Victoria Oil & Gas Plc
Annual Report & Accounts 2012

Growing Production Output

Clean and Reliable Energy Supply

Measuring Progress

About Us

Victoria Oil & Gas is an oil and gas exploration and production company with projects in Africa and the FSU. The Group's assets are 95% of the Logbaba gas and condensate field in Cameroon 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, which commenced continuous production operations in July 2012, located in the eastern suburbs of Douala, the economic capital of Cameroon.

Since 2009, Victoria has invested over $100 million into the Logbaba project including two wells, production facilities and a pipeline reaching the main customer hub in the economic capital of Douala. Production is set to ramp-up significantly throughout the remainder of 2012 and during 2013. The Company anticipates cash flow break-even going forward for the Group by the end of 2012.

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Highlights

Logbaba Operational Highlights

Continuous production operations commence at Logbaba in July 2012
Current peak production in excess of 1 mmscf/d
Production forecasted to reach 5 mmscf/d by the end of 2012
Commissioning of the process plant and 13.2km of pipeline to and around Central Douala
Company increases participation in Logbaba to 95%
VOG becomes the first gas producer ever in Cameroon to supply the industrial market
19 Gas Sales Agreements signed to raise steam/heat at $16/mmbtu ($16/mcf)
13 Power Proposals delivered to customers of which 6 have advanced to LOIs
The Phase 1 pipeline area (red route on map on page 4) is now complete
Independent CPR on the Logbaba gas and condensate field confirms a 50% increase in total 1P Reserves and 1C Contingent Resources
Independent Douala gas market study provides positive assessment of Logbaba demand and supply considerations

Financial & Other Highlights

$16.4 million of equity finance and $5.5 million of debt raised in the year
$22.8 million invested in Logbaba project
Strengthening of senior management team with appointment of a Director of Projects and additional sales staff
Macquarie Capital (Europe) Limited appointed as joint corporate broker
Senior secured debt facility expected to close in Q4 2012

Recent Milestones

2008
Victoria Oil & Gas enters Cameroon in December and becomes operator of Logbaba.

2009
In September, VOG spuds the first well, La-105, the first onshore well in Cameroon since the 1950s.

2010
The two-well drilling programme was completed successfully; well La-105 tested at 55 mmscf/d and La-106 tested at rates up to 22 mmscf/d.

2011
The President of the Republic of Cameroon, S.E. President Biya, signs the Exploitation Licence on 29 April.

First delivery of gas in December.

2012
Commencement of continuous gas and condensate production operations in July.

Year-end expected production rate of 5 mmscf/d.

Objectives & Strategy

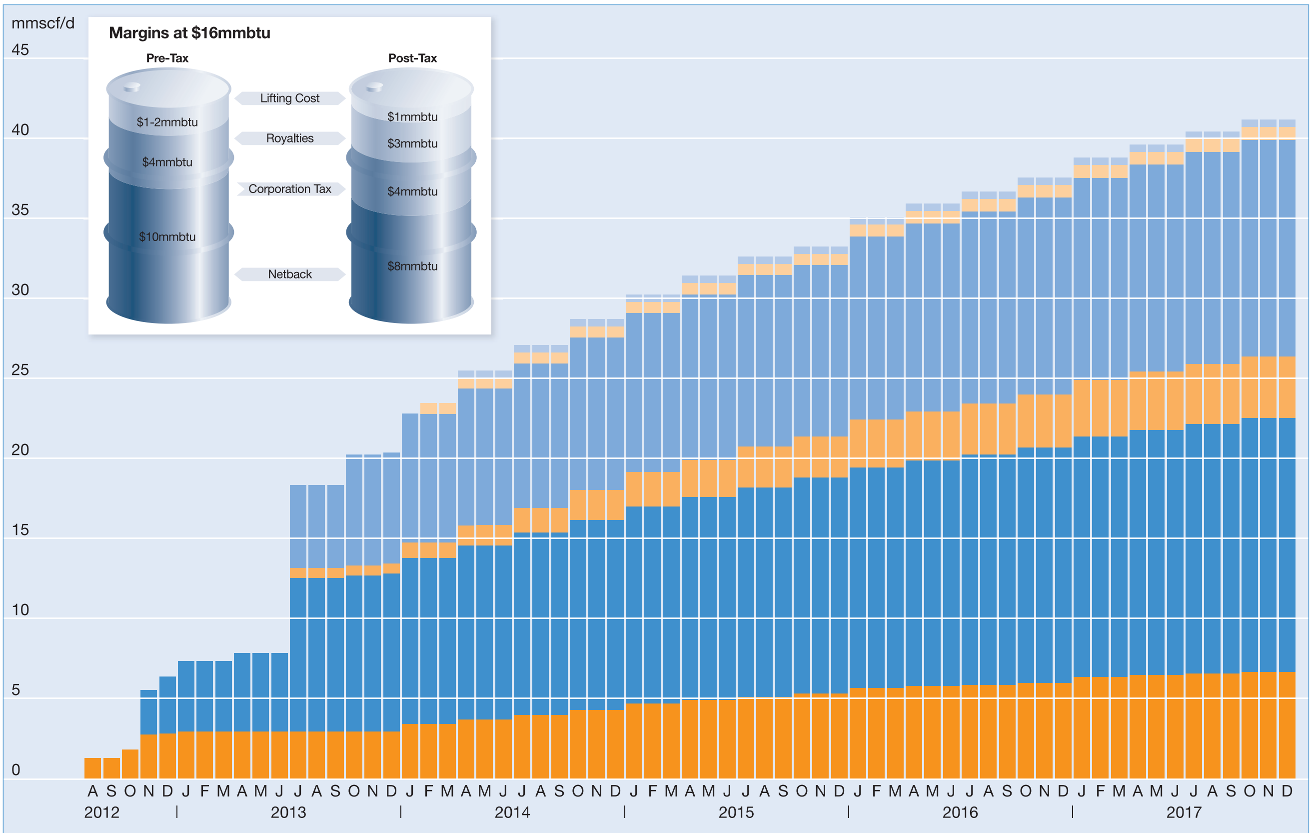
- Become a mid-size E&P player by 2015 through organic growth and acquisition
- Focus on core area of West Africa
- Build on cash flow from Logbaba to fund further exploration and development opportunities
- Become a leading player in new thermal and power projects in Cameroon
- Acquisition of opportunistic, undervalued assets/distressed sellers

Logbaba: 2011-12 Progress	Logbaba: 2013-14 Aims
Flow 1 mmscf/d in July 2012 Flow 5 mmscf/d at end of 2012	Flow 20 mmscf/d by end of 2013
First gas to power in country	Supply 40 customers in Douala and surrounding area
Pipeline Phase 2 commences	Complete Pipeline Phases 2 & 3
Attain positive cash flow from operations	Introduce new technologies such as compressed natural gas

West Med: 2011-12 Progress	West Med: 2013-14 Aims
Processing of new well data and surveys completed	Aim to secure Farm-in partner in 2013
Submitted drilling candidate locations for next drilling programme	Complete winter road and drill pad
Announced 300 million boe increase in gross prospective resources to 1.4 billion boe	Complete drilling design project
Obtained approval from Russian Ministry for development plan of an Early Production Scheme	Plan for drilling to start in Q4 2013

Logbaba Production Growth with Attractive Margins from Sales to Industry

Independent Assessment of Forecast Peak Production



Source: Challenge Market Study, September 2012

Key Points

Logbaba

First natural gas supplier in Cameroon
95% interest and operatorship in the Logbaba gas and condensate field
Located in the heart of a substantial industrial and energy-hungry region
Own and operate whole gas supply chain from wellhead to customer
Excellent relationships with strong government support
Diverse industrial customer base within 10km of wellhead
19 thermal gas sales agreements ("GSAs") signed including multi-nationals
GSAs have 20-year exclusive gas supply arrangement with price fixed at US$16/mmbtu ($16/mscf or $96/boe) for first 5 years
6 Letters of Intent signed for power
Field production anticipated to reach 5 mmscf/d by year-end 2012
Forecast gross production to increase to 20 mmscf/d by year-end 2013
Current condensate yield of 18 bbls/mmscf
Gross 2P reserves of 212 bcf of gas + 4 mmbbls condensate
Outstanding potential in other areas of the Logbaba licence area
Additional 1 tcf gross best estimate prospective resources

Customer Specific Benefits (Thermal)

Energy demand is met by high-cost liquid fuels (diesel and fuel oil) priced off international benchmarks
Natural gas supply contracts create approximately 30% total cost savings
Improved boiler efficiencies and longer life through reduction of scaling and soot
Reduced pumping, storage and heating costs of liquid fuels
Reduced maintenance costs and less downtime

Customer Specific Benefits (Power)

Cameroon industry challenged with constant blackouts and brownouts hampering expansion
Natural gas-fired power solutions will increase control and reliability of energy delivery
Customers can expect significant cost savings with a reliability premium

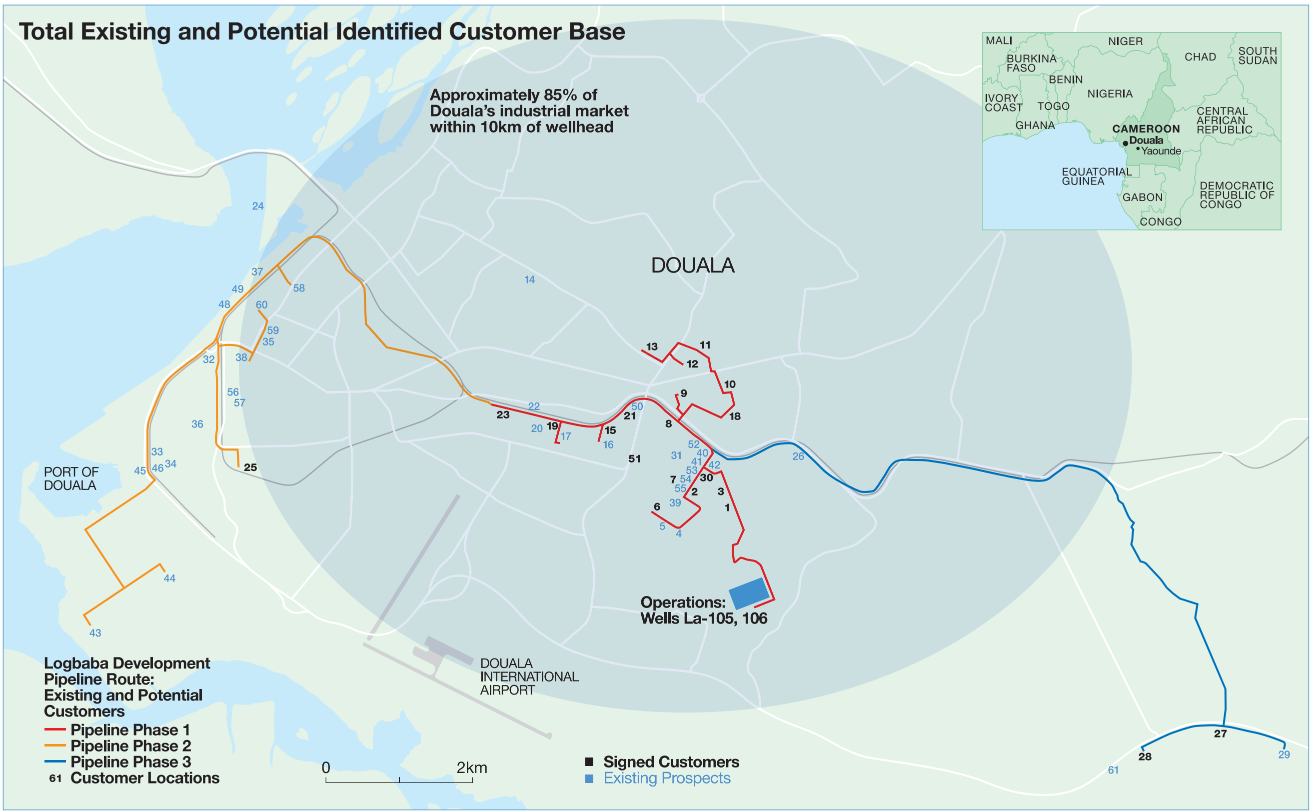
Benefits for Cameroon

Advance of gas will pave the way for increased industrial expansion and foreign direct investment
Environment benefits: gas energy of choice with fewer emissions

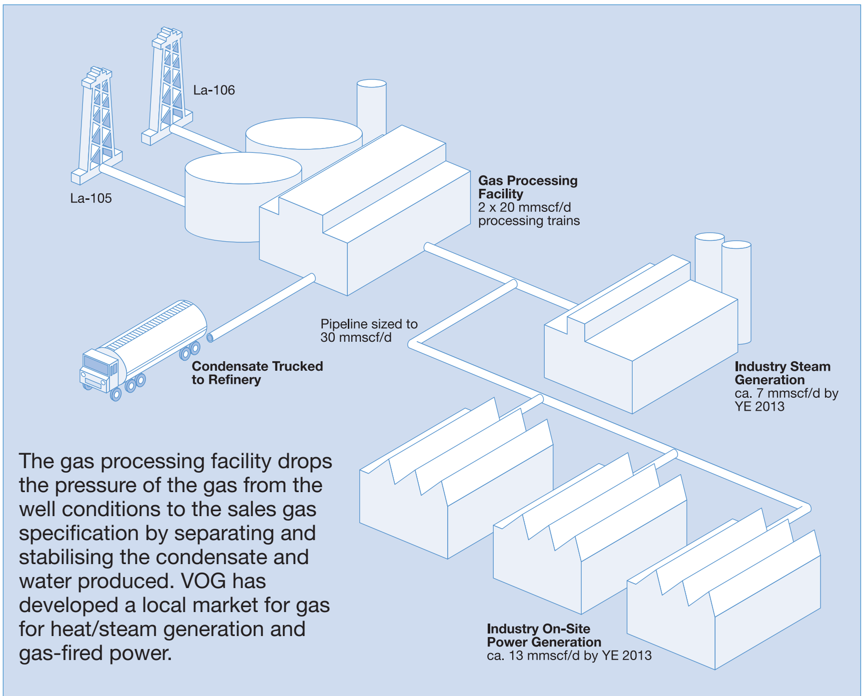
West Medvezhye

Major potential with best estimate prospective resources of 1.4 billion boe
Classical prolific West Siberian geology; targeting structural and stratigraphic traps
2013 drilling programme catalyst for re-rating of VOG
4 wells drilled, one discovery well (Well-103)
Well-103 has C1+C2 Reserves estimated at 14.4 million boe
Recoverable Resources (C3) estimated at 170.6 million boe
Approval of Early Production Scheme by Russian Ministry of National Resources
Early production facility to truck oil to Nadym, located 40km away, with $60/bbl achievable

Map of Logbaba Operational Area



Cameroon: Process & Customers



The gas processing facility drops the pressure of the gas from the well conditions to the sales gas specification by separating and stabilising the condensate and water produced. VOG has developed a local market for gas for heat/steam generation and gas-fired power.

