ViaLogy PLC

Interim Report and Unaudited accounts for six months ended 30 September 2011

ViaLogy PLC

Chairman's statement for the six months ended 30 September 2011

The Interim Report covers the six-month period to 30 September 2011. The figures show a loss for the period of £2,389,096 which includes a non-cash loss of £1,544,535 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 £1,031,145.

The results themselves mask the substantial advances ViaLogy has made during the period under review. Our senior personnel were in continuous detailed discussions with a number of global oil and gas operators and our technical team conducted significant pilot projects. This is in line with our strategy of focusing our efforts as much as possible on the larger firms whose endorsement and routine operational use of our technology will ensure the company's mainstream business success. Our proprietary and patented seismic data analysis technology, QuantumRD, is being scrutinised and put to the test by some of the most important and critical E&P companies in the world. Much as we would have wished the examination process to be less onerous and perhaps quicker, it is the potential clients who impose the schedule. We respect the reasons for such a rigorous, detailed and comprehensive approach. Our analysis technology is very different from other systems, and with new drilling prospects often costing tens of millions of dollars these major firms need to be totally convinced of its efficacy before adoption.

We are pleased to say that our efforts are beginning to bear commercial fruit. We are in advanced talks with multinational E&P organisations on three continents. Client restrictions prohibit us from naming companies without their permission, at least until specific project contracts are signed, but we can confirm the following achievements:

- Successful completion of a pilot project for a supermajor (the word used to describe one of the world's six biggest O&G companies). The latest news is that our client is "enthusiastic" about the QuantumRD results and confirms that the technology has outperformed their previous analysis techniques.

- Contract details have been prepared and conditionally agreed with a National Oil Company in Asia for ViaLogy to provide QuantumRD analysis on a major offshore project. Government approval is required, and in process, for export of the seismic data prior to contract completion.

- Following completion of a successful pilot project on an extensive but difficult exploration field in Asia, ViaLogy has been asked by a Fortune 500 company based in South Asia, the lease operator, to tender for data analysis services on a major section of the prospect. Contract discussions proceed on the basis of set timescales and processes.

- At the invitation of a European-based supermajor, ViaLogy's founder and Chief Technology Officer, Dr. Sandeep Gulati, recently presented a technical explanation of QuantumRD to a gathering of over 50 of the supermajor's senior geophysicists in five locations around the world. Detailed technical talks are now proceeding with a view to QuantumRD being piloted on one of its large projects.

- Under contract to Oklahoma-based Samson, one of the largest independent E&P companies in the US, ViaLogy has delivered its QuantumRD analysis for a major redevelopment of a field in Texas. The client's initial evaluation and quality control of ViaLogy's results confirm established field model results. In a double blind exercise ViaLogy seismic signal enhancement technology confirmed known porosities and lithologies (a deliverable the customer described as unique and important in the market and in their critical path of exploration and development) and located new productive zones.

Equally as important as the progress with client recruitment and demonstrating the efficacy of the technology in the field, the company has achieved major development milestones in QuantumRD's software development. Ultimately, and with additional resources, we believe we can progress our automated software analysis of properly conditioned seismic data to determine essential features such as porosity, fluid presence, and lithology features. Our clients acknowledge our unique, ground-breaking approach that implements quantum techniques for the first time successfully (to our knowledge) in geophysical analysis. We are making business and technical progress in a sustained and increasingly difficult economic and financial environment. Everything and everyone, from governments and businesses to professional and private investors, are suffering. ViaLogy is in a large, vital, conservative, and technically sophisticated market where we are doing everything we can to accelerate the uptake of the technology, the growth of the business, and success for our shareholders.

It is against this background that I want to thank all our investors, large and small, for their continued support, patience and understanding. Also, on behalf of the directors, I express our gratitude to the company's loyal staff for the hours and effort they put in, above and beyond the call of duty, to ensure ViaLogy's success.

Terry Bond
Chairman
ViaLogy PLC

30 December 2011

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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Consolidated income statement for the six months ended 30 September 2011

	Notes	**Unaudited 6 months to 30 Sep 2011 £**	Unaudited 6 months to 30 Sep 2010 £	Audited Year to to 31 Mar 2011 £
Revenue	2	**40,915**	57,031	58,365
Cost of sales		**209,393**	356,973	535,645
Gross loss	2	**(168,478)**	(299,942)	(477,280)
Share based payments		**118,626**	217,467	575,306
Depreciation and amortisation		**1,544,535**	1,591,506	3,239,218
Other administrative expenses		**798,654**	1,257,010	2,066,625
Total administrative expenses		**2,461,815**	3,065,983	5,881,149
Loss from Operations		**(2,630,293)**	(3,365,925)	(6,358,429)
Finance income		**139**	651	969
Loss for the period / year before taxation		**(2,630,154)**	(3,365,274)	(6,357,460)
Taxation	3	**241,058**	257,022	532,116
Loss for the period / year attributable to equity holders of the parent	2	**(2,389,096)**	(3,108,252)	(5,825,344)
Loss per share				
Basic and diluted	4	**(0.330)p**	(0.449)p	(0.834)p

