Victoria Oil & Gas Plc

Annual Report and Accounts 2006

Victoria
Oil & Gas

Annual Report 2006

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Directors and Advisors

Directors	Kevin Foo, Chairman Grant Manheim, Deputy Chairman William Kelleher, Managing Director Robert Palmer, Finance Director
Secretary	Leena Nagrecha
Company number	5139892
Registered office	Hatfield House 52/54 Stamford Street London SE1 9LX
Registered auditors	Deloitte & Touche Deloitte & Touche House Earlsfort Terrace Dublin 2 Ireland
Bankers	Allied Irish Bank plc 9/10 Angel Court London EC2R 7AB
Solicitors	Kerman & Co LLP 7 Savoy Court London WC2R 0ER
Nominated advisor and joint broker	Jefferies International Limited Bracken House, 4th Floor One Friday Street London EC4M 9JA
Joint broker	Ambrian Partners Ltd 8 Angel Court London EC2R 7HP

Directors' Biographies

Kevin Foo M.Sc., DIC, Dip.Met., MIMMM (Chairman) has a 37 year career in all aspects of mining, including technical, operational and project management and has worked for several public companies. He has worked on five continents including 14 years in Kazakhstan and Russia and is a specialist in the development of mines in the FSU. He is currently the chairman of Eureka Mining Plc and managing director of Celtic Resources Holdings Plc, two AIM-quoted resource companies.

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

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

William Kelleher SPE (Managing Director) has over 27 years of experience in the oil and gas industry. He is highly trained in advanced drilling, completion, production and exploitation. His specific hands-on experience includes: drilling, testing and production operations, building and managing exploration projects, preparing business plans and budgets for large scale oil and gas projects. Bill is a member of the Society of Petroleum Engineers and is a qualified person for the purposes of the AIM Guidance Note for Mining, Oil and Gas Companies.

Chairman's Statement

Dear Shareholders

In our second year since listing, we have made excellent progress towards creating a portfolio of quality hydrocarbon assets. I would like to summarise some of the more important events since our last report and share with you our expectations for the immediate future.

Below are some of our key achievements since last October:

» Independent reserve auditors DeGolyer & MacNaughton (D&M) issued a best estimate gross prospective resource volume as at 30 June, 2006 of over 1.1 billion barrels of oil equivalent for our West Medvezhye gas and condensate project in northern Russia. So far we have completed three exploration wells and one appraisal well
» In December 2005, we completed the acquisition of the remaining shares in SeverGas-Invest, the owner of the West Medvezhye licence, for $3.2 million* in cash and 1.23 million ordinary shares
» We have negotiated two potential markets for our gas with the signing of a protocol with Gazprom subsidiary Nadymgazprom and a framework agreement with future Moscow electricity provider EnergoPromInvest (EPI)
» Kemerkol yielded first oil production in March this year and Victoria gained its first revenues. Production is currently being sold into the domestic Kazakh market
» Two fundraisings in December 2005 and then October 2006 have raised approximately $60 million. Most importantly, the recently completed convertible bond issue has provided us with sufficient funds to continue our planned exploration and production programmes of our core assets.

Exploration

Work at our West Medvezhye project has dominated our activities in 2006. In my last report, I said that we were optimistic on improving D&M's original prospective resource best estimate of 10–16 billion cubic feet of gas with the completion of further seismic work.

This year I am pleased to report that in their updated recoverable resource volume statement as of 30 June 2006, D&M give best estimate gross prospective resources for the project of over 5 trillion cubic feet of gas, 247 million barrels of condensate and 25 million barrels of oil.

Our early exploration was based on the completion of the first exploration well, Well 104 on a structure in the north east corner of the licence called the Danniella Accumulation. Although we discovered hydrocarbons, we decided that development of Danniella was not the best use of our resources and so we switched our attention to exploring other, more prospective potential structures.

Our current drilling activity is at Well 103, which has over 1.5 times the potential resource volume of Danniella. The well was completed at the beginning of October and petrophysical results from open-hole logging have revealed up to 55 feet of hydrocarbon-bearing sands, which will be put on test by the end of the year.

* All references to $ are US$.

The next exploration target is Well 105 and with winter arriving early we plan to mobilise for drilling in early 2007.

Production

March 2006 saw a significant milestone for the Company when the Kemerkol oil project in Kazakhstan brought us our first oil production from the initial re-entry operations. Limited finance has restricted our ability to develop the Kemerkol field as originally planned, but that situation is set to change following the completion of our latest financing in October.

Shareholders should know that the foundation of our exploitation programme for Kemerkol is a modern and detailed 3D seismic survey, which is being completed by our technical staff in Almaty. A comprehensive understanding of the subsurface geology will greatly reduce the risk of each new production well location. This will improve the efficiency of our drilling operations and accelerate our production increases.

Another important step for us will be the conclusion of negotiations with the Government of Kazakhstan to exercise our right to convert our current subsurface exploration contract into a production contract. At present, we are restricted to selling our oil into the domestic market, for which we receive the local price. With a production licence, we will be permitted to apply for an export quota in the KazTransOil pipeline system and be paid higher oil prices on the export markets.

Outlook

Victoria's prospective resource base is in excess of 1.1 billion barrels of oil equivalent. It also has C1 and C2 proven and probable reserves totalling over 35 million barrels of oil. These are significant volumes for a company the size of Victoria and the fact that we have successfully raised £20 million very recently, in difficult markets, reflects both the confidence that investors have and the quality of our assets.

Furthermore, we are now able to focus on building value via further acquisitions and I can assure shareholders that opportunities to acquire quality producing assets and substantial reserves still abound in the FSU.

In this regard, I would like to discuss the framework agreement signed with EPI to sell gas from West Medvezhye to a new power station project in Moscow. Although the domestic Russian gas market is dominated by Gazprom, companies such as Victoria do have the right to market their gas production directly to end-user consumers or through third-party agents provided that the gas conforms to certain specifications and that there is available pipeline capacity.