Signed Thermal Customers and Power LOIs
Gas for customers heat and power requirements represents a market anticipated to be in excess of 50 mmscf/d over the medium term

Thermal GSAs

Food Processors	
Imperial Foods	7
BSF	8
Camlait I	10
Camlait II	23
Parlite Foods	27
Chemical Industry	
Plasticam	15
HACC	18
Unalor	19
LGCCA	21
CCC*	51
Breweries	
SABC I	9
Guinness	13

Metallurgical	
Coulée Continue	1
Laminoir	n/a*
Prometal	3
Metafrique	6
Other	
SOLICAM	2
CICAM	12
Pack Industry	28

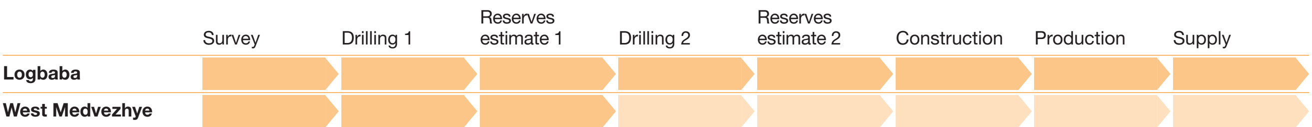
Power LOIs

Camlait	10
CICAM	12
Plasticam	15
Biopharma I	30
Biopharma II	30
CCC	51

* New customer – spur line to be constructed

Map of West Medvezhye

Progress



Net Proved and Probable Reserves

	Oil & Condensate (mmbbls)	Gas (bcf)	Total (mmboe)
Reserves			
Logbaba Field	4.0	201.4	37.6
West Med 103 Discovery[1]	11.8	15.6	14.4
Total Reserves	15.8	217.0	52.0

[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.

Note:
In addition, in September 2012, the Company announced an independent CPR on the Company's proved reserves only where ERC Equipoise Limited assessed 1P reserves of 39.1 bcf plus 32.7 bcf of 1C contingent proved resources.

Net Prospective Resources

	Oil & Condensate (mmbbls)	Gas (bcf)	Total (mmboe)
Prospective Resources			
Logbaba Area[2]	19.0	950.0	177.3
West Med Block[3]	721.5	3,902.3	1,416.6
Total Prospective Resources	740.5	4,852.3	1,593.9

[2] Blackwatch estimate (2012).
[3] Mineral estimate (2011).

Turning on the Taps

There have been a number of very positive developments on our projects in 2012, most notably the commencement of continuous production at the Logbaba Field, Cameroon ("Logbaba") in July 2012. We are very proud of what we have achieved over the course of three years. We landed the first onshore rig for over fifty years in country and successfully completed two wells. Today we have a cornerstone project with robust and increasing domestic demand for our gas and the supply capability to meet it. These key elements have been independently verified as part of due diligence requirements for a debt financing package that is close to being finalised. Our key priority remains to ramp up gas off-take volumes through conversions of existing contracted customers, in order to strengthen the financial position of the Company and attain positive cash flow for the Group.

A boiler house at SABC. VOG is substituting heavy fuel oil and waste oil used in raising heat with natural gas.

Review of the Markets

Throughout 2012, the global economy has continued to slow with a mixture of an austerity constrained Euro-zone and lower growth in emerging economies and China in particular. The US has shown some green shoots of recovery having performed better than other major developed economies, but further rounds of quantitative easing, high levels of unemployment and forthcoming cuts to the federal budget indicate that confidence will be fragile in the global economy in 2013.

Despite this, Africa has become a "hot address" for investors this year with a considerable amount of corporate activity in both East and West Africa. However, many junior exploration companies continue to see depressed share prices as investors' price in funding difficulties in the absence of cash flow from production. I believe that during these challenging economic times, the now-producing Logbaba Project is an exceptional project, as it is local conditions rather than global factors that will ensure its success and, in turn, the performance of this Company.

Logbaba, Cameroon

RDL 95% operated interest

I am very satisfied with the progress achieved by the Group throughout the financial period and to date. In this financial climate, it was essential for us to move from an exploration and development company into one with continuous production and cash flow. We have now achieved this and, in doing so, have distinguished ourselves from the majority of our peers which are solely reliant on the equity capital markets for funding.

Production and cash flow from our flagship Logbaba project are set to ramp-up significantly over the coming months as contracted customers continue to come on line. This will provide a solid platform for growth and the foundations upon which I believe we can progress this Company into a mid-market integrated E&P company. On a broad scale, one of Africa's most critical problems is provision of reliable energy. We believe that we have established a strategically important solution for the provision of locally sourced energy. Furthermore, we believe that this model, and our expertise, can be exported to many other countries within Africa, potentially forming a significant part of our future business strategy.

Operational progress at Logbaba was maintained at a steady rate throughout the financial year, with completion of all of the key downstream elements of the project. This included the re-opening and commissioning of wells La-105 and La-106, installation of the production facilities and the completion and commissioning of 13.2km of pipeline to and around central Douala. We have installed nine pressure reduction and metering stations ("PRMS") at our customers' premises. The PRMS units reduce the gas pressure in accordance with the customer's acceptance requirements and measure the volume of gas transmitted. This data is then fed back to our control room at the production plant. We have since ordered an additional 20 PRMS units which are expected to arrive in country before the end of November 2012. These units have been produced to individual customer requirements and reflect our platform for continued production growth over the coming months.

Completion of the downstream works culminated in our announcement of continuous production operations in July 2012, by which time our first three customers had completed their own conversion requirements downstream of their PRMS unit and were able to accept gas. We currently have four customers connected, with an aggregate peak off-take of in excess of 1 million standard cubic feet per day ("mmscf/d") and average daily volumes (7 day week) of 0.7 mmscf/d.

Since July 2012, customer conversions have not advanced at a rate I would have hoped for or expected, but I would like to reassure you that this does not unduly concern me or impact on the long-term fundamentals of this project.

Logbaba: Project History & Market Discussion

Logbaba is located in the city of Douala, onshore Cameroon. The field was discovered in the 1950s by Elf SEREPCA 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. Exhibit 1 is a time structure map on top upper Logbaba.

VOG owns and operates, through its subsidiary RDL, a 95% interest in the Logbaba gas and condensate project. Since the beginning of September 2009, VOG has drilled two appraisal wells which were completed as producers, installed 2 x 20 mmscf/d gas processing trains and installed 13.2km of pipeline to deliver gas to industrial centres in and around central Douala. The Logbaba field is located onshore, on the doorstep of the industrial city of Douala (approximately 4km from the city centre) and has gross proved and probable reserves of 212 bcf which is sufficient to supply an average of 30 mmscf/d (approximately 5,000 boe per day) to the market for the next 20 years. The proximity of the reserves to our market, the industrial customers in Douala, represents a distinct competitive advantage enabling infrastructure build out to deliver the gas to customers at significantly reduced cost. The initial target markets for Logbaba's natural gas are industrial customers in Douala for:

> Substitution of heavy fuel oil and waste oil used to generate heat with natural gas (thermal); and
> Power generation at customer sites using natural gas displacing grid power (on-site power).

Douala, the economic capital of Cameroon, is an energy intensive city with a great variety of light and heavy industry. It also serves as the principal deep water port for all of the six member states of Central Africa. Examples of Cameroon/Central African industry that reside here include breweries, metallurgical foundries, food processing plants, chemical plants, textile and packaging industries.

VOG has secured a large local market to replace liquid fuels consumption to generate heat, including heavy fuel oil and waste oil. These ‘competing’ fuels are priced according to international indices and are currently estimated to cost the customer on average in excess of 30% more than VOG’s contracted gas price. The Company has entered into ‘pay-as-you-go’ gas sales agreements with customers to sell gas at \$16/mmbtu (ca. \$16/mcf) with prices fixed for five years and the contract term lasting 20 years. After conclusion of the first five year period, prices are fully re-negotiable between the seller and the buyer. The buyer has no minimum contractual volumes stipulated in his contract but is economically incentivised to take our gas over more expensive liquid fuel alternatives.

A recent independent study on pricing in Cameroon, commissioned by VOG, estimated that the dated Brent benchmark for crude would need to fall to a price below \$63/bbl to make competing liquid fuels more attractive.

In addition to gas for thermal heat requirements, VOG is signing power contracts with industrial customers. The Company has secured LOIs to replace power sourced from the local grid, the primary power source of electrical energy, with the employment of gas-fired power generators on the customer premises. These generators will deliver a more reliable power supply than the existing grid network where power demand from the network far outstrips supply causing significant problems for the customer. The pricing of VOG’s power contracts will represent a significant saving for the customer but a reduced saving compared to thermal contracts.

The principal attraction and focus of the customer is the significantly increased reliability of this energy solution. For example, a World Bank report on Cameroon in 2011 highlighted that industry in Douala is beset with chronic power shortages and suggested that firms faced 128 outages in 2009 which represented a total of at least 16 days. It is the unplanned nature of the outages when the grid overloads from excessive demand that causes the greatest disruption and cost to many industries as raw materials in process at the time get thrown to waste. Therefore, customer benefits will be both contracted monetary savings versus the local power supply charges, as well as savings resulting from less disruption costs and the lost productivity that they regularly experience.

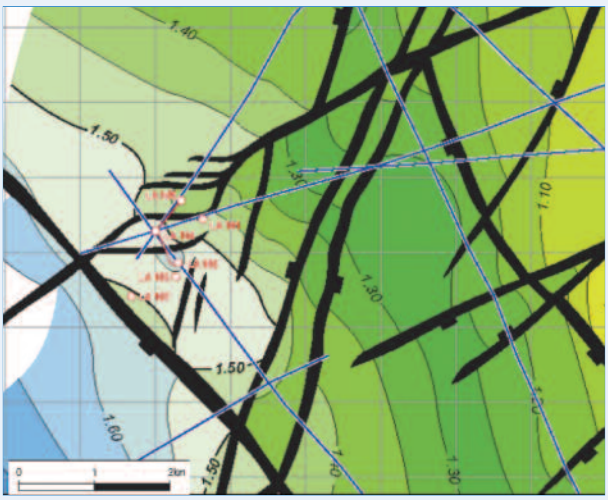
The Company’s power contract prices will be individually tailored to each individual customer given that they will require different technical solutions and have different operating regimes i.e. days worked per week and hours worked per day. Factors that will influence contract pricing include the quality of the generator required, monthly load factor and daily variable load of the customer, operating regime and the desirable contract term. In addition, VOG is requiring some level of ‘take or pay’ commitment in the contract in order to justify the investment in the gas-fired generators which the Company will pay for unless the buyer wishes to own and operate their own mini-plant/generator. Each contract where VOG is contracted to sell power will have three pricing elements:

> A monthly fixed charge to cover the cost of the generator over the contracted term;
> A monthly O&M charge to cover the cost of maintaining the generator based on kwh consumed; and
> A monthly volume charge to cover the cost of the gas utilised in generating electrical power.

The total contracted price to the customer will vary but is estimated to be similar to thermal contract pricing. The volume charge to the customer will once again vary depending on the efficiency of the electrical conversion process but is estimated to be in the range of \$10-\$16/mmbtu (\$10-\$16/mcf) on a gas equivalent basis. In the short term, to expedite the sale of power and meet with clients wishes to replace grid power provision as soon as possible, VOG will supply power to some customers with the employment of rental power generators. When the permanent power units become available, VOG will swap out the rental equipment with the permanent fixtures under the same contract. The standard contract terms being discussed with the customers are for ten years.

VOG has publicly declared production targets of 5 mmscf/d day for year-end 2012 and 20 mmscf/d for year-end 2013.

Exhibit 1: Well location map, Logbaba Field, on Top Upper Logbaba time structure (TWT).



Under the terms of our gas sales agreements, the customer's responsibility is to complete all works required downstream of the PRMS unit. This involves a cost to them on average of $50,000-$100,000 including project management costs, engineering design and installation of a dual fuel gas burner and a gas spur line from the boiler to the PRMS unit. The payback for all signed customers is estimated to be less than six months. The challenges that we have encountered include the following factors:

- Not all customers have the skills required to undertake pipe work, burner and boiler specification, construction work and project management.
- Some customers employed local contractors who were not sufficiently qualified to undertake the works and as a result failed the inspection and integrity tests set by Bureau Veritas, our pipe work inspectors. As a company, we have a commercial interest, and a duty of care, to ensure all works are performed in a safe and robust manner and we have therefore become much more involved in contractor qualification and selection.
- While customer awareness for the project is high, there has been a degree of hesitation in converting to a new energy source and paying for the alteration work.
- Contracting burner commissioning agents from one of three principal manufacturers in a timely fashion has proved challenging. These companies had a limited presence in Cameroon and we are working hard to rectify this.

Throughout this process, however, we have gained valuable experience with respect to customer conversion requirements and in-country contractor competencies, and we are now taking a greater role in assisting clients to connect to our gas network. There have been two instances where we have completed the prerequisite works for our customers and now that we have continuous production operations and satisfied customers, there is a backlog of additional customers waiting to be connected to the grid. I am confident that we will have a minimum of 15 customers taking in excess of 3 mmscf/d of thermal gas by the end of 2012.

Our gas sales and marketing team have identified over 60 suitable thermal and/or power customers in the region, as represented in the map on page 4 of this report. To date, we have signed 19 gas sales agreements ("GSAs") for the provision of thermal gas and the team is very much focussed on finalising contracts in the Phase 1 pipeline area to maximise revenue opportunities until we are in a financial position to embark on Phases 2 and 3 of the pipeline construction.

We also have a highly prospective market for the direct supply of power. The lack of a reliable power supply in Douala is a major concern cited by industries in the region, as it limits expansion plans and causes major operational and production issues including wastage, equipment damage and cost overruns. The Company has an established independent distribution network (with Phase 1 of the pipeline completed) that will allow us to deliver a 'total energy solution' to industrial customers to fulfil all their heat and power requirements.

While the gas to power market represents a larger and more lucrative opportunity over the medium term, the Company has only recently engaged in contractual discussions with customers regarding the provision of power, as the capital cost to the customer is higher, relative to thermal conversion costs. Each solution must also be individually tailored to a customer's needs and generic solutions cannot be pre-ordered. This is explained more fully in the Logbaba History and Market Discussion on page 7. With the Company having had continuous production operations for approximately four months, our customers are now able to witness a reliable gas distribution network in place, which we anticipate will help facilitate their investment decision on committing to a gas generator through our proposed payment structure.

We have recently sent 13 power offers to customers, of which six have been converted to Letters of Intent ("LOI"s), and we expect the first contract to be signed in November 2012. With this first power coming on line, together with the thermal gas demand outlined above, the Company anticipates year-end production of 5 mmscf/d.

I am very optimistic about the remainder of 2012 and our Company's prospects into 2013. Logbaba is a fantastic project to be involved with. We are in a privileged position to have a project which is neither demand nor supply constrained for the foreseeable future. Both of these statements have recently been independently verified through third-party competent person's reports produced by Challenge Energy Limited ("Challenge") and ERC Equipoise Limited ("ERCE").

To date the Company has exported five tankers of condensate to the Limbe refinery, located 60km from the city of Douala.

VOG owns and operates the entire supply chain from the wellhead to the final consumer. We feel this is a considerable achievement and offers us a strategic advantage.

A Gas Market Study, undertaken by Challenge, a leading advisory consultancy group to the oil and gas industry, highlights a very positive assessment of the Logbaba project, concluding: "VOG's strategy to displace refined products consumed by industrial customers for thermal heat generation and substituting grid power in the major industrial centre of Douala is robust and reasonable with few material risks." Challenge's assessment of gas and gas-to-power market performance and growth split by phase is highlighted on page 2.

