



# VIALOGY

# 10

ViaLogy PLC

Report and Financial Statements  
Year Ended 31 March 2010



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## Directors and Advisors

### DIRECTORS

Terry Bond (Chairman)  
Dr Robert Dean (Chief Executive Officer)  
Dr Sandeep Gulati (Chief Technology Officer)  
George Rehm (Non-Executive) – Resigned 20 April 2010  
Peter Reynolds (Non- Executive)

### SECRETARY AND REGISTERED OFFICE

Mark Collingbourne, Ashcombe Court, Woolsack Way, Godalming, Surrey, GU7 1LQ.

### NOMINATED ADVISER AND BROKER

Seymour Pierce Limited, 20 Old Bailey, London EC4M 7EN.

### AUDITORS

BDO LLP, 55 Baker Street, London W1U 7EU.

### SOLICITORS

Faegre & Benson LLP, 7 Pilgrim Street, London EC4V 6LB.

### BANKERS

Barclays Bank PLC, 27 Soho Square, London W1D 3QR.

### REGISTRARS

Capita Registrars, Northern House, Woodsome Park, Fenay Bridge,  
Huddersfield HD8 0LA.

### COMPANY NUMBER

3971582

### COUNTRY OF INCORPORATION OF PARENT COMPANY

England



## Chairman's Statement

I am pleased to present the annual report and financial results for your company for the year ending 31 March 2010 and to comment on progress achieved during that year.

### Highlights of the Year

- ViaLogy's QuantumRD technology positions a second successful well on Atascosa Exploration's Galba lease in South Central Texas
- Two successful well completions for Vecta Oil and Gas in Central Texas Permian Basin based on QuantumRD analysis. Two pay zones accurately located in the Wolfcamp carbonate and the Cisco Canyon sandstone formations
- For a large Exploration and Production company, and in collaboration with the University of Texas' Bureau of Economic Geology, QuantumRD analysis locates a commercial well in the difficult Strawn formation in Andrews County, Texas. The 10 square mile field has a history of dry holes; in 15 out of 18 previous attempts the Strawn has not been located with the requisite porosity for a commercial well. This is a signal success and a major step forward; hitherto, detecting porosity in carbonate formations away from the wellbore and with precision was generally considered out of reach
- Delivery to new clients of QuantumRD analysis for seven well locations in Texas and New Mexico
- As wider global industry interest in QuantumRD increases, ViaLogy strategy is refocused on larger firms. A master services agreement to provide QuantumRD services was signed in August 2010 with a global oil supermajor
- Whilst not our prime focus, in the security and surveillance business area ViaLogy won a contract as core team mate of US defence contractor SAIC
- Equity placings and warrant conversions during the year raise a total of £6.5 million before expenses

In April 2009 ViaLogy was a relative newcomer to the oil patch. In the previous month the first well to be located using our technology, QuantumRD, had been successfully completed. This initial success marked the start of a steep learning curve for our business. Oil exploration and production is an extremely conservative industry with an in-built scepticism towards new technologies. Compared with other analysis techniques in use QuantumRD relies on an approach to active signal processing that exploits the 'noise' in which weak seismic signals are often buried to determine hydrocarbon formation characteristics. Other signal processing methods rely on eliminating as much of the noise as possible. Essentially, ViaLogy's work has redesigned the physics of the signal detection problem, whereby we are able to "redefine seismic" data exploitation. Another important point is that, with some variations, the existing industry exploration and production analysis process comprises a variety of interdependent tools that are used in an integrated workflow to answer a number of drilling questions, not just well location. QuantumRD augments these tools, and it must achieve compatibility with them.

It is instructive to understand why and how companies determine to drill wells. ViaLogy may be contracted to de-risk a site and provide 'drill here' coordinates, but the decision to actually drill is subject to a number of considerations that have nothing to do with where ViaLogy specifies drilling. Common among these are the boundaries and durations of lease holdings, the proximity of transport in relation to the recommended drill site, the availability of rigs, the operational need to go after seemingly larger targets elsewhere, and overriding corporate goals such as drilling only one well on a lease to resell it at an appreciated value. Equally as important is the overall analysis process and set of tools that larger companies use to make drilling decisions. While there is a heavy dependence on seismic data (and this is the huge addressable market which ViaLogy is penetrating) there are also existing models of fields, and interpretive and visualization technologies that set the context for the use of QuantumRD. Together they are used to determine what it takes to have a commercial producing well. For example, in a case where a ViaLogy location accurately predicts total depth, porosity, and hydrocarbon-bearing sand formation – all absolutely key factors in de-risking a well, and our competitive discriminator – until the drill bit has been properly placed and other characteristics at depth have been determined by logging, one cannot determine if a well can be successfully and cost-effectively stimulated. QuantumRD's ability to predict porosity, natural fractures and fluid saturation based on seismic data is enormously significant to the overall process and