As a potentially substantial gas producer, we clearly identify the benefits of directly accessing the downstream gas market in Russia as a route to unlocking the full value of our upstream operations. This allows us to significantly improve our pricing and improve terms for access to the domestic pipeline system.

The agreement we have signed with EPI is the first phase of what we see as an important part of our overall strategy in Russia. Whilst we actively pursue new projects in our core expertise of hydrocarbon exploration and production, we must remain aware of the upstream opportunities that are available and their ability to enhance the intrinsic value of our assets.

On your behalf, I would like to thank all our employees and my fellow Directors for their continued dedication and untiring efforts.

Kevin Foo
Chairman

23 November 2006

Operating Review

West Medvezhye

Our exploration of the West Medvezhye gas and condensate project in Siberia over the past 12 months has focused on two specific areas of the licence, the Danniella Accumulation around Well 104 and the targets located at Well 103.

The Danniella Accumulation was chosen as the first exploration site due to Well 104 being partially completed by the previous owner and its proximity to existing infrastructure on Gazprom's neighbouring Medvezhye field. Through completion of Well 104, its twin 104-bis and appraisal Well 106 and additional seismic work the presence of hydrocarbons was confirmed in two principle horizons at very shallow depths of approximately 610 metres and 1,100 metres.

Well testing commenced in June 2006 and we reported that initial results indicated that, due to the shallow depths of the intervals, reservoir pressure and hydrocarbon saturation was insufficient for easy commercial production of gas or liquids.

Based on this, it was decided that the relative size of Danniella (the accumulation contributed less than 10% of D&M's total prospective resource volume for the project) did not justify the large human and financial investment required at this stage.

Well 103, our first new exploration well after Danniella, was drilled to 3,900 metres and a petrophysical interpretation from the open-hole logs indicated three intervals totalling 55 feet of hydrocarbon-bearing sands between depths of 3,700–3,820 metres. It was from horizons of similar depths that we reported that another local explorer had made a discovery in a neighbouring licence area less than 10 kilometres from Well 103.

Well testing, which will continue for a period of 90 to 120 days, is set to commence before the end of 2006 and will determine the accumulation size, reservoir and geological characteristics and daily rate of hydrocarbon production.

Our next target, Well 105, is described as a four-way closure and has been given the highest probability of geologic success by D&M of all the structures assessed in their latest resource statement for West Medvezhye. We intend to move the rig currently at the site of Well 103 across to 105 and if weather conditions remain favourable, we hope to be able to begin drilling in early 2007. In this region of Western Siberia, heavy equipment can only be moved when the ground is sufficiently frozen.

Our current plan is also to be able to begin drilling of a further two targets, Wells 107 and 109, in the first half of 2007 and we would expect to reach their respective target depths by the fourth quarter of the year.

Kemerkol

With the successful re-entry of Well 20 at Kemerkol in March, Victoria became an oil producer and started to receive its first revenues. Presently, average production since March has been limited to around 70 barrels of oil per day, however, this includes periods of enforced inactivity for routine technical maintenance and seismic surveying.

Although we are unlikely, therefore, to achieve our desired year-end production target, we remain confident that the 3D seismic that we have acquired will allow us to increase production rapidly. The data that we have seen so far has given us a great deal of encouragement.

Upon completion of the interpretation, we envisage an initial drilling programme of up to 11 new wells using three rigs. We hope to spud the first of these new wells in the first quarter of 2007 and we will seek to co-ordinate carefully increases in production with the on-going negotiations for issuance of a production licence for Kemerkol. This will enable us continue to limit the volume of our reserves sold at the lower domestic price.

Outlook

The next 12 months will be very significant for the Company as we seek to build on both our exploration and production activities. I would like to thank all our employees for their continuing hard work and we look forward to the year ahead and the further progress of Victoria Oil & Gas.

William Kelleher
Managing Director

23 November 2006

Definitions

C1 reserves

Reserves that have been geologically and geophysically evaluated and verified by drilling

C2 reserves

Reserves presumed to exist based on favourable geological and geophysical data analogous to that of verified reserves

C3/D1 resources

Speculative resources presumed to exist based on favourable geological analogy to reference areas

Gross prospective resources

The total quantities of hydrocarbons that are estimated, on a given date, to be potentially recoverable from undiscovered (undrilled) accumulations

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Report of the Directors

The Directors present their report and financial statements for the year ended 31 May 2006.

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

Review of the business
During the year under review the following acquisitions were completed:

» The remaining 25.2% interest in ZAO SeverGas–Invest, a company registered in Russia which owns the West Medvezhye licence, bringing the Company's ownership to 100%.
» A 100% interest in the Kemerkol oil project in the Atyrau Oblast of north-west Kazakhstan, from Saga Creek Gold Limited through the acquisition of Feax Investments Company Limited.

After the year end the Company has completed private placement of up to £20 million of Secured Guaranteed Convertible Bonds to fund the exploration and development programmes of its assets in Russia and Kazakhstan. On 17 October 2006, the Company issued £11.5 million bonds, with an option to issue an additional £8.5 million of bonds in the next 90 days.

A detailed review of the significant developments and operating activities of the Group, as well as the business environment and future prospects for the Group, are contained in the Chairman's Statement and the Operating Review.

The Directors believe that given the Group's current stage of development, the relevant key performance indicators are capital expenditure and net cash inflow. This information is set out in the financial accounts together with comparative information for the previous year.

The capital expenditure is a reflection of the exploration and development activity of the Group. The total for the year was $23.5 million*, an increase of almost $20 million over the previous period. Of this total approximately 57% was spent in Russia and 43% was spent in Kazakhstan.