In October 2012, we announced an independent reserves estimate completed by ERCE on the Company's proved reserves. This was commissioned by the Company in relation to a debt funding proposal that we are advancing. ERCE concluded a 50% increase in total 1P Reserves and 1C Contingent Resource gas volumes with 1P ("Proven") Reserves of 39.1 billion cubic feet ("bcf"), plus 32.7 bcf of 1C Contingent Resources leading to a total potential 71.8 bcf of producible gas (gross), plus 1.14 million barrels ("mmbbls") of condensate. This endorses our supply capability for the foreseeable future.

I look forward to the coming months and years with genuine optimism. We have made great progress on the Logbaba project during the financial period and beyond. We are working extremely hard to meet our publicly stated targets and are confident that these targets will be achieved.

West Medvezhye

100% operated interest

Progress at West Medvezhye ("West Med") during the financial period and to date has been very pleasing and we have made two very notable advancements on the project.

I have always maintained that West Med has the potential to become a company-maker. Whilst we have a fairly modest discovery to date of 14.4 mmbbls of oil, there is very exciting geological potential on the block and this was confirmed by an independent geological modelling study and resource audit carried out by Mineral LLC ("Mineral"). Following completion of their report in August 2011, the Company announced an increase in best estimate unrisked prospective resources in excess of 300 million barrels of oil equivalent ("boe") to over 1.4 billion boe.

The second notable achievement was the approval of the development plan for an early production scheme by the Ministry of Natural Resources in August 2012 for Well-103 and the surrounding area. We are making good progress at West Med with a well defined project and scope of works for the next three years.

We have commenced building a winter road in preparation for construction of a drilling pad planned for Q1 2013. We will then look to qualify and finalise a selection of contractors for the next drilling programme over the coming months as well as contractors to perform the logging and well-test operations. The Company will then commence drilling during the winter of 2013/2014 in targeted locations which have been defined by the Mineral study in the Well-103 area.

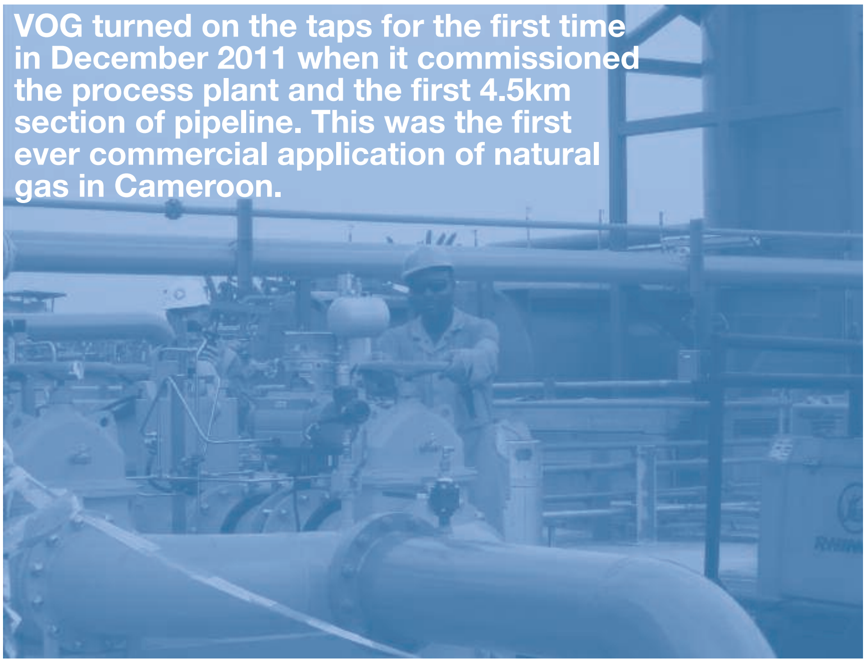
Based on our recent geotechnical work, the Company believes that Well-103 was drilled on the edge of a significant structure. Our next drilling campaign, if in line with management expectations, could lead to a very significant reserve upgrade for the Company in the Upper Jurassic as well as the Lower Cretaceous Achimov layers.

In light of the enhanced prospectivity of the asset, we would have liked to finance this drilling programme ourselves. However, the Company is planning to farm-out a portion of its interest in West Med to preserve capital and forge ahead on the infrastructure roll-out and customer expansion at Logbaba. We have begun this process with some selected screening of potential candidates and anticipate concluding a farm-out process by Q4 2013. We do not intend to use cash flow from Logbaba to fund exploration in West Med.

I often feel that West Med is overlooked to some degree by investors in our overall asset portfolio but its significance should not be forgotten. Our first production from West Med is currently estimated to begin in 2016 and should provide a strong platform for production growth and cash flow over the medium term.

Management Changes

VOG has strengthened its senior management this year with the addition of a new Director of Projects, Neil Kendrick, a professionally qualified Mechanical Engineer and Project Manager who has held a number of senior management and executive level positions over the past 25 years with both publicly and privately held companies in the oil and gas sector. As Director of Projects, Neil is responsible for all aspects of project delivery and is currently concentrating on leading the



customer conversion effort in Logbaba and growing the business in Cameroon.

Under the leadership of Jonathan Scott Barrett, Managing Director of RDL, the Company has expanded its sales and marketing team in Douala with the addition of dedicated professionals to help lead the effort in country. The team has done an excellent job having signed up 25 customers to date, including power LOIs, and has identified a total of over 60 existing customers and prospects.

Philip Rand stepped down as Non-Executive Director this year to pursue another opportunity that requires a greater degree of international travel and a full-time commitment. We are grateful for Philip's service to the Company over a number of years and wish him well in his future endeavour.

Going forward, we are also looking to strengthen the Board with the expected addition of one or two directors in the near future, including an active search for a CEO to lead the Company into its next growth phase.

Corporate

The Board seeks to maximise shareholder returns when considering financial solutions for its ongoing capital requirements. The Company constantly reviews asset and corporate investment opportunities that will increase our exploration and production portfolio which may require additional funding in the future. During the financial period the Company successfully raised £10.1 million in equity to continue to fund the development of its projects in Cameroon and Russia and for the Group's working capital requirements. In addition, the Company drew down $5.2 million under a short-term unsecured $8 million loan note facility. By the end of the period VOG has invested a total of $103.7 million in Logbaba and $41.6 million in West Med.

Subsequent to the financial year-end, the Company raised a further £3.15 million in equity. These additional funds were drawn as a bridge to positive cash flow from operations at Logbaba. The Company expects to reach positive cash flow for the Group going forward before the end of the year.

In addition, the Company is currently negotiating a large senior secured revolving credit facility with a top-tier financial institution to fund its ongoing capital requirements at Logbaba and to support the Group's working capital. VOG's strategy for the next 12-18 months is to complete Phases 2 and 3 of the pipeline for Logbaba and achieve sales volumes of 20 mmscf/d. The Company also hopes to announce within this time frame a farm-out of West Med to cover the next drilling programme anticipated in the winter of 2013/2014.

As anticipated in last year's accounts, RSM Production Corporation ("RSM") has initiated arbitration proceedings in relation to the forfeiture of their interest in Logbaba. Since the initial Request for Arbitration was made by RSM there have been significant delays in the selection of the arbitrators and finalisation of the terms of reference, which were only agreed in final form between the parties on 19 October 2012 and are expected to be signed shortly. We will vigorously defend the claims and our UK and US lawyers view is that the forfeiture should be upheld. The arbitration is currently expected to take place in June of next year.

I would like to thank all VOG employees, my fellow Directors and contractors who have participated in our progress this year. We have had some really notable achievements and I look forward to carrying on our work together to continue to optimise our asset base going forward. I would also like to thank all our shareholders for your continued support of the Company. I believe the next 12 months will bring some very exciting news flow and developments and I sincerely hope you will continue to support us as we make this happen.

Kevin Foo
Chairman

Ground-breaking Gas and Power in Cameroon

The pipeline route of way has been selected to minimise disruption to the population with the majority of the pipeline running parallel to the state railway line or along public highways.

VOG has pioneered the first ever onshore gas delivery network to industry in Cameroon. Having completed production drilling, conceptual design and FEED, VOG set about implementing the downstream elements of the Logbaba project in financial year 2012. The Logbaba project involves taking high pressure gas from the wells, processing it to clean it, removing condensate and then distributing it through a low pressure pipeline network to our customers. Meanwhile, appraisal of VOG's West Med discovery took a big step forward with the completion of its Early Production Scheme project plan and its approval by the relevant authorities. This scheme will pave the way to realising the full potential of the 1.4 billion barrels of oil equivalent prospective resources in VOG's West Med licence area.

Logbaba, Cameroon

95% interest

Downstream Operational Achievements

The financial year ended 31 May 2012 marked a period of tremendous operational progress on the ground. You will recall that the Company was awarded its Exploitation Authorisation for Logbaba via Presidential Decree in April 2011, just before the last financial year end. This enabled the Company to embark on the downstream elements of the project which consisted of:

> Re-opening wells La-105 and La-106;
> Trenching, jointing, installation and commissioning of the gas pipeline network;
> Installation and commissioning of the process plant; and
> Installation of pressure reduction, metering stations and boiler conversions on customer premises.

In June 2011, pipeline and civil contractors were mobilised, excavation works commenced on our site for the processing facilities and work began on the production trees and baseline caliper logs to prepare the wells for commissioning.

The works progressed satisfactorily over the next few months despite very tough and almost unprecedented weather conditions with 1,600mm of rain in July and 900mm of rain in August. By September 2011, the production tree assembly work for the wells had been completed and we had installed the first 1.2km section of pipeline. At the site, 36 of the foundation piles were completed to a depth of 10 metres. Meanwhile, our gas plant contractor, Expro, had completed testing of the majority of the equipment at their base including process plant vessels, flow lines and ancillary equipment. Specifications and sizing of PRMS units for the first 20 customers had also been completed and the first nine units were being shipped into country.

After the end of the rainy reason, work continued at a more rapid pace and by December 2011, VOG had fully installed and commissioned the process plant, commissioned the wells and completed the first 4.5km of pipeline. This enabled the Company to deliver first gas to a customer on the Magzi estate by the end of December 2011 during the commissioning process. This was a very creditable achievement for a Company of our size and the result of hundreds of thousands of VOG employee and contractor man hours.

To satisfy the minimum throughput conditions of the processing plant, sized at 20 mmscf/d for each of two production trains, and to operate safely and commercially on a continuous basis, VOG required a minimum daily average throughput of 0.5 mmscf/d. While total gas thermal and power demand at the Magzi estate is anticipated to be in excess of 5 mmscf/d over the next two years, sufficient customers were neither converted nor ready at this time to take gas so the Company put the process plant into standby mode after commissioning.

VOG continued the pipeline expansion northward to the city of Douala and completed the Phase 1 pipeline area of 13.2km in May 2012 which is shown as the red line on the map on page 4. In July 2012, the Company announced that the first three customers had completed their gas conversion requirements and were taking gas with an average daily demand of 0.7 mmscf/d.

Recently, the Company received the results of an independent gas market study carried out by Challenge. This was commissioned at the request of a financial institution as part of a financing package that is currently under negotiation. This report was a tremendous endorsement of management's projections and strategy and outlined a very robust demand curve for gas and gas-fired power. Challenge also referred to successful analogues in Tanzania and Ivory Coast and concluded that the Company is competitively well

Logbaba Gas Reserves, 100% Basis (bcf)

Category	Oct 10
Logbaba Field Logbaba Proved Reserves (1P)	49
Proved + Probable Reserves (2P)	212
Proved + Probable + Possible Reserves (3P)	350
Entire Logbaba Block Prospective Resources	>1,000

placed vis-a-vis other gas exploration and appraisal activity in Cameroon.

As of today's date, we have four customers taking gas with a combined demand in excess of 1 mmscf/d and by December 2012, we are forecasting a year-end production rate of 5 mmscf/d. This will include the first gas to power units in country.

We have also completed installation of the tanker loading facility which was installed at the Logbaba production plant for export of condensate. Tankers with a 36,000 litre capacity export condensate to the Limbe refinery located 60km away. To date, we have exported five tanker loads to the refinery.

Subsurface and Geology

The Company holds a 95% working interest and is operator in the Logbaba Block. The Company's internal reserves and resources estimates at Logbaba were reconfirmed in 2012 by Blackwatch Petroleum Services Limited, ("Blackwatch"), the Company's retained consultants. 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 the Logbaba block have encountered significant gas intervals and all of the five wells that were tested flowed gas to surface (Elf did not test the fourth well when it encountered further gas as it was targeting oil).

There is considerable resource 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 results of our passive seismic survey which provided the first new geophysical information to be acquired over Logbaba since the discovery was made in the 1950s. These survey findings are in line with our geological understanding of the Logbaba reservoir sands and correlate well with data from the four old wells and the newly drilled wells, La-105 and La-106. Of particular interest, the results highlight a major potential hydrocarbon accumulation around 2km from the new wells surface location. This exploration prospect, which lies entirely within the Company's licence block, could be substantially larger than the existing discovery and has not been seen in any previous subsurface studies, due to the lack of geophysical data.

Separately, as part of ongoing discussions with a financial institution regarding a senior secured debt facility, VOG was requested to carry out an independent CPR of the Company's proved reserves. The Company contracted ERCE and in October 2012, the Company announced that ERCE had calculated 1P reserve volumes of 39.2 bcf of gas and 0.62 mmbbls of condensate and 1C resources of 32.7 bcf of gas and 0.52 mmbbls of condensate. ERCE employed standard petroleum evaluation techniques, following the guidelines outlined in the 2007 Petroleum Resources Management System. The Logbaba Formation is divided into Upper and Lower sections, and ERCE has assigned most of the proved reserves to the Upper Logbaba formation. ERCE has assigned the additional recoverable volumes it has calculated for the Lower Logbaba as 1C Contingent Resources pending the outcome of a satisfactory remediation and testing programme which demonstrates that improved flow rates can be achieved from the Lower Logbaba.

Despite a reduction in the currently bookable 1P Reserves, ERCE's independent assessment represents a 50% increase in aggregated 1P Reserves and 1C Contingent Resource gas volumes compared to the Company's internal estimate, which comprises Technical 1P Reserves of 46.7 bcf in the Upper and Lower Logbaba, but carries no 1C Contingent Resources.

A summary of the estimated reserves and resources under different classifications that the Company is carrying for Logbaba is highlighted in the table above.

Consultants at Mineral leading the VOG technical team through their seismic reprocessing and geological modelling study findings.

At West Med, further to approval of the Early Production Scheme by the Russian Ministry of Natural Resources in August 2012, we have a well-defined project and scope of works for the next three years and the Company is gearing up for an exciting period ahead.

West Medvezhye, Russia

100% interest

The West Med block is located near the Yamal Peninsula, North West Siberia, in one of the most prolific gas producing areas in the world and is adjacent to the giant Medvezhye and Urengoy fields. The Company holds a licence for West Med covering 1,224km^2, and has a discovery well, Well-103, with 'C1 plus C2' reserves of 14.4 million boe under the Russian classification system.

Operational progress during the financial year was excellent. Following a seismic reprocessing and geological modelling study commissioned in February 2011, the Company reported in September 2011, that independent reserve auditors, Mineral had confirmed a 300 million boe increase in gross prospective resources to 1.4 billion boe, comprising 670 mmbbls of oil and 730 million boe of gas and condensate.

