ViaLogy PLC

Interim Report and Unaudited accounts for six months ended 30 September 2009

ViaLogy PLC

Chairman's statement for the six months ended 30 September 2009

The Interim Report covers the six-month period to 30 September 2009. The figures show a loss for the period of £2,558,136 which includes £1,430,181 for amortisation and depreciation. The amortisation charges relate to the value of ViaLogy's Intellectual Property and associated research and development, which is amortised over a period of six years. The cash outflow from operations during the period was £1,240,391.

During the period ViaLogy raised a total of £3,620,092 before expenses. On 5 May £1,637,500 before expenses was raised by conversion of warrants. A placing of 49,564,800 new shares on 18 August raised a further £1,982,592 before expenses.

As you will see from the CEO's Review, we are pleased to confirm that ViaLogy has made considerable progress during 2009. It is barely 18 months since the company commenced proof-of-concept trials for its QuantumRD oil & gas exploration data analysis product. We can claim two consecutive successful wells in 2009 (a planned third well was postponed due to an Operator's lease problem, but will be started early in the new year), and multiple wells are planned for Q1 2010 and beyond.

Importantly, during the last six months, we have developed a growing list of contracted new customers for QuantumRD, and have signed a total of eight Master Services Agreements with experienced oil exploration and production companies. We have already completed work for a number of these businesses; our recommendations for well locations, often in very challenging formations, have been accepted and drilling is scheduled for Q1 2010 and beyond. These orders lead me to the firm belief that the coming year should produce a growing revenue stream for ViaLogy. Our CEO reminds us that we cannot guarantee 100 per cent success every time, and that the technology is being developed and refined as we gain experience with different and often difficult types of formations. Nor can we influence our clients' drilling dates. But the fact that knowledgeable and experienced clients have placed their confidence in us and our QuantumRD analysis bolsters our belief that our unique active signal processing technology applied to seismic and other digital exploration data will, over time, substantially reduce the incidence of 'dry holes' and can have a significant financial impact on the industry.

Our activities to date have been concentrated on North American sites, but I can report that the potential of QuantumRD has attracted attention and enquiries from global companies that have expressed interest in the technology to enhance their exploration results. Discussions have been held and we are considering cooperation activities. However, our focus is maintaining our performance for our direct clients.

I would like to thank all ViaLogy's loyal investors for their patience and continued confidence. We will continue to do our best to justify it.

Terry Bond
Chairman
ViaLogy PLC

31 December 2009

Directors
Terry Bond – Executive Chairman
Dr. Robert W Dean – Chief Executive Officer
Dr. Sandeep Gulati – Chief Technology Officer
George Rehm – Non-Executive Director
Peter Reynolds – Non-Executive Director

ViaLogy PLC

Chief Executive Officer's review

Over the previous six months, we have focused the company's attention almost entirely on our QuantumRD hydrocarbon reservoir discovery and characterization product and its target market of oil exploration and production firms. As of September 30, ViaLogy was credited with having determined drilling locations for two successful wells. To date, we have eight active clients who are scheduled to drill a number of wells at our recommended locations prior to March 31, 2010, the end of our Fiscal Year. Our goal of course is to produce as many successful wells as possible, and as rapidly as possible, but we do not control the timing of our clients' drilling. Nor will our locations prove successful in all cases, something that is understood by our clients. Nevertheless, as we are told regularly, increasing their success rate and reducing the number of costly dry holes would have an enormous business impact. We now have a contingent order book of fifty plus wells, ie work under contract in which well locations will be determined by QuantumRD, and delivered to current clients. The decision to drill and its timing are in the hands of the client. We also have a strong sales pipeline of prospective customers. Our business model, based on an up-front service fee and a success fee calculated as a working interest in the well, is finding acceptance in the target client base, although in a few cases we have foregone a success fee pending a successful demonstration of the technology on client wells. This should lead to long term client partnerships. We are on target with our internal operating and financial plans; we have a full workload and we are evaluating and hiring key technical staff in the form of experienced geophysicists; and we are trying to meet demand to expand the business – which is limited by our resources.

Our QSUB product, the application of our core quantum resonance interferometry technology to airborne synthetic aperture radar in order to locate and identify buried objects, has performed very well in challenging field tests. We will develop a concentrated effort to bring it to market when we have sufficient resources. As for our Sensor Policy Manager software product, we are actively exploring strategic alternatives including divestiture, licensing and technology partnerships. Here again, given our focus on the energy industry, we do not have resources to continue to develop and market this remarkable capability.