Gross cash inflow for the year was $23.6 million compared to $28.2 million for the previous period. The prime source of cash inflow has been equity fund raising. This year a small proportion of our cash inflow was also generated by operations and it is expected that this will increase for future periods.

The Group's operating activities are undertaken through subsidiaries in the relevant jurisdictions and the Group seeks to manage and mitigate where possible the risks inherent in its activities, both external and internal.

* All references to $ are US$.

External risks include political conditions, changes in legislation, environmental issues and foreign exchange matters. These are largely outside the control of the Group, but all of these issues are carefully monitored to ensure that effective responses are made to changes. Where possible and cost effective, the risks are transferred to others through insurance policies.

Internal risks cover exploration and development risk, evaluation of acquisitions and internal control failures. The Group seeks to mitigate these risks by the use of experienced and suitably qualified specialists, both internal and external, to advise on exploration, development and acquisition strategies. The Group has also established internal control procedures to minimise the risk of a control failure.

Results and dividends

It is proposed that the retained loss of $1,146,000 is transferred to the Group's reserves. The Directors do not recommend a final dividend.

The Consolidated Profit and Loss Account for the period is set out on page 12.

Directors

The following Directors held office for the whole period:

Kevin Foo
Grant Manheim
Robert Palmer
William Kelleher

Directors' interests

The beneficial interests of the Directors including those of spouses and minor children, in the shares of the Company are as follows:

	25 October 2006 Ordinary shares	**31 May 2006 Ordinary shares**	31 May 2005 Ordinary shares	**31 May 2006 Optionsover Ordinary shares**
Kevin Foo[1]	3,196,944	**3,164,944**	2,500,000	**–**
Grant Manheim	497,304	**497,304**	350,000	**1,000,000**
William Kelleher[2]	4,467,694	**4,643,038**	3,750,000	**–**
Robert Palmer	204,031	**204,031**	–	**250,000**

1 Shares held in the name of HJ Resources Limited
2 Shares held in the name of Hydrocarbons Technologies Limited

Creditor payment policy

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

Substantial shareholdings

On 25 October 2006, the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the Company:

	Number of shares	%
Barclays PLC	14,435,783	12.49
Fidelity International Limited	4,128,530	3.57
Hydrocarbons Technologies Limited	4,467,694	3.87
Man Financial Limited	3,483,419	3.01

Extraordinary General Meeting

The Company held an Extraordinary General Meeting on 6 April 2006 and shareholder approval was obtained to increase the authorised share capital and to allow the Directors to allot shares up to a maximum of 20% of the issued share capital of the Company as at the date of the Meeting for cash. Most of this authority was used by the Company to facilitate the financing announced on 17 October, 2006.

Annual General Meeting

The Annual General Meeting of the Company will take place in London on 29 December, 2006 at 11.00am. A Form of Proxy and reply paid envelope are enclosed with this document.

Business at the Annual General Meeting

Directors

In accordance with Article 105, the number nearest to but not exceeding one third of the Directors must retire at the Annual General Meeting. Therefore Kevin Foo will stand for re-election. A short biography of Kevin Foo is on page 3 of the Annual Report.

Special Business

Resolutions 5 and 6

Resolution 5 authorises the Directors to allot relevant securities up to the existing authorised but unissued share capital. This authority will expire at the start of the next Annual General Meeting.

Resolution 6 is a Special Resolution authorising the Directors to issue equity securities as defined by section 94(2) of the Companies Act 1985 for cash on a non pre-emptive basis limited to situations where it is proposed to issue shares:

(i) pursuant to a rights issue; or

(ii) in connection with an employee incentive scheme and equal to no more than 5% of the issued share capital in any calendar year; or

(iii) in respect of applications from staff, consultants and advisers representing their remuneration and/or fees and equal to no more than 3% of issued share capital in any calendar year; or

(iv) that amount no more than 20% of the issued share capital of the Company (disregarding (i) to (iii) above). The Board is seeking renewal of the authority on the same basis as the previous year. This will allow them to allot the shares necessary for the issue of the next tranche of convertible bonds under the arrangement agreed with Jefferies. In addition the Board will also be able to allot shares from time to time as it deems appropriate without recourse to the shareholders so that it can move quickly to raise further cash for development of existing projects and conclude transactions when new opportunities arise.

This authority will expire at the start of the next Annual General Meeting.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors have chosen to prepare the accounts for the Company and the Group in accordance with United Kingdom Generally Accepted Accounting Practice.

Company law requires the Directors to prepare such financial statements for each financial year which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period and comply with UK GAAP and the Companies Act 1985. In preparing those financial statements, the Directors are required to:

» select suitable accounting policies and then apply them consistently;
» make judgements and estimates that are reasonable and prudent;
» state whether applicable accounting standards have been followed; and
» prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

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

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 enabling 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.

Deloitte & Touche were appointed at the 2005 Annual General Meeting. A resolution proposing that they be re-appointed will be put to the forthcoming Annual General Meeting.

Leena Nagrecha
Secretary
23 November 2006

Corporate Governance Report

The Directors support high standards of corporate governance and where practical and appropriate for a company of this size and nature, comply with the Combined Code and in this context follow the recommendations on corporate governance of the Quoted Companies Alliance. The Board seeks to ensure that the Company is managed in an efficient, effective and entrepreneurial manner for the benefit of all shareholders over the longer term.

Board

The Board of Directors currently has four members. The structure of the Board ensures that no one individual dominates the decision making process. The Directors together have significant and relevant resource exploration and production experience together with finance and corporate development skills. The Directors believe that with the current scale of operations, the present Board and operational management structure is appropriate. However, with the Company's growth and future plans, it is planned to strengthen the Board and the management.

Summary biographies for each Director are set out on page 3 of the Annual Report.