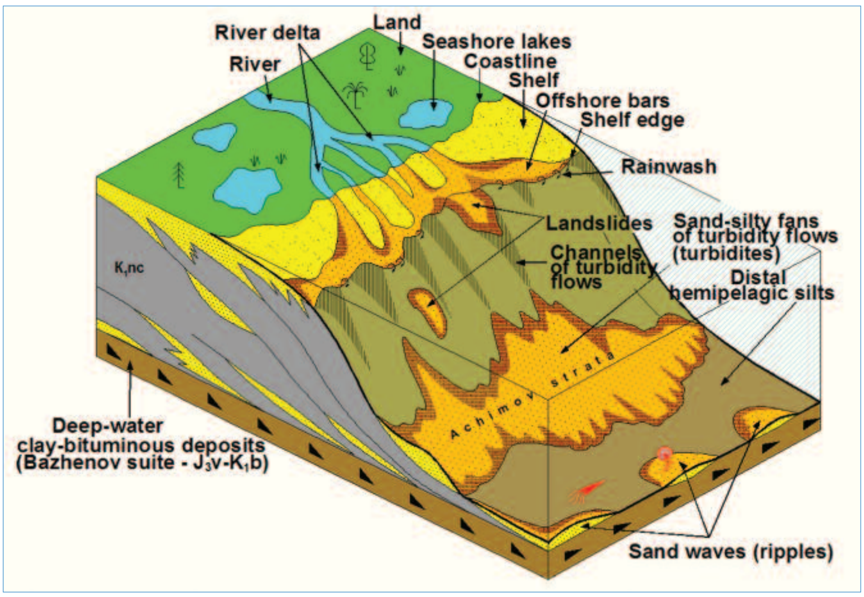
Mineral is a leading consultant in Russia for this specialised geological work and has an excellent proven track record in Siberia where our West Med block is located. We believe its updated assessment of over 1.4 billion boe is of major significance and demonstrates the very high exploration potential of our West Med block.

This programme was presented to the Yamal District regional petroleum authorities in Salekhard in February 2012 and a work programme including a two-well drilling campaign was approved by the authorities. The wells are set to target the Jurassic discovery horizons successfully encountered by Well-103 and also new hydrocarbon potential horizons in the Lower Cretaceous Achimov layers (Exhibit 2) identified by Mineral as highly prospective.

The drilling design contract for these planned wells was awarded to CJSC "TjumenNIPIneft" in March 2012. The scope of work includes detailed well design as well as studies of the terrain, soil mechanics, access and ecological issues.

During the period, work continued on conceptual screening and development studies to monetise West Med's large prospective resources and to exploit the Well-103 discovery to generate cash flow. In January 2012, VOG contracted LLC Nefteproject, based in Tyumen, Russia to develop a project plan for an early production scheme for the discovery area around Well-103. This project was completed and agreed by

Exhibit 2: A Schematic of Formation of the Achimov Strata Deposits.



West Medvezhye: History & Market Context

VOG completed its acquisition of ZAO SeverGas-Invest ("SGI") which owns a 100% interest in West Medvezhye in 2005. In 2006, independent reserve auditors DeGolyer and MacNaughton attributed best estimates for the total prospective recoverable resource volumes for the 1,224km^2 licence of approximately 1.1 billion boe.

Following an unsuccessful three-well drilling programme in 2005/2006 where VOG, under previous stewardship, targeted the shallow gas horizons on the north east flank of the licence where large discoveries had been proved in the neighbouring Medvezhye licence area (SGI found hydrocarbon presence but in non-commercial quantities), discovery Well-103 was drilled in 2006/2007 in a more central location of the licence area, to a total depth of around 3,900 metres and intersecting two hydrocarbon-bearing intervals in the Jurassic (J2) and Bazhenov at depths of between 3,718 and 3,794 metres.

This was a major step forward for the Company as the presence of an operating petroleum system enabled VOG to successfully apply for exploitation status of the licence. However, the discovery Well-103 intersecting the very edge of the reservoir was relatively modest enabling us to book C1 and C2 reserves in 2008 of 14.4 million boe. This was approved by the Russian Ministry of Natural Resources under the Russian Classification system (C1 and C2 being broadly analogous to Proved Probable and Possible Reserves under Western conventions).

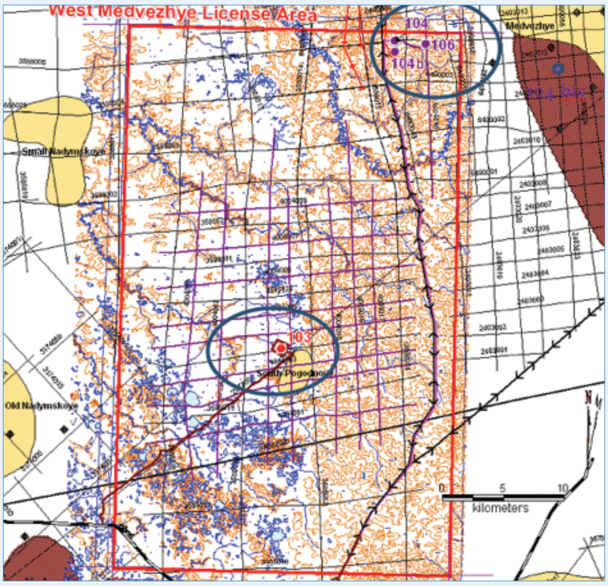
There exists several routes for the commercialisation of the West Med hydrocarbons. The neighbouring town of Nadym is located 44km away with access by all-weather road where there exists a domestic market for crude and condensate. The Chircha railroad station is located within the south west boundary of the licence and the river port and loading terminal of Old Nadym are located 22km away. From the river port, crude can be barged to the Obskaya Bay and shipped in the summer season via tanker to Rotterdam. For gas, one of Gazprom's principal gas transmission pipelines in the area runs along the eastern border of the licence and the nearest Central Gas Processing Unit is located 18.5km from West Med.

While the 103 discovery well proved hydrocarbons in the Jurassic formation in a small area of the licence, there remains large hydrocarbon potential in other parts of the licence area yet to be explored. In 2008, VOG's new technical team launched a studies and data acquisition programme integrating the Company's existing seismic and well data with additional data from conventional and new advanced technologies.

This programme comprised direct Hydrocarbon Indication technologies including passive seismic Infrasonic Passive Differential Spectroscopy (IPDS), usually referred to as Passive Seismic, and Gas Tomography which is primarily based on surface geochemistry. This technology programme was implemented in two stages over two years. This new data was correlated with the data from the existing wells and seismic in order to re-map structures and re-model the subsurface geology. Both stages were completed successfully and the results showed strong correlation with the 2D seismic and Well-103 data.

Further to these positive results, in February 2011, the Company commissioned a seismic reprocessing and geological modelling study to be carried out by a Russian geoscience consulting institute, Mineral.

Exhibit 3: 103 discovery area and previous drill targets in north east flank of the licence area.



the Company in April 2012. Further to submission of the report to the Russian Ministry of Natural Resources, the project plan was approved in August 2012. The scheme established 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.

Work has continued on the drilling design project but the current estimate for completion of this project, which includes public consultations and permitting approvals, is not anticipated until February 2013. This will not give the Company sufficient time to mobilise drilling operations in the coming winter period. As a result, the Company now anticipates postponing its two-well drilling programme until the winter of 2013/2014.

Notwithstanding this, the Company will continue to advance the West Med early production project over the coming 6-12 months. Works outstanding prior to the next drilling campaign include:

> Completion of the drilling design project estimated in Q1 2013;
> Completion of a winter road and a drill pad in Q1 2013;
> Screening, qualification and final selection of contractors including drilling companies, well logging and facilities companies; and
> Acquisition of all necessary consents and permits for drilling.

Based on this preliminary assessment work on the Well-103 discovery, the Company is currently planning for first oil sales via an early production scheme in 2016. Following the Company's decision to farm-out a portion of its interest in West Medvezhye, a data room has been prepared and initial potential candidates have been screened in anticipation of concluding a farm-out by Q4 2013.

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

Neil Kendrick
Director of Projects

Directors' Biographies

Kevin Foo MSc, DIC, Dip Met, MIMMM
Chairman
Kevin Foo has had 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 including 20 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. He helped build Celtic from a sub-£1 million market capital company in 1999 to the point where it was taken over by a Russian group in 2007 for £170 million cash.

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 working for FTSE 100 and AIM-quoted natural resource companies, including: Lonrho plc, LASMO plc, BHP Billiton plc 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.

Senior Management Biographies

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 Holdings plc and a former Chief Executive Officer of the London AIM-listed mining company Eureka Mining plc. 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.

Neil Kendrick
Director of Projects, London

Neil Kendrick is a professionally qualified Mechanical Engineer and Project Manager. Kendrick has held several senior management and executive level positions over the past 25 years with both public and private companies in the oil and gas sector. His most recent role was as project manager for Expro where he was responsible for the on-time supply, installation and commissioning of Victoria's Logbaba gas plant in 2011.

Martin Devine
Commercial Manager, London

Martin Devine has over 12 years' oil and gas experience, including four years' investment banking as a Senior Associate with JP Morgan Chase. He has substantial Mergers and Acquisitions 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.

Honoré Mbouombouo Daïrou
Deputy Managing Director, Cameroon

Honoré Mbouombouo Daïrou has over 13 years' oil and gas industry experience as a petroleum engineer. Daïrou has graduated with a Master of Science degree in Petroleum Geosciences from the University of Aberdeen; a Master of Science degree in Mining and Petroleum Geology from the University of Yaoundé 1, Cameroon; and a Master of Philosophy in Environmental Management from the University of Stellenbosch, South Africa. Daïrou has worked on numerous international exploration, production and environmental operations as a consultant prior to joining the Company in 2009.

Divine Mofa
Operations Manager, Cameroon

Divine Mofa has more than 17 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.

Eckhard Müller
General Manager, Russia

Eckhard Müller has 35 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 projects 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. Andreyev graduated from Kuybishev Polytechnic (Oil Faculty) as a Mining Engineer. He began his career as a drilling operator in a large Russian drilling organisation where he worked his way to the position of Chief Engineer. Andreyev also spent over 20 years as Production Manager for Rosneft (formerly YuKos), before joining the Company as Chief Engineer in 2007.

Directors & Other Information

Current Directors
Kevin Foo, Chairman
Grant Manheim, Deputy Chairman
Robert Palmer, Finance Director
Austen Titford, Executive Director

Company Secretary
Leena Nagrecha

Company Number
5139892

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Directors' Report

The Directors present their Annual Report and the audited financial statements for the year ended 31 May 2012.

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 focus of activities in the year has been mainly the development of the Logbaba gas and condensate field in Cameroon.

The Group has an exploration project in Russia and a development project in Cameroon. During the year, the exploration and evaluation assets associated with the Logbaba gas and condensate project in Cameroon were transferred to property, plant and equipment as, in the opinion of the Directors, the project has now achieved technical feasibility and commercial viability following commencement of commissioning of the production facilities and the gas pipeline network. Refer to Notes 14 and 15 to the Annual Report for further details.

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 17. 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 results for the year, and the Group's financial position at the end of the year, are shown in the attached financial statements. The Directors do not propose that a dividend be paid (2011: 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 (resigned 28 August 2012)

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 63,500,000 shares during the year (2011: 48,101,590 shares). Discretionary awards of 23,300,000 shares were made during the year (2011: Nil).

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 UK Corporate Governance Code May 2011 and the recommendations on corporate governance of the Quoted Companies Alliance.

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

Board

During the year, the Board of Directors was comprised of the Chairman, three Executive Directors (including the Finance Director) and one Non-Executive Director. The Chairman, Kevin Foo, is responsible for leadership of the Board as well as running the Company's business, where he is assisted by other Board members in formulating strategy and delivery once agreed by the Board. The structure of the Board ensures that no one individual dominates the decision making process. The Directors have significant and relevant resource exploration and production experience together with finance and corporate development skills. Summary biographies for each Director are set out on page 16. Following the resignation of Philip Rand on 28 August 2012, after his appointment as Managing Director of Allied Energy plc, the Company is taking active steps to find a replacement non-executive director as soon as possible. It is expected that the Board will be strengthened with further appointments in the future as the Company continues to grow.

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 was chaired by Philip Rand, the Non-Executive Director, during the year 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 the external auditors. Its full terms of reference are available on request and include: the review of the annual and interim financial statements and of accounting policies; the review with management of the effectiveness of internal controls; and the review with the Group's external auditors of the scope and results of their audit. Grant Manheim has replaced Philip Rand as Chairman of the audit committee with effect from 28 August 2012. Kevin Foo is the second member and Robert Palmer attends the committee meetings by invitation.

Remuneration committee

During the year, the remuneration committee consisted of Grant Manheim, the Deputy Chairman, Philip Rand, the Non-Executive Director and Robert Palmer, the Finance Director. The committee 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 Deputy Chairman replaced Philip Rand as Chairman of the remuneration committee with effect from 28 August 2012. The Finance Director is the second member.

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

Relations with shareholders

The Directors attach great importance to maintaining good relationships with the shareholders. Extensive information about the Company's activities is included in the Annual Report and Accounts and the Interim Report. The Chairman also issues an update letter to shareholders from time to time. 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 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 production 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 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 reporting requirements.

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

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

Price of crude oil and gas
Substantially all of the Group's revenues will come from the sale of oil and gas. The price of oil and gas is volatile and influenced by factors beyond the Group's control. These factors include levels of supply and demand, exchange rates and political events. The price for gas is, in addition, influenced by more regional factors such as proximity to a market and the local cost of alternative fuels.

Additionally, licence conditions and local legislation may require production to be sold locally and at a significant discount to world prices.

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

Exchange rate risk
Whilst future sales are likely to be denominated in local currency, a significant consideration in determining the selling price is the movement in the world price for oil, which is US Dollar denominated. The Group's expenses, which are primarily to contractors on exploration and development, are incurred primarily in US Dollars but also in Russian Roubles, the Central African Franc, which is tied to the Euro, Sterling and Euros. The Group's policy is to conduct and manage its operations in US Dollars and therefore it is exposed to fluctuations in the relative values of the US Dollar, Russian Rouble, the Central African Franc, Euro and Sterling.

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 29.

Key Performance Indicators ("KPI")
The Group is in the exploration phase of the West Medvezhye gas project and the development phase of the Logbaba gas and condensate project, so the relevant KPIs relate to the discovery and development of economic oil and gas deposits in Russia and Cameroon.

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

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

Capital expenditure incurred is a reflection of the exploration and development activity of the Group. During the year, additions to intangible and tangible assets amounted to $23.4 million, of which $22.8 million relates to the Logbaba gas development in Cameroon and $0.6 million to the West Medvezhye exploration project in Russia.

Net cash inflow from financing activities for the year was $20.3 million compared to $29.7 million for the previous period. The prime source of cash inflow has been through the issuance of new equity shares and loans from third parties.

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 its 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 obligations and normal business practice.

Charitable and Political Donations
The Company made no political or charitable contributions during the year (2011: 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
Subsequent events which have occurred since 31 May 2012 are included in Note 35 to the attached financial statements.

