ViaLogy PLC

Interim Report and Unaudited accounts for six months ended 30 September 2010

Vialogy PLC

Chairman's statement for the six months ended 30 September 2010

The Interim Report covers the six-month period to 30 September 2010. The figures show a loss for the period of £3,108,252 which includes £1,591,506 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 £1,840,750.

Behind the figures lies a story of dramatic progress that has taken place at ViaLogy during 2010. In essence, the company's technology has been utilized and proven to the point sufficient to elicit the active interest of global E&P companies and the large oilfield services firms. We continue to be active on behalf of our clients in Texas. More importantly, in view of ViaLogy's strategy to penetrate global markets, five global oil companies have requested and received presentations on the successes QuantumRD has achieved in the last 18 months. At the time of writing, two of these household names are in discussions with us to use the technology in specific major projects. We are confident that more business of this calibre will follow.

The major and ongoing redirection of ViaLogy is being conducted by our CEO, Bob Dean, and our founder and chief technology officer, Sandeep Gulati. From Bob's report you will learn as many facts about the progress we have made as we are allowed to make public at this juncture. We are frustrated by the information restrictions – understandable in the highly competitive oil business – placed on us by our new clients, but you should be able to get a flavour of the confidence the directors feel in the future of this exciting company.

Our task now is to plan for ViaLogy's expansion. The global interest brings a myriad of new challenges, as well as increased demand. First, the technical questions. Widely differing lithology formations, offshore deepwater prospects, and gas shale locations, all are possible beneficiaries for QuantumRD. I must emphasise that we are still very much in technology development mode and we do not pretend that the product will be helpful in all cases, but we and our clients intend to test every opportunity. A second issue is how we meet the expected increasing demand for QuantumRD. Above all, this means ensuring that we have the high standard of qualified personnel that increased global activity will require and, in addition, that we have the on-going financial stability to see us through to profitability.

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On behalf of the board, thank you for your continued support and patience. We look forward to an exciting and stimulating 2011.

Terry Bond
Chairman
ViaLogy PLC

30 December 2010

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

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Chief Executive Officer's review

Following two years of effort focused in Texas, we are "graduating" to global markets and to global E&P and services companies. We have performed (or are performing) successful technology demonstration pilot projects for a number of large US and non-US energy firms which should result in significant commercial contracts. Such pilot projects are a necessary phase in the development of a company whose objective it is to establish a fundamentally new technology in a highly conservative industry. We are also engaged in business discussions with a number of the leading oilfield services companies with the intention of joining them on major projects, providing the competitive advantage of our technology in their own contract solicitations, and gaining their assistance in scaling our company. This is the lowest cost path to producing revenues and extending globally. In addition, over the past months, we have successfully completed an offshore pilot analysis project for a non-US energy major, something we hope will prove to be a key stepping stone for ViaLogy. Another project for the same client has started. Unfortunately, as our Chairman notes, it is rare that our clients will allow their names to be identified, although we do hope to be able to say more publicly and specifically about our progress in the coming weeks and months.

The upstream oil and gas industry is a continuous proving ground, in the sense that each client must be shown anew that the technology works as advertised. Our growing record of case studies is beginning to speak for itself. But while it is true that there a finite number of hydrocarbon formation and geography types, the variances oblige us to show we can operate successfully across a broad range. It is one thing to locate oil in a specific formation in west Texas, and another to distinguish high-value oil bearing sandstone from non-productive water bearing sandstone in a deep offshore location. In addition, as we reach further the technology itself "learns" and needs to be adapted and modified. This means that part of our internal efforts and costs, as in any advanced technology company, are and will continue to be devoted to research and development. Here too we can report significant progress, and we look toward a goal of maturing QuantumRD as a standard risk reduction tool for broad industry use.

In the end, our progress and our work must add up to creating shareholder value. This is uppermost in our minds and I firmly believe that we are well on our way and that calendar 2011 will be a meaningful year. Introducing QuantumRD to the industry has taken time, patience, and dedicated hard work by our highly capable staff, and, of course, the continuing support of our shareholders. As I've noted before, additional resources would help increase our capacity and accelerate our growth. Our current sales pipeline indicates that we are in a position to achieve a considerable growth on 2011 and we owe it to our technology and our investors to maximise this potential.

