



## From explorer to producer



**Victoria Oil & Gas Plc**  
Annual Report & Accounts 2011

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# About us

Victoria Oil & Gas is an independent oil and gas exploration and development company with projects in Africa and the FSU. The Company's assets are the Logbaba gas and condensate field in Cameroon, where our participating interest increased to 95% in July 2011, and 100% of the West Medvezhye oil and gas project in Siberia. Both projects are operated by Victoria. The Company's flagship development asset is Logbaba, expected to be in production by the end of 2011, located in the eastern suburbs of Douala, the economic capital of Cameroon.

Our strategy remains to grow organically and via acquisition into a profitable company by building on cash flow and profits from the Logbaba gas and condensate project, becoming a leading player in new thermal and power projects in Cameroon, developing the huge resource potential at West Medvezhye and acquiring suitably sized companies with outstanding reserve and production potential.

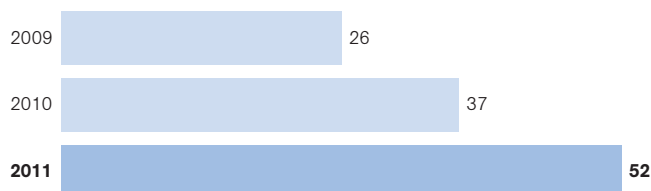
→ Building on cash flow and profits from the Logbaba gas and condensate project by becoming a leading player in new thermal and power projects in Cameroon.

→ Developing the huge resource potential at West Medvezhye oil and gas in Russia.

→ Acquiring suitably sized companies with outstanding reserve and production potential.

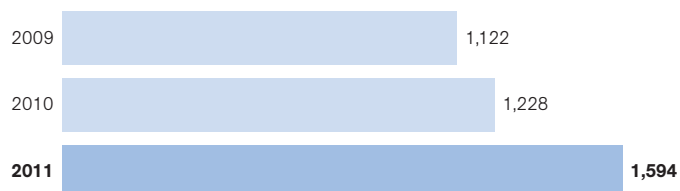
## Net Reserves

Total mmboe (2P/2C<sup>1</sup> Reserves)



## Net Resources

Total mmboe



<sup>1</sup> Includes reserves of 14.4mmboe classified as C1/C2 under Russian classification standards

# A watershed year

This has been a most significant year for Victoria Oil & Gas with considerable value added to our assets and extensive work completed at site on our principal projects. At our flagship Logbaba gas and condensate project in Douala, Cameroon we expect to commence production this year. At West Medvezhye, prospective resources are now in excess of 1.4 billion barrels of oil equivalent ("boe"), exceeding the previous estimates by approximately 300 million boe, and including increased oil prospectivity to 670 million bbls. Across the Company, we have increased net reserves by 40% to 52 million boe and net resources by 30% to 1,594 million boe. Shareholders have always supported these investments and it is now the Company's responsibility to return added value to shareholders.

## Review of the Markets

The financial markets remained extremely volatile throughout the period and fears over economic stability have increased further this year. The Eurozone debt crisis, global cut backs and austerity measures have dominated the headlines with gloomy predictions of economic growth in the West for the foreseeable future. In addition, civil unrest in the Arab world and the tsunami in Japan have only served to increase the volatility in the energy markets.

Access to capital markets in this economic climate has been challenging for smaller AIM-listed E&P companies. In this context, I am very pleased that Victoria has been able to continue exploration and development operations apace, securing additional finance of approximately \$34 million in the financial period and reducing our Group losses by \$1.4 million to \$4.7 million.

## Logbaba, Cameroon – (VOG 95% owned and operated)

The Logbaba gas and condensate project in Cameroon is now approaching its initial production phase with first gas sales anticipated by the end of this year. Logbaba represents a rare opportunity in Africa with ownership and control of a fully integrated gas supply chain. The Company owns and controls its own gas distribution network, which is currently nearing the end of construction, with marketing and sales of its share of gas to industrial end users located on our doorstep in Douala, the economic capital of Cameroon. Victoria first entered

Cameroon less than three years ago and to drill and complete two successful wells, secure a market for our gas and build a gas plant and pipeline network to our customers, all in a built up area of Douala is truly outstanding progress.

Industry in Douala is severely constrained by high energy costs and unreliable delivery. Victoria has a captive market that is eager to take Logbaba gas because it provides direct savings on energy costs, cleaner, more reliable energy and fixed prices for five years.

Logbaba gas is expected to attract new industrial entrants to the region and encourage capital expansion from existing customers with certainty of supply at a lower cost base. Importantly for Victoria, the terms of our gas sales agreements also mean we are not exposed to gas price fluctuations.

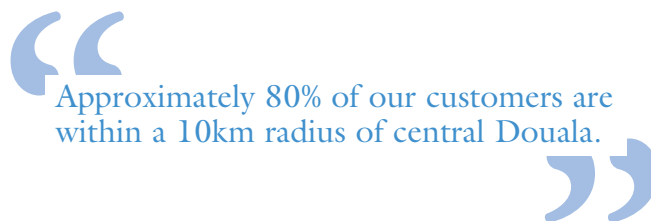
Since the award of the Exploitation Licence signed by President Paul Biya in April 2011 we have made good progress, notwithstanding a particularly rainy wet season. When the licence was granted, the key downstream elements that remained to be completed were:

- > re-opening and commissioning of the wells;
- > trenching, jointing, installation and commissioning of the gas pipeline network;
- > installation and commissioning of the process plant; and
- > installation of pressure reduction and metering stations, steel work and boiler conversions on customer premises.

This is a great deal of work and our staff and contractors have set to the task of completing these project requirements with commitment and enthusiasm. We have an excellent HSE record with one lost time incident and no serious injury with over eighteen thousand man days completed. The assembly of production trees for the wells is now complete. We have two wells completed as producers which are capable of delivering gas in excess of initial customer demand estimates. Wire line operations including caliper surveys and production logs have been completed.

A substantial part of the gas pipeline network is now complete. The entire section of pipeline to first customers on the Magzi Industrial Estate is anticipated to be installed within one month, after which the whole network will be pneumatically tested again for leaks as part of the commissioning process. Gas sales to Magzi customers will commence while the remainder of the pipeline network continues under construction.

Our gas sales and marketing team continue to sign up industrial customers, including multinational firms, with 13 gas sales agreements currently in place. I have every confidence we can double this figure as we continue with our pipeline network expansion beyond Magzi and pass by other customers' doorsteps. The Company anticipates we will have signed in excess of 40 customers within a couple of years of commencing operations and our next drilling programme will be required in order to meet anticipated market demand.



## Net Proved and Probable Reserves

	Oil & Condensate (mmbbls)	Gas (Bcf)	Total (mmboe)
<b>Reserves</b>			
Logbaba Field	4.0	201.4	37.6
West Med 103 Discovery <sup>(1)</sup>	11.8	15.6	14.4
<b>Total Reserves</b>	<b>15.8</b>	<b>217.0</b>	<b>52.0</b>

(1) Victoria's West Med Reserves, as approved by the Russian Ministry of Natural Resources, are classified as C1 and C2 reserves according to Russian convention and are broadly comparable to the Society of Petroleum Engineers proved, probable and possible reserves Western classification.

## Net Prospective Resources

	Oil & Condensate (mmbbls)	Gas (Bcf)	Total (mmboe)
<b>Prospective Resources</b>			
Logbaba Area <sup>(2)</sup>	19.0	950.0	177.3
West Med Block <sup>(3)</sup>	721.5	3,902.3	1,416.6
<b>Total Prospective Resources</b>	<b>740.5</b>	<b>4,852.3</b>	<b>1,593.9</b>

(2) Blackwatch estimate (2010).

(3) Mineral estimate (2011).

The existing gross proved and probable reserves of 212 billion cubic feet at Logbaba are sufficient to satisfy an average production of 30 million standard cubic feet a day for the next 20 years. While these production levels provide very attractive economic rates of return, the Company has more work to do to fully characterise the Logbaba reservoir. With prospective resources in excess of 1 trillion cubic feet, the Company has considerable upside if we can develop these resources into quantifiable reserves. I am confident that the market is there to utilise these incremental gas reserves were the Company to achieve this.

I should like to highlight to shareholders what our gas marketing objectives are over the next three to five years. In the short term, we are concentrating on customers where there is the opportunity for substitution of heavy fuel oil and other liquid fuels with gas used to generate heat for industry's process requirements. At the same time, we have initiated discussions with industrial customers and other large power consumers to use Logbaba gas as the prime source of supply for their electrical power requirements through onsite gas generator sets. The Company also intends to offer aggregated power solutions, without reliance on the grid, to groups of customers located in the same area such as the Magzi Industrial Estate, thereby offering improved efficiencies and economies of scale.

Cameroon is challenged by power shortages, with frequent blackouts and

brownouts hampering the prospect of foreign investment and expansion from existing industries. Once we have demonstrated continuity of supply, this represents a very large potential market for the Company. Finally, the government has stated plans to treble the existing grid power supply by the year 2020. Victoria is extremely well placed to provide gas to large thermal power projects currently being planned in Douala for generation capacity into the grid.

In summary, the engineering and civils progress have been satisfactory despite an exceptional rainy season and I am pleased to say that we remain on track to deliver on our stated targets of first production in Q4 2011. I am very positive about the coming year and look forward to updating you on market developments and real deliverables as we set about bringing this project to its fruition.

**West Medvezhye, Russia (100% owned)**

Whilst the Logbaba project is understandably the focus of attention from investors, we have made great strides in Russia this year. West Medvezhye ("West Med"), strategically located in the Nenets region of Siberia with a licence area covering 1,224km<sup>2</sup>, represents an asset with major hydrocarbon potential which could propel the Company onto a new playing field. It lies just west of the super giant Medvezhye field where over 70 trillion cubic feet of dry gas has been produced. VOG's wholly-owned subsidiary, ZAO SeverGas-Invest, holds a 20-year licence to develop the huge resource potential.

During the past twelve months, our technical team has commenced conceptual screening and appraisal studies to optimise development of our prospective resource base and develop our discovery, Well 103, with an early production scheme to bring forward initial cash flows. This work is ongoing and I am encouraged that preliminary assessment work on the Well 103 discovery indicates that we can plan for first oil sales in 2015.

In March 2011, the Company commissioned a seismic reprocessing and geological modelling study to be carried out on West Med by an independent Russian geoscience consulting institute, Mineral LLC ("Mineral"). Further to the previous assessment carried out by DeGolyer and MacNaughton in 2006, they were asked to incorporate our new well data, passive seismic and gas tomography results with our existing conventional 2D seismic.

In September this year, we were very pleased to report that Mineral has estimated West Med prospective resources to be in excess of 1.4 billion boe, exceeding the previous assessment by approximately 300 million boe, and including increased oil prospectivity to approximately 670 million barrels of oil. These results are very encouraging indeed. Our team is continuing to investigate the results of the Mineral study, together with the geochemical and passive seismic results, and we expect to submit an application to the Russian authorities requesting approval of our proposed drilling locations for two wells in 2012 very shortly.

# Customers on our doorstep

## Outlook and Other Projects

The traditional sector "packaging" and structural approach offered by companies is, post the financial crisis, being replaced by companies offering cash flow, superior growth potential and diversification of risk.

Following our recent placing for £9.5 million in September 2011, the Company is now well capitalised for an exciting year ahead with cash flows being generated from Logbaba and development plans firming up at West Med.

Victoria now has total recoverable proved and probable reserves of 52 million boe and significant potential, with prospective resources in excess of 1.5 billion boe.

Victoria constantly reviews opportunities to increase the Company's asset base where we see economic value and synergies with our existing assets or technical and management competencies. We have reviewed a number of targets during the financial period and we have a number of existing business development opportunities both at the asset and corporate level that are currently being appraised by our management team. The Board remains committed to building Victoria into a medium sized, profitable, resource focused company within three

years. We believe economies of scale through organic growth and via selected acquisitions where we can demonstrate real added value will facilitate greater returns to shareholders.

The Company is also assessing a number of opportunities in Cameroon where we can leverage our existing relationships and benefit from our existing infrastructure and capabilities. Cameroon is blessed with an abundance of natural resources and we are examining asset opportunities outside the traditional exploration and production sphere where our gas reserves can be a catalyst for other industrial opportunities.

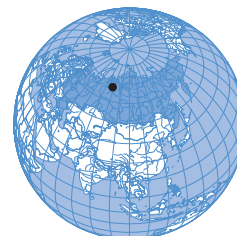
I would like to thank all employees, contractors and advisers of the Company and my fellow Directors for the excellent progress to which everyone has contributed this year. Equally, I would like to thank all Company shareholders for continuing to support Victoria in these challenging markets. I hope you can begin to see the rewards of your confidence very soon.

**Kevin Foo**  
Chairman



### Logbaba, Cameroon

Victoria Oil & Gas has a 95% interest in, and operates, the Logbaba gas and condensate field in Cameroon. Since the discovery of the field in the 1950s, Douala, the city where the field is located, has grown into a commercial focal point of the Central African region. At present, Logbaba's gross proved and probable reserves are sufficient to satisfy an average of 30mmscf/d for the next twenty years.



