTS END OF THE PERIOD** | 268 | 539 |

## SELECTED EXPLANATORY NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 NOVEMBER 2008

### 1. GENERAL INFORMATION

The information for the six months ended 30 November 2008 is unaudited. The financial information above does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985. The interim financial statements have been audited or reviewed by the auditors of the Group pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

### 2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 May 2008.

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 May 2008.

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements.

## 3. RESTATEMENT OF FINANCIAL STATEMENTS FOR SIX MONTHS ENDED 30 NOVEMBER 2007

The comparative numbers have been restated to reflect a change in the accounting treatment of the convertible loan notes. These were previously treated as compound financial instruments under UK GAAP, but this was reviewed and re-designated as a hybrid financial instrument comprising a host note with an embedded derivative in accordance with IAS 32. Details of the basis of valuation can be found in Note 22 of the Annual Report and Accounts 2008.

The impact is shown in the following extract from the Income Statement:

Half year results to 30 November 2007

| | As previously reported | Adjustment | Restated |
|---|---|---|---|
| **GROSS PROFIT** | 100 | - | 100 |
| Other gains and (losses) | 68 | (3,090) | (3,022) |
| Administrative expenses | (1,321) | - | (1,321) |
| **OPERATING LOSS** | (1,153) | (3,090) | (4,243) |
| Interest received | 107 | - | 107 |
| Finance revenue | - | 12,632 | 12,632 |
| Finance costs | (1,752) | (1,146) | (2,898) |
| **PROFIT / (LOSS) BEFORE AND AFTER TAXATION** | (2,798) | 8,396 | 5,598 |
| | Cents | | Cents |
| Earnings / (Loss) per share – basic | (2.25) | | 4.51 |
| Earnings / (Loss) per share – diluted | (2.25) | | 4.51 |

## 4. SEGMENTAL ANALYSIS

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

The analysis of revenue and the profit / (loss) before taxation by geographical segment is shown below:

| | Revenue | | Profit / (Loss) before tax | |
|---|---|---|---|---|
| | 6 months ended 30 November | | 6 months ended 30 November | |
| | 2008 | 2007 | 2008 | 2007 |
| | $000 | $000 | $000 | $000 |
| Russian Federation | - | - | (5,840) | (1,289) |
| Republic of Kazakhstan | 63 | 853 | (1,156) | 48 |
| Total for continuing operations | 63 | 853 | (6,996) | (1,241) |
| Unallocated Head Office | - | - | (2,328) | 6,839 |
| | 63 | 853 | (9,324) | 5,598 |

There was no inter-segmental revenue and the operations are not seasonal or cyclical. Revenue consists of sales to external customers.

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

| | Total Assets | | |
|---|---|---|---|
| | As at 30 November 2008 | As at 30 November 2007 | As at 31 May 2008 |
| | $000 | $000 | $000 |
| Russian Federation | 59,850 | 61,787 | 66,518 |
| Republic of Kazakhstan | 42,672 | 41,907 | 41,449 |
| Total for continuing operations | 102,522 | 103,694 | 107,967 |
| Unallocated Head Office | 3,303 | 1,830 | 9,723 |
| | 105,825 | 105,524 | 117,690 |

Total assets are based on where the assets are located.

## 5. OTHER GAINS AND LOSSES

| | 2008 | 2007 |
|---|---|---|
| | $000 | $000 |
| Foreign exchange losses | (5,631) | (3,022) |
| | (5,631) | (3,022) |

## 6. FINANCE REVENUE

| | 2008 | 2007 |
|---|---|---|
| | $000 | $000 |
| Fair value gain on embedded derivatives | 1,230 | 12,632 |

## 7. FINANCE COSTS

| | 2008 | 2007 |
|---|---|---|
| | $000 | $000 |
| Convertible loan interest | (48) | (2,898) |
| Other interest expense | (187) | - |
| Unwind of discount on decommissioning costs | (47) | - |
| | (282) | (2,898) |

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

## 8. INCOME TAX EXPENSE

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

| | 30 November 2008 | 30 November 2007 | 31 May 2008 |
|---|---|---|---|
| | $000 | $000 | $000 |
| Tax losses - revenue | 6,614 | 3,613 | 4,057 |