Robert W. Dean
Chief Executive Officer
ViaLogy PLC

30 December 2010

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Consolidated income statement for the six months ended 30 September 2010

	Notes	**Unaudited 6 months to 30 Sep 2010 £**	Unaudited 6 months to 30 Sep 2009 £	Audited Year to to 31 Mar 2010 £
Revenue	2	**57,031**	11,266	151,388
Cost of sales		**356,973**	163,206	326,412
Gross loss	2	**(299,942)**	(151,940)	(175,024)
Share based payments		**217,467**	216,397	532,051
Depreciation and amortisation		**1,591,506**	1,430,181	3,009,934
Other administrative expenses		**1,257,010**	1,005,059	2,440,925
Total administrative expenses		**3,065,983**	2,651,637	5,982,910
Loss from Operations		**(3,365,925)**	(2,803,577)	(6,157,934)
Finance income		**651**	369	687
Loss for the period / year before taxation		**(3,365,274)**	(2,803,208)	(6,157,247)
Taxation	3	**257,022**	245,072	489,784
Loss for the period / year attributable to equity holders of the parent	2	**(3,108,252)**	(2,558,136)	(5,667,463)
Loss per share				
Basic and diluted	4	**(0.449)p**	(0.425)p	(0.931)p

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Consolidated statement of comprehensive income for the six months ended 30 September 2010

	Unaudited 6 months to 30 Sep 2010 £	Unaudited 6 months to 30 Sep 2009 £	Audited year to 31 Mar 2010 £
Loss after taxation	**(3,108,252)**	(2,558,136)	(5,667,463)
Other comprehensive income			
Exchange differences on translating foreign operations	**(313,947)**	354,395	(678,044)
Total other comprehensive income for the period / year	**(313,947)**	354,395	(678,044)
Total comprehensive income for the period / year attributable to the equity holders of the parent company	**(3,422,199)**	(2,203,741)	(6,345,507)

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Consolidated statement of changes in equity for the six months ended 30 September 2010

Unaudited	**Share capital**	**Share premium account**	**Foreign exchange reserve**	**Retained earnings**	**Total**
	£	**£**	**£**	**£**	**£**
At 1 April 2010	6,904,753	20,665,231	2,000,787	(18,259,974)	11,310,797
Total comprehensive income recognised for the period	-	-	(313,947)	(3,108,252)	(3,422,199)
Issue of shares (net of expenses)	18,000	36,300	-	-	54,300
Share options expense	-	-	-	217,467	217,467
Balance at 30 September 2010	6,922,753	20,701,531	1,686,840	(21,150,759)	8,160,365

Audited	**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
Total comprehensive income recognised for the year	-	-	-	(678,044)	(5,667,463)	(6,345,507)
Issue of shares (net of expenses)	1,867,017	4,951,404	(379,375)	-	-	6,439,046
Warrants lapsed during year	-	8,125	(8,125)	-	-	-
Share options expense	-	-	-	-	532,051	532,051
Balance at 31 March 2010	6,904,753	20,665,231	-	2,000,787	(18,259,974)	11,310,797

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Consolidated statement of financial position at 30 September 2010

	Notes	**Unaudited 30 Sep 2010 £**	Unaudited 30 Sep 2009 £	Audited 31 Mar 2010 £
Assets				
Non current assets				
Property, plant and equipment		**540,387**	402,753	467,064
Intangible assets		**6,769,210**	10,797,064	8,564,187
Financial assets		**-**	200,000	-
		7,309,597	11,399,817	9,031,251
Current assets				
Inventories		**-**	14,233	-
Trade and other receivables		**373,470**	54,040	90,006
Cash and cash equivalents		**1,670,705**	2,422,685	3,697,866
		2,044,175	2,490,958	3,787,872
Total Assets	2	**9,353,772**	13,890,775	12,819,123
Liabilities				
Current liabilities				
Trade and other payables		**163,057**	166,985	161,930
Corporation tax liability		**-**	29,788	6,288
Non-current liabilities				
Deferred tax liability	3	**1,030,350**	1,514,094	1,340,108
Total liabilities	2	**1,193,407**	1,710,867	1,508,326
Capital and reserves attributable to equity holders of the Company				
Share capital		**6,922,753**	6,290,919	6,904,753
Share premium account		**20,701,531**	18,313,939	20,665,231
Warrant Reserve		**-**	8,125	-
Foreign Exchange translation reserve		**1,686,840**	3,033,226	2,000,787
Retained deficit		**(21,150,759)**	(15,466,301)	(18,259,974)
Shareholders' funds		**8,160,365**	12,179,908	11,310,797
Total equity and liabilities		**9,353,772**	13,890,775	12,819,123