### West Medvezhye, Russia

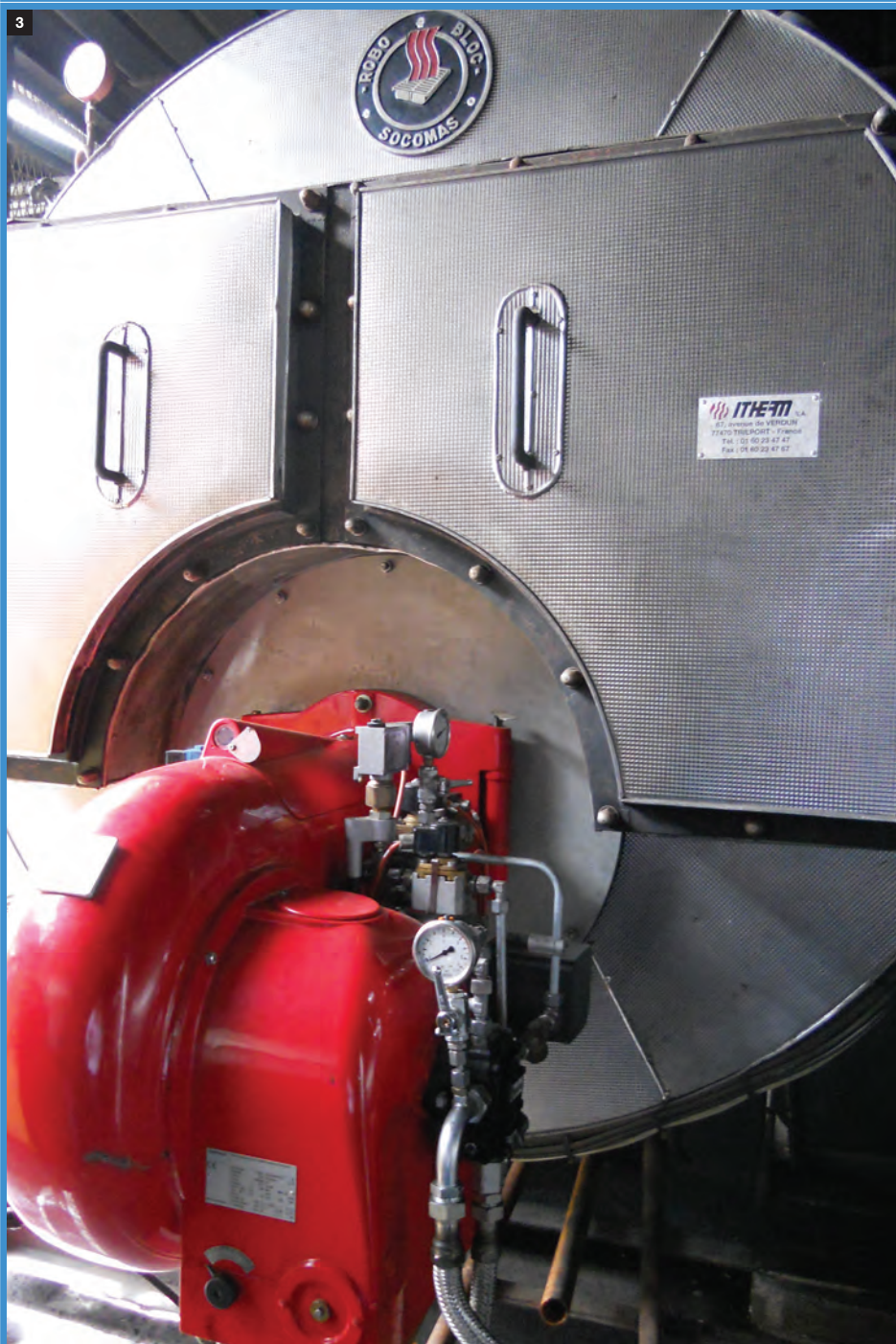
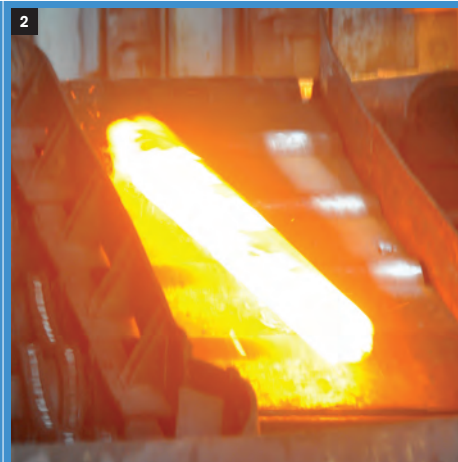
West Med is a large 1,224km<sup>2</sup> area located in the Yamal-Nenetsk region of Siberia, the largest gas producing region in the world and is near Gazprom's huge Medvezhye field which has been in production since 1972 and has produced over 70 Tcf of gas.

## Logbaba milestones

1950s	1950-1999	2001	2005	2008	2009	2010	2011
Elf drilled 4 wells around Logbaba prospecting for oil, but found gas. As there was no use for gas at that time the wells were capped.	There was no exploration activity during this period and Total/Elf/Fina relinquished their licence in 1999.	RSM Production Corporation signs Concession Agreement with the Government of Cameroon. No exploration work during this period. The operating company in Cameroon, Rodeo Development Ltd ("RDL") was incorporated to manage the Logbaba project.	Bramlin Limited, a British company listed on the London Stock Exchange, signed a joint venture Farm-in Agreement with RSM for the Logbaba Concession.	Victoria Oil & Gas Plc acquired Bramlin Limited.	In September 2009, drilling started on the first well, La-105. This was the first onshore exploration activity since the 1950s.	In early 2010, successful drilling was completed and well La-105 tested at 55mmscf/d and La-106, the second well was drilled and tested up to 22mmscf/d. SNH approved the Discovery Report and Field Development Plan. In the meantime, the polyethylene pipes required to transport the natural gas to industry in Douala were delivered ready for installation.	The President of the Republic of Cameroon, S.E. President Biya, signs the Exploitation Licence on the 29 April 2011. Construction of downstream elements of the project including processing plant and pipe network commence.  <b>First gas to be produced.</b>



Victoria Oil & Gas is signing gas sales agreements with large industrial companies, including multi-national firms, in Douala, Cameroon. Example companies include breweries; textile, dairy and plastics manufacturers; metal foundries; and food processing plants.



- 1 Cloth manufacturer with estimated 60% share in Central African Region.
- 2 Metal ingot leaving the furnace prior to being rolled into steel bars for the construction industry.
- 3 Brand new 20 tonne dual fuel boiler ready for installation at a brewery.
- 4 Customer conversion specifications and discussions for dual fuel burner.
- 5 Loading the furnace with scrap metal at an iron foundry.

# First mover advantage – into production

With commissioning of production facilities and our pipeline to customers at the Logbaba gas and condensate field (“Logbaba”) expected by year end in Cameroon and the positive appraisal of more than 1.4 billion barrels of oil equivalent of prospective resources at our West Medvezhye asset in Siberia, Victoria Oil & Gas is emerging as a true exploration and production company with a balanced asset portfolio and real growth potential.

## Logbaba, Cameroon

Logbaba is located in the city of Douala, onshore Cameroon. The Company increased its participation in Logbaba to 95% in July 2011 and is operator in the block. The field was discovered in the 1950s by Elf SEREPKA with four wells that encountered gas and condensate in multiple reservoir layers. No gas-water contacts were detected in any of the sands encountered. The gas-bearing reservoir sands are of Campanian and Santonian age of the Logbaba Formation, outlined in Exhibit A, which primarily comprises shale with interbedded sand and siltstones.

The beginning of the financial period witnessed the completion and testing of two new wells, La-105 and La-106, drilled by the Company at Logbaba. Our first well, La-105, flowed at rates between 11–56 million standard cubic feet per day (“mmscf/d”) of natural gas and 210–1,000 barrels per day of condensate with flowing wellhead pressures varied between 2,750–4,552psi. The tests covered horizons of the Lower Logbaba formation, which had not been tested before, and the Upper Logbaba D sands. The Upper Logbaba A through C sands, although indicated as the best quality hydrocarbon-bearing sands encountered in the well logs, were not tested as the wells indicated more than sufficient production capacity to meet initial gas demand. The Upper Logbaba A–C sands will be perforated and added to the completion interval when required for production. The gas is sweet with a high calorific value and the condensate has an API gravity of 47 degrees.

La-106 successfully reached a total measured depth of 10,509 feet in April 2010. The well was drilled deeper than planned due to the better than expected sand quality found in the Lower Logbaba sections (Exhibit B). Multiple gas-bearing sands were encountered between 5,482 feet and 10,400 feet, which can be correlated to the wells drilled in the 1950s.

La-106 flowed at rates of up to 22mmscf/d, (ca. 3,600boepd), at different choke sizes up to 36/64 inch and wellhead flowing pressures up to 3,078psi.

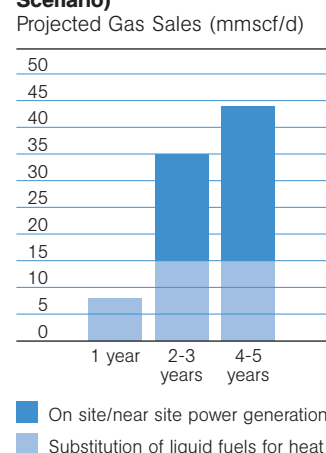
The Company’s reserves and resources estimates at Logbaba were updated in 2010 by Blackwatch Petroleum Services Limited (“Blackwatch”), which acts as consultant to the Company. The Proved and Probable (2P) gas reserves in the Logbaba field are contained in Campanian and Santonian age sands of the Logbaba Formation. All six of the wells drilled to date in Logbaba have encountered significant gas intervals and all of the five wells that were tested flowed gas to surface (Elf did not test their final well when they encountered gas while looking for oil).

There is considerable potential in the remaining areas of the Logbaba Block which are thought to share the same geology. This potential has been in part confirmed by the results of the passive seismic survey which provided the first new geophysical information to be acquired over Logbaba since the discovery was made. These survey findings are in line with the geological understanding of the Logbaba reservoir sands and correlate well

## Logbaba Gas Reserves, 100% Basis (Bcf)

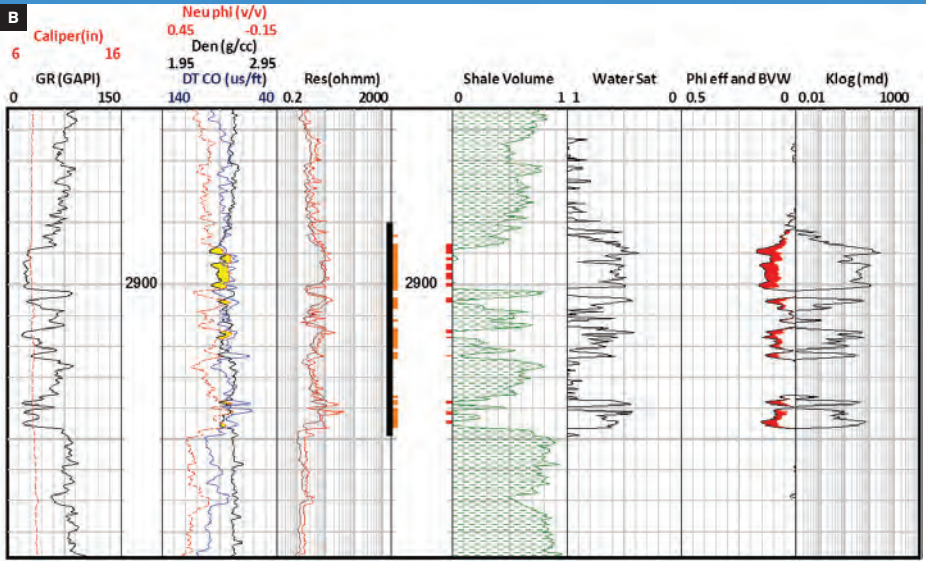
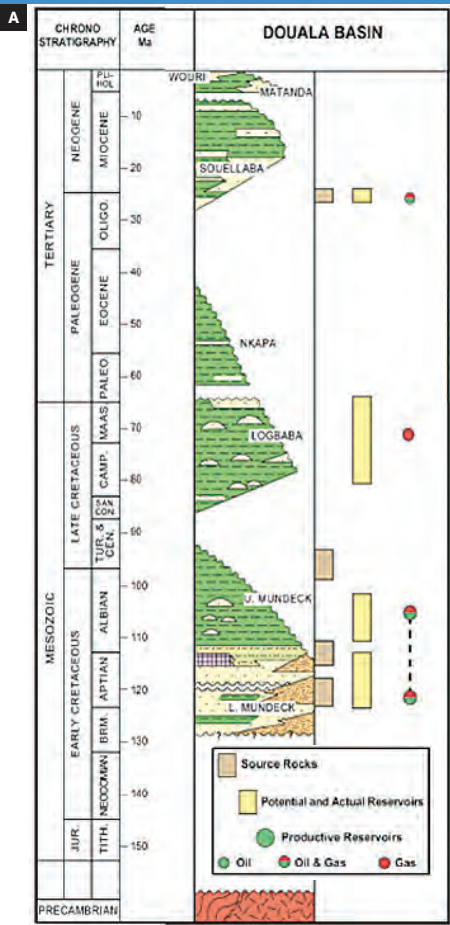
Category	Jul-08	Oct-10
<b>Logbaba Field</b>		
Logbaba Proved Reserves (1P)	10	49
Proved + Probable Reserves (2P)	104	212
Proved + Probable + Possible Reserves (3P)	202	350
<b>Entire Logbaba Block</b>		
Prospective Resources	n/a	>1,000

## Near Term Markets (Industrial Consumers Only – 2P Reserves Scenario)





The majority of the pipeline to first customers on the Magzi Industrial Estate has been buried and pneumatically tested. With commissioning of production facilities and our pipeline anticipated by year end in Cameroon, VOG has made real progress this year.