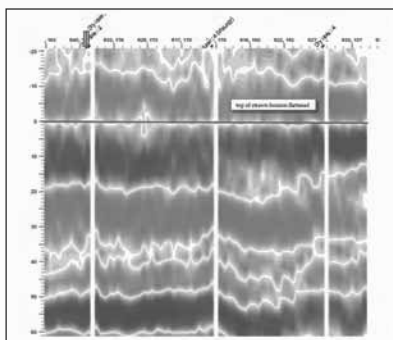
potentially game-changing as a constituent part of the overall process. Hence our strategy, as our CEO points out, is to win the adoption of QuantumRD as a standard tool by an increasing number of larger companies. My summary point here is that ViaLogy's success is not a simple matter of the number of wells drilled.

That said, in a business where often millions of dollars are committed to the drilling of a well, building a users' track record for a new technology is essential. The Board, therefore, decided to initiate a carefully planned programme to extend the use of QuantumRD analysis and to win customers with a variety of exploration sites in a range of formations. For logistical and economic reasons we decided that initially our efforts should continue to be concentrated in Texas. We wanted to gain experience, to refine the technology to deal with differing challenges, and to add additional highly-qualified geophysicists and others to our team.

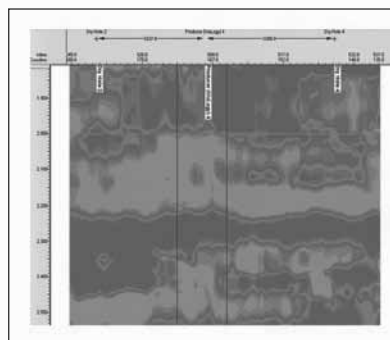
As the year progressed we learned many lessons. For instance, we found that the sales cycle – the period from initial contact with a new customer to actually signing a work order for a specific project – can be lengthy. Also, larger companies often insist upon an initial "Show Me" clause in the contract which means that they will pay a reduced amount for their first operational analysis. In addition, long forward work schedules are common so it can be months from our delivery of analysis to drilling actually taking place if, in fact, the client decides to drill at all (we have had the experience of clients selling or mothballing fields where we have provided analysis). Also, it is worth pointing out that ViaLogy can be paid to advise on when NOT to drill. All this can mean unavoidable delays in cash flow. Nevertheless, during our FY 2010 we produced analyses for three more successfully completed wells including a Strawn formation well on a 10 square mile Permian Basin site near Midland, Texas. Of 18 previous exploratory wells on the prospect only three had produced oil in commercial quantities. We predicted a 6% porosity for the find and we were right.

Our work has produced considerable interest and enquiries from bigger companies, several of them global players. In January 2010, recognizing that broad industry acceptance of QuantumRD would depend upon its use by recognized firms, the Board decided to focus on such customers. Convincing them of the efficacy and reliability of QuantumRD can be a relatively lengthy process involving detailed technical explanations to multiple internal experts. I am delighted to say that our efforts have now begun to bear fruit – since the year end ViaLogy has signed a master services agreement with a supermajor, one of the world's Big Six oil companies. We are also in collaboration discussions with other international oil companies.

Vertical cross section of conventionally processed seismic volume and QuantumRD processed data explains productive wells and dry holes



Conventional Vertical Seismic Image



QuantumRD Vertical Seismic Image

### Other applications and interests

Because of personnel and financial constraints, as the Recession bit two years ago we decided to concentrate the entire effort of the company on the oil and gas application of our technology. This meant that the two additional products under development, SPM<sup>®</sup> which integrates and automates disparate sensors in large scale security and surveillance systems, and QSUB<sup>™</sup> which analyses data from airborne synthetic aperture radar to detect buried pipelines, had to be mothballed. We have had a number of serious enquiries from possible



partners for the two technologies and the Board is considering how best to maximise shareholder value.