Auditors
To the best of the Directors' knowledge and belief, and having made appropriate enquiries of other officers of the Company, all information relevant to enable the auditors to provide their opinion on the financial statements has been provided. The Directors have taken all reasonable steps in order to ensure their awareness of any relevant audit information and to establish that the Company's auditors are aware of any such information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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

Annual General Meeting
The Annual General Meeting of the Company will be held in London on 29 November 2012. A Notice of the Meeting is set out on pages 63 to 64. 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 received by post and also available on the Company's website (www.victoriaoilandgas.com) in accordance with the Notes contained in the Notice of Annual General Meeting.

By Order of the Board,

Leena Nagrecha
24 October 2012

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare such financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and have also chosen to prepare the Company financial statements under IFRSs as adopted by the EU. 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 Standard 1 requires that the 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 Company's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility Statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Kevin A. Foo
Chairman
24 October 2012

Robert Palmer
Finance Director
24 October 2012

Independent Auditor's 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 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Cash Flow Statements and the related Notes 1 to 35. 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 regards the Parent Company financial statements, 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 auditor's 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 Auditor

As explained more fully in the Directors' Responsibilities Statement, 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 and express an opinion on 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 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion:

> the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 May 2012 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, 15, 16, 17 and 18 of the financial statements concerning going concern, the valuation of exploration and evaluation assets, the valuation of unlisted investments, the recoverability of other receivables and amounts due from subsidiaries. The realisation of exploration and evaluation assets of $58.2 million, property, plant and equipment of $131.3 million and unlisted investments of $6.6 million included in the consolidated Balance Sheet and investments in subsidiaries of $70.9 million, amounts due from subsidiaries of $98.1 million included in the Company Balance Sheet is dependent on the successful development and completion of the Logbaba gas project in the Cameroon and the successful discovery and realisation of intangible assets in respect of the West Medvezhye project in Russia as outlined in Note 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 Group 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.

Ciarán O'Brien
Senior Statutory Auditor for and on behalf of Deloitte & Touche
Chartered Accountants and Statutory Auditors
Deloitte & Touche House, Dublin, Ireland

24 October 2012

Consolidated Income Statement

for the year ended 31 May 2012

	Notes	2012 $000	2011 $000
Continuing operations			
Administrative expenses		**(4,526)**	(5,099)
Foreign exchange (losses) and gains	5	**(62)**	765
Operating loss		**(4,588)**	(4,334)
Finance revenue	6	**200**	52
Finance costs	7	**(3,337)**	(415)
Loss before taxation	4, 8	**(7,725)**	(4,697)
Income tax expense	9	**–**	–
Loss after taxation for the financial year		**(7,725)**	(4,697)

		Cents	Cents
Loss per share – basic	13	**(0.33)**	(0.26)
Loss per share – diluted	13	**(0.33)**	(0.26)

Consolidated Statement of Comprehensive Income

for the year ended 31 May 2012

	2012 $000	2011 $000
Loss for the financial year	**(7,725)**	(4,697)
Exchange differences on translation of foreign operations	**(4,111)**	2,404
Total comprehensive income/(loss) for the year	**(11,836)**	(2,293)

Consolidated Balance Sheet

as at 31 May 2012

	Notes	2012 $000	2011 $000
Assets:			
Non-current assets			
Exploration and evaluation assets	14	**58,212**	130,899
Property, plant and equipment	15	**131,318**	7,807
Unlisted investments	16	**6,600**	–
Trade and other receivables	18	**–**	27,640
		196,130	166,346
Current assets			
Trade and other receivables	18	**1,805**	3,125
Cash and cash equivalents	19	**1,887**	8,425
		3,692	11,550
Held for sale assets	20	**–**	1,000
		3,692	12,550
Total assets		**199,822**	178,896
Liabilities:			
Current liabilities			
Trade and other payables	21	**(14,260)**	(14,079)
Borrowings	22	**(7,440)**	(1,101)
Convertible loan – debt portion	23	**(3,066)**	–
		(24,766)	(15,180)
Net current liabilities		**(21,074)**	(2,630)
Non-current liabilities			
Borrowings	22	**(3,178)**	–
Convertible loan – debt portion	23	**–**	(884)
Derivative financial instruments	23	**–**	(28)
Deferred tax liabilities	9	**(6,599)**	(6,599)
Provisions	24	**(13,099)**	(12,765)
		(22,876)	(20,276)
Net assets		**152,180**	143,440
Equity:			
Called-up share capital	26	**20,803**	17,178
Share premium		**200,059**	183,867
ESOP Trust reserve	27	**(860)**	(587)
Translation reserve		**(12,411)**	(8,300)
Other reserve	28	**5,440**	4,408
Retained earnings – deficit		**(60,851)**	(53,126)
Total equity		**152,180**	143,440

The financial statements of Victoria Oil & Gas Plc, registered number 5139892, were approved by the Board of Directors on 24 October 2012.

Kevin A. Foo
Chairman

Robert Palmer
Finance Director

Company Balance Sheet

as at 31 May 2012

	Notes	2012 $000	2011 $000
Assets:			
Non-current assets			
Property, plant and equipment	15	**18**	16
Unlisted investments	16	**6,600**	–
Investments in subsidiaries and advances	17	**70,881**	69,840
		77,499	69,856
Current assets			
Trade and other receivables	18	**99,329**	76,643
Cash and cash equivalents	19	**1,236**	7,876
		100,565	84,519
Total assets		**178,064**	154,375
Liabilities:			
Current liabilities			
Trade and other payables	21	**(1,471)**	(1,641)
Borrowings	22	**(5,041)**	(1,000)
Convertible loan – debt portion	23	**(3,066)**	–
		(9,578)	(2,641)
Net current assets		**90,987**	81,878
Non-current liabilities			
Convertible loan – debt portion	23	**–**	(884)
Derivative financial instruments	23	**–**	(28)
		–	(912)
Net assets		**168,486**	150,822
Equity:			
Called-up share capital	26	**20,803**	17,178
Share premium		**200,059**	183,867
Other reserve	28	**5,440**	4,408
Retained earnings – deficit		**(57,816)**	(54,631)
Total equity		**168,486**	150,822

The financial statements of Victoria Oil & Gas Plc, registered number 5139892, were approved by the Board of Directors on 24 October 2012.

Kevin A. Foo
Chairman

Robert Palmer
Finance Director

Consolidated Statement of Changes in Equity

for the year ended 31 May 2012

	Share capital $000	Share premium $000	ESOP Trust reserve $000	Translation reserve $000	Other reserve $000	Retained earnings/ (accumulated deficit) $000	Total $000
At 31 May 2010	11,648	155,636	(293)	(10,704)	3,828	(48,429)	111,686
Shares issued	5,530	30,667	–	–	–	–	36,197
Share issue costs	–	(2,436)	–	–	–	–	(2,436)
Shares purchased by ESOP Trust	–	–	(370)	–	–	–	(370)
Shares granted to ESOP members	–	–	76	–	–	–	76
Recognition of share-based payments	–	–	–	–	580	–	580
Total comprehensive income/(loss) for the year	–	–	–	2,404	–	(4,697)	(2,293)
At 31 May 2011	17,178	183,867	(587)	(8,300)	4,408	(53,126)	143,440
Shares issued	3,625	18,263	–	–	–	–	21,888
Share issue costs	–	(2,071)	–	–	–	–	(2,071)
Shares purchased by ESOP Trust	–	–	(505)	–	–	–	(505)
Shares granted to ESOP members	–	–	188	–	–	–	188
Exchange adjustments	–	–	44	–	–	–	44
Recognition of share-based payments	–	–	–	–	1,032	–	1,032
Total comprehensive income/(loss) for the year	–	–	–	(4,111)	–	(7,725)	(11,836)
At 31 May 2012	**20,803**	**200,059**	**(860)**	**(12,411)**	**5,440**	**(60,851)**	**152,180**

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 direct and incremental 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.

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

Other reserve
The other reserve includes the share-based payment reserve and an amount of $2.9 million which was the difference between the fair value on redemption and the redemption value of a convertible loan note settled in 2008. The loan was redeemed at par and the carried value of the related embedded derivative was credited directly to reserves.

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

Company Statement of Changes in Equity

for the year ended 31 May 2012

	Share capital $000	Share premium $000	Other reserve $000	Retained earnings/ (accumulated deficit) $000	Total $000
At 31 May 2010	11,648	155,636	3,828	(50,277)	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/(loss) for the year	–	–	–	(4,354)	(4,354)
At 31 May 2011	17,178	183,867	4,408	(54,631)	150,822
Shares issued	3,625	18,263	–	–	21,888
Share issue costs	–	(2,071)	–	–	(2,071)
Recognition of share-based payments	–	–	1,032	–	1,032
Total comprehensive income/(loss) for the year	–	–	–	(3,185)	(3,185)
At 31 May 2012	**20,803**	**200,059**	**5,440**	**(57,816)**	**168,486**

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 direct and incremental share and debenture issue costs.

Other reserve

The other reserve includes the share-based payment reserve and an amount of $2.9 million which was the difference between the fair value on redemption and the redemption value of a convertible loan note settled in 2008. The loan was redeemed at par and the carried value of the related embedded derivative was credited directly to reserves.

Accumulated deficit

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

Consolidated Cash Flow Statement

for the year ended 31 May 2012

	Notes	2012 $000	2011 $000
Cash flows from operating activities			
Loss for the period		**(7,725)**	(4,697)
Finance costs recognised in the Income Statement		**3,337**	415
Investment revenue recognised in profit and loss		**(12)**	(52)
Depreciation and amortisation of non-current assets		**485**	16
Net foreign exchange gain/(loss)		**106**	(765)
Fair value gain on embedded derivatives		**(188)**	–
Value of shares vested by ESOP Trust		**188**	–
		(3,809)	(5,083)
Movements in working capital			
Increase in trade and other receivables		**(943)**	(9,368)
Decrease in held for sale assets and inventories		**–**	829
Increase in trade and other payables		**9,293**	2,565
Net cash generated from/(used in) operating activities		**4,541**	(11,057)
Cash flows from investing activities			
Payments for exploration and evaluation assets		**(358)**	(8,721)
Payments for property, plant and equipment		**(23,445)**	(7,602)
Payment for investments		**(5,600)**	–
Interest received		**12**	52
Net cash used in investing activities		**(29,391)**	(16,271)
Cash flows from financing activities			
Proceeds from issue of equity shares		**14,666**	31,596
Payment of equity share issue costs		**(1,039)**	(1,856)
Proceeds from borrowings		**5,500**	–
Repayment of borrowings		**(200)**	–
Payment of loan issue costs		**(497)**	–
Net cash generated from financing activities		**18,430**	29,740
Net (decrease)/increase in cash and cash equivalents		**(6,420)**	2,412
Cash and cash equivalents – beginning of year		**8,425**	6,034
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(118)**	(21)
Cash and cash equivalents – end of year	19	**1,887**	8,425

Company Cash Flow Statement

for the year ended 31 May 2012

	Notes	2012 $000	2011 $000
Cash flows from operating activities			
Loss for the period		**(3,185)**	(4,354)
Finance costs recognised in the Income Statement		**1,886**	355
Investment revenue recognised in profit and loss		**(12)**	(52)
Depreciation and amortisation of non-current assets		**6**	16
Net foreign exchange gain		**113**	13
Fair value gain on embedded derivatives		**(188)**	–
		(1,380)	(4,022)
Movements in working capital			
Increase in trade and other receivables		**(24,727)**	(23,595)
Increase in trade and other payables		**7,046**	267
Net cash used in operating activities		**(19,061)**	(27,350)
Cash flows from investing activities			
Payments for property, plant and equipment		**(8)**	(26)
Payment for investments		**(5,600)**	–
Interest received		**12**	52
Net cash used in investing activities		**(5,596)**	26
Cash flows from financing activities			
Proceeds from issue of equity shares		**14,666**	31,596
Payment of equity share issue costs		**(1,039)**	(1,856)
Proceeds from borrowings		**5,200**	–
Repayment of borrowings		**(200)**	–
Payment of loan issue costs		**(497)**	–
Net cash generated from financing activities		**18,130**	29,740
Net (decrease)/increase in cash and cash equivalents		**(6,527)**	2,416
Cash and cash equivalents – beginning of year		**7,876**	5,473
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(113)**	(13)
Cash and cash equivalents – end of year	19	**1,236**	7,876

Notes to the Consolidated Financial Statements

for the year ended 31 May 2012

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 2012, 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 held 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 intercompany 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 exploration and evaluation 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, Central African Francs,

1. PRINCIPAL ACCOUNTING POLICIES continued

Sterling and Euros. For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in US Dollars, the presentation currency.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each Balance Sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the Balance Sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was re-determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the Income Statement for the year, other than when a monetary item forms part of a net investment in a foreign operation, then exchange differences on that item are recognised in equity. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the Income Statement for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity.

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

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

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

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

(viii) Intangible Assets

Exploration and evaluation assets

Expenditure incurred in respect of research of potential hydrocarbon exploration, prior to the Group acquiring an exploration licence, is expensed in the Income Statement.

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

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

Exploration costs include an allocation of administration and salary costs, including share-based payments as determined by management.

Exploration costs are capitalised until technical feasibility and commercial viability of extraction of reserves are demonstrable. At that point, all costs which have been capitalised to date and included in exploration and evaluation assets, are assessed for impairment. All impairment losses are recognised immediately in the Income Statement. If they are not impaired, then they are reclassified as either tangible assets or intangible assets. Costs which are deemed to be intangible assets are written off over the life of the estimated reserve on a unit-of-production basis (accounted for under IAS 38 Intangible Assets). Costs which are tangible are accounted for under IAS 16 Property, Plant and Equipment.

Impairment of intangible assets

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

a) the period for which the Group has a right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
c) exploration for and evaluation of hydrocarbon resources in the specific area have not led to the discovery of commercially viable quantities of hydrocarbon resources and the entity has decided to discontinue such activities in the specific area; and
d) sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

1. PRINCIPAL ACCOUNTING POLICIES continued

(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. Expenditure is pooled into regional cost pools of Cameroon, Russia and Other.

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%

Oil and gas interests

Costs less assessed impairment losses 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.

Assets under construction

Assets under construction are stated at cost less impairment losses. They are not depreciated until construction is complete and the assets are ready for use, at which time the assets are reclassified to another asset pool and depreciated according to the policy used for that pool.

(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) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Balance Sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see Note 1(xii) below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(xii) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

1. PRINCIPAL ACCOUNTING POLICIES continued

(xiii) 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 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 exploration and evaluation assets or property, plant and equipment as appropriate. 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.

(xiv) 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.

Unlisted investments

Unlisted investments are stated at cost, less any accumulated impairments.

Investment in subsidiaries

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

Advances to subsidiaries

Agreed balances between companies are formally signed off by authorised people on behalf of each company. Any disputes regarding amounts are settled by a Director of the Company. For cash in transit, Group policy is that the entity sending the money that has not been received at financial period end writes back the amount to its own cash balances.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using

1. PRINCIPAL ACCOUNTING POLICIES continued

the effective interest rate method. In relation to trade receivables, an allowance 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.

VAT receivable

VAT incurred is recognised to the extent permitted under current legislation. A provision is included to the extent that recovery is not foreseeable within the next three years.

Cash and cash equivalents

Cash and cash equivalents comprises short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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 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.

(xv) 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.

1. PRINCIPAL ACCOUNTING POLICIES continued

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.

(xvi) 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.