The Board meets at least six times each year providing effective leadership and overall management of the Group's affairs through the schedule of matters reserved for its decision. 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

An audit committee, chaired by the Deputy Chairman, Grant Manheim, meets at least once a year. It is responsible for ensuring that the financial activities of the Group are properly monitored, controlled and reported on. It meets the auditors and reviews reports from the auditors. Its full terms of reference are available on request and include: the review of the annual and interim financial statements and of accounting policies; the review with management and the Group's external auditors of the effectiveness of internal controls and the review with the Group's external auditors of the scope and results of their audit. The Chairman is the second member of the committee and the Finance Director attends the committee meetings by invitation.

Remuneration committee

A remuneration committee, which consists of the Deputy Chairman and the Finance Director, sets the scale and structure of the 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 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 allocation of incentive shares to employees.

The Chairman of the committee, Grant Manheim, will attend the Annual General Meeting and is prepared to respond to any shareholder questions on the committee's activities. The other member at present is Robert Palmer.

Internal controls

The Directors acknowledge their responsibility for the Company's system of internal controls and for reviewing its effectiveness. These internal controls are designed to safeguard the assets of the Company and to ensure the reliability of financial information for both internal use and external publication. The effectiveness of the system of internal controls has been reviewed by the Directors and whilst they are aware that no system can provide absolute assurance against material misstatement or loss, they are satisfied that the controls are adequate and effective with regard to the size of the Company and the stage of its development.

Relations with shareholders

The Directors attach great importance to maintaining good relationships with the shareholders. Extensive information about the Company's activities is included in the Annual Report and Accounts and the Interim Report, which are sent to all shareholders. Market sensitive information is regularly released to all shareholders in accordance with Stock Exchange rules. The Group is active in communicating with both its institutional and private shareholders and welcomes queries on matters relating to shareholders and the activities of the Group. The Annual General Meeting provides an opportunity for all shareholders to communicate with and to question the Board on any aspect of the Group's activities. The Company maintains a corporate website where information on the Company is regularly updated and all announcements are posted. The Company welcomes communication from both its private and institutional shareholders.

Corporate social responsibility

The Group is subject to best practice standards and extensive regulations, which govern environmental protection. The Group is committed to uphold these standards and regulations as a minimum and to keep these important matters under continuous review. When appropriate, adequate action and provision is immediately taken to ensure full compliance with the standards expected of a world-class oil and gas exploration company.

The Company works towards positive and constructive relationships with government, neighbours and the public to ensure fair treatment of those affected by the Company's operations. The Company aims to minimise the use of natural resources, such as energy and water, and to provide employees with a healthy and safe working environment whilst receiving payment that enables them to maintain a reasonable lifestyle for themselves and their families.

Directors' Remuneration Report

FOR THE YEAR ENDED 31 MAY 2006

Remuneration paid

Remuneration paid	Paid in cash $000	Paid in shares $000	Bonus paid in shares $000	**Total 2006 $000**	Total 2005 $000
Kevin Foo	193,741	159,516**	492,518**	**845,775**	169,000
Grant Manheim	128,882	–	101,209	**230,091**	120,000
William Kelleher	266,236	130,283***	404,838***	**779,576**	208,000
Robert Palmer *	127,455	–	101,209	**228,664**	120,000

Note

* Mr Palmer's salary is paid to The Gallagher Partnership LLP.

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

*** Paid to Hydrocarbons Technologies Limited.

Following approval at the last Annual General Meeting, the Company has set up a discretionary share incentive scheme, whereby up to 5% of the issued share capital of the Company can be allotted to employees and officers on an annual basis, in recognition of their contribution to the growth of the Company. Fully paid shares would be awarded pursuant to this scheme by the Employee Share Ownership Plan (ESOP) as long term incentive for the Directors, senior managers and staff. During the year, the Trustees of the ESOP have subscribed for 4,177,000 shares in the Company at par under the Company's 5% share incentive scheme. No discretionary awards were made during the year.

In addition, bonus share awards have been made to the Directors in accordance with their Service Agreements, prior to these being updated to reflect the 5% discretionary share incentive scheme. Copies of the Service Agreement for each Director are available for inspection at the Company's Registered Office.

The Board believes that going forward, the 5% discretionary share incentive scheme provides a flexible basis for a long term incentive scheme to maintain and motivate the Company's employees and officers by making them shareholders in the Company.

Independent Auditors' Report to the Members of Victoria Oil & Gas Plc

We have audited the financial statements of Victoria Oil & Gas Plc for the year ended 31 May 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As described in the Statement of Directors' Responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Report of the Directors and the other information contained in the Annual Report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations, which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosure made in the financial statements concerning the valuation of intangible assets, financial assets and intercompany receivables. The realisation of the intangible assets of $67,178,000 included in the Consolidated Balance Sheet and investments of $37,364,000 and intercompany receivables of $27,045,000 in the Company Balance Sheet is dependent on the successful development of mineral reserves. We draw attention to further details given in Notes 7, 9 and 10. Our opinion is not qualified in this respect.

Opinion

In our opinion:

» the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Company's affairs as at 31 May 2006 and of the Group's loss for the year then ended;

» the financial statements have been properly prepared in accordance with the Companies Act 1985; and

» the Report of the Directors is consistent with the financial statements.

Deloitte & Touche
Dublin

23 November 2006

Consolidated Profit and Loss Account

FOR THE YEAR ENDED 31 MAY 2006

	Notes	**2006 $000**	Period from incorporation on 27 May 2004 to 31 May 2005 $000
Turnover		**166**	–
Cost of sales		**(133)**	(104)
Gross profit/(loss)		**33**	(104)
Administrative expenses		**(1,851)**	(1,026)
Realised foreign exchange gains/(losses)		**338**	(412)
Operating loss	2	**(1,480)**	(1,542)
Interest payable	3	**(1)**	(1)
Interest receivable		**335**	297
Loss on ordinary activities before taxation		**(1,146)**	(1,246)
Taxation	4	**–**	–
Loss on ordinary activities after taxation		**(1,146)**	(1,246)
Retained loss for the year		**(1,146)**	(1,246)
		Cents	Cents
Group loss per share	6	**(1.21)**	(2.04)
Group loss per share – diluted	6	**(1.21)**	(2.04)

There were no recognised gains and losses other than those included in the profit and loss account. The profit and loss account has been prepared on the basis that all operations are continuing operations.