Consolidated statement of comprehensive income for the six months ended 30 September 2011

	Unaudited 6 months to 30 Sep 2011 £	Unaudited 6 months to 30 Sep 2010 £	Audited year to 31 Mar 2011 £
Loss after taxation	**(2,389,096)**	(3,108,252)	(5,825,344)
Other comprehensive income			
Exchange differences on translating foreign operations	**83,884**	(313,947)	(394,365)
Total other comprehensive income / (loss) for the period / year	**83,884**	(313,947)	(394,365)
Total comprehensive income for the period / year attributable to the equity holders of the parent company	**(2,305,212)**	(3,422,199)	(6,219,709)

Consolidated statement of changes in equity for the six months ended 30 September 2011

Unaudited	Share capital £	Share premium account £	Foreign exchange reserve £	Retained deficit £	Total £
At 1 April 2011	**7,341,027**	**21,438,079**	**1,606,422**	**(23,510,012)**	**6,875,516**
Total comprehensive income recognised for the period	**–**	**–**	**83,884**	**(2,389,096)**	**(2,305,212)**
Issue of shares	**1,024**	**2,021**	**–**	**–**	**3,045**
Share options expense	**–**	**–**	**–**	**118,626**	**118,626**
Balance at 30 September 2011	**7,342,051**	**21,440,100**	**1,690,306**	**(25,780,482)**	**4,691,975**

Audited	Share capital £	Share premium account £	Foreign exchange reserve £	Retained deficit £	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	–	–	(394,365)	(5,825,344)	(6,219,709)
Issue of shares	436,274	872,848	–	–	1,309,122
Share issue expenses	–	(100,000)	–	–	(100,000)
Share options expense	–	–	–	575,306	575,306
Balance at 31 March 2011	7,341,027	21,438,079	1,606,422	(23,510,012)	6,875,516

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Consolidated statement of financial position at 30 September 2011

	Notes	Unaudited 30 Sep 2011 £	Unaudited 30 Sep 2010 £	Audited 31 Mar 2011 £
Assets				
Non-current assets				
Property, plant and equipment		**442,537**	540,387	461,805
Intangible assets		**4,180,010**	6,769,210	5,473,599
		4,622,547	7,309,597	5,935,404
Current assets				
Trade and other receivables		**269,874**	373,470	268,102
Cash and cash equivalents		**455,627**	1,670,705	1,624,130
		725,501	2,044,175	1,892,232
Total Assets	2	**5,348,048**	9,353,772	7,827,636
Liabilities				
Current liabilities				
Trade and other payables		**114,086**	163,057	180,043
Non-current liabilities				
Deferred tax liability	3	**541,987**	1,030,350	772,077
Total liabilities	2	**656,073**	1,193,407	952,120
Capital and reserves attributable to equity holders of the Company				
Share capital		**7,342,051**	6,922,753	7,341,027
Share premium account		**21,440,100**	20,701,531	21,438,079
Foreign Exchange reserve		**1,690,306**	1,686,840	1,606,422
Retained deficit		**(25,780,482)**	(21,150,759)	(23,510,012)
Shareholders' funds		**4,691,975**	8,160,365	6,875,516
Total equity and liabilities		**5,348,048**	9,353,772	7,827,636

Consolidated statement of cash flows for six months ended 30 September 2011

	Unaudited 30 Sep 2011 £	Unaudited 30 Sep 2010 £	Audited 31 Mar 2010 £
Cash flows from operating activities			
Loss from operations before tax	**(2,630,293)**	(3,365,274)	(6,357,460)
Adjustments for :-			
Finance income	**(139)**	(651)	(969)
Depreciation	**44,636**	31,271	133,072
Amortisation	**1,499,899**	1,560,235	3,106,146
Share option expense	**118,626**	217,467	575,306
Foreign exchange movements	**3,717**	(2,112)	89,576
Operating activities before changes in working capital	**(963,554)**	(1,559,064)	(2,454,329)
Decrease/(Increase) in trade and other receivables	**(1,773)**	(283,464)	(178,096)
(Decrease) / Increase/ in trade and other payables	**(65,957)**	1,127	18,113
Interest received	**139**	651	969
Tax recovered	**–**	–	23,388
Net cash flows from operating activities	**(1,031,145)**	(1,840,750)	(2,589,955)
Cash flows from investing activities			
Internally generated intangible asset	**(115,787)**	(108,865)	(451,115)
Purchase of property, plant and equipment	**(15,254)**	(104,594)	(136,321)
Payment for non compete services	**–**	–	(331,873)
	(131,041)	(213,459)	(919,309)
Cash flows from financing activities			
Cash inflow from issue of new shares	**–**	–	1,309,122
Share issue costs	**–**	–	(100,000)
Cash inflow from exercise of options	**3,045**	54,300	–
	3,045	54,300	1,209,122
Decrease in cash and cash equivalents	**(1,159,141)**	(1,999,909)	(2,300,142)
Foreign exchange differences on translation of cash and cash equivalents.	**(55,937)**	(27,252)	226,406
Cash and cash equivalents at beginning of period /year	**1,670,705**	3,697,866	3,697,866
Cash and cash equivalents at end of period / year	**455,627**	1,670,705	1,624,130

