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ViaLogy PLC
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ViaLogy PLC ("ViaLogy" or "the Company")

Report and Financial Statements

For the year ended 31 March 2009

Chairman's statement

I am pleased to present the financial results for your company for the year ending 31 March 2009 and to comment on progress achieved during the year. For ViaLogy it proved to be a most significant 12 months and marked the beginning of a step change in the business's history as, in the energy sector, our technology moved from the research phase towards full commercialisation. Against a background of global recession we decided to focus our efforts almost entirely on this sector and I am delighted to report that we have already achieved a number of the milestone goals we set ourselves. In the reports of Bob Dean, the chief executive, and Sandeep Gulati, the technology director, you will read the detail of our progress so let me give you the highlights.

- ViaLogy launches QuantumRD®, the oil reservoir discovery product that interprets seismic data and can more accurately locate and define the capacity of oil and gas deposits, as well as maximising economic extraction.
- Atascosa Energy, a successful and experienced oil exploration and production (E&P) company in Texas, becomes QuantumRD's first oil & gas customer.
- QuantumRD's interpretation of the seismic data provided proves to be extremely accurate and results in two important producing wells.
- A business model is established that, with a service fee and a working interest in each well's production, maximises ViaLogy's income.
- To date, contract agreements are signed with six E&P companies in the US. Several other potential customers are in the pipeline.
- The technology and its results have attracted interest and enquiries from around the world.

The challenge now is to honour obligations to our new customers and to manage the expansion of ViaLogy carefully. We consider it prudent during the current year to concentrate our efforts on American business. With 5,000 independent oil exploration companies in the US, and 3,000 in Texas alone, we have plenty of opportunities to go at. We are taking on new specialist staff, in particular geophysicists experienced in the sector, and we are co-operating

with other renowned specialists and universities who can assist us to further test and refine our techniques.

Other applications

While the oil & gas sector weathered the recession fairly well, with oil prices rising and exploration continuing apace, other parts of the world's commercial economy were reeling. Our SPM® product, which integrates sensors in large-scale security systems, has been accepted by internationally-known partners, among them Cisco and SAIC, and we are an essential part of their offerings to such prestigious customers as US state authorities and the armed forces. We are very proud of the fact that SPM has been chosen as a major feature in the security demonstration at Cisco's Centre of Excellence. However even the greatest were not immune to the fallout from the downturn and many major new development plans have been cancelled or put on hold. Against this background it has become apparent that commercial success for SPM is a while away and we are therefore considering various possibilities for the future of the product.

The development of QSUB™, the technology which analyses data from airborne synthetic aperture radar and has the potential to plot the location of buried oil pipelines, was similarly affected by the recession. The company with which we had a signed agreement was not able to provide the promised financial support. We have ourselves financed preliminary proof-of-concept trials on QSUB and remain convinced of its potential. We are therefore actively seeking another strategic partner.

Acrobot

The slowdown in the economy had an affect on Acrobot, the company in which ViaLogy has a 7.56% holding. Acrobot develops surgical navigation systems and robotic devices for orthopaedic surgery. In recent years the company's route-to-market strategy has been via distribution partners (Corin and other implant manufacturers). In early 2009, it became clear that the level of focus provided by these partners was not sufficient to drive the required sales volumes. Acrobot devised a new strategy which includes revenue generation by implant sales, with Acrobot supporting the use of its systems directly in the field. Existing investors (not including ViaLogy) provided the company with £600,000 of loan note funding in July 2009 to support this new strategy. Acrobot is now building a sales and track record and will be seeking further funding by year end 2009.

Finance

For the year ending 31 March 2009 the accounts show an income of £129,000 and a net loss of £5.8 million (2008: £4.9 million). This apparent increase in the loss after tax results in the main from non-cash items, of £3.8 million (2008: £3.0 million) consisting of share-based payments and depreciation and amortisation, the combined total of which rose £0.8 million in the year. The loss after tax and after adding back the depreciation and amortisation charge and share based payment expense was £1.93 million (2008: £1.87 million).

I should also point out that, again as a result of the economic downturn, ViaLogy undertook a radical cost-cutting exercise which included a substantial reduction in the workforce. Because this took place near the year end the resultant cost savings are not reflected in the accounts to March 31 2009.