Balance Sheets

AS AT 31 MAY 2006

	Notes	**Consolidated 2006 $000**	Consolidated 2005 $000	**Company 2006 $000**	Company 2005 $000
Fixed assets					
Intangible fixed assets	7	**67,178**	21,730	**–**	–
Tangible fixed assets	8	**614**	194	**10**	9
Financial assets	9	**–**	–	**37,364**	14,545
		67,792	21,924	**37,374**	14,554
Current assets					
Stocks		**16**	18	**–**	–
Debtors	10	**1,215**	842	**27,941**	8,232
Cash at bank and in hand		**2,380**	11,484	**2,168**	11,258
		3,611	12,344	**30,109**	19,490
Creditors					
Amounts falling due within one year	11	**(4,598)**	(486)	**(676)**	(165)
Net current (liabilities)/assets		**(987)**	11,858	**29,433**	19,325
Net assets	12	**66,805**	33,782	**66,807**	33,879
Capital and reserves					
Called up share capital	13	**1,044**	751	**1,044**	751
Share premium account	14	**68,153**	34,268	**68,153**	34,268
Profit and loss account	14	**(2,392)**	(1,246)	**(2,390)**	(1,140)
Shareholders' funds – equity	15	**66,805**	33,773	**66,807**	33,879
Minority interest – equity	16	**–**	9	**–**	–
		66,805	33,782	**66,807**	33,879

The financial statements were approved by the Board on 23 November 2006.

Kevin A Foo
Chairman

Robert Palmer
Finance Director

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 MAY 2006

	2006	2005
	$000	$000
Cash flow from operating activities		
Operating loss	**(1,480)**	(1,542)
Deprecation	**96**	27
Stocks decrease	**2**	309
Debtors increase	**(372)**	(429)
Creditors increase/(decrease)	**4,112**	(2,535)
Minority interest	**–**	9
Currency translation adjustment	**(325)**	–
Net cash inflow/(outflow) from operating activities	**2,033**	(4,161)
Returns on investments and debt service costs		
Interest received	**335**	297
Interest paid	**(1)**	(1)
Net cash inflow from returns on investments and servicing of finance	**334**	296
Tax paid	**–**	–
Capital expenditure and financial investment		
Acquisition of intangible fixed assets	**(23,086)**	(3,739)
Acquisition of tangible fixed assets	**(452)**	(138)
Acquisition of shares in subsidiaries	**(11,069)**	(7,381)
Net cash outflow from capital expenditure	**(34,607)**	(11,258)
Net cash outflow before financing	**(32,240)**	(15,123)
Financing		
Issue of ordinary shares	**23,136**	27,855
Repayment of borrowings	**–**	(1,271)
Net cash inflow from financing	**23,136**	26,584
(Decrease)/increase in cash in the year	**(9,104)**	11,461

Analysis of net cash

	31 May 2005	Cash flow	**31 May 2006**
	$000	$000	**$000**
Cash at bank and in hand	11,484	(9,104)	**2,380**

Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31 MAY 2006

1. Accounting policies
Accounting convention
The financial statements have been prepared on the historical cost basis.

Basis of accounting
The consolidated financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards.

The consolidated financial statements are stated in thousands of US Dollars, which is the reporting currency of the Group.

Basis of Group consolidation
The consolidated financial statements include the financial statements of the Company and entities controlled by it made up to 31 May 2006. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to benefit from its activities.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill and any deficiency credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The results of subsidiaries acquired or disposed of during the period are included in the Consolidated Income Statement from the effective date of acquisition or to the effective date of disposal.

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

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

Intangible assets – deferred development expenditure
Exploration costs, which are based on geographical areas, are capitalised until the results of the projects are known in accordance with the UK Statement of Recommended Practice on Accounting for Oil and Gas Exploration and Development, Production and Decommissioning Activities. Exploration costs include an allocation of administrative and salary costs as determined by management. When a project proves successful the costs are then transferred to depreciable cost pools within tangible assets. An annual assessment is made of whether the economic value of the interest is in excess of costs capitalised as deferred development expenditure. Any impairment is transferred to depreciable regional cost pools within tangible

fixed assets and depreciated. Where a project is terminated, which is ascertained on a country basis, the related exploration costs are written off immediately.

Impairment of tangible and intangible assets including goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the geographical cost pool to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or geographical cost pool) is estimated to be less than its carrying amount, the carrying amount of the asset (or geographical cost pool) is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or geographical cost pool) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or geographical cost pool) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a re–valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Tangible fixed assets

Tangible fixed assets are recorded at cost net of accumulated depreciation and any provision for impairment.

Depreciation is charged on the following basis:
Plant and equipment – 10% straight line
Fixtures and fittings – 15% straight line

Foreign currencies
Transactions in currencies other than US Dollars are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Profit and loss items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised as income or as expenses in the year.

Goodwill and 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.

Capitalisation of interest
Finance costs are charged to the profit and loss account, except in the case of development financings where interest and related financing costs are capitalised as part of the cost of development.

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

The tax currently payable is based on taxable profit for the period. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases in used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Employee Share Ownership Plan (ESOP)

In accordance with UITF abstract 38, subscriptions for shares by the ESOP are accounted for as the shares are allotted. Distributions by the ESOP are recognised as expenses or capitalised, if appropriate, in the period in which the distribution is made at the market value of then shares at the date of distribution.