As this annual report goes to press we have some rather depressing news about ViaLogy's only 'outside' investment, Acrobot Limited, which is a legacy spinout technology development company from Imperial College, London. The business develops surgical navigation systems and robotic devices for orthopaedic surgery. In last year's annual report I explained that this private company had been seriously affected by the slowdown in the economy. Now, because of a series of commercial and financial setbacks, Acrobot has decided to seek a trade sale for its business. Negotiations are close to completion and while we are assured this will preserve the solvency of the business it is our understanding that it is unlikely that there will be a surplus for distribution to Acrobot shareholders. In these circumstances your Board considers it prudent to write down the value of Acrobot to zero in the accounts.

## Finance

For the year ending 31 March 2010 the ViaLogy consolidated financial statements accounts show revenue of £151,388 and a net loss of £5.7 million, (2009 - £5.8 million). The loss after tax and after adding back the non cash items; depreciation and amortisation charge and share based payment expense was £2.1 million (2009: £1.93 million).

In April 2009 the Company raised £1.6 million before expenses 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. In February 2010 the Company completed a further placing of 59,118,828 new ordinary shares at 4.875p, raising £2.88 million before expenses.

## Our thanks

The year saw some important changes in personnel as well as a move to new and more cost-effective offices in Pasadena. As our technology emphasis focussed almost entirely on QuantumRD and we became increasingly involved in the oil and gas business our skill set requirements altered and we said goodbye to some old colleagues and hello to some fresh faces. We wish those who have left all the best for the future and we extend a warm welcome to our new friends. In particular we are delighted that Dr. Robert Parney joins ViaLogy as Chief Geophysicist and Vice President, Geophysical Services, and Dr. Andres Chavarria has been appointed as Senior Geophysicist.

During the year Michael Kelly, whose full-time business interests have caused him to relocate to northern California, resigned as a non-executive director of the company. Michael has been a ViaLogy Board member for several years and his advice and guidance have always been invaluable. On behalf of the Board, and indeed the staff and the shareholders, we thank him and wish him well.

## The future

We are on course to sign new and larger clients, to extend the technology to additional types of formations and complete additional wells during the current fiscal year. We have a healthy near term and extended term sales pipeline and in the coming months, as more analyses are delivered to new and existing customers, we will achieve a business rhythm. Most importantly we have an exciting technology that, in an industry where change is viewed with understandable suspicion, is attracting worldwide attention.

On behalf of the directors, I thank you for your continued support.



Terry Bond  
Chairman  
17 September 2010



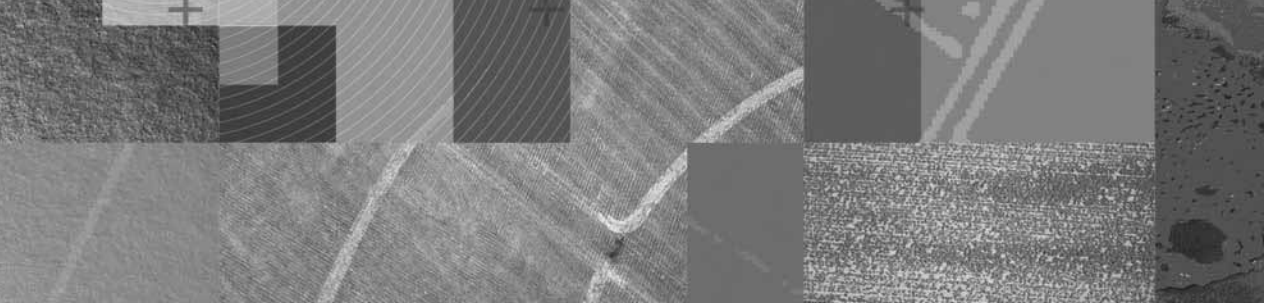
## Chief Executive Officer's report

ViaLogy's successes during the year attracted the attention of a number of well-known global industry players. Our results surpassed industry standards in hydrocarbon exploration and will translate into business growth. We now have a supermajor energy company as a contracted client. The initial deliverable to this global company is QuantumRD analysis of a complex onshore prospect that has frustrated the internal analysis staff and has hitherto produced multiple dry holes. ViaLogy's work will extend over months and be benchmarked against the firm's internal results. This is exactly the kind of challenge we welcome because it will give us wider recognition, further credibility, and a key reference customer.