**Factors affecting the tax expense:**

| | 2008 | 2007 |
|---|---|---|
| | $000 | $000 |
| (Loss) / Profit on ordinary activities before tax | (9,324) | 5,598 |
| Group corporation tax calculated at 30% (2007 : 30%) | (2,797) | 1,679 |
| Effect of expenses not deductible for tax | 80 | 59 |
| Effect of finance costs not deductible for tax | 85 | 869 |
| Fair value adjustment on derivative not taxable | (369) | (3,790) |
| Increase of income tax losses | 3,001 | 1,183 |
| Tax charge | 0 | 0 |

## 9. EARNINGS PER SHARE

The loss / earnings per share is based on the Group loss after taxation for the period of

$9,324,000 (2007 – Profit $5,598,000) and on 278,232,720 (2007 -124,190,381) ordinary shares being the weighted average number of shares in issue during the period, excluding those held by the ESOP Trust. There is no adjustment necessary to compute diluted earnings per share as there are no dilutive potential ordinary shares outstanding during the period.

**10. RECEIVABLES**

| | 30 November 2008 $000 | 30 November 2007 $000 | 31 May 2008 $000 |
|---|---|---|---|
| *Amounts due within one year:* | | | |
| VAT recoverable | 498 | 393 | 486 |
| Prepayments | 27 | 59 | 310 |
| Other receivables | 2,545 | 1,526 | 430 |
| | 3,070 | 1,978 | 1,226 |

Included in Other receivables is an amount of $2,217,000 receivable from Bramlin Limited (30 November 2007: Nil, 31 May 2008: Nil) and $328,000 receivable from Flair Petroleum Limited (30 November 2007: $358,000, 31 May 2008: $358,000).

**11. TRADE AND OTHER PAYABLES**

| | 30 November 2008 $000 | 30 November 2007 $000 | 31 May 2008 $000 |
|---|---|---|---|
| *Amounts due within one year:* | | | |
| Trade creditors | 1,011 | 4,076 | 512 |
| Taxes and social security costs | 8 | 63 | 74 |
| Accruals and deferred income | 559 | 375 | 4,148 |
| Other creditors | - | 139 | 213 |
| | 1,578 | 4,653 | 4,947 |

**12. CALLED-UP SHARE CAPITAL**

Share capital as at 31 May 2008 amounted to $2.62 million. During the 6 months to 30 November 2008, the Group issued 8,837,390 shares for cash, increasing the number of shares in issue from 275,673,258 to 284,510,648.

**13. INVESTMENT REVALUATION RESERVE**

The revaluation reserve relates to the revaluation of the Group's investment in Bramlin Limited, which was quoted on AIM throughout the period. This is valued at market price at each balance sheet date. During the period the investment was written down to $258,000, thereby eliminating the investment revaluation reserve and leading to a charge of $143,000 to the Income Statement.

**14. SUBSEQUENT EVENTS**

**a. Bramlin Limited**

On 12th December 2008, the Company acquired the remaining 98% of the shares of Bramlin Limited. The acquisition was achieved by means of a scheme of arrangement with the Company offering 1.22 of its ordinary shares for each ordinary share of Bramlin Limited.

**b. Loans from shareholders**

On 9th December 2008 and 22nd December, 2008, Victoria Oil & Gas International Limited, a Group company, entered into loan agreements with HJ Resources Limited to borrow $1 million and £130,000 respectively. The loans are for working capital purposes, repayable within 6 months of the date of the agreement and accrue interest at 0.5% per month.

On 6th January 2009 Noor Petroleum Limited advanced $1 million. It is anticipated that this will be taken as a further subscription for unsecured convertible loan notes due 2012.

## 15. RELATED PARTY TRANSACTIONS

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

| | 6 months to 30 November | |
|---|---|---|
| | 2008 | 2007 |
| | $000 | $000 |
| Directors' remuneration | 352 | 244 |
| Other key management – short term benefits | 327 | 358 |
| – termination benefits | 27 | - |

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

| | Purchases from related parties $000 | Loans from related parties $000 | Cash advances to related parties $000 | Amounts due from / (to) related parties $000 |
|---|---|---|---|---|
| 6 months to 30 November 2008 | | | | |
| Subsidiaries | - | - | 2,239 | 61,667 |
| Directors' other interests | - | - | - | (3,086) |
| 6 months to 30 November 2007 | | | | |
| Subsidiaries | - | - | 9,479 | 54,942 |
| Directors' other interests | - | 3,061 | - | (3,061) |

There was no intergroup trading or transactions between Group subsidiaries.

## 16. APPROVAL OF INTERIM FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 27th February 2009.