Stocks

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

2. Reportable expenses

Reportable expenses charged in arriving at the operating loss and capitalised in deferred development expenditure.

	Charged to profit and loss account 2006 $000	**Capitalised in deferred development expenditure 2006 $000**	**Total 2006 $000**	Total 2005 $000
Depreciation of tangible assets	**6**	**42**	**48**	27
Amortisation of intangible assets	**48**	**–**	**48**	–
Rent payments	**177**	**246**	**423**	155
Payments to auditors				
Audit fee	**17**	**66**	**83**	65
Remuneration of auditors for non-audit work	**–**	**37**	**37**	28
	17	**103**	**120**	93

3. Interest payable

	Charged to profit and loss account 2006 $000	Capitalised in deferred development expenditure 2006 $000	Total 2006 $000	Total 2005 $000
Bank interest	**1**	**–**	**1**	92

4. Taxation

No provision is required for tax because no member of the Group reported a taxable profit.

The Group has losses of approximately $2.3 million available to offset future taxable profits, but no deferred tax asset has been recorded because it is uncertain that profits to utilise the losses will be made in the appropriate jurisdictions.

5. Loss for the financial year

As permitted by section 230 of the Companies Act 1985, the holding company's profit and loss account has not been included in these financial statements. The loss for the financial year is $1,250,000 (2005: $1,140,000).

6. Loss per share

The loss per share is based on the Group loss for the financial year of $1,146,000 (2005: $1,246,000) and on 94,649,723 (2005: 61,212,443) ordinary shares being the average number of shares in issue during the period. Diluted earnings per share is computed by dividing the loss for the financial year by the weighted average number of ordinary shares in issue, each adjusted for the effect of all dilutive potential ordinary shares that were outstanding during the year.

7. Intangible fixed assets

Deferred development expenditure

Group	**2006 $000**	2005 $000
Cost		
At 1 June 2005	**21,730**	–
Arising on acquisition of shares in subsidiaries	**22,101**	17,900
Additions	**23,086**	3,830
Currency translation adjustment	**309**	–
At 31 May 2006	**67,226**	21,730
Amortisation		
At 1 June 2005	**–**	–
Charge for the year	**48**	–
At 31 May 2006	**48**	–
Net book value	**67,178**	21,730

The Group's activities include exploration for and production of oil and gas in Russia, Kazakhstan and other central Asian countries and are subject to a number of significant potential risks including:

» price fluctuations;
» uncertainties over development and operational costs;
» operational and environmental risks;
» political and legal risks, including arrangements with the governments for licences, profit sharing and taxation; and
» funding developments.

The value of the Group's investments in these assets is dependent on the development of hydrocarbon reserves, which is affected by these and other risks. Should this prove unsuccessful, the value included in the balance sheet would be written down.

8. Tangible fixed assets

	Group Fixtures, fittings and equipment		Company Fixtures, fittings and equipment	
	2006 $000	2005 $000	**2006 $000**	2005 $000
Cost				
At 1 June 2005	**221**	–	**10**	–
Subsidiaries acquired	**–**	83	**–**	–
Additions	**452**	138	**3**	10
Currency translation adjustment	**16**	–	**–**	–
At 31 May 2006	**689**	221	**13**	10
Depreciation				
At 1 June 2005	**27**	–	**1**	–
Charge for the year	**48**	27	**2**	1
At 31 May 2006	**75**	27	**3**	1
Net book value	**614**	194	**10**	9

9. Financial assets investments

	Unlisted investments	
Company	**2006**	2005
Cost	**$000**	$000
1 June 2005	**14,545**	–
Acquisition of shares in subsidiaries		
Cash consideration	**11,069**	7,246
Shares allotted	**11,042**	7,299
Capital contribution to subsidiary	**708**	–
At 31 May 2006	**37,364**	14,545

As outlined in Note 7 the value of the Company's investments is dependent on the development of economic hydrocarbon reserves.

Holdings of more than 20%

The Company holds more than 20% of the share capital of the following companies:

Company	Country of registration	Class of shares	Percentage of capital
Victoria Petroleum Limited	England and Wales	Ordinary	100%
Victoria Oil & Gas International Limited	British Virgin Islands	Ordinary	100%
Olager Oil LLP	Kazakhstan	Ordinary	90%
ZAO SeverGas-Invest	Russia	Ordinary	100%
Victoria Oil & Gas Central Asia Limited	England and Wales	Ordinary	100%
Feax Investments Company Limited	Cyprus	Ordinary	100%
Victoria Energy Central Asia UK Limited	England and Wales	Ordinary	100%
Victoria Energy Central Asia LLP	Kazakhstan	Ordinary	100%
Mogol LLP	Kazakhstan	Ordinary	100%

The principal activity of these undertakings for the relevant financial period was exploration for, and development of, oil and gas assets.

Acquisitions

By an agreement dated 18 December 2005 the Company acquired the 25.2% of ZAO SeverGas-Invest (SGI), which it did not already own. On 10 February 2005 the Company entered into an agreement to acquire the entire share capital of Feax Investments Company Limited (Feax) and this acquisition was completed in stages between 10 October 2005 and 9 February 2006.

The fair value of the assets and liabilities on acquisition were:

	SGI $000	Feax $000	Fair value adjustment $000	Total $000
Intangible assets	–	–	22,101	22,101
Debtors	9	1	–	10
Net assets	9	1	22,101	22,111
Goodwill	5,810	16,291	(22,101)	–
Consideration	5,819	16,292	–	22,111

The fair value adjustment above arises from a revaluation of the assets of the subsidiaries on acquisition.