In August 2008 the Company completed the placing of 45 million new ordinary shares at 4p, raising £1.8 million before expenses. In April 2009 the Company raised a further £1.6 million by way of a warrant re-pricing exercise, in this instance 75 million shares were issued to warrant holders. In August 2009 the company completed the placing of 49,564,800 shares at 4p raising £2 million before expenses.

My thanks

On behalf of the board of I want to thank the brilliant and dedicated staff of ViaLogy. They have worked long hours and made considerable financial sacrifices to support the company through difficult times. We appreciate their loyalty and we are confident that they will be rewarded through increasing values in our employee share scheme.

Terry Bond

Chairman

25 September 2009

Chief Executive Officer's Statement

In 2008 the Company initiated a focused effort to establish itself in the energy market. Specifically, ViaLogy's patented weak signal detection technology, Quantum Resonance Interferometry (QRI™), has been successfully applied to enhancing seismic and other digital data widely used in the upstream hydrocarbon industry to locate and characterize oil and gas deposits. I am pleased to report substantial progress in these efforts thus far, as well as encouraging future projections.

Our initial strategy has been to identify and partner with independent US Exploration and Production companies operating on-shore. We now have a consecutive series of successful wells to our credit. Our objective during 2010 is to demonstrate the efficacy of the QRI product and service, branded as QuantumRD®, in an increasing variety of hydrocarbon-bearing formations at varying depths and in different geographical locations. Our business model posits an up-front service fee and a percentage success fee for each producing well. In partnering with our clients our goal is to reduce their risk, and to share in the upside by owning a part of the recoverable reserves that our analyses have located. We sign Master Service Agreements that commit ViaLogy to provide analyses on multiple prospects going

forward at the customers' discretion; in aggregate, this should ensure substantial repeat business and growing backlog.

Using customer supplied data, we provide predictions of depth, porosity, estimated net pay and, most importantly, we recommend drilling locations. We now have multiple customers (six at this writing) that range from the smaller independents (under 5/6 wells per year) to medium size independents (roughly 50 to 70 wells per year); such firms are generally private and limit their public exposure. We also have a strong first-tier sales pipeline. In total there are more than 5000 independent E&P firms operating in the US, so ViaLogy's prospective market in this customer set is large.

It is not untypical for our clients to give us, perhaps understandably, their toughest problems. In one case, in conjunction with the world-renowned Bureau of Economic Geology at the University of Texas, Austin, we are focused on bringing production to a deep formation in Texas that has thus far shown only costly "dry holes." This prospect and others like it will stress our technology. We do not expect to be successful in 100% of our cases - Mother Earth is just too fickle. But we will accept such challenges, even at the risk of failure, where we believe the effort will help to give our technology credibility and sales traction in the industry. One observation: it is essential for us to have the best possible seismic data to apply QuantumRD, and we have been obliged in some instances to actually design and supervise the seismic data acquisition field shoots. While this is not part of our "job description", our excellent team of scientists has produced superb results. The critical differentiator in our success is of course QuantumRD and its foundation QRI technology which enables us to extract comparatively more information from seismic data than other methods. To deliver analytical products that meet industry norms and formats we also use other standard (and expensive) software processing techniques, applying QuantumRD only at an advanced stage of the process.

In our focus on the energy sector we also intend to bring another QRI application to market. This is QSUB™, ViaLogy's ability to enhance ground-penetrating synthetic aperture radar (SAR) to accurately locate underground objects. Our focus is the high-demand need to accurately locate buried oil and gas pipelines, especially older lines that have shifted position over time due to natural forces to the point where their maintenance and repair have become a costly proposition. We have conducted what in our technical judgment is compelling proof of concept demonstrations. But ViaLogy lacks the resources and operational expertise to perfect the technology for real world application. Nor can we afford to divert our limited resources and attention from the primary QuantumRD goal. So we are seeking an industry partner who can bring the domain expertise and development support to realize QSUB's market potential.