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Consolidated statement of cash flows for six months ended 30 September 2010

	Unaudited 30 Sep 2010 £	Unaudited 30 Sep 2009 £	Audited 31 Mar 2010 £
Cashflow from operating activities			
Loss before tax	**(3,365,274)**	(2,803,208)	(6,157,247)
Adjustments for :-			
Finance income	**(651)**	(369)	(687)
Depreciation	**31,271**	38,049	55,320
Amortisation	**1,560,235**	1,392,132	2,954,614
Share option expense	**217,467**	216,397	532,051
Provision against available for sale investment	**-**	-	200,000
Foreign exchange movements	**(2,112)**	26,162	5,589
Operating activities before changes in working capital	**(1,559,064)**	(1,130,837)	(2,410,360)
(Increase) in trade and other receivables	**(283,464)**	(38,443)	(75,399)
Decrease in inventories	**-**	1,712	15,945
Increase / (Decrease) in trade and other payables	**1,127**	(73,192)	(78,247)
Interest received	**651**	369	687
Cash flows from operations	**(1,840,750)**	(1,240,391)	(2,547,374)
Tax paid	**-**	-	(23,500)
Investing activities			
Internally generated intangible asset	**(108,865)**	(271,711)	(271,512)
Purchase of property, plant and equipment	**(104,594)**	(293,984)	(358,827)
	(213,459)	(565,695)	(630,339)
Financing activities			
Cash inflow from issue of new shares	**-**	3,620,092	6,590,601
Share issue costs	**-**	(149,609)	(151,555)
Cash inflow from exercise of options	**54,300**	11,562	-
	54,300	3,482,045	6,439,046
(Decrease) / Increase in cash and cash equivalents	**(1,999,909)**	1,675,959	3,237,833
Foreign exchange differences on translation of cash and cash equivalents.	**(27,252)**	314,536	27,843
Cash and cash equivalents at beginning of period /year	**3,697,866**	432,190	432,190
Cash and cash equivalents at end of period / year	**1,670,705**	2,422,685	3,697,866

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Notes forming part of the parent company financial statements

1 Accounting policies

Basis of preparation

The interim financial information has been prepared using policies based on International Financial Reporting Standards (IFRS and IFRIC interpretations) issued by the International Accounting Standards Board ("IASB") as adopted for use in the EU. The interim financial information has been prepared using the accounting policies which will be applied in the Group's statutory financial information for the year ended 31 March 2011.

The interim financial information for the period 1 April 2010 to 30 September 2010 is unaudited. In the opinion of the Directors the interim financial information for the period presents fairly the financial position, results from operations and cash flows for the period in conformity with the generally accepted accounting principles consistently applied. The interim financial information incorporates comparative figures for the interim period 1 April 2009 to 30 September 2009 and the audited financial year to 31 March 2010. The interim comparative figures for the period 1 April 2009 to 30 September 2009 have been restated to align them to the disclosure applied in the year ended 31 March 2010 financial statements. This required a reclassification of expenses between administrative cost and cost of sales.

The financial information contained in this interim report does not constitute statutory accounts as defined by section 435 of the Companies Act 2006. The comparatives for the full year ended 31 March 2010 are not the Company's full statutory accounts for that year. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, did not include references to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2)-(3) of the Companies Act 2006.

Going concern

The Group's financial plans require it 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 Company and Group. Since the reporting date the Group have delivered analysis for multiple new oil well locations, have signed a contract with a global supermajor oil firm and are in advanced talks with prospective clients to apply Quantum RD for shale gas exploration and productions.

The Board believes that the sales pipeline from current clients and new customers will be secured, but it does recognise that this constitutes a significant uncertainty given the risks associated with the oil and gas industry in which the Group have focussed their efforts. In the event that these sales are not achieved in line with the Group's financial plans then the 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.

The financial information has been prepared on a going concern basis, however the conditions outlined above indicate the existence of material uncertainties which may cast doubt about the Company's and the Group's ability to continue as a going concern. The financial information does not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

2 Segmental analysis

The Group has two reportable segments:

- Head office – this segment is the head office of the Group.
- Operations – this segment is involved in sales technology development in the USA.
- The operating results of these segments are regularly reviewed by the Group's chief operating decision maker in order to make decisions about the allocation of resources and assess their performance.