Robert W. Dean
Chief Executive Officer
ViaLogy PLC

31 December 2009

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Consolidated income statement for the six months ended 30 September 2009

	Notes	**Unaudited 6 months to 30 Sep 2009 £**	Unaudited 6 months to 30 Sep 2008 £	Audited Year to to 31 Mar 2009 £
Revenue	2	**11,266**	32,444	129,028
Cost of sales		**–**	10,587	12,369
Gross profit	2	**11,266**	21,857	116,659
Share based payments		**216,397**	338,685	1,068,953
Depreciation and amortisation		**1,430,181**	1,203,630	2,761,158
Other administrative expenses		**1,168,265**	1,310,869	2,510,311
Administrative expenses		**2,814,843**	2,853,184	6,340,422
Loss from Operations		**(2,803,577)**	(2,831,327)	(6,223,763)
Finance income		**369**	32,128	43,006
Loss for the year before taxation		**(2,803,208)**	(2,799,199)	(6,180,757)
Taxation	3	**245,072**	202,097	424,345
Loss for the year attributable to equity holders of the parent	2	**(2,558,136)**	(2,597,102)	(5,756,412)
Loss per share				
Basic and diluted	4	**(0.43)p**	(0.55)p	(1.183)p

Consolidated statement of changes in equity for the six months ended 30 September 2009

	Share capital £	Share premium account £	Warrant reserve £	Foreign exchange reserve £	Retained earnings £	Total £
At 1 April 2009	5,037,736	15,705,702	387,500	2,678,831	(13,124,562)	10,685,207
Loss for period	–	–	–	–	(2,558,136)	(2,558,136)
Exchange differences arising on translation of foreign operations	–	–	–	354,395	–	354,395
Total income and expense recognised for the year	–	–	–	354,395	(2,558,136)	(2,203,741)
Arising on issue of shares	1,253,183	2,608,237	(379,375)	–	–	3,482,045
Share options expense	–	–	–	–	216,397	216,397
Balance at 30 September 2008	6,290,919	18,313,939	8,125	3,033,226	(15,466,301)	12,179,908

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Consolidated balance sheet at 30 September 2009

	Unaudited 30 Sep 2009 £	Unaudited 30 Sep 2008 £	Audited 31 Mar 2009 £
Assets			
Non current assets			
Property, plant and equipment	**402,753**	149,995	166,806
Intangible Assets	**10,797,064**	10,456,844	12,095,841
Financial Assets	**200,000**	200,000	200,000
	11,399,817	10,806,839	12,462,647
Current assets			
Inventories	**14,233**	12,469	15,945
Trade and other receivables	**54,040**	49,272	15,597
Cash and cash equivalents	**2,422,685**	1,961,491	432,190
	2,490,958	2,023,232	463,732
Total Assets	**13,890,775**	12,830,071	12,926,379
Liabilities			
Current liabilities			
Trade and other payables	**166,985**	317,451	240,177
Corporation tax liability	**29,788**	–	29,788
Non-current liabilities			
Deferred tax liability	**1,514,094**	1,756,592	1,971,207
Total liabilities	**1,710,867**	2,074,043	2,241,172
Capital and reserves attributable to equity holders of the Company			
Share capital	**6,290,919**	5,037,736	5,037,736
Share premium account	**18,313,939**	15,698,202	15,705,702
Warrant Reserve	**8,125**	387,500	387,500
Foreign Exchange translation reserve	**3,033,226**	328,110	2,678,831
Retained Earnings	**(15,466,301)**	(10,695,520)	(13,124,562)
Shareholders' funds	**12,179,908**	10,756,028	10,685,207
Total equity and liabilities	**13,890,775**	12,830,071	12,926,379