(xvii) Warrants

The Company settles certain financing fees by the issue of warrants. Each warrant entitles the holder to purchase an ordinary share in the Company at a specific price and within a certain time frame. The warrants are fair valued using an appropriate pricing model. The fair value of the warrants is credited to Other Reserve with a corresponding debit to Share Premium. For information on warrants outstanding and pricing assumptions, see Note 30.

(xviii) Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Critical judgements in applying the Group's accounting policies

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

Impairment of intangible assets

The assessment of intangible assets for any indications of impairment involves judgement. If an indication of impairment exists, a formal estimate of 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 amount of potential reserves; likely future commerciality of the asset; when such commerciality should be determined; future revenues; capital and operating costs; the discount rate to be applied to such revenues and costs; and the ability to raise sufficient finance to develop the Group's projects. There have been no significant changes to the assumptions during the year.

The West Medvezhye project in Siberia is an exploration and evaluation asset and in the view of 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 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

1. PRINCIPAL ACCOUNTING POLICIES continued

and condensate prices, development expenditure requirements and a pre-tax discount rate of 8.5%.

Impairment of oil and gas assets

Proven oil and gas assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets's fair value less costs to sell and value in use. For the purposes of assessing impairment, oil and gas assets are evaluated on a field-by-field basis.

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.

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. The amount of exploration and evaluation assets is shown in Note 14 and the sensitivity of the carrying amounts to different methods or assumptions is within the range of plus or minus 10%.

Unit-of-production depreciation method

The Group's policy is to use the unit-of-production method of depreciation based on estimated proven and probable reserves in each regional cost pool for depreciation and amortisation of its oil and gas assets. These calculations require the use of estimates and assumptions and significant judgement is required in assessing the amount of estimated recoverable reserves. Estimates of oil and gas reserves are inherently imprecise, require the application of judgement and are subject to future revision. Changes in proved and probable reserves will prospectively affect the unit-of-production depreciation charges to the Income Statement.

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. In the event that all tax losses could be utilised, a deferred tax asset of $11.2 million would be recognised in the financial statements.

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.

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.

Arbitration

The Group increased its interest in the Logbaba gas and condensate field to 95% in July 2011 following the default of RSM Production Corporation ("RSM") in meeting its obligations under the Operating Agreement. RSM is challenging the default through arbitration. However, having taken legal advice, the Directors are confident that the claim raised by RSM will not be successful.

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.

2. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

The Group did not adopt any new International Financial Reporting Standards ("IFRS") or Interpretations in the year that had a material impact on the Group's financial statements.

The following Standards and Interpretations became effective since the last Annual Report but had no material impact on the financial statements.

Name of new Standards/Amendments	Effective from
IFRIC 14 (Amendment November 2009) – Prepayments of a Minimum Funding Requirement	1 January 2011
IAS 24 (Amendment November 2009) – Related Party Disclosure	1 January 2011
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
IFRS 1 (Amendment January 2010) – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	1 July 2010

Standards and Interpretations in issue but not yet adopted

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

Name of new Standards/Amendments	Effective from
IFRS 7 (Amendment October 2010) – Disclosures – Transfers of Financial Assets	1 July 2011
IFRS 1 (Amendment December 2011) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 July 2011
IFRS 9 Financial Instruments	1 January 2015
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
IFRS 1 (Amendment March 2012) – Government Loans	1 January 2013
IAS 32 (Amendment December 2011) – Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS 7 (Amendment December 2011) – Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	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. None are expected to have a material impact.

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 $7.7 million for the year ended 31 May 2012 (2011: $4.7 million) and the Consolidated Balance Sheet shows that the Group had net current liabilities of $21.1 million at the year-end date (2011: $2.6 million).

At 31 May 2012, the Group had $1.9 million of cash. However, as stated in Note 35, the Group raised $4.9 million in the period between the year-end and the date of approval of these financial statements. At 23 October, the Group had cash of $1.9 million, undrawn loan facilities of $2.8 million and undrawn facilities of £10.0 million ($16.0 million) in respect of the SEDA, as described in Note 26.

Based on their forecasts, the Directors expect that the Group will need to spend approximately $4.0 million to maintain its base operations (excluding its exploration and development programme) for the 12 month period from the date of approval of these financial statements.

The Directors have also reviewed forecasts in respect of the operating activities and planned work programme of the Group's Cameroon and Russian assets. The funds and facilities available, after allowing for funds required for administration and development costs, are expected to cover the cost of these activities. In the event of a delay in build-up of gas sales or significant cost overruns, the Group will reschedule the development expenditure. In addition, the Group has mandated a top tier bank for a large senior secured revolving credit facility to provide additional funding in order to fund expansion of the pipeline network in Cameroon.

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.

On this basis the Directors consider it appropriate to prepare the financial statements on a Going Concern basis. Accordingly, these financial statements do not include any adjustments to the carrying amount and classification of assets and liabilities that may arise if the Group was unable to continue as a going concern.

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. The Group has one class of business, exploration and development, and this is 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:

Segment Revenue, Segment Result, Segment Assets and Segment Liabilities

There was no revenue or inter-segmental revenue.

Twelve months to 31 May 2012	Cameroon $000	Russia $000	Kazakhstan $000	Corporate $000	Total $000
Administrative expenses	**(3,008)**	**(211)**	**(333)**	**(974)**	**(4,526)**
Foreign exchange gains and (losses)	**84**	**–**	**–**	**(146)**	**(62)**
Operating loss	**(2,924)**	**(211)**	**(333)**	**(1,120)**	**(4,588)**
Finance revenue	**–**	**–**	**–**	**200**	**200**
Finance costs	**(1,410)**	**(34)**	**–**	**(1,893)**	**(3,337)**
Loss before taxation	**(4,334)**	**(245)**	**(333)**	**(2,813)**	**(7,725)**
Income tax expense	**–**	**–**	**–**	**–**	**–**
Loss after taxation for the financial year	**(4,334)**	**(245)**	**(333)**	**(2,813)**	**(7,725)**
Total assets	**139,032**	**58,137**	**126**	**2,527**	**199,822**
Total liabilities	**(37,419)**	**(336)**	**(15)**	**(9,872)**	**(47,642)**

Twelve months to 31 May 2011	Cameroon $000	Russia $000	Kazakhstan $000	Corporate $000	Total $000
Administrative expenses	(404)	(72)	(229)	(4,394)	(5,099)
Foreign exchange gains and (losses)	(2)	4	–	763	765
Operating loss	(406)	(68)	(229)	(3,631)	(4,334)
Finance revenue	–	–	–	52	52
Finance costs	(36)	–	–	(379)	(415)
Loss before taxation	(442)	(68)	(229)	(3,958)	(4,697)
Income tax expense	–	–	–	–	–
Loss after taxation for the financial year	(442)	(68)	(229)	(3,958)	(4,697)
Total assets	109,574	60,882	108	8,332	178,896
Total liabilities	(26,054)	(275)	(14)	(9,113)	(35,456)

5. FOREIGN EXCHANGE (LOSSES) AND GAINS

	2012 $000	2011 $000
Foreign exchange (losses) and gains	**(62)**	765

6. FINANCE REVENUE

	2012 $000	2011 $000
Interest income	**12**	52
Fair value gain on embedded derivatives	**188**	–
	200	52

The fair value gain represents a decrease in the fair value of the embedded derivatives in the convertible loan notes described more fully in Note 23. At each year-end, and immediately prior to redemption or conversion, the embedded derivatives are re-valued to fair value as explained in Note 1(xiv) Financial Instruments: Convertible bond – hybrid financial instruments.

7. FINANCE COSTS

	2012 $000	2011 $000
Convertible loan interest	**(1,289)**	(354)
Loan interest	**(107)**	(20)
Loan finance fees	**(497)**	–
Interest on obligations under finance leases	**(730)**	–
Fair value loss on embedded derivatives	**–**	(5)
Unwinding of discount on reserve bonus provision	**(642)**	–
Unwinding of discount on decommissioning costs	**(72)**	(36)
	(3,337)	(415)

Accrued interest on the convertible loans is calculated at the effective interest rate.

8. LOSS BEFORE TAXATION

The loss before taxation is stated after crediting/(charging):	2012 $000	2011 $000
Directors' remuneration (Note 11)	**(1,300)**	(974)
Auditors' remuneration	**(240)**	(206)
Depreciation and amortisation	**(485)**	(16)
Fair value gain/(loss) on embedded derivatives	**188**	(5)

The analysis of auditors' remuneration is as follows:	2012 $000	2011 $000
Fees payable to the Group auditors for the audit of the Group's annual accounts	**(240)**	(206)

$150,000 of the above audit fees relate to the Company (2011: $135,000).

Administrative expenses comprise:	2012 $000	2011 $000
Wages and salaries	**(1,688)**	(1,157)
Professional fees	**(1,492)**	(2,394)
Office and other administrative expenditure	**(433)**	(716)
Allowance for unpaid receivables	**–**	(625)
Travel	**(221)**	(131)
Rent	**(207)**	(60)
Depreciation and amortisation	**(485)**	(16)
	(4,526)	(5,099)

9. INCOME TAX EXPENSE

	2012 $000	2011 $000
Income tax expense	–	–

Factors affecting the tax expense:	2012 $000	2011 $000
Loss on ordinary activities before tax	(7,725)	(4,697)
Income tax calculated at 24% (2011: 26%)	(1,854)	(1,221)
Effects of:		
Effect of expenses not deductible for tax	134	14
Effect of finance costs not deductible for tax	335	97
Fair value adjustment on derivatives not taxable	(45)	1
Increase in tax losses not utilised	1,430	1,109
Income tax expense	–	–
Deferred tax liability		
Arising on Bramlin acquisition	(6,599)	(6,599)

The deferred tax liability arose on the acquisition of Rodeo Development Limited by Bramlin Limited prior to Bramlin Limited becoming part of the Group.

At the Balance Sheet date, the Group has unused tax losses of $46.6 million (31 May 2011: $40.8 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 companies that have accrued tax losses. Accordingly, at the year-end, deferred tax assets amounting to $11.2 million (31 May 2011: $10.6 million) have not been recognised.

Factors that may affect future tax charges

The Group commenced production in Cameroon after the year-end. Such production is likely to result in taxable profits in Cameroon where the applicable tax rate is 38.5%.

10. EMPLOYEE INFORMATION

The average number of persons employed by the Group during the year was:	2012 Number	2011 Number
Directors	5	5
Technical	28	16
Management and administration	42	27
	75	48

Staff costs for the above persons were:	2012 $000	2011 $000
Wages and salaries	(2,884)	(1,804)
Social security costs	(303)	(213)
	(3,187)	(2,017)

Included in the above is $1,499,000 (2011: $860,000) of staff costs which were capitalised within exploration and evaluation assets and property, plant and equipment.

11. DIRECTORS' REMUNERATION

	Payable in cash $000	Shares in lieu $000	Awarded by ESOP $000	Consultancy fees $000	**Total 2012 $000**	Total 2011 $000
Kevin Foo*	(240)	(80)	–	–	**(320)**	(302)
Grant Manheim	(115)	–	(279)	–	**(394)**	(113)
Robert Palmer†	(115)	(76)	–	–	**(191)**	(205)
Austen Titford	(240)	–	–	–	**(240)**	(221)
Philip Rand	(24)	–	–	(131)	**(155)**	(133)
	(734)	(156)	(279)	(131)	**(1,300)**	(974)

* Part paid to HJ Resources Limited
† Part paid to The Gallagher Partnership LLP

The Deputy Chairman was the highest paid Director and received $394,000. In 2011, the Chairman was the highest paid Director and received $302,000.

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 relating to the remuneration of Directors were capitalised within exploration and evaluation expenditure (2011: Nil).

12. KEY MANAGEMENT COMPENSATION

The compensation paid to key management personnel is set out as follows:	**2012 $000**	2011 $000
Short-term employee benefits	**(1,249)**	(1,431)
Payment in shares	**(435)**	(328)
Termination benefits	**–**	(482)
Professional fees	**(1,195)**	(789)
	(2,879)	(3,030)

Key management comprises 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.

	2012 $000	2011 $000
Numerator:		
Numerator for basic and diluted loss per share – retained loss	**(7,725)**	(4,697)
	Number	Number
Denominator:		
Denominator for basic and diluted loss per share	**2,339,317,651**	1,803,827,144
	Cents	Cents
Loss per share – basic and diluted	**(0.33)**	(0.26)

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

Refer to Notes 23, 26, 30 and 35 for details of transactions which could have a dilutive effect on loss per share.

14. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets:	Group 2012 $000	Group 2011 $000
Cost		
Opening balance	**164,753**	149,728
Exchange adjustments	**(4,101)**	2,433
Additions	**358**	13,252
Transfer from other receivables	**30,137**	–
Transfer to receivables	**–**	(660)
Transfer to property, plant and equipment	**(98,938)**	–
Closing balance	**92,209**	164,753
Accumulated amortisation and impairment		
Opening balance	**33,854**	33,811
Exchange adjustments	**143**	43
Closing balance	**33,997**	33,854
Carrying amount		
Opening balance	**130,899**	115,917
Closing balance	**58,212**	130,899

Segmental Analysis

Twelve months to 31 May 2012	Cameroon $000	Russia $000	Total $000
Opening balance	**69,586**	**61,313**	**130,899**
Exchange	**(327)**	**(3,917)**	**(4,244)**
Transfer from other receivables	**30,137**	**–**	**30,137**
Additions	**43**	**315**	**358**
Transfer to property, plant and equipment	**(98,938)**	**–**	**(98,938)**
Closing balance	**501**	**57,711**	**58,212**

Twelve months to 31 May 2011	Cameroon $000	Russia $000	Total $000
Opening balance	58,205	57,712	115,917
Exchange	–	2,390	2,390
Additions	12,041	1,211	13,252
Transfer to receivables	(660)	–	(660)
Closing balance	69,586	61,313	130,899

14. EXPLORATION AND EVALUATION ASSETS continued

Exploration and evaluation assets at 31 May 2012 represent exploration and related expenditure on the Group's licences and permits in the geographical areas noted above. The realisation of these intangible assets by the Group is dependent on the discovery and successful 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 statement of financial position will be written-off.

The Directors have considered whether facts or circumstances exist that indicate that exploration and evaluation assets are impaired and considered that no impairment loss is required to be recognised as at 31 May 2012. Exploration and evaluation assets have been assessed for impairment having regard to the likelihood of further expenditures and ongoing appraisal for each geographical area.

During the period, $30.1 million previously included in other receivables was transferred to exploration and evaluation assets following the withdrawal of RSM Production Corporation from the Logbaba gas development (see Note 18).

On commissioning of the Logbaba gas processing facilities and the gas pipeline network in Cameroon, exploration and evaluation assets of $98.9 million were transferred to property, plant and equipment as, in the opinion of the Directors, the project had achieved technical feasibility and commercial viability. These assets were reviewed for impairment at the date of transfer and the Directors concluded that no provision was required. Refer also to Note 15.

When considering the possible impairment of intangible assets, the management developed each key assumption using internally generated data, which was 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.

A pre-tax discount rate of 8.5% was used to calculate the present value of projected cash flows. The impact of a 1% increase and decrease in the pre-tax discount rate percentage on the movement in recoverable amount is 14.5% and 16.3% 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.

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 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.

Having reviewed the exploration and evaluation expenditure, the Directors are confident that the capitalised value of the asset is recoverable and are satisfied that the value of the asset is not less than its carrying value at 31 May 2012.