10. Debtors: amounts falling due within one year

	Group		Company	
	2006	2005	**2006**	2005
	$000	$000	**$000**	$000
VAT recoverable	**386**	14	**129**	14
Other debtors	**790**	828	**728**	740
Victoria Oil & Gas Plc ESOP	**39**	–	**39**	–
Amounts due from Group undertakings	**–**	–	**27,045**	7,478
	1,215	842	**27,941**	8,232

As outlined in Note 7 the value of the amounts due from Group undertakings is dependent on the development of economic hydrocarbon reserves.

Included in other debtors is an amount of $345,733 receivable from Flair Petroleum fully secured over an investment held by Flair Petroleum.

11. Creditors: amounts falling due within one year

	Group		Company	
	2006	2005	**2006**	2005
	$000	$000	**$000**	$000
Trade creditors	**4,137**	–	**516**	–
Other creditors	**–**	256	**–**	79
Taxes and social security costs	**362**	22	**108**	16
Accruals and deferred income	**99**	208	**52**	70
	4,598	486	**676**	165

12. Net assets – geographical analysis

The Group's management centre is in UK and it has exploration and development activities in Kazakhstan and Russia.

	Net Assets		Additions to tangible and intangible fixed assets		Profit/(loss)	
	2006	2005	**2006**	2005	**2006**	2005
	$000	$000	**$000**	$000	**$000**	$000
United Kingdom	**6,006**	13,434	**3**	10	**(1,242)**	(1,246)
Kazakhstan	**26,578**	4,475	**26,382**	875	**96**	–
Russia	**34,221**	15,873	**19,254**	3,083	**–**	–
	66,805	33,782	**45,639**	3,968	**(1,146)**	(1,246)

All operating losses arose from the local activities located in the UK.

13. Share capital

	2006 **£**	2005 £
Authorised		
400,000,000 (2005: 200,000,000) ordinary shares of 0.5p each	**2,000,000**	1,000,000
	$000	$000
Allotted, called up and fully paid		
Opening balance: 81,819,915 ordinary shares of 0.5p each	**751**	–
Issued during the year 33,542,509 ordinary shares of 0.5p each (2005: 81,819,915)	**293**	751
Closing balance: 115,362,424 ordinary shares of 0.5p each	**1,044**	751

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

Share issues

The Company issued the following shares during the period:

		Number	Issue price
1 June 2005	Placing for working capital	105,399	43.0p
22 November 2005	Acquisition of Feax Investments Company Limited	2,339,664	42.0p
29 December 2005	Placing for working capital	17,542,396	78.0p
29 December 2005	Acquisition of balance of ZAO SeverGas-Invest	1,230,000	78.0p
27 January 2006	Acquisition of Feax Investments Company Limited	2,000,889	78.0p
27 January 2006	Acquisition of Feax Investments Company Limited	2,339,664	42.0p
10 February 2006	Acquisition of Feax Investments Company Limited	2,890,173	42.0p
6 March 2006	Placing with ESOP and advisers	4,213,000	0.5p
6 March 2006	Placing for working capital	881,324	89.0p

Options to subscribe for ordinary shares

The Company has granted options to subscribe for 1,250,000 ordinary shares of 0.5p each at 20p per share which are exercisable at any time prior to 27 July 2007.

14. Statement of movements on share premium and reserves

Group	Share premium account 2006 $000	Share premium account 2005 $000	Profit and loss account 2006 $000	Profit and loss account 2005 $000
At 1 June 2005	**34,268**	–	**(1,246)**	–
Premium on shares issued in the period	**34,869**	35,318	**–**	–
Share issue expenses	**(984)**	(1,050)	**–**	–
Retained loss for the year	**–**	–	**(1,146)**	(1,246)
At 31 May 2006	**68,153**	34,268	**(2,392)**	(1,246)

Company				
At 1 June 2005	**34,268**	–	**(1,140)**	–
Premium on shares issued in the period	**34,869**	35,318	**–**	–
Share issue expenses	**(984)**	(1,050)	**–**	–
Retained loss for the year	**–**	–	**(1,250)**	(1,140)
At 31 May 2006	**68,153**	34,268	**(2,390)**	(1,140)

15. Statement of movement in shareholders' funds

Group	2006 $000	2005 $000
Opening shareholders' funds	**33,773**	–
Loss for the financial year	**(1,146)**	(1,246)
Issue of shares	**34,178**	35,019
Closing shareholders' funds	**66,805**	33,773

Company		
Opening shareholders' funds	**33,879**	–
Loss for the financial year	**(1,250)**	(1,140)
Issue of shares	**34,178**	35,019
Closing shareholders' funds	**66,807**	33,879

16. MINORITY INTEREST

	2006 $000	2005 $000
At 1 June 2005	**9**	–
Acquisition of shares in subsidiary	**(9)**	9
At 31 May 2006	**–**	9

17. DIRECTORS' EMOLUMENTS

	Charged to profit and loss account $000	Capitalised in deferred development expenditure $000	**Total 2006 $000**	Total 2005 $000
Paid in cash	450	244	**694**	617
Incentive shares	–	1,390	**1,390**	–
	450	1,634	**2,084**	617

18. EMPLOYEES

NUMBERS OF EMPLOYEES

The average monthly number of employees (including Directors) during the year was:

	Number
Management and administration	55
	55

EMPLOYMENT COSTS

	$000
Wages and salaries	3,211
Social security costs	232
	3,443

Charged to profit and loss account	850
Capitalised in deferred exploration costs	2,593
	3,443

19. Related party transactions
Robert Palmer is a Director of the Company and a member of The Gallagher Partnership LLP, an accountancy practice. These accounts include $30,892 in relation to general accountancy services and $587,490 in relation to corporate finance advice on acquisitions which was settled fully in shares of the Company.

On 15 December 2005 the Company provided a guarantee of a bank loan of a maximum of $6,000,000 provided to a subsidiary of Celtic Resources Holdings Plc (Celtic), a company of which Kevin Foo is a director. On 21 December 2005 the Company borrowed $3,451,012 on a short term basis from Celtic. The loan from Celtic was unsecured and was repaid in full on 29 December 2005.