Our patented Sensor Policy Manager (SPM®) enables "smart", more cost-effective, automated and integrated monitoring and surveillance systems than current technologies allow. Sales beyond demonstration projects have disappointed; most of the domestic physical security projects intended to protect state and local facilities, especially those for chemical/biological/radiological/nuclear/explosive defence where ViaLogy has focused its activity, rely on US Department of Homeland Security funding. Although these monies have not been made available to an extent that had been anticipated. Nevertheless, this highly capable product is deployed in contracted demonstration configurations in Los Angeles County where it is responsible for connecting disparate networks of sensors to a common display. Also, in Alberta, Canada, an SPM system is installed to monitor and trigger alerts for ambient hydrogen sulphide. In our continuing partnership with Cisco, SPM is operational in their Center of Excellence outside Washington, DC. As a "core partner" of leading US defense firm SAIC, ViaLogy is part of the winning team for a major US DOD base protection contract, Force Protection System II, and is a member of the follow-on bid teams for similar Marine Corps and Army base protection contracts. However, given the company's focus on the energy market we are exploring strategic alternatives which could better position SPM in this key market and bring value to ViaLogy.

In summary, the company has achieved a great deal in difficult times. We have sales, cash flow, and promising financial projections. We have an excellent management and technical team that has risen to the challenges that the global downturn has presented. We have sharply reduced costs. We have a growing client base in our target market. We have compelling technology, and a convincing business model aligned with a focused strategy. I am confident of steady progress in the coming months.

Dr. Robert W Dean

Chief Executive Officer

25 September 2009

Chief Technology Officer's statement

For more than a year we have concentrated on developing and rolling out our up-stream analytical service offering, QuantumRD®, that directly targets the oil and natural gas Exploration & Production (E&P) companies in the energy industry. We further targeted our sensor integration technology and products to large-scale military base-security and force protection applications within the emerging Physical Security Information Management (PSIM) market.

Energy Solutions

QuantumRD®, a derivative application of our fundamental weak signal detection technology, was launched to enhance the petroleum industry's ability to accurately locate, characterize and size hydrocarbon deposits. We have targeted US independents drilling between 3000' - 15,000' depths and producing from a broad range of formations in

order to definitively establish our technology. QuantumRD is an in-house software platform for location and prediction of hydrocarbon reservoirs. It provides subsurface characterization based on the systematic fusion and analysis of geoseismic and geological data, production history and reservoir flow models. At present, ViaLogy's expanded analytical services and project backlog address key E&P up-stream workflow processes including:

- **Lease Acquisition** - we provide subsurface mapping to estimate hydrocarbon formation boundaries to optimize prospect acreage to be leased by our clients;
- **Seismic Survey Design** - we design 2D, 3D and multi-component seismic surveys for our clients to acquire high quality seismic data and optimal frequency spectrum for imaging potential structural/stratigraphic traps, complex fracturing and nonconformal lithologies;
- **Exploration Wells** - ViaLogy integrates and analyzes end-to-end all available geotechnical, geological, stratigraphy and geoseismic data to discover reservoirs, characterize formation boundaries, porosity and properties, develop net pay models, and recommend drilling targets and mitigate dry-hole risk. We design well trajectories and well-bore deviations to maximize recovery from nonconformities and fractures;
- **Development Wells** - based on our reservoir mapping technology, ViaLogy designs locations for placing offset wells to maximize recovery and minimize the number of wells required to cost-effectively drain hydrocarbon formations;
- **Production** - we design perforations and injection laterals for maximal drainage from productive formations and multi-zone wells pays to extend reservoir life and recovery.

Powered by ViaLogy's proprietary and patented QRI™ signal processing technology, QuantumRD predicts porosity, a key reservoir net-pay indicator, by exploiting subtle changes in seismic noise across the underlying lithology.

Over the years, the geoseismic industry has invested heavily in developing migration, seismic inversion and stacking algorithms. These techniques narrow-out the imaged spectral bandwidth to cancel or average out seismic noise; their purpose is to extract sound-reflecting boundaries in the earth for correlating the strength of reflections from a boundary to the lithological properties of rock within the layer above and the layer below a given boundary. The discerned lithologies are then interpreted within different geological contexts to infer hydrocarbon presence. While subsurface lithologies can be accurately mapped, these reflection-based methods are challenged in inferring hydrocarbon saturation levels. Conventional processing cannot discriminate changes in seismic wavefront to noise properties, in formation lithology, or among fluids, including oil, water and gas, because such changes depend on multiple variables and sound wave velocities which are difficult to estimate and model. Thus, conventional techniques often miss or mischaracterize smaller hydrocarbon-rich formations and subtle changes in porosity.