15. PROPERTY, PLANT AND EQUIPMENT

Group

Twelve months to 31 May 2012	Plant and equipment $000	Oil and gas interests $000	Assets under construction at cost $000	Total $000
Cost				
Opening balance	1,366	2,090	6,852	10,308
Additions	1,526	3,815	19,720	25,061
Transfer from exploration and evaluation assets	–	98,938	–	98,938
Disposals	(23)	(4)	–	(27)
Closing balance	2,869	104,839	26,572	134,280
Depreciation				
Opening balance	459	2,042	–	2,501
Disposals	(20)	(4)	–	(24)
Charge for the year	257	228	–	485
Closing balance	696	2,266	–	2,962
Carrying amount				
31 May 2012	2,173	102,573	26,572	131,318

Group

Twelve months to 31 May 2011	Plant and equipment $000	Oil and gas interests $000	Assets under construction at cost $000	Total $000
Cost				
Opening balance	308	2,090	–	2,398
Additions	1,058	–	6,852	7,910
Closing balance	1,366	2,090	6,852	10,308
Depreciation				
Opening balance	135	2,042	–	2,177
Charge for the year	324	–	–	324
Closing balance	459	2,042	–	2,501
Carrying amount				
31 May 2011	907	48	6,852	7,807

15. PROPERTY, PLANT AND EQUIPMENT continued

Segmental Analysis

Twelve months to 31 May 2012	Cameroon $000	Russia $000	Corporate $000	Total $000
Cost				
Opening balance	**7,916**	**2,351**	**41**	**10,308**
Additions	**25,053**	**–**	**8**	**25,061**
Transfer from exploration and evaluation assets	**98,938**	**–**	**–**	**98,938**
Disposals	**–**	**–**	**(27)**	**(27)**
Closing balance	**131,907**	**2,351**	**22**	**134,280**
Depreciation				
Opening balance	**177**	**2,299**	**25**	**2,501**
Disposals	**–**	**–**	**(24)**	**(24)**
Charge for the year	**482**	**–**	**3**	**485**
Closing balance	**659**	**2,299**	**4**	**2,962**
Carrying amount				
31 May 2012	**131,248**	**52**	**18**	**131,318**

Twelve months to 31 May 2011	Cameroon $000	Russia $000	Corporate $000	Total $000
Cost				
Opening balance	354	2,029	15	2,398
Additions	7,562	322	26	7,910
Closing balance	7,916	2,351	41	10,308
Depreciation				
Opening balance	83	2,085	9	2,177
Charge for the year	94	214	16	324
Closing balance	177	2,299	25	2,501
Carrying amount				
31 May 2011	7,739	52	16	7,807

As reported in Note 14, during the year evaluation assets of $98.9 million relating to the Logbaba gas and condensate project were reclassified as oil and gas assets as in the opinion of the Directors the project achieved technical feasibility and commercial viability following commencement of commissioning of the production facilities and the gas pipeline network. These assets were reviewed for impairment at the date of transfer and the Directors concluded that no provision was required. As at the date of this report, the oil and gas assets in Cameroon are generating revenue from continuous gas production. Refer to Notes 14 and 35 for more details.

Oil and gas assets are depreciated on a unit-of-production basis as per Note 1(ix). No depreciation was recorded for the transferred assets for the year ended 31 May 2012 because continuous production did not begin until after year-end (refer to Note 35 for details).

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

Property, plant and equipment of $103.2 million in Cameroon includes the interest previously held by RSM and relinquished by them on default of their obligations under the Operating Agreement as noted in Note 1(xviii) Arbitration. The Group fully expects the Arbitration to be resolved in its favour, but if the Group fails to successfully defend the claim an amount of $37.3 million would be transferred to receivables, of which $11.5 million would immediately fall due for payment. The remainder of the receivable would be recoverable from RSM's share of net cash flows.

The Directors have reviewed the carrying value for impairment as at 31 May 2012 based on internally generated assumptions applicable to the future asset life and have concluded that no provision is required.

15. PROPERTY, PLANT AND EQUIPMENT continued

Company	Plant and equipment 2012 $000	Plant and equipment 2011 $000
Cost		
Opening balance	**41**	15
Additions	**8**	26
Disposals	**(23)**	–
Closing balance	**26**	41
Depreciation		
Opening balance	**25**	9
Disposals	**(23)**	–
Charge for the year	**6**	16
Closing balance	**8**	25
Carrying amount		
Closing balance	**18**	16

16. UNLISTED INVESTMENTS

	Group and Company 2012 $000	2011 $000
Unlisted investments – available for sale	**6,600**	–

During the period, the Company acquired a 35% interest in Cameroon Holdings Limited ("CHL") for a total cost of $6.6 million. CHL is controlled by Logbaba Projects Limited, a company in which HJ Resources Limited (see Note 35) has a significant interest. Drilling equipment shown as held-for-sale assets at 31 May 2011 formed $1.0 million of the consideration for the interest acquired in CHL (refer Note 20). Details of the investment are as follows:

Company	Principal activity	Place of incorporation and operation	Proportion ownership interest and voting power held by the Group
Cameroon Holdings Limited	Oil and gas services	Guernsey	35%

The fair value of the investment is not materially different from its carrying value.

Despite the interest in CHL being above 20%, the Directors of the Company do not consider that the Company has significant influence over CHL, and therefore CHL has not been classified as an associate. The Company acquired the investment in CHL as a mechanism to buy back part of the royalty payable on the Logbaba revenue stream (refer Note 34 for more details) rather than to be an active participant in CHL. The Company does not have a CHL board representative and is not involved in the management of CHL's operations or its policy decisions.

17. INVESTMENTS IN SUBSIDIARIES AND ADVANCES

	Company	
	2012 $000	2011 $000
Investments in subsidiaries	**29,789**	29,789
Advances to subsidiary	**41,092**	40,051
	70,881	69,840

Additional advances by the Company to subsidiaries are included in Note 18.

Segmental Analysis of Investments in and Advances to Subsidiaries

	Company	
Exploration and evaluation assets:	**2012 $000**	2011 $000
Unlisted		
Russian Federation	**58,481**	57,440
Republic of Cameroon	**12,400**	12,400
Investments in and advances to subsidiaries	**70,881**	69,840

Investments in Subsidiaries

	Company	
Unlisted investments	**2012 $000**	2011 $000
Cost:		
Cost of investments at beginning of the year	**49,764**	49,764
Cost of investments at end of the year	**49,764**	49,764
Impairment:		
Opening balance	**(19,975)**	(19,975)
Closing balance	**(19,975)**	(19,975)
Carrying amount:		
Closing balance	**29,789**	29,789

The value of the Company's unlisted investments at 31 May 2012 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 of West Medvezhye (2011: $17.4 million) and $12.4 million in the Logbaba project (2011: $12.4 million).

Advances to Subsidiary

Advances to subsidiary include an amount of $41.1 million (2011: $40.1 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 project is explorative in nature and there exists uncertainty regarding successful development of reserves and timing thereof. The loan is unsecured and 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 18.

17. INVESTMENTS IN SUBSIDIARIES AND ADVANCES continued

Holdings

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
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

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 2012 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.

18. TRADE AND OTHER RECEIVABLES

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Amounts due within one year:				
VAT recoverable	**156**	193	**154**	57
Prepayments	**523**	88	**148**	–
Amounts due by subsidiaries	**–**	–	**98,114**	76,305
Other receivables	**1,126**	3,469	**913**	906
Allowance for unpaid receivables	**–**	(625)	**–**	(625)
	1,805	3,125	**99,329**	76,643

	Group 2012 $000	Group 2011 $000
Amounts in more than one year:		
Other receivables	**–**	27,640

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. No receivables disclosed above are past due and none are considered irrecoverable or impaired.

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.

Other receivables due in the prior periods included amounts relating to the RSM Production Corporation's ("RSM") 40% carried interest in the Logbaba gas development. RSM have failed to make payment of cash calls in accordance with the Operating Agreement and, following notice of default, failed to make payment within the period provided for remediation of the default. Accordingly, following legal advice, on 18 July 2011 the Group exercised its right under the Operating Agreement to require RSM to withdraw from the Operating Agreement and the Concession contract. An amount of $30.1 million relating to expenditure incurred by the Group which was expected to be recovered from RSM was therefore transferred to exploration and evaluation assets. Refer to Note 14 for more details.

18. TRADE AND OTHER RECEIVABLES continued

Movement in the allowance for unpaid receivables	Group and Company 2012 $000	2011 $000
At 1 June	**625**	–
Impairment losses recognised on receivables	**–**	625
Impairment losses reversed	**(625)**	–
	–	625

In determining the recoverability of a receivable, the Group considers any change in the credit quality of the receivable from the date credit was initially granted up to the end of the reporting period.

The impairment loss in respect to Falcon Petroleum was reversed in the year following agreement of a repayment schedule. $0.4 million was received after the year-end.

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012 $000	2011 $000	**2012 $000**	2011 $000
Cash	**1,887**	8,425	**1,236**	7,876

Funds are held in US Dollars, Sterling, Central African Francs, Russian Roubles, Kazakh Tenge and Euros in order to enable the Group to trade and settle its debts in the 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.

	Group		Company	
Denomination:	**2012 $000**	2011 $000	**2012 $000**	2011 $000
US Dollar	**1,328**	5,810	**1,022**	5,793
Sterling	**267**	2,179	**211**	2,083
Central African Franc	**113**	271	**–**	–
Russian Rouble	**56**	57	**–**	–
Kazakh Tenge	**120**	108	**–**	–
Euro	**3**	–	**3**	–
	1,887	8,425	**1,236**	7,876

20. HELD FOR SALE ASSETS

	Group 2012 $000	2011 $000
Drilling equipment	**–**	1,000

The drilling equipment in the prior year formed part of the consideration of the interest acquired in Cameroon Holdings Limited as described in Note 16.

21. TRADE AND OTHER PAYABLES

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Amounts due within one year:				
Trade payables	**(9,613)**	(7,296)	**(1,137)**	(1,123)
Taxes and social security costs	**(395)**	(1,227)	**(74)**	–
Accruals and deferred income	**(4,252)**	(5,556)	**(260)**	(480)
Other creditors	**–**	–	**–**	(38)
	(14,260)	(14,079)	**(1,471)**	(1,641)

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 in accordance with general business practice.

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

22. BORROWINGS

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Amounts due within one year:				
Loans from other entities	**(5,448)**	(1,101)	**(5,041)**	(1,000)
Finance lease liabilities	**(1,992)**	–	**–**	–
	(7,440)	(1,101)	**(5,041)**	(1,000)
Amounts due in more than one year but less than five years:				
Finance lease liabilities	**(3,178)**	–	**–**	–

On 21 February 2012, the Company entered into a loan agreement with YA Global Master SPV Ltd which allowed for an aggregate maximum loan sum of $8.0 million, subject to the terms and conditions included within the agreement. Interest on the loan is payable at the rate of 9% per annum (calculated on a daily basis) and accrues from the date of the advance of the loan until the date of full repayment. On the agreement date, the Company drew down an initial tranche of $4.0 million from the facility, which is repayable by 14 February 2013 via instalments as set out in the agreement. On 16 May 2012, the Company drew down an additional $1.2 million. As at 31 May 2012, the Company had repaid principal of $200,000, the principal amount outstanding was $5.0 million, and $2.8 million of the facility was undrawn.

In addition to the above, borrowings include an unsecured loan of $407,000 which accrues interest at a fixed rate of 0.5% per month due to HJ Resources Limited (see Note 34).

The finance lease liabilities are secured by the assets leased, and more details are provided in Note 25.

In prior years an unsecured, non-interest bearing loan of $1.0 million (repayable on demand) from a shareholder of the Company was also included in borrowings. However, in 2012 it was agreed that this loan would be treated as an additional tranche of the convertible loan note facility described in Note 23.

23. CONVERTIBLE LOAN NOTES

	Group and Company 2012 $000	2011 $000
Amounts due within one year:		
Debt		
Noor Petroleum convertible loan	**(3,066)**	–
Amounts due in more than one year:		
Debt		
Noor Petroleum convertible loan	**–**	(884)
Derivative financial instruments		
Noor Petroleum convertible loan	**–**	(28)

Noor Petroleum Convertible Loan ($3.0 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. Additionally, it was agreed during the year that a further $1.0 million loan that previously had been treated as unsecured would be treated on the same terms and conditions as the loan note facility (refer Note 22).

The movement in the year reflects both this additional tranche and effective interest of 93.9% on the original note. Refer to Note 1(xiv) for the basis for the initial valuation of the host note and determination of the applicable interest rate.

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 (refer Note 1(xiv) for the definition of a 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:	2012	2011
Option term – years	**0.6**	1.6
Conversion price – pence Sterling	**16.5**	16.5
Risk-free rate	**0.44%**	0.89%
Expected volatility	**39.43%**	68.84%
Dividend yield	**Nil**	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. In valuing the convertible loan, volatility has been calculated for a period preceding each valuation date equal to the expected life of the conversion option.

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. As the term loan reduces, the period considered in calculating share price volatility reduces. The earlier periods now excluded (particularly in late 2008) were very volatile and their exclusion has led to a significant reduction in the expected volatility used in calculation of the fair value of the derivative financial instrument.

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. However, given the difference between the conversion price and the current share price, there would be no impact on the fair value of the derivative or the gain or loss recognised in the Income Statement based on an expected volatility figure 25 percentage points lower and 25 percentage points higher.

24. PROVISIONS

	Group 2012 $000	2011 $000
Decommissioning provision	**(2,404)**	(719)
Reserve Bonus provision	**(6,695)**	(6,053)
Development funding obligation	**(4,000)**	(4,000)
Contingent consideration provision	**–**	(1,993)
	(13,099)	(12,765)

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 cannot be predicted with any certainty.

Decommissioning costs	Group 2012 $000	2011 $000
At 1 June	**(719)**	(1,413)
Additional provision in year	**(1,612)**	–
Provision released in year	**–**	730
Unwinding of discount charged to the Income Statement	**(73)**	(36)
	(2,404)	(719)

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. The Directors have provided for the full amount of the bonus being payable based on the expected reserves four years from first production. The provision represents the present value of the maximum amount payable, discounted at 8.5%, as at the Balance Sheet date.

Rodeo Resources Inc. is not a related party of the Group.

Reserve bonus	Group 2012 $000	2011 $000
At 1 June	**(6,053)**	–
Additional provision in year	**–**	(6,053)
Unwinding of discount charged to the Income Statement	**(642)**	–
	(6,695)	(6,053)

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. Continuous production was announced on 9 July 2012, and this provision will be released as sales are generated. Further details are provided in Note 34.

There is uncertainty regarding timing of the settlement of this obligation due to the inability to accurately predict the timing and quantum of future sales revenue.

Contingent Consideration Provision

On 27 September 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.

25. OBLIGATIONS UNDER FINANCE LEASES

The Group has entered into a contract for the construction, operation and maintenance of the processing facility for Logbaba gas and condensate project for the next two years, which will give rise to an annual expense of $4.0 million from the date of processing first hydrocarbons. The annual expense of $4.0 million comprises both an ongoing operation and maintenance cost and a finance lease cost with regard to the processing facility and associated equipment. At the end of the two year period, the Group has the option to acquire the processing facility or continue to lease it. The Directors intend to purchase the processing facility at the end of the two year period to minimise the ongoing costs associated with the facility. The Group's obligations under the finance lease are secured by the lessor's title to the leased assets.