- A** Exhibit A, Generalised Stratigraphic Column of the Douala Basin.
- B** Exhibit B, An example of a good quality Logbaba sand in La-106.
- 1** 400mm pipeline awaiting burial on the approach to the Magzi Estate.
- 2** Local festival in Douala in 2011.
- 3** 400mm pipe on the Magzi Estate with our first customer, an iron foundry, in the background.



Within three years, VOG will have completed the drilling of two production wells, construction and installation of a gas pipeline network and processing facilities, and secured a market for our gas.





All six of the wells drilled to date in the Logbaba block have encountered significant gas intervals.



## A major potential hydrocarbon accumulation 2km north of the current structure

with data from the four old wells and the newly drilled wells, La-105 and La-106. Of particular interest, the results highlight a major potential hydrocarbon accumulation around 2km from the new wells' surface location (Exhibit C). This prospect, 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.

The Company has focused its attention in 2011 on surface production facilities construction and pipeline installation. Civil works commenced on site during the final quarter of 2010 in preparation for the equipment installation this year.

The Company received official confirmation that a Decree, awarding the Exploitation Licence for Logbaba, was signed by President Paul Biya, of the Republic of Cameroon, in April 2011. Further to the award, the wells were prepared for tie-in and the installation and commissioning of the process plant commenced. Currently, a total of 12 vessels of 15 that make up the process plant have now been positioned on site, including de-sanders, coolers, separators, heat exchangers, and the condensate storage and fire water tank.

Expro, our gas plant contractor, tests the process plant vessels, flow lines and equipment at their base in Douala and delivers them on skid mounted units as the concrete pads on site are completed. Expro have also installed and completed a substantial amount of the pipework, manifolds and control equipment on site.

Trenching, jointing and installation of the gas pipeline network are in progress. Of a total pipeline distance of 4.5km to our first customers in Central Douala, 3.0km of pipeline has been installed, backfilled and successfully pneumatically tested, with a further 1.2km of pipeline jointed and awaiting installation.

Specifications for pressure reduction and metering stations have been prepared for more than 20 of our existing and potential customers and the first units for our Magzi customers have been ordered.

In summary, Logbaba has outstanding potential with a strong reserves base, good production potential and a large market within a small radius. Logbaba is poised to place VOG in the forefront of onshore gas producers in West Africa.

### West Medvezhye, Russia

VOG's wholly owned subsidiary, ZAO SeverGas-Invest ("SGI"), holds a 20-year Exploitation Licence for West Medvezhye, ("West Med"), covering 1,224km<sup>2</sup>. West Med is located in one of the most prolific oil and gas producing areas of the world and is adjacent to Gazprom's giant Medvezhye field that has already produced over 70 trillion cubic feet of gas (Exhibit D).

The block is located in the Yamal Peninsula in the Nenets region of Siberia and was independently assessed in 2006 by DeGolyer and MacNaughton ("D&M") to have total prospective resources of approximately 1.1 billion boe. In total, D&M identified 25 leads and prospects and the Company's first discovery in West Med, Well 103, was based on a prospect defined by D&M. The discovery has C1 and C2 reserves, independently assessed, under the Russian classification convention of 14.4 million boe as approved by the Russian Ministry of Natural Resources.

During 2010, the second phase of passive seismic and gas tomography surveys were recorded and interpreted throughout the year, identifying direct hydrocarbon indications in six areas, covering a total of 79 km<sup>2</sup>, according to VOG management and GDR estimates (Exhibit E).

#### The case for gas

Natural gas is the cleanest of all fossil fuels; reduces emission of greenhouse gases; reduces risk of smog, resulting in cleaner and healthier air in urban areas.

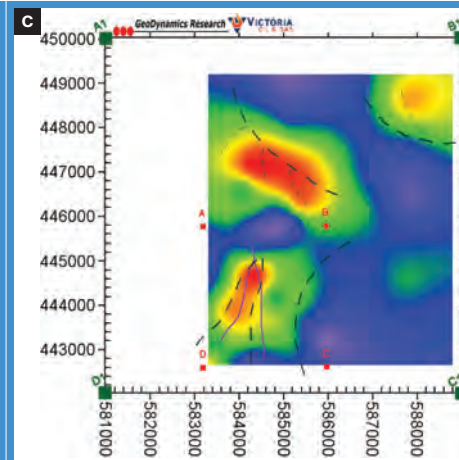
- Douala is one of Africa's most important trade centres and is a major hub for Central Africa.
- In all developed and developing countries, the availability of gas leads to rapid growth in energy consumption and industrial expansion.

#### Customer Specific Benefits

- Energy needs are currently satisfied by high-cost fuels such as diesel and fuel oil
  - Almost all fuels imported – supply issues.
  - Petrol and diesel costs are equivalent to UK.
- Circa 30% fuel bill savings.
- Improved boiler efficiencies and longer life through reduction of scaling and soot.
- Reduced maintenance costs and less downtime.
- Reduced pumping, storage and heating costs.



Further to the inauguration ceremony held on site in June 2011, site preparations commenced for the production facilities. The Company is installing two processing trains capable of handling 20mmscf/d. VOG anticipates sales of 8mmscf/d by year end 2012 rising to 44mmscf/d by year end 2014.



1 Backfilling and burial operation of a pipeline on the road to the Magzi Estate.

C Exhibit C, Results of the Passive Seismic Survey: Hydrocarbon Resonance Low Frequency Iso-Energy Map – the Iso-Energy map appears to delineate the Logbaba field. Two additional prospects are identified, one in the centre of the concession area and another in the north-east quadrant.

2 Groundwork preparation for the processing facilities with a production separator in the background.

3 Training operation using horizontal drilling apparatus “Ditch Witch” which drills in remote or difficult access areas as an alternative to trenching.

4 Inset – The Ditch Witch pulling back 400mm pipe into the receiving pit after drilling a 100m cross section.

5 Pouring operation for a concrete pile required to support the processing facilities.





# Potential for significant market growth

Further to these encouraging results, the Company commissioned a seismic reprocessing and geological modelling study to be carried out on West Med by an independent Russian geoscience consulting institute, Mineral LLC ("Mineral"), incorporating the new data sets with the existing conventional 2D seismic. Mineral has prepared structure maps and seismic attributes maps (Exhibit F) for all of the prospective formations in the West Med block.

These results are being integrated with the Company's passive seismic, gas tomography and geochemical studies to define/rank leads and prospects and to further assess the 103 discovery. The relevant technical details are currently under review by the technical team within the Company and Blackwatch.

On the basis of their assessment received at the end of August 2011, Mineral has independently estimated West Med prospective resources to be in excess of 1.4 billion boe, exceeding D&M's previous estimate by approximately 300 million boe, and including increased oil prospectivity to approximately 670 million barrels of oil in the Lower Cretaceous Neocomian-Achimov and Jurassic formations. Further to the Company's review and assessment of Mineral's report we will submit an application in November 2011 to the Russian authorities requesting approval of our proposed drilling locations.

Studies have commenced on well design and engineering for the next phase of appraisal and development drilling planned for Q4 2012. The Company is in discussions with international and Russian service companies and has compiled initial budgetary estimates for the wells and drill pads. Future development wells are planned to be drilled in clusters of three to ten to significantly reduce location preparation and access cost. This will have a marked impact on development economics.

Conceptual design work has commenced to establish costs and schedules for oil, gas and condensate production facilities and supporting infrastructure. The gathering and distribution network design and engineering will be phased with facilities design, starting with fast track development of the Well 103 discovery.

There exist several routes for the commercialisation of West Med hydrocarbons. The neighbouring town of Nadym is located 44km away with access by all-weather road. The Chircha railroad station is located within the southwest boundary of the licence and the river port and loading terminal of Old Nadym are located 22km away. In addition, one of Gazprom's principal gas transmission pipelines in the area runs along the eastern border of the licence.

Initial studies have highlighted that an early production scheme of the Well 103 discovery could involve the sale of small volumes of crude into the local market with prices of US\$60 per barrel achievable. This would be followed by full scale oil and gas development for export as the export market is well established in this part of Siberia.

The results of our preliminary development assessment work on the Well 103 discovery indicate achieving first oil sales in 2015, subject to further refinement and screening.

## Radwan Hadi

Chief Operating Officer  
(Radwan Hadi is also a Director of Blackwatch)

## Current West Medvezhye Reserves

Category	mmboe	Remarks
C1 + C2 Reserves	14.4	Based on Russian Classifications
C3 Resources	170	Based on Russian Classifications
Prospective Resources	1,400	Independently Assessed by Mineral

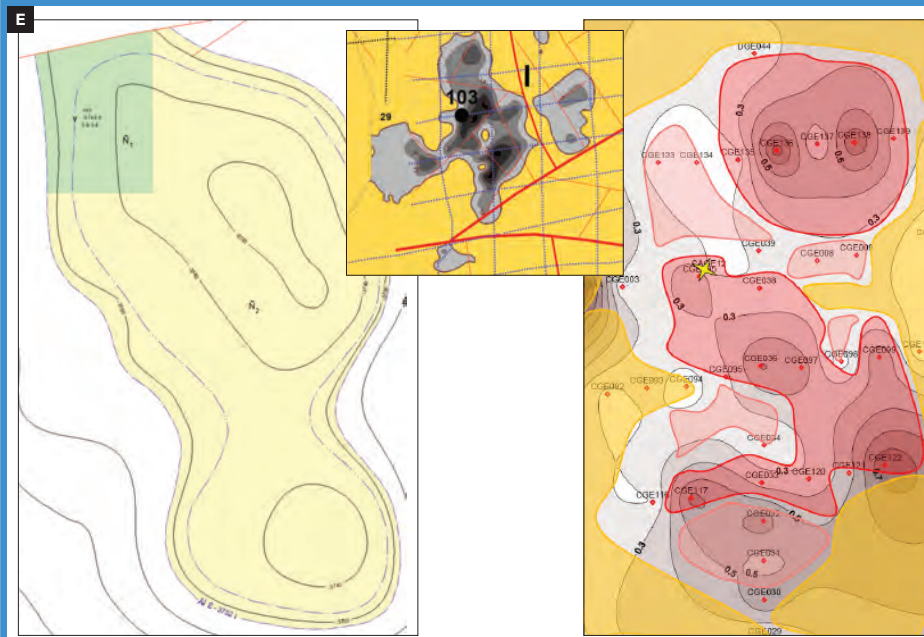


- Gazprom's Continental Fields
- Continental Fields
- Gazprom's Shelf Fields
- Operating Gas Pipelines
- Compressor Stations

**Exhibit D, West Med Block Location**



Considerable value has been added to our assets in West Med this year. A seismic re-processing and geological modelling study was carried out between March to August 2011, resulting in the positive re-appraisal of 1.4 billion barrels of oil equivalent of prospective resources. The Company is now firming up development plans for an early production scheme for the Well 103 discovery with preliminary assessment work indicating first achievable oil sales in 2015.