20. Capital commitments
The Company has Minimum Work Programme commitments for the Kemerkol oil field of at least a further $7.6 million over the next five years. The Minimum Work Programme for the West Medvezhye gas project requires the drilling of one further exploration well to penetrate the Jurassic horizon before the end of 2007.

21. Post Balance Sheet events
On 17 October 2006, the Company privately placed £11.5 million of secured guaranteed convertible bonds, with the option for a further £8.5 million to be issued later in 2006. This is to finance the Group's exploration and production programmes. The Company has also agreed a £25 million exchangeable note facility which can be drawn down from early 2007.

22. Risk Management
The Group's financial instruments at 31 May 2006 comprise cash balances and items such as trade debtors and trade creditors, which arise directly from trading operations. The main purpose of these financial instruments is to raise finance to fund Group operations.

The Group has not entered into any derivative transactions. Currently it is the Group's policy that no trading in financial instruments shall be undertaken.

The main financial risks arising from the Group's financial instruments are currency risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks.

Financial Assets
The Group has financial assets, which include short term debtors, stocks and cash at bank. The Group has no significant monetary assets.

Financial Liabilities
The Group has financial liabilities which comprise trade and other creditors. These do not bear interest.

Liquidity Risk
The Directors regularly review the options available to the Group to ensure continuity of funding. This review encompasses the availability of funding through the issue of shares and other financial instruments and by utilisation of existing cash balances. The funding raised during the year is detailed in the share capital and share premium account notes above. The Group has not utilised any bank borrowings during the period.

Foreign Currency Risk
Although the Company is incorporated in England, the Group's Financial Statements are denominated in US Dollars, as this is the principal trading currency for the Group's activities.

The share issues have been priced in Sterling. Expenditure is in US Dollars, Sterling, Roubles and Tenge.

The Group has subsidiaries which operate in Russia and Kazakhstan. Their expenditure is in Roubles and Tenge and their Financial Statements are maintained in those currencies. The Group's policy for dealing with exchange differences is outlined in the Statement of Accounting Policies under the heading "Foreign Currencies".

The Group does not presently utilise swaps or forward contracts to manage its currency exposures, although such facilities are considered and may be used where appropriate in the future.

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 with specified bands.

The functional currency of the majority of the Group's operations is US Dollars, which is also the reporting currency. The net currency exposure of the net assets of the Group at the balance sheet dates was as follows:

	2006	2005
	$000	$000
Currency		
US Dollars	**1,359**	754
Sterling	**1,169**	11,102
Roubles	**34,221**	17,934
Tenge	**30,056**	3,992
	66,805	33,782

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting ("AGM") of Victoria Oil & Gas Plc (the "Company") will be held on Friday 29 December 2006, at 11.00 am at 1st floor Meeting Room, Hatfield House, 52-54 Stamford Street, London SE1 9LX to consider and if thought fit to pass the following Resolutions of which 1 to 5 will be proposed as Ordinary Resolutions and Resolution 6 will be proposed as a Special Resolution:

Ordinary Business:

1. To consider the financial statements and report of the auditors and the Directors for the year ended 31 May 2006.
2. To re-elect Kevin Foo as a Director who retires in rotation in accordance with Article 105 of the Company's Articles of Association.
3. To re-appoint Deloitte & Touche as auditors.
4. To authorise the Directors to fix the remuneration of the auditors.

Special Business:

5. As an Ordinary Resolution:

THAT the Directors be and they are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of that section of the Act) up to an aggregate nominal amount of £1,422,113 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.

6. As a Special Resolution:

THAT (subject to the passing of resolution number 5 as an Ordinary Resolution) the Directors be and they are hereby empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of s. 94(2) of the Act) wholly for cash pursuant to the authority conferred by resolution number 5 above as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

(a) in connection with an offer of such securities by way of rights (including without limitation, under a rights issue, open offer or similar arrangement) to holders of equity securities in proportion (as nearly as may be practicable) to their respective holdings of such securities, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements, record dates or any other legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange;

(b) otherwise than pursuant to the resolution referred to in above 6(a) of up to an aggregate nominal amount equal to five per cent. of the issued share capital of the Company in any calendar year for applications in connection with the discretionary employee share incentive scheme operated by the Company;

(c) otherwise than pursuant to the resolutions referred to in above 6(a) and (b) of up to an aggregate nominal amount equal to twenty per cent. of the issued ordinary share capital of the Company from time to time; and

(d) otherwise than pursuant to the resolutions referred to in above 6(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
23 November 2006

Notes

(1) A member entitled to attend, speak and vote is entitled to appoint a proxy (who may not need to be a member of the Company) to attend, speak and vote on his behalf. A proxy need not be a member of the Company.
(2) Forms of Proxy, together with any Power of Attorney or other authority under which it is executed or a notarially certified copy thereof, must be completed and, to be valid, must reach the Registrar of the Company at Computershare Investor Services PLC, PO Box 1075, The Pavilions, Bridgwater Road, Bristol, BS99 3FA not less than forty-eight hours before the time appointed for the holding of the meeting.
(3) If the appointer is a corporation, this Form of Proxy must be under its common seal or under the hand of an officer or attorney duly authorised.
(4) The appointment of a proxy does not preclude a member from attending and voting at the meeting.
(5) In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote of the other registered holders(s) and for this purpose seniority shall be determined by the order in which the names stand in the register of members.
(6) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (SI 2001/3755). Reg. 41(1) and (2), only those shareholders on the Register of Shareholders at 11.00am on 27 December 2006 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their names at that time. If the meeting is adjourned by more than 48 hours, then to be so entitled, shareholders must be entered on the Company's Register of Shareholders at the time which is 48 hours before the time appointed for holding the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.

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