In contrast to reflection methods using noise removal, QuantumRD processing exploits the full seismic acquisition spectrum to assess how low frequency and high-frequency noise is differentially and directly modulated by varying levels of hydrocarbon content in the lithology. QuantumRD leverages recent advances in reservoir geophysics that have described how reservoirs act to scatter seismic waves because of the high complex impedance contrast and higher attenuation compared to the surrounding rocks with little attenuation. QuantumRD implements novel computational interactions between acquired seismic wavefield attributes and a "nonlinear system" in software to amplify these distortions in seismic reflection noise and correlate them to changes in reservoir properties including porosity and hydrocarbon saturation levels. As an active signal processing technique, QuantumRD further exploits injection of synthetic noise, in software format, to detect hydrocarbon traps and lithology changes at spatial scales below seismic resolution, thereby increasing the information value of low-resolution data. Industry acceptance of what ViaLogy believes to be a significant advance in the use of seismic data has begun, but will ultimately depend upon well completion statistics and applicability to a variety of formations.

ViaLogy's QSUB™ software services platform is optimized for accurate, stand-off detection and geolocation of buried objects, pipelines and utilities using airborne ground penetrating synthetic aperture radar (SAR). QSUB is powered by ViaLogy's QRI technology. Over the past year we extended QSUB capability to infer presence of buried deep pipelines by characterization of disturbed earth in the SAR imagery acquired by airborne platforms operating at roughly 10,000 feet above ground. We completed a validation study at a test site where we demonstrated 100% detection success on a complex set of buried objects that included small metal wires and non-metallic objects that were orders of magnitude smaller than the radar's resolution. Our intention is to introduce QSUB to the pipeline industry to non-intrusively determine energy pipeline depth, extent of ground cover and geolocation coordinates through aerial surveys. We believe this can be accomplished at far less cost than present methods. Our near-term objective is to identify an industrial partner to support the technology's operational development and deployment.

Physical Security Information Management

PSIM is the rapidly growing technology vertical that marries physical security infrastructure, unified communications (of voice, video and sensors), mobility, and operations with emergent enterprise IT architectures. Today, PSIM is a system-of-systems solution that necessarily incorporates products from more than a single company to address the variety of monitoring and surveillance needs of customers.

ViaLogy's **Sensor Policy Manager™ (SPM®)** is a scaleable, open standards-based software and service platform for cost-effective large-scale sensor integration, aggregation, interoperability -- a scaleable PSIM engine. In a complex surveillance and monitoring system SPM software operates with any type or make of sensor, combining inputs from multiple networked sensors to provide a complete, real-time situation assessment and to implement automatic, pre-

determined actions, such as locking doors or switching on cameras. We believe that SPM will find a key place in the emerging PSIM market. It is now deployed in a number of demonstration programs, and having won a place on a major DOD program as a team-mate of integrator SAIC, ViaLogy is positioned with integrator SAIC to address similar DOD base protection programs.

Dr. Sandeep Gulati
Vice President and Chief Technology Officer
ViaLogy PLC

25 September 2009

Consolidated statement for the year end 31 March 2009

	Notes	2009 £	2008 £
Revenue	2	129,028	31,485
Cost of sales		12,369	407
		-----	-----
Gross profit		116,659	31,078
Share based payments		1,068,953	777,141
Depreciation and amortisation		2,761,158	2,225,061
Other administrative expenses		2,510,311	2,407,242
Total administrative expenses		6,340,422	5,409,444
		-----	-----
Loss from Operations		(6,223,763)	(5,378,366)
Finance income - interest received on cash deposits		43,006	119,985
Loss for the year before taxation	2	(6,180,757)	(5,258,381)
		-----	-----
Taxation		424,345	389,454
Loss for the year attributable to equity holders of the parent company		(5,756,412)	(4,868,927)
		-----	-----
Loss per share			
Basic and diluted	4	(1.183)p	(1.091)p

Statement of changes in equity for 2009

	Share capital £	Share premium account £	Warrant reserve £	Foreign exchange reserve £	Retained earnings £	Total £
At 1 April 2008	4,587,736	14,511,702	275,000	(436,394)	(8,437,103)	10,500,941

Loss for year	-	-	-	-	(5,756,412)	(5,756,412)
Exchange differences arising on translation of foreign operations	-	-	-	3,115,225	-	3,115,225
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Total income and expense recognised for the year	-	-	-	3,115,225	(5,756,412)	(2,641,187)
Arising on issue of shares	450,000	1,194,000	112,500	-	-	1,756,500
Share options expense	-	-	-	-	1,068,953	1,068,953
	-----	-----	-----	-----	-----	-----
Balance at 31 March 2009	5,037,736	15,705,702	387,500	2,678,831	(13,124,562)	10,685,207
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Statement of changes in equity for 2008