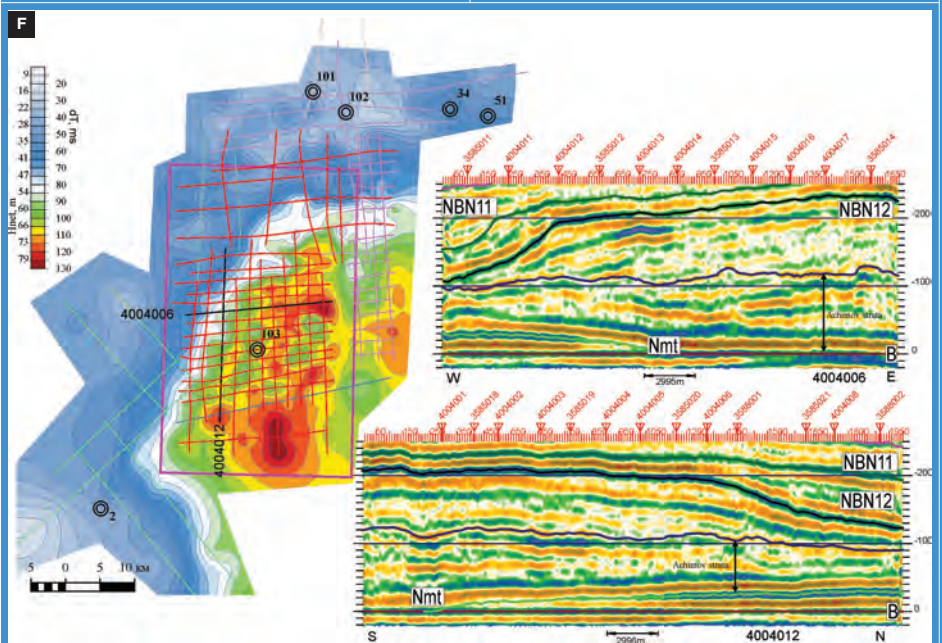
**E** Exhibit E, West Med Well 103 Discovery mapping by different technologies (qualitative and not to scale) from left to right: Conventional Seismic; Gas Tomography; and Passive Seismic.

**1** The General Manager of our subsidiary, SGI, the COO of VOG, and the Chief Engineer of SGI preparing to visit the Well 103 location in February 2011.

**2** A winter road neighbouring our Concession.

**3** The Company's contracted drilling rig in West Med.

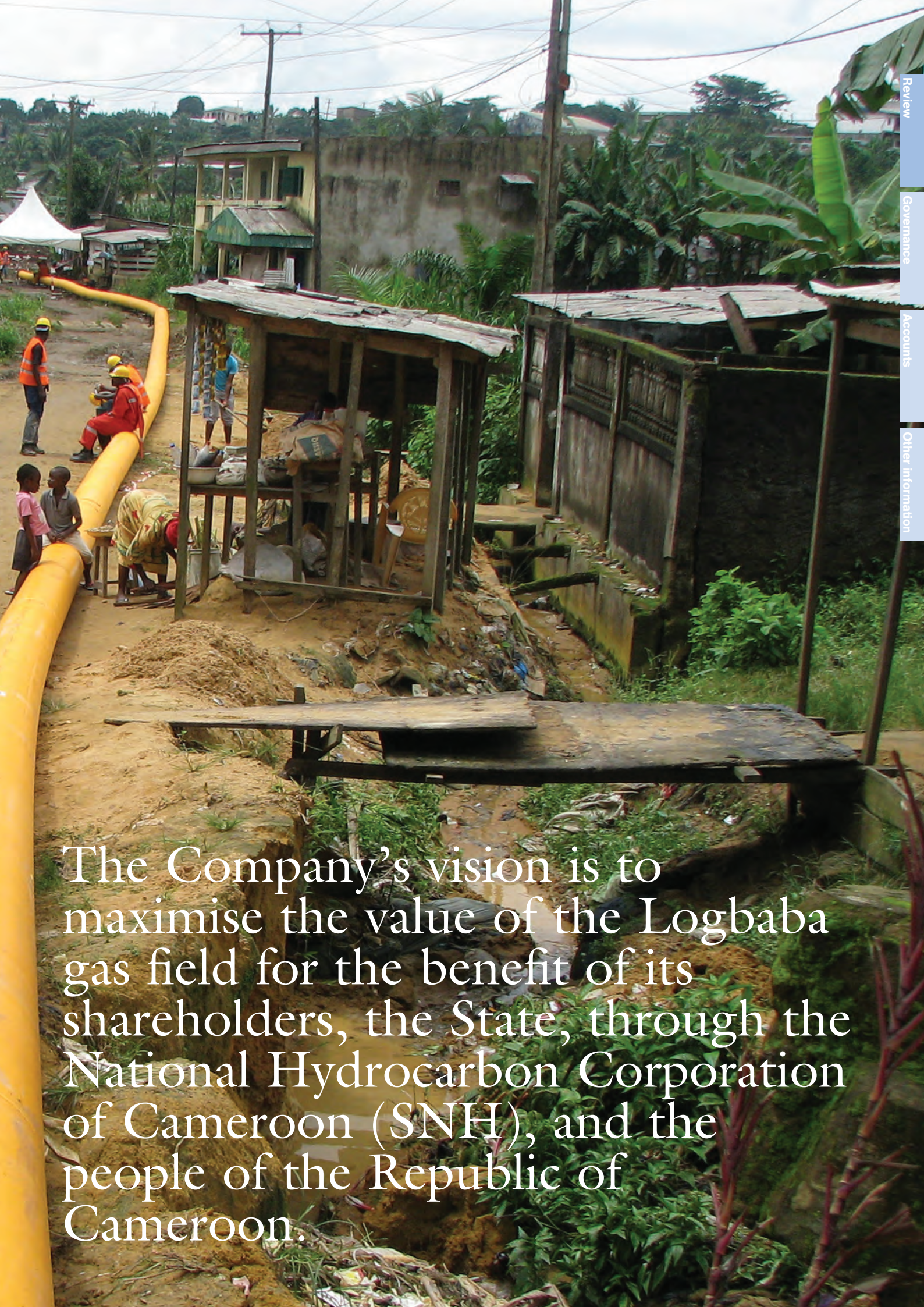
**F** Exhibit F, Seismic Sections & Attribute Maps illustrating Prospectivity of the Achimov Formation.











The Company's vision is to maximise the value of the Logbaba gas field for the benefit of its shareholders, the State, through the National Hydrocarbon Corporation of Cameroon (SNH), and the people of the Republic of Cameroon.



**Kevin Foo** MSc, DIC, Dip Met, MIMMM  
Chairman

Kevin Foo has a 40 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 spending 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

Grant Manheim has extensive financial experience in the City of London gained over 38 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 investment in, and development of, oil and gas properties in the United States.

**Robert Palmer** FCA  
Finance Director

Robert Palmer is a Chartered Accountant. He combines his role as Finance Director with his position as a senior partner in a 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

Austen Titford is a Chartered Accountant with more than 20 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

Philip Rand has over 35 years of finance and management experience, of which 25 years have been in the upstream energy sector. Philip is a director of both upstream and oil service companies and is also an advisor to a number of exploration companies with operations in Africa.

Philip was formerly Chief Executive Officer of AIM-quoted Equator Exploration Limited and Chief Financial Officer of Burren Energy, Group Treasurer of Monument Oil and Gas and held senior financial roles at Deminex and Louisiana Land and Exploration. Philip is a Fellow of the Association of Corporate Treasurers.



## Radwan Hadi

### Chief Operating Officer

Radwan Hadi is a petroleum/reservoir engineer with over 30 years' experience in the upstream oil and gas industry. He has worked on a broad range of integrated projects including reserves estimation, development planning and asset valuation. Hadi has worked on numerous projects in the Middle East, Europe, South East Asia, and Africa. Specifically in Africa, he has worked on projects in the Cameroon, Equatorial Guinea, Ghana, Mauritania, Mali and Ethiopia.

## Jonathan Scott-Barrett

### Managing Director, Cameroon

Jonathan Scott-Barrett is a Chartered Surveyor with substantial natural resources expertise. He is a former Executive Director of Celtic Resources Plc and a former Chief Executive Officer of the London AIM-listed mining company Eureka Mining. Scott-Barrett was formerly a non executive director of the \$13 billion conglomerate Hanson Plc. Having previously held the position of Commercial Director in Victoria's London office, Scott-Barrett, a fluent French speaker, has taken on the Country Manager Position in Cameroon since the beginning of 2011.

## Martin Devine

### Commercial Manager, London

Martin Devine has over 11 years oil and gas experience including four years investment banking as a Senior Associate with JP Morgan Chase. He has substantial M&A transactional experience as well as debt advisory and oil and gas client coverage exposure. Devine has also held senior positions with Dana Petroleum Plc and El Paso Energy Inc.

## Divine Mofa

### Operations Manager, Cameroon

Divine Mofa has more than 15 years of oil and gas industry experience. A graduate from Prairie View A&M University in the USA, he has led various engineering projects accountable as project manager and engineer for the technical, financial and commercial aspects of offshore and onshore field exploration and development operations. Mofa has held senior positions with J Ray McDermott, Oceaneering and Alseas.

## Honoré Daïrou

### CSR Manager, Cameroon

Honoré Daïrou has over ten years' oil and gas industry experience as a petroleum engineer. Daïrou has graduated with a MSc degree in Petroleum Geosciences from the University of Aberdeen; a MSc Degree in Mining and Petroleum Geology from the University of Yaoundé 1, Cameroon; and a MPhil in Environmental Management from the University of Stellenbosch, South Africa. Daïrou has worked on numerous international exploration, production and environmental operations as a consultant until joining the Company in 2009.

## Clovis Kape

### Sales and Marketing Manager, Cameroon

Clovis Kape has over 14 years' oil and gas industry experience. Clovis graduated from River State Polytechnic (Nigeria) as an electrical engineer and prior to joining the Company worked on numerous upstream oil and gas projects including onshore and offshore operations in the Congo, Gabon, Angola and, in particular, the Malabo natural gas project in Equatorial Guinea and the Chad-Cameroon pipeline project. Kape has worked for the Company for over five years and is currently in charge of sales and marketing for Logbaba.

## Eckhard Mueller

### General Manager, Russia

Eckhard Mueller has over 27 years' experience in exploration and production, including four years as Chief Geologist for KazGerMunay and six years as a senior geologist with Gaz de France. He has been responsible for development projections in Germany, Mongolia, Kazakhstan and Russia and has held the position of General Manager, Russia with Victoria for over five years.

## Vladimir Andreyev

### Chief Engineer, Russia

Vladimir Andreyev has over 30 years' oil and gas industry experience. Vladimir graduated from Kuybishev Polytechnic (oil faculty) as a Mining Engineer. He began his career as a drilling operator working his way up to Chief Engineer for a large Russian drilling organisation. Andreyev also has over 20 years' experience as Production Manager for Rosneft, (formerly YuKos) before joining the Company as Chief Engineer in 2006.

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### Current Directors

Kevin Foo, Chairman  
Grant Manheim, Deputy Chairman  
Robert Palmer, Finance Director  
Austen Titford, Executive Director  
Philip Rand, Non Executive Director

### Company Secretary

Leena Nagrecha

### Company Number

5139892

### Registered Office

Victoria Oil & Gas Plc  
1st Floor  
Hatfield House  
52/54 Stamford Street  
London  
SE1 9LX

### Auditors

Deloitte & Touche  
Deloitte & Touche House  
Earlsfort Terrace  
Dublin 2  
Ireland

### Bankers

HSBC plc  
60 Queen Victoria Street  
London  
EC4N 4TR

### 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  
Bridgwater Road  
Bristol  
BS99 6ZY

The Directors present their Annual Report and the audited financial statements for the year ended 31 May 2011.

### Principal Activities, Business Review and Future Developments

The principal activities of the Group are oil and gas exploration and development in West Africa and the Former Soviet Union.

The Group's strategy is to grow organically and via acquisition into a profitable company by building on cash flow and profits from the Logbaba gas and condensate project.

The Group has an exploration project in Russia and a development project in Cameroon with first production expected by the end of December 2011. The focus of activities in the year has been the development of the Logbaba gas and condensate field in Cameroon.

The Group operates through overseas branches and subsidiary undertakings as appropriate to the fiscal environment. Significant subsidiary undertakings of the Group are set out in Note 16. Operations are funded on a monthly basis from funds held centrally in the Group and against monthly cash calls by each operation.

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 \$4.7 million (2010: \$6.1 million). The Directors do not propose that a dividend be paid (2010: Nil).

### Directors

The following Directors held office at the year end:

#### Executive Directors

Kevin Foo  
Grant Manheim  
Robert Palmer  
Austen Titford

#### Non Executive Director

Philip Rand

### Directors' Remuneration

An analysis of Directors' remuneration is given in Note 11 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. The Trustees of the ESOP subscribed for 48,101,590 shares during the year.

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 UK Corporate Governance Code May 2011, but where practical and appropriate for a company of this size and nature, the Company takes account of the recommendations on corporate governance of the Quoted Companies Alliance and is mindful of proper corporate governance.

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 the 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 14. In the opinion of the Directors, given the current scale of operations, the present Board and operational management structure have been appropriate. As the Company grows in the future, it is expected that the Board will be strengthened.

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 does 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 external auditors and reviews reports from them. The Audit Committee's 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 the 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, the 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. Significant information about the Company's activities is included in the Annual Report and Accounts, which is available 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 for AIM-listed companies. 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, including Annual and Interim Reports and all announcements.

### Corporate Social Responsibility

The Group is subject to best practice standards and extensive regulations, which govern, amongst other things, 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 Group undertakes Environmental Impact Assessments before each development and uses external consultants to advise on appropriate actions and procedures.

The Group aims to minimise the use of natural resources, such as energy and water and is committed to full reinstatement as part of its environmental obligations.

The Group works towards positive and constructive relationships with government, neighbours and the public, ensuring fair treatment of those affected by the Group's operations.

In particular, the Group aims 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.