Consolidated cash flow statement for six months ended 30 September 2009

	Unaudited 30 Sep 2009 £	Unaudited 30 Sep 2008 £	Audited 31 Mar 2009 £
Operating activities			
Loss before tax	**(2,803,208)**	(2,799,199)	(6,180,757)
Adjustments for :-			
Finance income	**(369)**	(32,128)	(43,006)
Depreciation	**38,049**	27,025	63,570
Amortisation	**1,392,132**	1,176,605	2,697,588
Share option expense	**216,397**	338,685	1,068,953
Foreign exchange movements	**26,162**	(7,109)	(187,804)
Operating activities before changes in working capital	**(1,130,837)**	(1,296,121)	(2,581,456)
Reduction/(Increase) in trade and other receivables	**(38,443)**	(20,156)	13,519
Increase in inventories	**1,712**	(1,954)	(5,430)
(Reduction)/Increase in trade and other payables	**(73,192)**	(62,795)	(52,859)
Interest received	**369**	32,128	43,006
Cash generated from operations	**(1,240,391)**	(1,348,898)	(2,583,220)
Investing activities			
Internally generated intangible asset	**(271,711)**	(535,255)	(997,859)
Acquisition of tangible fixed assets	**(293,984)**	(93,406)	(106,991)
	(565,695)	(628,661)	(1,104,850)
Financing activities			
Cash inflow from issue of new shares	**3,620,092**	1,800,000	1,800,000
Share issue costs	**(149,609)**	(51,000)	(43,500)
Cash inflow from exercise of options	**11,562**	–	–
	3,482,045	1,749,000	1,756,500
Increase/(Decrease) in cash and cash equivalents	**1,675,959**	(228,559)	(1,931,570)
Foreign exchange differences on translation of cash and cash equivalents.	**314,536**	–	173,710
Cash and cash equivalents at beginning of period	**432,190**	2,190,050	2,190,050
Cash and cash equivalents at end of period	**2,422,685**	1,961,491	432,190

Notes forming part of the parent company financial statements

1 Accounting policies

Basis of preparation

The financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) and stated in British pounds (£). In preparing the interim financial statements, the same accounting policies are applied as in the preparation of the audited Financial Statements for the year ended 31 March 2009 except for the changes set out below.

The above financial information does not constitute statutory accounts within the meaning of Section 240, Companies Act 1985. The information relating to the six months ended 30 September 2009 has been reviewed but not audited. Information relating to the year ended 31 March 2009 has been extracted from the statutory accounts of the Group which have been audited by the Group's auditors BDO Stoy Hayward and whose report thereon is unqualified.

Going concern

The Group's financial plans require the Group to secure a number of sales contracts over the course of the coming year in order to fund the working capital requirements and the development programme of the Group.

As at 30 September 2009 the Group have signed contracts with six customers and a contingent backlog of more than 40 wells. The board are confident that more contracts will be forthcoming based on the strong sales pipeline which has been developed.

In the event that these sales contracts are not received in line with the Group's financial plans then Directors are confident that further equity funding could be raised or expenditure could be sufficiently reduced to ensure that funds are available to meet working capital requirements. Accordingly the Group's financial statements have been prepared on a going concern basis.

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Notes forming part of the parent company financial statements

2 Segmental analysis

The Group's primary and secondary formats for reporting segment information are shown below. The primary operations segment is based in the USA; the head office primary segment is based in the UK. The differing geographical locations being the secondary segment overlap completely with the differing nature of the business segments.

2009 Business Segments	Operations	Head Office	Unallocated	Consolidated
	£	£	£	£
Revenue	11,266	–	–	11,266
Gross profit	11,266	–	–	11,266
Net finance income	–	–	369	369
Net tax credit	–	–	245,072	245,072
Net loss for the period	(2,549,914)	(253,663)	245,441	(2,558,136)
Segment assets	10,044,375	2,331,946	1,514,094	13,890,775
Segment liabilities	102,137	94,636	1,514,094	1,710,867
Costs to acquire plant property and equipment	90,416	203,568	–	293,984
Costs to acquire intangible assets	271,711	–	–	271,711
Depreciation and amortisation	1,429,440	741	–	1,430,181
Share based payments charged	–	216,397	–	216,397

All sales were to external customers.

2008 Business Segments	Operations	Head Office	Unallocated	Consolidated
	£	£	£	£
Revenue	32,444	–	–	32,444
Gross profit	21,857	–	–	21,857
Net finance income	–	–	32,128	32,128
Net tax credit	–	–	202,097	202,097
Net loss for the period	(2,272,618)	(558,709)	234,225	(2,597,102)
Segment assets	8,937,308	2,136,171	1,756,592	12,830,071
Segment liabilities	230,301	87,150	1,756,592	2,074,043
Costs to acquire plant property and equipment	93,406	–	–	93,406
Costs to acquire intangible assets	535,255	–	–	535,255
Depreciation and amortisation	1,202,974	656	–	1,203,630
Share based payments charged	–	338,685	–	338,685

All sales were to external customers.