	Share capital	Share premium account	Warrant reserve	Foreign exchange reserve	Retained earnings	Total
	£	£	£	£	£	£
At 1 April 2007	4,031,255	10,970,508	-	20,075	(4,345,317)	10,676,521
Loss for year	-	-	-	-	(4,868,927)	(4,868,927)
Exchange differences arising on translation of foreign operations	-	-	-	(456,469)	-	(456,469)
	-----	-----	-----	-----	-----	-----
Total income and expense recognised for the year	-	-	-	(456,469)	(4,868,927)	(5,325,396)
Arising on issue of shares	556,481	3,511,341	-	-	-	4,067,822
Arising on issue of warrants	-	-	275,000	-	-	275,000
Share options expense	-	29,853	-	-	777,141	806,994
	-----	-----	-----	-----	-----	-----
Balance at 31 March 2008	4,587,736	14,511,702	275,000	(436,394)	(8,437,103)	10,500,941
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Consolidated Balance Sheet as at 31 March 2009

	2009	2008
	£	£
Assets		
Non current assets		
Property, plant and equipment	166,806	99,343
Intangible assets	12,095,841	10,148,333
Financial assets	200,000	200,000
	-----	-----
	12,462,647	10,447,676
	-----	-----
Current assets		
Inventories	15,945	10,515
Trade and other receivables	15,597	29,116

Cash and cash equivalents	432,190	2,190,050
	-----	-----
	463,732	2,229,681
	-----	-----
Total Assets	12,926,379	12,677,357
	-----	-----
Liabilities		
Current liabilities		
Trade and other payables	240,177	380,246
Corporation tax liability	29,788	-
Non-current liabilities		
Deferred tax liability	1,971,207	1,796,170
	-----	-----
Total liabilities	2,241,172	2,176,416
	-----	-----
Capital and reserves attributable to equity holders of the Company.		
Share capital	5,037,736	4,587,736
Warrant Reserve	387,500	275,000
Share premium account	15,705,702	14,511,702
Foreign Exchange translation reserve	2,678,831	(436,394)
Retained Earnings	(13,124,562)	(8,437,103)
	-----	-----
Shareholders' funds	10,685,207	10,500,941
	-----	-----
Total equity and liabilities	12,926,379	12,677,357
	-----	-----

Consolidated cash flow for the year ended 31 March 2009

	2009	2008
	£	£
Operating activities		
Loss before tax	(6,180,757)	(5,258,381)
Adjustments for :-		
Finance income	(43,006)	(119,985)
Depreciation	63,570	43,623
Amortisation	2,697,588	2,181,438
Share option expense	1,068,953	806,994
Foreign exchange movements	(187,804)	(4,076)
	-----	-----
Cash from operating activities before changes in working capital	(2,581,456)	(2,350,387)
Decrease in trade and other receivables	13,519	14,216
Increase in inventories	(5,430)	(8,550)
Decrease/(Increase) in trade and other payables	(52,859)	210,551
Interest received	43,006	119,985
	-----	-----
Cash generated from operations	(2,583,220)	(2,014,185)
Investing activities		
Internally generated intangible asset	(997,859)	(1,245,207)
Acquisition of tangible fixed assets	(106,991)	(91,236)
	-----	-----
	(1,104,850)	(1,336,443)
Financing Activities		
Cash inflow from issue of new shares	1,800,000	4,427,143
Share issue costs	(43,500)	(84,320)
	-----	-----

	1,756,500	4,342,823
(Decrease)/Increase in cash and cash equivalents	(1,931,570)	992,195
Foreign exchange differences on translation of cash and cash equivalents	173,710	-
Cash and cash equivalents at beginning of year	2,190,050	1,197,855
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Cash and cash equivalents at end of year	432,190	2,190,050
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Notes forming part of the consolidated financial statements for the year ended 31 March 2009

1. Summary of significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs"), and are in accordance with the IFRS as issued by the IASB.

The financial statements have been prepared on a going concern basis as the Board believe the Group have adequate resources to continue in operational existence for the foreseeable future.