As part of our work programme, the Group is keen to establish Community Development Projects, including provision of local employment and skills training opportunities.

### 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/or 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, or provide the required geological information or meet other host-country requirements.

### Geological and Development Risks

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

### 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.

The Group recruits and retains teams of skilled and experienced professionals with sufficient local knowledge and access to external advisers to manage these risks.

### 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.

The Board regularly reviews its funding requirements and the status of the financial markets and seeks external advice when necessary when raising funds.

### Price of Crude Oil and Gas

Substantially all of the Group's revenues will come from the sale of oil, gas and condensate. The prices of oil, gas and condensate 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, local legislation may require production to be sold locally and at a significant discount to world prices.

### Exchange Rate Risk

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

To manage these price and exchange rate risks the Group has structured its gas sales contracts in Cameroon to be fixed price for five years denominated in US Dollars.

### 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 27.

### 2011 Performance

The Directors regularly monitored risks during the year. The Group fulfilled its licence obligations and successfully raised \$34.3 million after expenses to fund its developments. The Group also increased its net reserves by 40%. Staff turnover has been less than 5% and our total permanent staff increased by approximately 70%.

### Key Performance Indicators ("KPI")

The Group is in the exploration phase of the West Medvezhye project and the development phase of the Logbaba gas and condensate project, so the relevant KPIs relate to the discovery and development of economic hydrocarbon 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 and property, plant and equipment amounted to \$21.2 million, of which \$20.5 million relates to the Logbaba gas and condensate development project in Cameroon and \$0.7 million to the West Medvezhye exploration project in Russia.

Net cash inflow from financing activities for the year was \$34.3 million compared to \$49.4 million for the previous period. In 2011, the source of cash inflows have 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. 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 15 to the financial statements.

### Creditor Payment Policy

It is the Group's normal policy to agree the terms of payment at the start of business with each supplier, ensure that suppliers are aware of the terms of the payment and pay in accordance with contractual and other legal obligations.

### Charitable and Political Donations

The Company made no political or charitable contributions during the year (2010: 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

As further described in Note 33, on 19 July 2011, the Company announced that it had increased its effective working interest in the Logbaba gas and condensate field to 95% following the serving of a Notice of Forfeiture on 18 July 2011 on RSM Production Corporation which previously held a 38% interest in the Logbaba Concession.

On 29 July 2011, the Company announced it had drawn down a further £0.6 million of its £10.0 million Standby Equity Distribution Agreement ("SEDA") with YA Global Master SPV Ltd.

On 11 August 2011, the Company announced that it had acquired one-third of a 6.8% royalty interest in its 95% owned Logbaba gas and condensate project from PR Marriott Drilling Limited by the purchase of their one third interest in Cameroon Holdings Limited for a consideration of \$5.0 million in cash and drilling equipment to the value of \$1.0 million.

On 16 August 2011, the Company issued a total of 29,354,285 shares in the Company in settlement of deferred consideration and deferred bonus obligations contained in agreements previously entered into by the Company's subsidiary Bramlin Limited.

On 27 September 2011, the Company announced that it had completed a £9.5 million equity placing for funding of capital expenditure, to finance in part the royalty acquisition and for 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 Group'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 2011. A Notice of the Meeting is set out on pages 58 to 59. 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: 27 October 2011

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 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, International Accounting Standards requires that Directors:

- > 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 entity'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 31 May 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related Notes 1 to 33. 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 in accordance 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 31 May 2011 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, 14, 16 and 17 of the financial statements with regard to going concern, the valuation of intangible assets, the valuation of investments, the recoverability of other receivables and amounts due from subsidiaries. The realisation of intangible assets of \$130.9 million and other receivables of \$30.1 million included in the Consolidated Balance Sheet and, investments of \$69.8 million and amounts due from subsidiaries of \$76.3 million included in the Company Balance Sheet, is dependent on the successful development and completion of the Logbaba gas project in Cameroon and the successful discovery and realisation of intangible assets in respect of the West Medvezhye project in Russia, as outlined in Note 14, 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 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  
Deloitte & Touche House  
29 Earlsfort Terrace  
Dublin 2  
Ireland

27 October 2011



## Consolidated Income Statement

for the year ended 31 May 2011

	Notes	2011 \$000	2010 \$000
Administrative expenses		(5,099)	(5,796)
Other gains and (losses)	5	765	(133)
<b>Operating loss</b>		<b>(4,334)</b>	<b>(5,929)</b>
Interest received		52	71
Finance revenue	6	–	617
Finance costs	7	(415)	(866)
<b>Loss before taxation</b>	4,8	<b>(4,697)</b>	<b>(6,107)</b>
Income tax expense	9	–	–
<b>Loss after taxation for the financial year</b>		<b>(4,697)</b>	<b>(6,107)</b>

	Notes	Cents	Cents
Loss per share – basic	13	(0.26)	(0.63)
Loss per share – diluted	13	(0.26)	(0.63)

## Consolidated Statement of Comprehensive Income

for the year ended 31 May 2011

	2011 \$000	2010 \$000
Loss for the year	(4,697)	(6,107)
Exchange differences on translation of foreign operations	2,404	70
<b>Total comprehensive income for the year</b>	<b>(2,293)</b>	<b>(6,037)</b>

## Consolidated Balance Sheet

as at 31 May 2011

	Notes	2011 \$000	2010 \$000
<b>Assets:</b>			
<b>Non current assets</b>			
Exploration and evaluation assets	14	<b>130,899</b>	115,917
Property, plant and equipment	15	<b>7,807</b>	221
Trade and other receivables	17	<b>27,640</b>	19,916
		<b>166,346</b>	136,054
<b>Current assets</b>			
Trade and other receivables	17	<b>3,125</b>	1,776
Cash and cash equivalents	18	<b>8,425</b>	6,034
		<b>11,550</b>	7,810
Held for sale assets	19	<b>1,000</b>	1,829
		<b>12,550</b>	9,639
<b>Total assets</b>		<b>178,896</b>	145,693
<b>Liabilities:</b>			
<b>Current liabilities</b>			
Trade and other payables	20	<b>(14,079)</b>	(17,595)
Borrowings	21	<b>(1,101)</b>	(1,854)
		<b>(15,180)</b>	(19,449)
<b>Net current liabilities</b>		<b>(2,630)</b>	(9,810)
<b>Non current liabilities</b>			
Convertible loan – debt portion	22	<b>(884)</b>	(529)
Derivative financial instruments	22	<b>(28)</b>	(24)
Deferred tax liabilities	9	<b>(6,599)</b>	(6,599)
Provisions	23	<b>(12,765)</b>	(7,406)
		<b>(20,276)</b>	(14,558)
<b>Net assets</b>		<b>143,440</b>	111,686
<b>Equity:</b>			
Called-up share capital	24	<b>17,178</b>	11,648
Share premium		<b>183,867</b>	155,636
ESOP Trust reserve	25	<b>(587)</b>	(293)
Translation reserve		<b>(8,300)</b>	(10,704)
Other reserve	26	<b>4,408</b>	3,828
Retained earnings – deficit		<b>(53,126)</b>	(48,429)
<b>Total equity</b>		<b>143,440</b>	111,686

The financial statements of Victoria Oil & Gas Plc, registered number 5139892, were approved by the Board of Directors on 27 October 2011.

**Kevin A. Foo**  
Chairman

**Robert Palmer**  
Finance Director

# Company Balance Sheet

as at 31 May 2011

	Notes	2011 \$000	2010 \$000
<b>Assets:</b>			
<b>Non current assets</b>			
Property, plant and equipment	15	16	6
Investments in subsidiaries and advances	16	69,840	68,446
		<b>69,856</b>	68,452
<b>Current assets</b>			
Trade and other receivables	17	76,643	49,841
Cash and cash equivalents	18	7,876	5,473
		<b>84,519</b>	55,314
<b>Total assets</b>		<b>154,375</b>	123,766
<b>Liabilities:</b>			
<b>Current liabilities</b>			
Trade and other payables	20	(1,641)	(1,378)
Borrowings	21	(1,000)	(1,000)
		<b>(2,641)</b>	(2,378)
<b>Net current assets</b>		<b>81,878</b>	52,936
<b>Non current liabilities</b>			
Convertible loan – debt portion	22	(884)	(529)
Derivative financial instruments	22	(28)	(24)
		<b>(912)</b>	(553)
<b>Net assets</b>		<b>150,822</b>	120,835
<b>Equity:</b>			
Called-up share capital	24	17,178	11,648
Share premium		183,867	155,636
Other reserve	26	4,408	3,828
Retained earnings – deficit		(54,631)	(50,277)
<b>Total equity</b>		<b>150,822</b>	120,835

The financial statements of Victoria Oil & Gas Plc, registered number 5139892, were approved by the Board of Directors on 27 October 2011.

**Kevin A. Foo**  
Chairman

**Robert Palmer**  
Finance Director

## Consolidated Statement of Changes in Equity

for the year ended 31 May 2011

	Called-up share capital \$000	Share premium \$000	ESOP Trust reserve \$000	Retained deficit \$000	Translation reserve \$000	Other reserve \$000	Total \$000
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
Shares issued	5,530	30,667	(370)	–	–	–	35,827
Share issue costs	–	(2,436)	–	–	–	–	(2,436)
Shares granted to ESOP members	–	–	76	–	–	–	76
Recognition of share-based payments	–	–	–	–	–	580	580
Total comprehensive income for the year	–	–	–	(4,697)	2,404	–	(2,293)
<b>At 31 May 2011</b>	<b>17,178</b>	<b>183,867</b>	<b>(587)</b>	<b>(53,126)</b>	<b>(8,300)</b>	<b>4,408</b>	<b>143,440</b>

### 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.

### Retained deficit

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

### Translation reserve

The translation reserve represents exchange differences arising on the retranslation of monetary items which form part of the Company's net investment in a foreign operation.

### Other reserve

The other reserve includes the share-based payment reserve, and an amount of \$2.9 million which relates to the settlement of an embedded derivative following the early redemption of an associated convertible loan note.



## Company Statement of Changes in Equity

for the year ended 31 May 2011

	Called-up share capital \$000	Share premium \$000	Retained deficit \$000	Other reserve \$000	Total \$000
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
Shares issued	5,530	30,667	–	–	36,197
Share issue costs	–	(2,436)	–	–	(2,436)
Recognition of share-based payments	–	–	–	580	580
Total comprehensive income for the year	–	–	(4,354)	–	(4,354)
<b>At 31 May 2011</b>	<b>17,178</b>	<b>183,867</b>	<b>(54,631)</b>	<b>4,408</b>	<b>150,822</b>

### 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.

### Retained deficit

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

### Other reserve

The other reserve includes the share-based payment reserve, and an amount of \$2.9 million which relates to the settlement of an embedded derivative following the early redemption of an associated convertible loan note.

## Consolidated Cash Flow Statement

for the year ended 31 May 2011

	2011 \$000	2010 \$000
<b>Cash flow from operating activities</b>		
Loss for the year	(4,697)	(6,107)
Finance costs recognised in Income Statement	415	866
Investment revenue recognised in profit or loss	(52)	–
Release of share-based payment reserve	–	(655)
Depreciation and amortisation of non current assets	16	207
Fair value gain on embedded derivatives	–	(617)
Net foreign exchange gain	(765)	(568)
	<b>(5,083)</b>	<b>(6,874)</b>
<b>Movements in working capital</b>		
Increase in trade and other receivables	(9,368)	(17,365)
Decrease/(increase) in available for sale assets and inventories	829	(1,829)
Increase in trade and other payables and provisions	2,565	17,523
<b>Net cash used in operating activities</b>	<b>(11,057)</b>	<b>(8,545)</b>
<b>Cash flows from investing activities</b>		
Payments for intangible fixed assets	(8,721)	(35,212)
Payments for property, plant and equipment	(7,602)	(310)
Interest received	52	–
<b>Net cash used in investing activities</b>	<b>(16,271)</b>	<b>(35,522)</b>
<b>Cash flow from financing activities</b>		
Proceeds from issue of equity shares	31,596	51,624
Payment of equity issue costs	(1,856)	(2,193)
<b>Net cash generated from financing activities</b>	<b>29,740</b>	<b>49,431</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,412</b>	<b>5,364</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>6,034</b>	<b>711</b>
Effects of exchange rate changes on the balance of cash held in foreign currencies	(21)	(41)
<b>Cash and cash equivalents at end of the year</b>	<b>8,425</b>	<b>6,034</b>

# Company Cash Flow Statement

for the year ended 31 May 2011

	2011 \$000	2010 \$000
<b>Cash flow from operating activities</b>		
Loss for the year	(4,354)	(5,627)
Finance costs recognised in Income Statement	355	233
Investment income recognised in profit or loss	(52)	–
Release of share-based payment reserve	–	(655)
Depreciation of non current assets	16	–
Fair value gain on embedded derivatives	–	(223)
Net foreign exchange loss	13	43
	<b>(4,022)</b>	<b>(6,229)</b>
<b>Movements in working capital</b>		
Increase in trade and other receivables	(23,595)	(35,629)
Increase/(decrease) in trade and other payables	267	(2,521)
<b>Net cash used in operating activities</b>	<b>(27,350)</b>	<b>(44,379)</b>
<b>Cash flows from investing activities</b>		
Interest received	52	–
Payments for property, plant and equipment	(26)	(2)
<b>Net cash used in investing activities</b>	<b>26</b>	<b>(2)</b>
<b>Cash flow from financing activities</b>		
Proceeds from issue of equity shares	31,596	51,793
Payment of equity shares issue costs	(1,856)	(2,313)
<b>Net cash generated from financing activities</b>	<b>29,740</b>	<b>49,480</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,416</b>	<b>5,099</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>5,473</b>	<b>416</b>
Effects of exchange on the balance of cash held in foreign currencies	(13)	(42)
<b>Cash and cash equivalents at end of the year</b>	<b>7,876</b>	<b>5,473</b>

## 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 2011, 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 its subsidiaries 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.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- > deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

- > liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-Based Payment at the acquisition date; and
- > assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceed the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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 principally 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



## 1. PRINCIPAL ACCOUNTING POLICIES *continued*

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 Financial Instruments; Presentation.