Notes forming part of the parent company financial statements

3 Taxation on profits from ordinary activities

The movement on the tax account relates to the release of the provision on the deferred tax credit. The calculation is shown below:

	2009	2008
	£	£
At 1 April	**1,971,205**	1,908,970
Release for the six months to 30 Sept	**(245,072)**	(202,094)
Foreign exchange translation	**(212,038)**	49,716
At 30 September	**1,514,095**	1,756,592

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 35%.

4 Loss per share

Basic

The calculation of earnings per share is based on the loss for the period of £2,558,136 (2008 – loss £2,597,102) and on 602,470,355 (2008 – 503,125,537) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

Diluted

Diluted earnings per share dilute the basic earnings per share to take into account share options and warrants. The calculation includes the weighted average number of ordinary shares that would have been issued on the conversion of all the dilutive share operations and warrants into ordinary shares. 75,231,139 options and 2,006,154 warrants have been excluded from this calculation as this would reduce the loss per share.

Notes forming part of the parent company financial statements

5 Share capital

	Authorised			
	2009	2008	**2009**	2008
	Number	Number	**£**	£
Ordinary Shares of 1p Each	**750,000,000**	750,000,000	**7,500,000**	750,000,000

	Allotted, called up and fully paid			
	2009	2008	**2009**	2008
	Number	Number	**£**	£
Ordinary Shares of 1p Each				
At 1 April	**503,773,621**	458,773,620	**5,037,736**	4,587,736
Shares issued for cash	**50,377,300**	45,000,000	**503,773**	450,000
Employee Share option exercised	**753,476**	–	**7,534**	–
Warrants converted into shares	**74,187,500**	–	**741,875**	–
At 30 September	**629,091,897**	503,773,621	**6,290,918**	5,037,736

The Group raised £1.63 million, (£1.62 million net of expenses), on 5 May 2009 via :-

- the conversion of 26,687,500 warrants at 2.5p per warrant;
- the conversion of 47,500,000 warrants at 2.0p per warrant; and
- the issue of 812,500 shares at 4p per share.

The Group also raised a further £1.99 million (£1.91 million net of expenses) via a private placing of 49,564,800 shares at 4 pence per share on 18 August 2009.

Notes forming part of the parent company financial statements

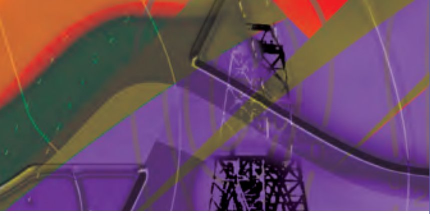
6 Reserves

2009	Ordinary share capital £	Share Premium account £	Warrant Scheme reserve £	Foreign Exchange £	Retained earnings £
At 1 April 2009	5,037,736	15,705,702	387,500	2,678,831	(13,124,562)
Arising on issue of Shares	1,253,183	2,757,846	(379,375)	–	–
Fundraising costs	–	(149,609)	–	–	–
Loss for the period	–	–	–	–	(2,558,136)
Arising in the period	–	–	–	658,723	–
Share option expense	–	–	–	–	216,397
At 30 September 2009	6,290,919	18,313,939	8,125	3,033,226	(15,466,301)

2008	Ordinary share capital £	Share Premium account £	Warrant Scheme reserve £	Foreign Exchange £	Retained earnings £
At 1 April 2008	4,587,736	14,511,702	275,000	(436,394)	(8,437,103)
Arising on issue of shares	450,000	1,237,500	112,500	–	–
Fundraising costs	–	(51,000)	–	–	–
Loss for the period	–	–	–	–	(2,597,102)
Arising in the period	–	–	–	764,504	–
Share option expense	–	–	–	–	338,685
At 30 September 2008	5,037,736	15,698,202	387,500	328,110	(10,695,520)

The following describes the nature and purpose of each reserve within shareholders equity:

Reserve	**Description and purposes**
Share premium account	Amount subscribed for share capital in excess of nominal value.
Retained earnings	Cumulative net gains and losses recognised in the consolidated income statement.
Foreign Exchange	Exchange difference arising on translation of foreign operations.



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