Going concern

The Group's financial plans require the Group to secure a number of sales contracts over the course of the coming year and to raise equity finance in order to fund the working capital requirements and the development programme of the Company and Group. Since the balance sheet date the Group have signed a further two customers, achieved further success with the second well for Atascosa LLC and have raised equity finance of £3.5 million. However further contracts need to be secured. As at 25 September 2009 there are several new customers in the latter stages of contract negotiations.

In the event that these sales contracts are not received in line with the Group's financial plans, 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. Accordingly the Company's and the Group's financial statements have 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 statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

Revenue

Revenue relates to income derived from software development. Income is recognised when the products are delivered to the customers.

Basis of Consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they form a single entity. Inter-company transactions and balances between Group companies are therefore eliminated in full.

Business Combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the consolidated balance sheet, the acquiree's identifiable assets and liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of the acquired operations are included in the consolidated income statement from the date on which control is obtained. The acquirer has been identified as that entity giving up equity instruments and cash for control of the acquiree.

Critical accounting estimates and judgments

The preparation of consolidated financial statements under IFRS requires the Group to make estimates and judgments that effect the application of policies and reported amounts. In applying these policies the directors are required to make estimates and subjective judgements that may affect the reported amounts of assets and liabilities at the balance sheet date and reported profit for the year. Although the directors base these on combination of past experience and any other evidence that is relevant to the particular circumstance, the actual results could ultimately differ from those estimates.

Included in the note are accounting policies which cover areas that the Directors consider require estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Impairment of tangible and intangible assets

Long-lived assets and identifiable intangibles are reviewed for impairment at the balance sheet date in addition to whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the expected discounted future cash flow from the use of the assets and their eventual disposition is less than the carrying amount of the assets, an impairment loss is recognised and measured using the asset's fair value or discounted cash flows.

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. The amortisation expense is included within the administrative expenses line in the income statement.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts arrived at by using appropriate valuation techniques.

In-process research and development programmes acquired in such combinations are recognised as an asset even if subsequent expenditure is written off because the criteria specified in the policy for research and development costs above are not met.

The significant intangible assets recognised by the Group their useful economic lives and the methods used to determine the cost of intangibles are as follows:

Intangible assets	Useful economic life
Intellectual Property	6 years

Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is included within administrative expenses in the income statement.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the income statement as incurred.

Intangible assets	Useful economic life
Research and Development	6 years

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost.

Depreciation is provided on all items of property, plant and equipment to write off the carrying value of items over their expected useful lives. Depreciation is applied at the following rates:

Office equipment	20% per annum reducing balance
Computer equipment	33.3% per annum reducing balance

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

Tax

The major components of income tax on the profit or loss from ordinary activities include current and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowed and is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Income tax is charged or credited to the income statement, except when the tax relates to items credited or charged directly to equity, in which case the tax is also dealt with in equity.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its tax base, except for differences arising on:

- the initial recognition of goodwill;
- goodwill for which amortisation is not tax deductible;
- the initial recognition of an asset or liability which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that the taxable profit will be available against which the differences can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

Foreign currency

The functional currency of the parent entity is pounds sterling. The functional currency of the subsidiary is US dollars. Transactions entered into by Group entities in a currency other than the reporting currency are recorded at the rates ruling when the transaction occurs. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the re-translation of the unsettled monetary assets and liabilities are similarly recognised in the income statement.

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the balance sheet date.

Financial Assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which

the asset was acquired. The Group accounting policy for each category is as follows:

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporates other types of contractual monetary asset. They are carried at cost less any provision for impairment.

Available-for-sale: These comprise of the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be readily measured are measured at cost.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. A financial liability is a contractual obligation to either deliver cash or another financial asset to another entity or to exchange a financial asset or financial liability with another entity, including obligations which may be settled by the Group using its equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities

At initial recognition, financial liabilities are measured at their fair value plus, if appropriate, any transaction costs that are directly attributable to the issue of the financial liability

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received net of direct issue costs.