### (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:

- the period for which the Group has a right to explore in the specific area has expired or is expected to expire;
- the exploration and evaluation has not led to the discovery of economic reserves;
- the development of the reserves is not economically or commercially viable;
- the exploration is located in an area that has become politically unstable;
- substantive expenditure on further exploration for and evaluation of hydrocarbon resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of hydrocarbon resources in the specific area have not led to the discovery of commercially viable quantities of hydrocarbon resource and the entity has decided to discontinue such activities in the specific area.

### (ix) Property, Plant and Equipment

#### Plant and 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	25%

## 1. PRINCIPAL ACCOUNTING POLICIES continued

### 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) Held for Sale Assets

Held 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 carrying amount and fair value less cost to sell.

### (xi) Borrowing Costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred

### (xii) 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.

### (xiii) 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 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.

## 1. PRINCIPAL ACCOUNTING POLICIES continued

### Investment in subsidiaries

Investments in subsidiaries in the Company Balance Sheet are stated at cost, less any accumulated impairments.

### 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 derivatives.

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.

## 1. PRINCIPAL ACCOUNTING POLICIES continued

### (xiv) 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 deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible 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.

### (xv) 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.

### (xvi) 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 the recoverable amount is performed and an impairment loss recognised to the extent that the carrying amount exceeds the recoverable amount. The 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.

The carrying value of oil and gas assets is disclosed in Notes 14 and 15. The carrying value of related investments and advances in the Company Balance Sheet is disclosed in Notes 16 and 17. The West Medvezhye project in Siberia and the Logbaba gas and condensate project in Cameroon are both exploration and evaluation assets and in view of the management, none of the impairment indicators listed in IFRS 6 Exploration for and Evaluation of Mineral Resources are present. In forming this view, the management compared the carrying value at the reporting date with the expected discounted cash flows from the relevant project. To do this management used production profiles based on its estimates of proven and probable reserves and a range of assumptions including internal estimates of oil, gas and condensate prices relevant to each project, development expenditure requirements and a pre tax discount rate of 10%.



## 1. PRINCIPAL ACCOUNTING POLICIES continued

### 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.

As part of the assessment, management reviewed budgets and cash flow forecasts and compared the requirements to available resources, existing funding facilities and potential sources of additional funds.

### Convertible loan notes

The estimation of the fair value of embedded derivatives requires the selection of an appropriate valuation model and consideration as to the assumptions used as inputs necessary for the valuation model chosen.

The Group has made estimates as to the volatility of its own shares, the probable life of options granted and the time of exercise of those options.

### Exploration and evaluation

The assessment of the classification of costs between intangible assets and tangible assets and whether general administration costs and salary costs are capitalised or expensed 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.

### 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 licences 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.

### Convertible loan notes

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 22.

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

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.

The Directors do not expect the key sources of estimation uncertainty to be resolved in the next 12 months.

## Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

continued

### 2. ADOPTION OF NEW AND REVISED STANDARDS AND 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 3 (Amendment 2008) – Business Combinations	1 July 2009
IFRS 3 (Amendment 2009) – Business Combinations	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
IAS 39 Financial Instruments: Recognition and Measurement	1 July 2009

#### Standards affecting presentation and disclosure

Name of new Standards/Amendments	Effective from
IAS 27 (Amendment 2008) – Consolidated and Separate Financial Statements	1 July 2009
IAS 27 (Amendment 2009) – Consolidated and Separate Financial Statements	1 July 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
IFRIC 14 (Amendment Nov 2009) – Prepayments of a Minimum Funding Requirement	1 January 2011
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
IFRS 1 (Amendment Jan 2010) – Additional Exemptions for First-time Adopters	1 January 2010
IFRS 1 (Amendment Jan 2010) – Limited Exemption from Comparative IFRS 7 Disclosures	1 July 2010
IFRS 1 (Amendment Dec 2010) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 July 2011
IFRS 7 (Amendment Oct 2010) – Improving Disclosures about Financial Instruments	1 July 2011
IFRS 7 (Amendment Oct 2010) – Disclosures – Transfers of Financial Assets	1 July 2011
IAS 24 (Amendment Nov 2009) – Related Party Disclosure	1 January 2011
IAS 32 (Amendment Oct 2009) – Classification of Rights Issues	1 February 2010

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

Name of new Standards/Amendments	Effective from
IFRS 9 Financial Instruments	1 January 2013
IAS 1 (Amendment June 2011) – Presentation of Items of Other Comprehensive Income	1 July 2012
IAS 19 (revised June 2011) – Employee Benefits	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 10 Consolidated Financial Statements	1 January 2013
IAS 28 (revised May 2011) – Investments in Associates and Joint Ventures	1 January 2013
IAS 27 (revised May 2011) – Separate Financial Statements	1 January 2013
IAS 12 (Amendment Dec 2010) – Deferred Tax: Recovery of Underlying Assets	1 January 2012
IFRS 9 Financial Instruments	1 January 2013

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.

## Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

continued

### 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 \$4.7 million for the year ended 31 May 2011 (2010: \$6.1 million) and the Consolidated Balance Sheet shows that the Group had net current liabilities of \$2.6 million at the year end date (2010: \$9.8 million).

At 31 May 2011, the Group had \$8.4 million of cash. However, as stated in Note 33, the Group raised more than \$15.7 million in the period between the year end and the date of approval of these financial statements. At 30 September 2011, the Group had cash of \$10.9 million and undrawn facilities of £2.3 million (\$3.6 million) in respect of the SEDA.

Based on their forecasts, the Directors expect that the Group will need to spend approximately \$5.0 million 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 Q4 2011 from the Logbaba project. These sales are expected to grow from an initial estimate of \$0.5 million per month. In the event of a delay or significant cost overruns, the Group may need to raise additional debt or equity finance to complete all the planned activities.

The Directors constantly review 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 operation and to continue in operational existence for the foreseeable future.

## Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

continued

### 4. SEGMENTAL ANALYSIS

IFRS 8 Operating Segments 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 accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 1.

The analysis of turnover, the loss before taxation, assets, liabilities, other gains and losses, 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	
	2011 \$000	2010 \$000
Russian Federation	(68)	(413)
Republic of Cameroon	(442)	(33)
Republic of Kazakhstan	(229)	–
Total for continuing operations	(739)	(446)
Unallocated Head Office	(3,958)	(5,661)
	<b>(4,697)</b>	<b>(6,107)</b>

#### 4b. Segment Assets and Liabilities

	Assets		Liabilities	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Russian Federation	60,882	57,657	275	1,506
Republic of Cameroon	109,574	82,211	26,054	12,770
Republic of Kazakhstan	108	124	14	–
Total for continuing operations	170,564	139,992	26,343	14,276
Unallocated Head Office	8,332	5,701	9,113	19,731
	<b>178,896</b>	<b>145,693</b>	<b>35,456</b>	<b>34,007</b>

Accordingly, the Group's operating segments are Cameroon, Russia and Kazakhstan. The UK corporate office is a management and administrative cost centre.

#### 4c. Other Segmental Information

	Other gains and losses		Depreciation and amortisation		Additions to non current assets	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Russian Federation	4	262	270	170	1,019	2,591
Republic of Cameroon	(2)	203	38	123	20,117	33,728
Total for continuing operations	2	465	308	293	21,136	36,319
Unallocated Head Office	763	(598)	16	37	26	–
	<b>765</b>	<b>(133)</b>	<b>324</b>	<b>330</b>	<b>21,162</b>	<b>36,319</b>

In 2011, \$308,000 of depreciation of plant and equipment was capitalised as exploration and evaluation expenditure (2010: \$123,000).

	Provisions	
	2011 \$000	2010 \$000
Russian Federation	266	996
Republic of Cameroon	12,499	6,410
	<b>12,765</b>	<b>7,406</b>



## Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

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### 5. OTHER GAINS AND LOSSES

	2011 \$000	2010 \$000
Foreign exchange gains/(losses)	765	(133)

### 6. FINANCE REVENUE

	2011 \$000	2010 \$000
Fair value gain on embedded derivatives	–	617

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

### 7. FINANCE COSTS

	2011 \$000	2010 \$000
Convertible loan interest	(354)	(759)
Loan interest	(20)	–
Fair value loss on embedded derivatives	(5)	–
Unwind of discount on decommissioning costs	(36)	(107)
	(415)	(866)

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

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

## Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

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### 8. LOSS BEFORE TAXATION

	2011 \$000	2010 \$000
The loss before taxation is stated after charging:		
Directors' remuneration (Note 11)	974	908
Auditors' remuneration	206	200
Depreciation	16	4
Amortisation of intangibles	–	203
Fair value loss on embedded derivatives	5	–
And after crediting:		
Fair value gain on embedded derivatives	–	617

The Chairman was the highest paid Director and received \$302,000 (2010: \$251,000).

The analysis of auditors' remuneration is as follows:

	2011 \$000	2010 \$000
Fees payable to the Group auditors for the audit of the Group's annual accounts	206	200

Administrative expenses comprise:

	2011 \$000	2010 \$000
Wages and salaries	1,157	1,491
Professional fees	2,394	2,982
Office and other administrative expenditure	716	682
Provision for doubtful debt	625	–
Travel	131	190
Rent	60	244
Depreciation and amortisation	16	207
	5,099	5,796

## Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

continued

### 9. INCOME TAX EXPENSE

	2011 \$000	2010 \$000
Income tax expense	–	–

#### Factors affecting the tax expense:

	2011 \$000	2010 \$000
Loss on ordinary activities before tax	(4,697)	(6,107)
Income tax calculated at 26% (2010: 28%)	(1,221)	(1,710)

#### Effects of:

Effect of expenses not deductible for tax	14	88
Effect of finance costs not deductible for tax	97	213
Fair value adjustment on derivatives not taxable	1	(173)
Increase in tax losses not utilised	1,109	1,582
Income tax expense	–	–

#### Deferred tax liability

Arising on Bramlin acquisition	6,599	6,599
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At the Balance Sheet date, the Group has unused tax losses of \$40.8 million (2010: \$36.6 million) 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 \$10.6 million (2010: \$10.9 million) 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.

### 10. EMPLOYEE INFORMATION

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

	2011 Number	2010 Number
Directors	5	5
Technical	16	10
Management and administration	27	13
	48	28

Staff costs for the above persons were:

	2011 \$000	2010 \$000
Wages and salaries	1,804	1,685
Social security costs	213	198
	2,017	1,883

Included in the above is \$860,000 (2010: \$392,000) of wages and salaries which were capitalised within exploration and evaluation assets.



## Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

continued

### 11. DIRECTORS' REMUNERATION

	Payable	Shares	Total	Total
	in cash	in lieu	2011	2010
	\$000	\$000	\$000	\$000
Kevin Foo*	210	92	302	251
Grant Manheim	113	–	113	116
Robert Palmer†	117	88	205	199
Austen Titford	221	–	221	128
Philip Rand	24	109	133	24
George Donne	–	–	–	176
Mukhtar Tuyakbayev	–	–	–	14
	685	289	974	908

\* 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 (2010: Nil).

### 12. KEY MANAGEMENT COMPENSATION

	2011	2010
	\$000	\$000
The compensation paid to key management personnel is set out as follows:		
Short-term employee benefits	1,431	1,043
Payment in shares	328	–
Termination benefits	482	67
Professional fees	789	926
	3,030	2,036

Key management comprise the Directors of the Company and its subsidiaries, 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.

### 13. 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.

	2011	2010
	\$000	\$000
Numerator:		
Numerator for basic EPS – retained loss	(4,697)	(6,107)
	Number	Number
Denominator:		
Denominator for basic EPS and diluted EPS	1,803,827,144	968,919,960
	Cents	Cents
Loss per share – basic and diluted	(0.26)	(0.63)

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 22, 23, 24 and 33 for details of transactions which could have a dilutive effect on EPS.

# Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

continued

## 14. INTANGIBLE ASSETS

	2011 \$000	Group 2010 \$000
<b>Exploration and evaluation assets:</b>		
<b>Cost</b>		
Opening balance	149,728	116,757
Exchange adjustments	2,433	553
Additions	13,252	36,009
Reclassify to receivables	(660)	(3,591)
Closing balance	164,753	149,728
<b>Accumulated amortisation and impairment</b>		
Opening balance	33,811	33,608
Exchange adjustments	43	–
Charge for the year	–	203
Closing balance	33,854	33,811
<b>Carrying amount</b>		
Opening balance	115,917	83,149
Closing balance	130,899	115,917

## Segmental Analysis

	2011 \$000	Group 2010 \$000
<b>Exploration and evaluation assets:</b>		
Russian Federation	61,313	58,205
Republic of Cameroon	69,586	57,712
	130,899	115,917

Exploration and evaluation assets relate to expenditure incurred on the West Medvezhye project in Russia and the Logbaba gas and condensate exploration and development project in Cameroon.

Amounts reclassified to receivables represent VAT incurred on the West Medvezhye project which was previously capitalised but has been recovered following a successful appeal to the Federal Arbitration Court.

When considering the possible impairment of intangible assets, the management developed each key assumption using internally generated data, confirmed by external consultants where possible. The projected cash flows are calculated over the remaining life of the project (up to 25 years) as this is appropriate for the type of assets involved. Growth rates for revenues and costs were taken from the advice provided by external consultants.

The impact of a 1% increase and decrease in the discount rate percentage on the movement in recoverable amount is 7.22% and 6.58% respectively and would not result in an impairment charge.

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 a suitable supply chain;
- > Currency and commodity price fluctuations;
- > Political and legal risks;
- > Environmental risks; and
- > Market risk, including demand for natural resources.

Should the discovery and successful development of economic reserves prove unsuccessful, the value included in the Balance Sheet would be written off to the Income Statement.

## Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

continued

### 14. INTANGIBLE ASSETS continued

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, passive seismic surveys and reprocessed seismic data on its asset in Russia as part of integrated geological studies. The purpose of this programme 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. The Directors are unable to test their view of the recoverable amount of the assets against current market data for similar assets as there is insufficient data available and they are confident that the capitalised value of the asset is recoverable.

Having reviewed the exploration and evaluation expenditure as at 31 May 2011, 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 2011.

### 15. PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment \$000	Oil and gas interests \$000	Assets under construction at cost \$000	Total \$000
<b>Cost:</b>				
At 31 May 2009	15	2,143	–	2,158
Exchange adjustments	–	1	–	1
Additions	310	–	–	310
Disposals	(17)	(54)	–	(71)
<b>At 31 May 2010</b>	<b>308</b>	<b>2,090</b>	<b>–</b>	<b>2,398</b>
<b>Additions</b>	<b>1,058</b>	<b>–</b>	<b>6,852</b>	<b>7,910</b>
<b>At 31 May 2011</b>	<b>1,366</b>	<b>2,090</b>	<b>6,852</b>	<b>10,308</b>
<b>Accumulated depreciation and accumulated impairment losses</b>				
At 31 May 2009	10	2,111	–	2,121
Charge for the year	127	–	–	127
Disposals	(2)	(69)	–	(71)
<b>At 31 May 2010</b>	<b>135</b>	<b>2,042</b>	<b>–</b>	<b>2,177</b>
<b>Charge for the year</b>	<b>324</b>	<b>–</b>	<b>–</b>	<b>324</b>
<b>At 31 May 2011</b>	<b>459</b>	<b>2,042</b>	<b>–</b>	<b>2,501</b>
<b>Carrying amount:</b>				
<b>At 31 May 2011</b>	<b>907</b>	<b>48</b>	<b>6,852</b>	<b>7,807</b>
At 31 May 2010	173	48	–	221

Assets under construction comprise of expenditure on the pipeline network and surface infrastructure on the Logbaba gas and condensate project in Cameroon.

The Directors have reviewed the carrying value for impairment as at 31 May 2011 and have concluded that no provision is required.



# Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

continued

## 15. PROPERTY, PLANT AND EQUIPMENT continued

### Company

	Plant and equipment 2011 \$000	Plant and equipment 2010 \$000
<b>Cost:</b>		
Opening balance	15	15
Additions	26	3
Disposals	–	(3)
Closing balance	41	15
<b>Depreciation</b>		
Opening balance	9	10
Charge for the year	16	2
Disposals	–	(3)
Closing balance	25	9
<b>Carrying amount:</b>		
Closing balance	16	6

## 16. INVESTMENTS IN SUBSIDIARIES AND ADVANCES

	2011 \$000	Group 2010 \$000	2011 \$000	Company 2010 \$000
Investments in subsidiaries (a)	–	–	29,789	29,789
Advances to subsidiary (b)	–	–	40,051	38,657
	–	–	69,840	68,446

### 16(a) Investments in Subsidiaries

#### Unlisted investments

	2011 \$000	Company 2010 \$000
<b>Cost:</b>		
Cost of investments at beginning of the year	49,764	49,764
Cost of investments at end of the year	49,764	49,764
<b>Impairment:</b>		
Opening balance	(19,975)	(19,975)
Charge for the year	–	–
Closing balance	(19,975)	(19,975)
<b>Carrying amount:</b>		
Closing balance	29,789	29,789

The value of the Company's unlisted investments at 31 May 2011 represents the investment in the subsidiaries owning the West Medvezhye project and the Logbaba gas and condensate 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 significant investments in the Company's Balance Sheet were \$17.4 million in respect to West Medvezhye (2010: \$17.4 million) and \$12.4 million in the Logbaba project (2010: \$12.4 million).

## Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

continued

### 16. INVESTMENTS IN SUBSIDIARIES AND ADVANCES *continued*

#### 16(b) Advances to Subsidiary

Advances to subsidiary include an amount of \$40.1 million (2010: \$38.7 million) 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.

Additional advances by the Company to subsidiaries are included in Note 17.

#### 16(c) Segmental Analysis of Investments in and Advances to Subsidiaries

	2011 \$000	Company 2010 \$000
<b>Exploration and evaluation assets:</b>		
<b>Unlisted</b>		
Russian Federation	57,440	56,046
Republic of Cameroon	12,400	12,400
Investments in and Advances to Subsidiaries	<b>69,840</b>	<b>68,446</b>

#### 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 2011 principally represent investments in the Logbaba gas and condensate 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 outlined in Note 14, the value of the investments is dependent on the successful discovery and development of economic reserves.

## Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

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### 17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Amounts due within one year:				
VAT recoverable	193	278	57	142
Prepayments	88	254	–	–
Amounts due by subsidiaries	–	–	76,305	49,685
Other receivables	2,844	1,244	281	14
	<b>3,125</b>	<b>1,776</b>	<b>76,643</b>	<b>49,841</b>

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Amounts due in more than one year:				
Other receivables	27,640	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.

The value of the amounts due from subsidiaries is dependent on the successful discovery and development of economic reserves. Note 14 highlights a number of significant potential risks concerning this.

Total other receivables include \$30.1 million (2010: \$20.5 million) relating to RSM Production Corporation. This relates to their funding obligation for their former 38% interest in the Logbaba gas development, which is carried by the Group as part of the Farm-in Agreement. As described in Note 33, after the Balance Sheet date RSM Production Corporation forfeited their interest in the Logbaba gas and condensate project. As this receivable represents exploration costs incurred as part of the Farm-in Agreement, the total amount receivable at the forfeiture date will be split and reclassified as Evaluation and Exploration assets or Property, Plant and Equipment.

### 18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Cash	8,425	6,034	7,876	5,473

Funds are held in US Dollars, Sterling, Russian Roubles, Central African Franc and Kazakh 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	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
US Dollar	5,810	204	5,793	147
Sterling	2,179	5,393	2,083	5,326
Russian Rouble	57	12	–	–
Central African Franc	271	301	–	–
Kazakh Tenge	108	124	–	–
	<b>8,425</b>	<b>6,034</b>	<b>7,876</b>	<b>5,473</b>



## Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

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### 19. HELD FOR SALE ASSETS

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Drilling equipment	1,000	1,829	–	–

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

### 20. TRADE AND OTHER PAYABLES

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
<b>Current liabilities</b>				
Trade payables	7,296	15,907	1,123	1,167
Taxes and social security costs	1,227	754	–	–
Accruals and deferred income	5,556	211	480	211
Other creditors	–	723	38	–
	14,079	17,595	1,641	1,378

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.

### 21. BORROWINGS

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
<b>Current</b>				
Loan from other entities	1,101	1,854	1,000	1,000

Borrowings include a \$1.0 million unsecured, non-interest bearing loan, repayable on demand from a shareholder of the Company and \$101,000 due to HJ Resources Limited which is unsecured and accrues interest at a fixed rate of 0.5% per month (see Note 32).

## Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

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### 22. CONVERTIBLE LOAN NOTES

	2011 \$000	Group 2010 \$000	2011 \$000	Company 2010 \$000
<b>Debt</b>				
Noor Petroleum convertible loan	<b>884</b>	529	<b>884</b>	529
<b>Derivative financial instruments</b>				
Noor Petroleum convertible loan	<b>28</b>	24	<b>28</b>	24

#### Noor Petroleum Convertible Loan (\$2.0 million)

In December 2007, the Company created a \$10.0 million unsecured convertible loan note facility with United Arab Emirates based Noor Petroleum Limited, a company of which former Company Director Rashed Al Suwaidi is a director. \$2.0 million 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:

	2011	2010
Option term – years	<b>1.6</b>	2.6
Conversion price – pence Sterling	<b>16.5</b>	16.5
Risk-free rate	<b>0.89%</b>	1.36%
Expected volatility	<b>68.84%</b>	124.50%
Dividend yield	<b>Nil</b>	Nil

Expected volatility is a measure of the amount by which a share price is expected to fluctuate during a period. The measure of volatility used is the annualised standard deviation of the continuously compounded rate of return on the share over a period of time.

The calculation is based on the historical volatility of the Company's share price for a period preceding each valuation date equal to the expected life of the conversion option.

There has been a large reduction in volatility in the year due to the exclusion of the period 1 October 2008 to 30 November 2008 which was a very volatile period for the share price.

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

2011	Embedded derivative \$000	Gain/(loss) \$000
Fair value at 31 May 2011	28	–
25 percentage points higher	83	55
25 percentage points lower	2	(26)

## Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

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### 23. PROVISIONS

	2011 \$000	Group 2010 \$000
Decommissioning provision	719	1,413
Reserve Bonus provision	6,053	–
Development funding obligation	4,000	4,000
Contingent consideration provision	1,993	1,993
	12,765	7,406

#### 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 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.

The provision released during the year relates to costs met by the Group in the rehabilitation of the abandoned wells and other surface works at the West Medvezhye project.

	2011 \$000	Group 2010 \$000
Decommissioning costs		
At 1 June	1,413	889
Additional provision in year	–	417
Provision released in year	(730)	–
Unwinding of discount charged to the Income Statement	36	107
At 31 May	719	1,413

#### Reserve Bonus Provision

Under an agreement between Bramlin Limited and Rodeo Resources Inc. on the Logbaba gas and condensate project, Bramlin is liable to pay a bonus 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 \$10.0 million payable over a period of not less than four years from the date of calculation of the reserves. Based on current reserve estimates, the Directors believe the full amount of the bonus will be payable. The provision represents the present value discounted at 12%, as at the Balance Sheet date, of the maximum amount payable.

#### 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 \$4.0 million, which is to be offset against royalties payable on future production. Production is expected to commence in the next financial year and this provision will be released as sales are generated. Further details are provided in Note 32.

#### 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 timing of fulfilment of these provisions was uncertain at the Balance Sheet date but these shares have since been issued (see Note 33).



# Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

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## 24. CALLED-UP SHARE CAPITAL

### Group and Company

	2011 \$000	2010 \$000
<b>Allotted Called-Up and Fully Paid:</b>		
Ordinary shares of 0.5p each:		
Opening balance: 1,427,794,447 shares (2010: 496,915,889)	11,648	4,289
Issued during the year: 711,045,824 shares (2010: 930,878,558)	5,530	7,359
Closing balance: 2,138,840,271 shares (2010: 1,427,794,447)	17,178	11,648

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

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)
Shares in lieu of salary to Directors	1,397,613	7 September 2010	3.5
Shares in lieu of salary to employees	523,350	7 September 2010	3.5
Settlement of amounts due to creditors	9,837,533	7 September 2010	3.1
Subscription by ESOP Trust	48,101,590	7 September 2010	0.5
Shares in lieu of salary to employees	900,000	7 September 2010	2.7
Placing for working capital	284,430,000	7 September 2010	2.5
Placing for working capital	83,570,000	14 September 2010	2.5
Settlement of amounts due to creditors	23,139,283	15 November 2010	3.1
Shares in lieu of salary to employees	332,965	15 November 2010	3.3
Placing for working capital	40,322,581	19 November 2010	4.5
Placing for working capital	183,708,612	1 December 2010	4.9
Shares in lieu of salary to employees	4,182,297	31 May 2011	5.0
Settlement of amounts due to creditors	30,600,000	31 May 2011	5.0
	711,045,824		

### Standby Equity Distribution Agreement (SEDA)

On 1 April 2009, the Company entered into a £5.0 million SEDA with YA Global Master SPV Limited (the Investor) which was extended to £10.0 million on 17 June 2009. The SEDA enables the Company, at its discretion, 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:

- > 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 95% 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 2011, £2.9 million of the facility remained undrawn.