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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 2012.

The interim financial information for the period 1 April 2011 to 30 September 2011 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 2010 to 30 September 2010 and the audited financial year to 31 March 2011.

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 2011 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, and did include references to any matters to which the auditor drew attention by way of emphasis in respect of going concern, 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 current pipeline of sales from existing clients and new significant customers will generate cash inflows but in order to continue to develop the Group's assets and fully fund its working capital requirements additional financing will be needed. While the directors are confident that additional funding can be raised in order to meet its development and working capital requirements there is an inherent uncertainty that this funding may not be raised. This condition indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

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.

Notes forming part of the parent company financial statements

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 2011 reportable segment analysis – unaudited

	Operations	Head Office	Consolidated
	£	£	£
Revenue from external customers	40,915	–	40,915
Gross loss	(168,478)	–	(168,478)
Finance income	–	139	139
Tax credit	241,058	–	241,058
Loss for the year after taxation	(2,122,415)	(266,681)	(2,389,096)
Segment assets	100,464	625,037	725,501
Segment liabilities	587,358	68,715	656,073
Costs to acquire plant, property and equipment	15,254	–	15,254
Costs to acquire intangible assets	115,787	–	115,787
Depreciation and amortisation	1,541,672	2,864	1,544,536
Share based payments	52,625	66,001	118,626

Year ended 31 March 2011 Reportable segment analysis – audited

	Operations	Head Office	Consolidated
	£	£	£
Revenue from external customers	58,365	–	58,365
Gross loss	(477,280)	–	(477,280)
Finance income	–	969	969
Tax credit	502,440	29,676	532,116
Loss for the year after taxation	(5,510,114)	(315,230)	(5,825,344)
Segment assets	6,331,689	1,495,947	7,827,636
Segment liabilities	867,340	84,780	952,120
Costs to acquire property, plant and equipment	130,313	6,008	136,321
Costs to acquire intangible assets	451,115	–	451,115
Depreciation and amortisation	3,234,992	4,226	3,239,218
Share based payments charged	511,781	63,525	575,306

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

Notes forming part of the parent company financial statements

3 Deferred Tax

	Unaudited Period to 30 September 2011 £	Unaudited Period to 30 September 2010 £
At 1 April	**772,077**	1,340,108
Credit to the income statement for the six months to 30 September	**(241,058)**	(257,022)
Foreign exchange translation	**10,968**	(52,736)
At 30 September	**541,987**	1,030,350

	Audited Year ended 31 March 2011 £
At 1 April	1,340,108
Credit to the income statement for the year	(502,440)
At 31 March	772,077

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 loss per share is based on the loss for the period of £2,389,096 (2010 – loss £3,108,252, 2011 full year £5,825,344) and on 734,191,944 (2010 – 691,844,101 , 2011 full year 698,322,321) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

Diluted

Diluted loss per share dilutes the basic loss 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. 97,572,756 options and 1,193,654 warrants (2010 – 104,641,820 options and 1,193,654 warrants, 2011 full year 108,152,274 options and 1,193,654 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 – unaudited

	Allotted, called up and fully paid			
	2011 Number	2010 Number	**2011 £**	2010 £
Ordinary Shares of 1p each				
At 1 April	**734,102,725**	690,475,334	**7,341,027**	6,904,753
Employee share options exercised	**102,405**	1,800,000	**1,024**	18,000
At 30 September	**734,205,130**	692,275,334	**7,342,051**	6,922,753

Year Ended 31 March 2010 Share capital – audited

	Allotted, called up and fully paid			
	2011 Number	2010 Number	**2011 £**	2010 £
Ordinary shares of 1p each				
At 1 April	**690,475,334**	503,773,621	**6,904,753**	5,037,736
Shares issued	**43,627,391**	186,701,713	**436,274**	1,867,017
At 31 March	**734,102,725**	690,475,334	**7,341,027**	6,904,753

6 Post Reporting events

The company raised £177,500 via a private placing of 17,750,000 shares at 1 pence per share on 11 October 2011.

VIALOGY

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