30 September 2010 reportable segment analysis – unaudited

	Operations £	Head Office £	Consolidated £
Revenue from external customers	57,031	-	57,031
Gross loss	(299,942)	-	(299,942)
Finance income	-	651	651
Tax credit	257,022	-	257,022
Loss for the year after taxation	(2,719,273)	(388,979)	(3,108,252)
Segment assets	7,729,746	1,624,026	9,353,772
Segment liabilities	1,102,792	90,615	1,193,407
Costs to acquire plant, property and equipment	103,033	1,561	104,594
Costs to acquire intangible assets	108,865	-	108,865
Depreciation and amortisation	1,589,204	2,302	1,591,506
Share based payments charged	194,317	23,150	217,467

Year ended 31 March 2010 Reportable segment analysis – audited

	Operations £	Head Office £	Consolidated £
Revenue from external customers	151,388	-	151,388
Gross loss	(175,024)	-	(175,024)
Finance income	-	687	687
Tax credit	489,784	-	489,784
Loss for the year after taxation	(4,669,096)	(998,367)	(5,667,463)
Segment assets	8,775,583	4,043,540	12,819,123
Segment liabilities	1,424,672	83,654	1,508,326
Costs to acquire property, plant and equipment	351,117	7,710	358,827
Costs to acquire intangible assets	271,512	-	271,512
Depreciation and amortisation	3,006,648	3,286	3,009,934
Share based payments	530,381	1,670	532,051

All material non-current assets are owned by the USA subsidiary and are located in the USA.

3 Deferred Tax

	Unaudited Period to 30 September 2010 £	Unaudited Period to 30 September 2009 £
At 1 April	**1,340,108**	1,971,207
Credit to the income statement for the six months to 30 Sept	**(257,022)**	(245,072)
Foreign exchange translation	**(52,736)**	(212,041)
At 30 September	**1,030,350**	1,514,094

	Audited Year ended 31 March 2010 £
At 1 April	1,971,207
Credit to the income statement for the year	(489,784)
Foreign exchange translation	(141,315)
At 31 March	1,340,108

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 £3,108,252 (2009 – loss £2,558,136, 2010 full year £5,667,463) and on 691,844,101 (2009 – 602,470,355, 2010 full year 608,928,041) 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 options and warrants into ordinary shares. 104,641,820 options and 1,193,654 warrants (2009 – 75,231,139 options and 2,006,154 warrants, 2010 full year 72,726,396 options and 1,193,654 warrants) have been excluded from this calculation as this would reduce the loss per share.

5 Share capital

	Authorised			
	2010	2009	2010	2009
	Number	Number	£	£
Ordinary Shares of 1p each	**750,000,000**	750,000,000	**7,500,000**	7,500,000

	Allotted, called up and fully paid			
	2010	2009	2010	2009
	Number	Number	£	£
Ordinary Shares of 1p each				
At 1 April	**690,475,334**	503,773,621	**6,904,753**	5,037,736
Shares issued for cash	**-**	50,377,300	**-**	503,773
Employee share options exercised	**1,800,000**	753,476	**18,000**	7,534
Warrants converted into shares	**-**	74,187,500	**-**	741,875
At 30 September	**692,275,334**	**629,091,897**	**6,922,753**	**6,290,918**

Year Ended 31 March 2010 Share capital - audited

	Authorised			
	2010	2009	2010	2009
	Number	Number	£	£
Ordinary shares of 1p each	**1,000,000,000**	750,000,000	**10,000,000**	7,500,000

	Allotted, called up and fully paid			
	2010	2009	2010	2009
	Number	Number	£	£
Ordinary shares of 1p each				
At 1 April	**503,773,621**	458,773,621	**5,037,736**	4,587,736
Shares issued	**186,701,713**	45,000,000	**1,867,017**	450,000
At 31 March	**690,475,334**	503,773,621	**6,904,753**	5,037,736

VIALOGY

ViaLogy PLC
Inglisfield
Gifford
East Lothian
EH41 4JH

Tel +44 (0)1620 810183
Fax +44 (0)1620 810167
invest@vialogy.com
www.vialogy.com