## 25. 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 26, and reflects the subscription for new shares by the ESOP Trust.

## Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

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### 26. OTHER RESERVE

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
At 1 June	3,828	2,882	3,828	2,882
Share-based payments	580	1,601	580	1,601
Exercise of warrants	–	(655)	–	(655)
At 31 May	4,408	3,828	4,408	3,828

Other reserve includes \$2.9 million in respect of settlement of an embedded derivative following the early redemption of an associated convertible loan note and a reserve for share-based payments. Further details of share-based payments in the year are given in Note 28.

### 27. 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 Dollars, Sterling, Central African Franc, Russian Roubles and Kazakh 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 38% former partner in the Logbaba development, RSM Production Corporation, under the Farm-in Agreement. As more fully explained in Note 17, the balance due at 31 May 2011 was \$30.1 million, which was the maximum due during the year.

The interest of the Group's partner in the Logbaba project was forfeited on 18 July 2011, and the receivable will be transferred to Fixed Assets in the accounts for the year ended 31 May 2012.

#### 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 future exploration and development operations. Controls over expenditure are carefully managed.

The Company's 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 2011 and 31 May 2010, the Group's 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 Kazakh Tenge as required at the most advantageous rates available to meet short-term creditor obligations and fund other expenditure.

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

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

# Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

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## 27. FINANCIAL RISK MANAGEMENT *continued*

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

Group	Assets		Liabilities	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
US Dollars	35,947	21,559	13,222	24,883
Sterling	2,523	5,549	10,093	1,712
Russian Roubles	261	193	275	510
Kazakh Tenge	108	124	14	–
Central African Franc	351	301	5,253	303
	39,190	27,726	28,857	27,408

Company	Assets		Liabilities	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
US Dollars	82,040	49,832	1,912	1,219
Sterling	2,479	5,482	1,641	1,712
	84,519	55,314	3,553	2,931

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 2011, the loss would have been \$0.6 million lower/higher (2010: \$0.2 million) and the net equity would have been \$0.6 million higher/lower (2010: \$0.6 million). 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 \$0.1 million (2010: \$0.9 million) 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 financial 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 22).

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.

### Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each material class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

The fair values of financial assets and financial liabilities are valued at amortised cost value less any credit risk provision in respect of assets. Due to the short-term nature of these assets and liabilities, such values approximate to their fair values at 31 May 2011 and 31 May 2010.

## Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

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### 27. FINANCIAL RISK MANAGEMENT *continued*

#### Valuation Techniques and Assumptions Applied for the Purposes of Measuring Fair Value

The fair values of financial assets and financial liabilities are determined as follows:

- > The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (including listed redeemable notes, bills of exchange, debentures and perpetual notes).
- > The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.
- > The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Specifically, significant assumptions used in determining the fair value of the following financial assets and liabilities are set out below.

#### Convertible Loan Notes

The fair value of the liability component of convertible loan notes is determined assuming redemption on 31 December 2012 and using 93.9% effective interest rate.

#### Fair Value Measurements Recognised in the Consolidated Statement of Financial Position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- > Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- > Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- > Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 \$000	Level 2 \$000	Level 3 \$000	2011 Total \$000
Derivative financial instruments	–	(28)	–	(28)

	Level 1 \$000	Level 2 \$000	Level 3 \$000	2010 Total \$000
Derivative financial instruments	–	(24)	–	(24)



## Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

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### 28. SHARE-BASED PAYMENTS

Other than as disclosed below, no grants of warrants or options 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):

	Number of warrants 000s	2011 Weighted average exercise price Pence	Number of warrants 000s	2010 Weighted average exercise price Pence
1 June	7,066	6.2	1,035	3.0
Granted during the year	11,076	3.5	14,983	4.5
Exercised during the year	–	–	(8,952)	3.0
31 May	18,142	4.5	7,066	6.2

During the year, the Company issued 11,076,445 warrants to Fox Davies Capital Limited as part of their placing agreement fees. 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:

	2011	2010
Number of warrants	11,076,445	14,983,020
Weighted average share price – pence Sterling	2.73 to 5.22	3.77 to 6.02
Option term – years	3	3 to 5
Share exercise price – pence Sterling	2.5 to 4.9	4.51
Risk-free rate	0.25%	0.25%
% expected volatility	125%	122%
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 \$580,000 (2010: \$1,601,000) was charged to the Consolidated Income Statement and a corresponding credit charged to Other Reserve. During the year no warrants were exercised.

The total number of warrants exercisable at the year end is 18,142,798 (2010: 7,066,353). The aggregate of the estimated weighted average fair values of these options is \$1.1 million (2010: \$0.5 million).

### 29. NON-CASH TRANSACTIONS

During the 2011 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 issued in settlement of professional fees and services of \$3.6 million (2010: \$1.4 million).
- > Shares issued as part payment of a seismic survey of \$0.5 million (2010: \$0.3 million).
- > Shares issued in lieu of salary of \$0.5 million (2010: \$0.2 million).
- > Shares issued as settlement of loans \$Nil (2010: \$0.4 million).

## Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

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### 30. 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 its Farm-in Agreement with RSM Production Corporation.

#### West Medvezhye

The Group is operating under 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 and one further well by 2013. 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 (2010: Nil).

### 31. 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 \$4.4 million (2010: Loss: \$5.6 million).

### 32. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of the Company and the subsidiaries listed in Note 16. 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 11 and 12.

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

	Purchases from related parties during the year \$000	Loans 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
<b>2011</b>				
Subsidiaries	–	–	26,620	76,305
Directors' other interests	–	(794)	–	(101)
Professional fees	1,624	–	–	–
	Purchases from related parties during the year \$000	Loans 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
<b>2010</b>				
Subsidiaries	–	–	8,296	49,685
Directors' other interests	3	(418)	–	(876)
Professional fees	1,285	–	–	–

Amounts due from subsidiaries are non interest bearing US Dollar denominated loans repayable on demand.

The balance at 31 May 2011 is stated net of a provision against the amount due from Victoria Energy Central Asia LLP of \$16.7 million (2010: \$16.7 million). 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 (2010: \$3,000) 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 Director of Blackwatch Petroleum Services Limited, a firm of upstream oil and gas consultants. These accounts include professional fees of \$1.6 million (2010: \$1.3 million) in relation to oil and gas technical services provided by Blackwatch Petroleum Services Limited to the Company.

## Notes to the Consolidated Financial Statements

for the year ended 31 May 2011

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### 32. RELATED PARTY TRANSACTIONS *continued*

#### 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 of \$1.0 million and £130,000. Interest accrues at 0.5% per month. In July 2009, HJ Resources Limited elected to convert \$418,000 to shares at 3.7 pence per share and in October 2010, \$623,000 was repaid in cash. The balance outstanding at 31 May 2011 was \$101,000.

#### 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.

All drilling services were completed before 31 May 2010. CH provided \$4.0 million 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. Further details of the development funding are provided in Note 23.

#### Employee Share Ownership Plan (ESOP)

The Victoria Oil & Gas ESOP Trust purchases and holds ordinary shares in the Company to satisfy scheme awards made to the employees of the Group. During the year, the Trust purchased 48,101,590 shares and granted 4,500,000 shares to employees. At the year end, the Trust owed the Company \$0.3 million for shares subscribed for but not yet paid.

### 33. SUBSEQUENT EVENTS

As part of the acquisition of Bramlin Limited ("Bramlin") in December 2008, the Group acquired a 60% participating interest and operatorship of the Logbaba gas and condensate project in Cameroon, via Bramlin's wholly owned subsidiary Rodeo Development Limited ("RDL"). The remaining 40% interest was owned by RSM Production Corporation ("RSM"), who were required under the Operating Agreement to fund their participating interest share of expenses incurred by the operator in connection with joint operations.

In April 2011, President Paul Biya, signed a Decree granting an Exploitation licence for the project and exercising the right of the State oil company SNH to take its 5% interest in the project, thereby reducing the participating interest of RDL to 57% and RSM to 38%.

Following the completion of the drilling activities, which were to be exclusively funded by RDL, RDL issued on 15 June 2011 a cash call to RSM, in accordance with the Operating Agreement. RSM failed to make payment of the cash call by the due date or, following RDL serving notice of default, within the period provided for remediation of the default. Accordingly, following legal advice, RDL exercised its right under the Operating Agreement to require RSM to withdraw from the Operating Agreement and the Concession Contract on 18 July 2011. The Directors of the Company are aware that RSM intends to seek arbitration through the International Court of Arbitration. However, having taken legal advice, the Directors are confident that RSM has forfeited its interest and that any arbitration application by RSM will not be successful.

On 29 July 2011, the Company announced it had drawn down a further £0.6 million of its £10.0 million SEDA with YA Global Master SPV Ltd.

On 11 August 2011, the Company announced that it had acquired one-third of a 6.8% royalty interest in its 95% owned Logbaba gas and condensate project in Cameroon from PR Marriott Drilling Limited by the purchase of their one third interest in CH for a consideration of \$5.0 million in cash and drilling equipment to the value of \$1.0 million.

On 16 August 2011, the Company issued a total of 29,354,285 shares in the Company in settlement of deferred consideration and deferred bonus obligations contained in agreements previously entered into by the Company's subsidiary Bramlin Limited.

On 27 September 2011, the Company announced that it had completed a £9.5 million (\$14.7 million) equity placing for funding of capital expenditure, to finance in part the royalty acquisition and for working capital.

## Notice of the Annual General Meeting

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### Victoria Oil & Gas Plc

Notice is hereby given that the Annual General Meeting of Victoria Oil & Gas Plc (“the Company”) will be held on Wednesday 30 November 2011, at 11.00am 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 2011.
2. To re-elect Philip Rand 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 £5,000,000 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 £5,000,000 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

Victoria Oil & Gas Plc  
Hatfield House  
52/54 Stamford Street  
London  
SE1 9LX  
27 October 2011



## 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.

### Proxy voting 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, Bridgewater Road, Bristol, BS99 6ZY; and
  - 6.3 received by the Registrar no later than 11.00am on 28 November 2011.
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.

### Electronic proxy voting through the internet

9. You are able to appoint a proxy online by visiting [www.eproxyappointment.com](http://www.eproxyappointment.com). You will be required to enter your control number, shareholder reference number and PIN which can be found either on your proxy form or within the email notifying you of the Annual General Meeting. The proxy appointment and instructions must be received by the Registrar of the Company no later than 11.00am on 28 November 2011.

### Electronic proxy voting through CREST

10. CREST members will be able to cast their vote using CREST electronic proxy voting using the procedures described in the CREST Manual (available via [www.euroclear.com/CREST](http://www.euroclear.com/CREST)). To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the Registrar of the Company (ID number 3RA50) not later than 11.00am on 28 November 2011.

### Appointment of proxy by joint members

11. 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

12. 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.
13. 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

14. 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, Bridgewater 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.
15. The revocation notice must be received by the Registrar of the Company no later than 11.00am on 28 November 2011.
16. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, your proxy appointment will remain valid.
17. 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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"API"	Scale of oil gravity measurement (API = American Petroleum Institute).
"bbl(s)"	Barrel(s), or 42 US gallons.
"Bcf"	Billion cubic feet.
"boe"	Barrels of oil equivalent.
"mm"	Millions
"Proven", "Proved" or "P90"	The amount of petroleum which geophysical, geological and engineering data indicate to be in place or recoverable (as the case may be) to a high degree of certainty. For the purposes of this definition, there is a 90 per cent. chance that the actual quantity will be more than the amount estimated as Proven and a 10 per cent. chance that it will be less.
"Probable" or "P50"	As for Proven but with a greater element of risk. For the purposes of this definition, there is a 50 per cent. chance that the actual quantity will be more than the amount estimated as Proven + Probable and a 50 per cent. chance that it will be less.
"Possible" or "P10"	As above but entailing a substantial element of attached risk. For the purposes of this definition, there is a 10 per cent. chance that the actual quantity will be more than the amount estimated as Proven + Probable + Possible and a 90 per cent. chance that it will be less.
"Prospect"	A potential accumulation that is sufficiently well defined to represent a viable drilling target.
"PVT"	Pressure-volume-temperature relationships for a fluid, normally determined by laboratory methods.
"stb"	Stock tank barrels, measured at 14.7psi and 60°F.
"scf"	Standard cubic foot of gas, measured at 14.7psi and 60°F.
"sfc/d"	Standard cubic feet per day.
"Tcf"	Trillion cubic feet.
"volumetrics"	Estimation of recoverable reserves based on the area, thickness and porosity of a reservoir, and a recovery factor.

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