Changes in accounting policies

Standards, Interpretations and amendments, which are effective for reporting periods beginning after the date of these financial statements:

International Accounting Standards (IAS/IFRS)	Effective date (periods beginning on or after)	
• IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 Oct 2008
• IAS 1	Amendment - Presentation of financial statements: a revised presentation	1 Jan 2009
• IAS 23	Amendment - Borrowing costs	1 Jan 2009
• IAS 32 and 1	Amendments - Puttable financial instruments and obligations arising on Liquidation	1 Jan 2009
• IFRS 1*	First-time adoption of international accounting standards	1 Jan 2009
• IFRS 2	Amendment - Vesting conditions and cancellations	1 Jan 2009
• IFRS 2	Amendment - Share-based payment: vesting conditions and cancellations	1 Jan 2009
• IFRS 7*	Amendment - Improving Disclosures about Financial Instruments	1 Jan 2009
• IFRS 8	Operating Segments	1 Jan 2009
• IFRS1 and IAS 27	Amendments - Cost of an Investment in a subsidiary, jointly controlled entity or associate	1 Jan 2009
• IFRIC 15	Agreements for the Construction of Real Estate	1 Jan 2009
• IFRIC9 and IAS 39*	Amendments - Embedded derivatives	30 Jun 2009
• IAS 27	Amendment - Consolidated and separate financial statements	1 Jul 2009
• IAS 39*	Amendment -Recognition and measurement: Eligible hedged items	1 Jul 2009
• IFRS 3	Revised - Business combinations	1 Jul 2009
• IFRIC 17*	Distributions of non-cash assets to owners	1 Jul 2009
• IFRIC 18*	Transfers of assets from customers	1 Jul 2009
• IFRS 1*	Additional exemptions for first-time adopters	1 Jan 2010
• IFRS 2*	Amendment - Group Cash-settled Share Based payment transactions	1 Jan 2010

Items marked * had not yet been endorsed by the European Union at the date that these financial statements were approved and authorised for issue by the Board.

Except for the specific items discussed the above standards, interpretations and amendments will not significantly affect the Group's results or financial position.

IAS 1 Presentation of Financial Statements, This revision to IAS 1 introduces a single Statement of Comprehensive Income incorporating both the realised profits and losses that have traditionally been reported in the Income Statement and the unrealised gains and losses that are currently reported in the Statement of Recognised Income and Expense or the Statement of Changes in Equity. As a result the Statement of Comprehensive Income reports all "non-owner" changes in equity.

The revised Statement of Changes in Equity only reports transactions with owners (e.g. capital raised and dividends paid) and prior period restatements. It will not report non-owner income and expenses.

This standard is effective for periods beginning on or after 1 January 2009. The revision to IAS 1 was endorsed by the EU in December 2008.

The amendments to IFRS 1 require the presentation of the primary financial statements to be altered. The directors do not anticipate the revisions to IAS 1 to have any impact on the reported assets and liabilities of the group, nor the amounts recognised in the income statement.

IFRS 8, Operating Segments replaces IAS 14 Segment Reporting. The main change is that reporting segments are now based on the entity's own internal reporting structure rather than on criteria laid down by an accounting standard. Disclosures are based on the management reports used by the "chief operating decision maker" to allocate resources and assess performance. Segment reports are drawn up using the management's own internal accounting policies rather than those used for the statutory accounts

There is no longer a requirement for two sets of reports based on product and on location, but there are additional entity-wide disclosures about the geographical break-down of revenues and major customers.

IFRS 8 was endorsed by the EU in November 2007. It is effective for annual periods beginning on or after 1st January 2009.

IFRS 8 requires a different presentation with respect to segmental reporting. As the amendments impact the disclosures in the financial statements, the directors believe that adoption of this standard will have no impact on the reported assets and liabilities of the group, nor the amounts recognised within the income statement.

IFRS 3, Business combinations. This revision to IFRS 3 requires:

- All acquisition costs are charged to profit or loss.
- An acquisition is only recognised at the point that control is acquired:
 - Equity interests held before acquisition are revalued when control is achieved, with gains and losses recognised in profit or loss.
 - Subsequent increases (and decreases without losing control) are accounted for within equity.
- Non-controlling interests (minority interests). These can be measured at either:
 - the non-controlling interest's proportion of the fair value of the net assets (which is the existing method); or
 - the fair value of the non-controlling interest's proportionate interest (which will include goodwill attributable to their interest).
- Contingent consideration is measured at fair value as at the date of acquisition. All subsequent measurement changes are recognised in profit or loss.
- Where rights are re-acquired (e.g. the acquired company was previously a licensee) then re-acquisition will give rise to a gain or loss, an adjustment to the purchase price, and an intangible asset.
- All contractual arrangements are re-assessed at acquisition, except for insurance contracts and leases.