The implied interest rate underlying the Group's obligations under the finance lease is a fixed rate of 20%.

The Group's obligations under the finance lease are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2012 $000	2011 $000	**2012 $000**	2011 $000
Not later than one year	**(2,490)**	–	**(1,992)**	–
Later than one year and not later than five years	**(3,941)**	–	**(3,178)**	–
	(6,431)	–	**(5,170)**	–
Less: future finance charges	**1,261**	–	**–**	–
Present value of minimum lease payments	**(5,170)**	–	**(5,170)**	–

	Group	
Included in the consolidated financial statements as:	**2012 $000**	2011 $000
Current borrowings (Note 22)	**(1,992)**	–
Non-current borrowings (Note 22)	**(3,178)**	–
	(5,170)	–

26. CALLED-UP SHARE CAPITAL

	Group and Company	
Allotted, Called-Up and Fully Paid:	**2012 $000**	2011 $000
Ordinary shares of 0.5 pence each:		
Opening balance: 2,138,840,271 shares (2011: 1,427,794,447)	**17,178**	11,648
Issued during the year: 462,876,993 shares (2011: 711,045,824)	**3,625**	5,530
Closing balance: 2,601,717,264 shares (2011: 2,138,840,271)	**20,803**	17,178

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.

26. CALLED-UP SHARE CAPITAL continued

Share Issues

The Company issued the following shares during the period:	Number	Date	Issue price (pence)
Standby Equity Distribution Agreement placing	14,690,827	29 July 2011	4.1
Bramlin Limited deferred consideration	29,354,285	19 August 2011	3.7
Shares in lieu of salary to Directors	1,026,514	19 August 2011	4.8
Shares in lieu of salary to employees	357,566	19 August 2011	4.8
Placing for working capital	292,307,687	27 September 2011	3.3
Settlement of amounts due to creditors	28,439,087	27 September 2011	3.3
Subscription by ESOP Trust	63,500,000	11 November 2011	0.5
Settlement of amounts due to creditors	500,000	11 November 2011	4.0
Shares in lieu of salary to Directors	1,288,883	3 April 2012	3.8
Shares in lieu of salary to employees	460,794	3 April 2012	3.8
Settlement of amounts due to creditors	30,951,350	3 April 2012	4.0
	462,876,993		

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 was renewed on 16 May 2012 for £10.0 million. 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 2012, £10.0 million of the facility remained undrawn.

27. 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 of the reserve is analysed separately in the Consolidated Statement of Changes in Equity, shown on page 28, and reflects the subscription for new shares by the ESOP Trust.

28. OTHER RESERVE

	Group and Company 2012 $000	2011 $000
At 1 June	**4,408**	3,828
Share-based payments	**1,032**	580
At 31 May	**5,440**	4,408

Other reserve includes an amount of $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 30.

29. 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 Francs, Russian Roubles, Kazakh Tenge and Euros. 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

Credit risk is the risk that the Group's counterparties will cause the Group financial loss by failing to honour their obligations. The Group's receivables relate primarily to cash and cash equivalents, loans receivable, prepayments, and reimbursable customer conversion costs. The credit risks faced by the Group are the risk that the prepaid services are not received, loans are not repaid, or conversion costs are not reimbursed. The Group manages credit risk by only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Directors from time to time. The Group credit risk on liquid funds is limited because the Group only holds funds with banks with investment grade credit ratings. Low-credit-quality receivables are managed such that, in the opinion of the Directors, the Group's credit risk is minimal.

The credit risk of the Company relates to cash and cash equivalents, and to amounts due from subsidiaries in respect to exploration and evaluation expenditure (described further in Note 14). The credit risk on liquid funds is limited because the Company only holds funds with banks with investment grade credit ratings.

The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the Balance Sheet date.

Liquidity Risk

With regards to 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 of financing future exploration and development operations from internally generated funds, existing facilities and access to debt and equity. 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 2012 and 31 May 2011, 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 primarily in US Dollars (and occasionally in Euros and Sterling) 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 Francs 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.

29. 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:

	Assets		Liabilities	
Group	**2012 $000**	2011 $000	**2012 $000**	2011 $000
Sterling	**1,484**	2,523	**(5,859)**	(10,093)
Russian Rouble	**74**	261	**(336)**	(275)
Kazakh Tenge	**111**	108	**(15)**	(14)
Central African Franc	**671**	351	**(7,897)**	(5,253)
Euro	**3**	–	**–**	–
	2,343	3,243	**(14,107)**	(15,635)
US Dollar	**1,349**	35,947	**(26,936)**	(13,222)
	3,692	39,190	**(41,043)**	(28,857)

	Assets		Liabilities	
Company	**2012 $000**	2011 $000	**2012 $000**	2011 $000
Sterling	**1,426**	2,479	**(1,784)**	(1,641)
Euro	**3**	–	**–**	–
	1,429	2,479	**(1,784)**	(1,641)
US Dollar	**99,136**	82,040	**(7,794)**	(1,912)
	100,565	84,519	**(9,578)**	(3,553)

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 2012, the loss would have been $0.6 million lower/higher (2011: $0.6 million) and the net equity would have been $0.8 million higher/lower (2011: $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

At year-end, the Group had outstanding borrowings of $5.0 million from YA Global Master SPB Ltd with interest payable at the fixed rate of 9% per annum (calculated on a daily basis). Additionally, the Group had interest-bearing non-bank borrowings of $0.4 million (2011: $0.1 million) with interest accrued at a fixed rate of 0.5% per month from HJ Resources Limited. Refer to Note 22 for more information regarding these loans.

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 23).

The Group meets its capital management objectives by reviewing 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 decides 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.

29. FINANCIAL RISK MANAGEMENT continued

Gearing ratio

The Group monitors capital on the basis of the net debt ratio, that is, the ratio of net debt to equity. The gearing ratio at the end of the reporting period was as follows:

	Group		Company	
	2012 $000	2011 $000	**2012 $000**	2011 $000
Debt	**13,684**	2,013	**8,107**	1,912
Cash and cash equivalents	**(1,887)**	(8,425)	**(1,236)**	(7,876)
Net debt/(negative net debt)	**11,797**	(6,412)	**6,871**	(5,964)
Equity	**152,180**	143,440	**168,486**	150,822
Net debt/(negative net debt) to equity ratio	**7.75%**	(4.47%)	**4.08%**	(3.95%)

In relation to the above, debt is defined as long- and short-term borrowings as described in Notes 22 and 23, and equity includes all capital and reserves.

Categories of financial instruments

	Group		Company	
	2012 $000	2011 $000	**2012 $000**	2011 $000
Financial assets				
Unlisted investments	**6,600**	–	**6,600**	–
Investments in subsidiaries and advances	**–**	–	**70,881**	69,840
Cash and cash equivalents	**1,887**	8,425	**1,236**	7,876
Loans and receivables	**1,805**	30,765	**99,329**	76,643
Financial liabilities				
Loans and payables	**(27,944)**	(16,064)	**(9,578)**	(3,525)

The Directors consider that the fair value of the Group's financial assets and liabilities are not considered to be materially different from their carrying values. All of the above financial assets are unimpaired.

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 2012 and 31 May 2011.

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 for the original $2.0 million loan and 11.1% for the $1.0 million previously recognised as an unsecured, non-interest bearing loan (refer Notes 22 and 23).

29. FINANCIAL RISK MANAGEMENT continued

Fair value measurements recognised in the Consolidated Balance Sheet

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).

2012	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial liabilities				
Finance lease liabilities	–	–	(5,170)	(5,170)
Convertible loan – debt portion	–	(3,066)	–	(3,066)
	–	(3,066)	(5,170)	(8,236)

2011	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Held for sale assets	–	–	1,000	1,000
Financial liabilities				
Derivative financial instruments	–	(28)	–	(28)
Convertible loan – debt portion	–	(884)	–	(884)
	–	(912)	–	(912)

30. 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):

	2012		2011	
	Number of warrants 000s	Weighted average exercise price Pence	Number of warrants 000s	Weighted average exercise price Pence
1 June	18,142	4.5	7,066	6.2
Granted during the year	45,104	5.0	11,076	3.5
	63,246	5.0	18,142	4.5

During the year, the Company issued 45,103,516 warrants to various suppliers in settlement of 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:

	2012	2011
Number of warrants	45,103,516	11,076,445
Weighted average share price – pence Sterling	3.0 to 8.0	2.73 to 5.22
Option term – years	1.1 to 3.0	3.0
Share exercise price – pence Sterling	3.0 to 8.0	2.5 to 4.9
Risk-free rate	0.44% to 0.89%	0.25%
% expected volatility	72% to 125%	125%
Expected dividend yield	Nil	Nil

30. SHARE-BASED PAYMENTS continued

The expected volatility was determined based on the historical movement in the Company's share price over a period equivalent to the option period. The total fair value of the warrants of $1,032,000 (2011: $580,000) was charged to the Consolidated Income Statement with a corresponding credit charged to Other Reserve. During the year no warrants were exercised (2011: Nil).

The total number of warrants exercisable at the year end is 63,246,314 (2011: 18,142,798). The aggregate of the estimated weighted average fair values of these options is $2.1 million (2011: $1.1 million).

31. NON-CASH TRANSACTIONS

During the 2012 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 contractor services of $3.4 million (2011: $3.6 million).
> Shares issued as deferred consideration for the acquisition of Bramlin Limited $1.7 million (2011: Nil).
> Shares issued in lieu of salary of $0.5 million (2011: $0.5 million).
> Shares issued as part payment of a seismic survey of $Nil (2011: $0.5 million).
> Held for sale assets of $1.0 million exchanged as part consideration for the interest acquired in CHL.

32. FINANCIAL COMMITMENTS

The Group has certain royalty obligations in respect to its share of revenues from hydrocarbon sales relating to the Logbaba gas and condensate project. The royalties are as follows:

> 8% to the State of Cameroon as provided by the Petroleum Code.
> Royalties averaging 8.3% over the project life which were assumed on acquisition of Bramlin Limited or arose under commercial contracts for the provision of drilling and other services (refer Note 34).

33. 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 $3.2 million (2011 loss: $4.4 million).

34. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of the Company and the subsidiaries listed in Note 17. The Company is the ultimate parent entity of the Group.

Related parties include key management personnel. Payments to directors and other key management are set out in Notes 11 and 12.

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

2012	Purchases from/(recharges to) 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
Subsidiaries	**(1,420)**	**–**	**21,809**	**98,114**
Directors	**–**	**–**	**–**	**(407)**
Key management personnel	**1,064**	**–**	**–**	**(239)**

2011	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
Subsidiaries	–	–	26,620	76,305
Directors	–	(794)	–	(101)
Key management personnel	1,624	–	–	–

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

34. RELATED PARTY TRANSACTIONS continued

The balance at 31 May 2012 is stated net of an allowance against the amount due from Victoria Energy Central Asia LLP of $17.2 million (2011: $17.2 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 $4,000 (2011: $3,000) in relation to general accountancy services provided by The Gallagher Partnership LLP to the Company.

Radwan Hadi is included in key management personnel due to his position as Chief Operating Officer of the Company, and he is also a Director of Blackwatch Petroleum Services Limited, a firm of upstream oil and gas consultants. These accounts include professional fees of $1.1 million (2011: $1.6 million) in relation to oil and gas technical services provided by Blackwatch Petroleum Services Limited to the Company.

HJ Resources Limited

In December 2008, HJ Resources Limited, a company owned by a discretionary trust of which Kevin Foo and certain members of his family are potential beneficiaries, provided unsecured loans to Victoria Oil & Gas International Limited 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. On 30 May 2012, HJ Resources Limited loaned a further $300,000 to Victoria Oil & Gas International Limited. The balance outstanding at 31 May 2012 was $407,000 and has been repaid in full after the year-end.

Cameroon Holdings Limited

On 9 July 2009, through its subsidiary Rodeo Development Limited, the Group signed agreements for the provision of drilling services at the Logbaba project with a private company, Cameroon Holdings Limited. As per Note 16, the Company acquired a 35% interest in Cameroon Holdings Limited from an unrelated party during the year. Additionally, HJ Resources Limited is a significant shareholder in Cameroon Holdings Limited.

All drilling services were completed before 31 May 2010. Cameroon Holdings Limited provided a drilling rig at a discounted day rate and $4.0 million of funding for operational expenses in exchange for a sliding scale production royalty averaging 4.6% of revenue over the project life. Further details of the development funding are provided in Note 24.

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 63,500,000 shares and granted 23,300,000 shares to employees. At the year-end, the Trust owed the Company $0.8 million (2011: $0.3 million) for shares subscribed for but not yet paid.

35. SUBSEQUENT EVENTS

On 31 May 2012, the Board approved the placing and allotment of 105,000,000 new ordinary shares of 0.5 pence at a price of 3 pence per share. The issue of relevant shares was completed on 11 June 2012, raising £3.15 million ($4.9 million) before expenses.

On 9 July 2012, the Company announced that continuous gas production had commenced at the Logbaba gas and condensate project. Three thermal customers were connected, with a combined demand of 0.7 million standard cubic feet per day (mmscf/d), satisfying the minimum throughput conditions of the gas production facilities.

Philip Rand resigned as a Director effective 28 August 2012.

Notice of the Annual General Meeting

Notice is hereby given that the Annual General Meeting of Victoria Oil & Gas Plc ("the Company") will be held on Thursday 29 November 2012, 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 6 will be proposed as Ordinary Resolutions and Resolution 7 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 2012.
2. To re-elect Kevin Foo as a Director of the Company.
3. To re-elect Grant Manheim as a Director of the Company.
4. To re-elect Austen Titford as a Director of the Company.
5. To re-appoint Deloitte & Touche as Auditors of the Company and to authorise the Directors to fix their remuneration.

Special Business:

As Ordinary Resolution:

6. 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 £4,466,083 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:

7. That (subject to the passing of Resolution 6 as an Ordinary Resolution) the Directors be and 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 6 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 £4,466,083 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 7(a) above and 7(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 7(a) and (b) above and 7(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 7(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

24 October 2012

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, Bridgwater Road, Bristol, BS99 6ZY; and
   6.3 received by the Registrar no later than 11.00am on 27 November 2012.

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.investorcentre.co.uk/eproxy. 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 27 November 2012.

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). 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 issuer's agent (ID number 3RA50) not later than 11.00am on 27 November 2012. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which the issuer's agent is able to retrieve the message.

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, Bridgwater Road, Bristol, BS99 6ZY. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

15. The revocation notice must be received by the Registrar of the Company no later than 11.00am on 27 November 2012.

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.

Definitions, Abbreviations & Glossary

"1C Contingent Resources" 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, but due to the existence of one or more contingencies, recovery of the resource may not be commercially viable. 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 1C and a 10 per cent. chance that it will be less.

"bbl(s)" Barrel(s), or 42 US gallons.

"bcf" Billion cubic feet.

"boe" Barrels of oil equivalent.

"mmbbls" Million barrels.

"mmbtu" Million British thermal units.

"mmsfc/d" Million standard cubic feet per day.

"Proven", "Proved" or "1P" 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 "2P" 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 "3P" 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.

"tcf" Trillion cubic feet.

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