This amendment is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The changes to IFRS 3 do not impact past business combinations, and is only applicable to acquisitions made in reporting periods commencing on or after 1 July 2009. The directors are currently assessing the impact the amendments to IFRS 3 will have on the group financial statements.

IAS 27 Consolidated and Separate Financial Statements, this standard has been revised in order to be consistent with the revised version of IFRS 3. This amendment is effective for annual reporting periods beginning on or after 1 July 2009. Earlier application is permitted. The directors are currently assessing the impact that the revisions to IAS 27 will have on the group financial statements.

IFRS 2, Share-based payment Vesting conditions and Cancellations. This amendment relates to non-vesting conditions, which were previously ignored by IFRS 2. It requires entities to take non-vesting conditions into

account when calculating the fair value of share options. (However, the fair value of an award should not be reduced for the possibility that the scheme might be withdrawn before the awards vest).

As with market vesting conditions, an expense must be recognised irrespective of whether any non-vesting conditions are met.

The Amendment is effective for accounting periods beginning on or after 1 January 2009, is fully retrospective, and early adoption is permitted. The revision to IFRS 2 was endorsed by the EU in December 2008. The directors are currently assessing the impact that the revisions to IFRS 2 will have on the group 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 operational segments.

2009 Business Segments	Operations £	Head Office £	Unallocated £	Consolidated £
Revenue	129,028	-	-	129,028
Gross Profit	116,659	-	-	116,659
Net Finance Income	-	-	43,006	43,006
Net Tax Credit	-	-	424,345	424,345
Net loss for the year	(6,032,408)	(221,143)	497,139	(5,756,412)
Segment assets	10,379,536	575,636	1,971,207	12,926,379
Segment liabilities	149,840	120,125	1,971,207	2,241,172
Costs to acquire plant property and equipment	89,328	663	-	89,991
Costs to acquire intangible assets	923,241	-	-	923,241
Depreciation and amortisation	2,760,129	1,029	-	2,761,158
Share based payments charged	-	1,068,953	-	1,068,953

All sales were to external customers.

2008 Business Segments	Operations £	Head Office £	Unallocated £	Consolidated £
Revenue	31,485	-	-	31,485
Gross Profit	31,078	-	-	31,078
Net Finance Income	-	-	119,985	119,985
Net Tax Credit	-	-	389,454	389,454
Net loss for the year	(3,954,573)	(1,423,793)	509,439	(4,868,927)
Segment assets	8,488,295	2,392,892	1,796,170	12,677,357
Segment liabilities	297,186	83,060	1,796,170	2,176,416
Costs to acquire plant property and equipment	91,236	-	-	91,236
Costs to acquire intangible assets	1,245,207	-	-	1,245,207
Depreciation and amortisation	2,223,949	1,112	-	2,225,061
Share based payments charged	-	806,994	-	806,994

All sales were to external customers.

3. Loss for the year before taxation

	2009 £	2008 £
This is arrived at after charging/(crediting):		
Staff Costs (see note 5)	1,294,723	1,103,810

Share option expense	1,068,953	806,994
Depreciation of property, plant and equipment	63,570	43,623
Amortisation of intangible fixed assets	2,697,588	2,181,438
Foreign exchange differences	(187,804)	(4,075)
Operating lease expense	153,411	69,365
Auditors remuneration for :		
Audit of financial statements of the Group	26,500	21,000
Taxation services	10,000	10,000

4. *Loss per share*

Basic

The calculation of earnings per share is based on the loss after tax for the year of £5,756,412 (2008: loss £4,868,927) and on 486,390,059 (2008: 446,268,077) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

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. 77,330,352 options (2008: 65,580,702) and 76,193,654 (2007: 31,193,654) warrants have been excluded from this calculation as this would reduce the loss per share.

5. *Post Balance Sheet Events*

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.

As a result of the above :

- cash has increased by £3.53million;
- shares in issue has increased by 124,564,800;
- warrant reserve has decreased by £379,375; and
- share premium has increased by £2,683,826.

6. *Report and accounts*

The Company's report and accounts for the year ended 31 March 2009 will be available on www.Vialogy.com today and will be posted to shareholders on or before 30 September 2009. Copies of the report and accounts for the year ended 31 March 2009 are available from the Company's registered address.

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