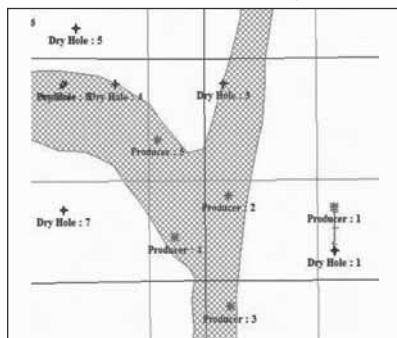
With multiple successful wells completed ViaLogy is now focused on extending the market for our QuantumRD technology to an "A List" of clients, and its reach to an increasing variety of hydrocarbon formation types and geographical regions. This is a tall order for a resource-constrained firm, but with an excellent geophysical staff now aboard, a select list of projects in the offing, and the outsourcing of more routine processing tasks, we are making considerable progress. Our ambition is to redefine how seismic and other geophysical data can be used to accurately target hydrocarbon formations by predicting rock and fluid properties of any formation in the world.

Our business objective is to achieve ViaLogy's financial success by developing QuantumRD further and positioning it as a widely used technology in the upstream segment of the industry. At this stage of our growth it is not just about drilling successful wells although that is the ultimate goal of geophysical analysis and an important ViaLogy objective. But top tier companies in the exploration and production segment of the industry typically have long lead times for drilling, and they use multiple tools and technologies to analyze seismic and other data in more or less standard integrated workflows. The vital addition that QuantumRD brings to the task is a game-changing tool derived from our core active signal processing technology, Quantum Resonance Interferometry, that dramatically improves analysis results to permit far more accurate predictions of formation porosity, lithology, and fluid saturation – the key determinants in the industry for de-risking drilling and enabling net-pay sizing. Thus far, our work can take credit for completed producing wells, test wells whose purpose was to produce data for subsequent drillings and, importantly, retrospective explanation of over 240 drilling attempts that resulted in dry holes – analyses where ViaLogy would have advised that these locations should not be drilled.

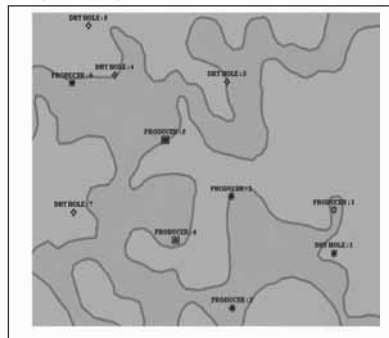
Contracting with larger, often global firms as clients has increased our sales cycle. At the same time, our current client list of smaller companies (i.e., those drilling 100 or fewer wells per year) is healthy, and our client prospect list is robust. We are in active discussions with more than half-a-dozen leading companies, both exploration/production companies and oilfield services companies. We aspire to a mix of smaller and larger clients because the former give us the nearer term opportunity to get drill bits into the ground, and the latter serve our strategic purposes. Our limited capacity is an impediment in servicing an increasing client count. Nevertheless, our objective is to demonstrate QuantumRD applications in shale gas, enhanced oil recovery onshore and offshore, and to work on wells and prospects of increasing size. Further, because we need the larger firms as clients, our business model must also include smaller firms inasmuch as they generally have accepted the payment of a service fee and a success fee and they applaud ViaLogy's risk-sharing approach. On the whole, the larger clients will not share ownership of wells. They will, we believe, accept significantly higher price points given the high added value of ViaLogy's product.



Areal map of a clastic hydrocarbon channel within a Mississippian sandstone formation at 11,000 ft depth. QuantumRD explains productive wells and dry holes



Conventional processing before QuantumRD processing



QuantumRD processing

We are on track to meet this year's operating plan and our revenue targets. Since Day One we have met the terms and delivery schedules in all our contracts, although I want to stress again that our clients drilling schedules are completely out of our control, and often subject to delays. We do get to know our clients well, because our delivery process is very much a technical give-and-take in which our performance wins supporters and advocates. We need to place additional emphasis on developing the technology itself and the software associated with it which is key to gaining the broadest industry acceptance, and we are resource-constrained in this regard. As our Chairman points out in his statement, this is not an industry characterized by the early adoption of new technology, so our technology needs to be made robust and usable by others as we go forward.

Finally, I am very pleased with our progress to date. Since our entry into the oil patch in March 2008, much has been achieved thanks to the dedicated efforts of a small but highly skilled staff and the ongoing support of our shareholders. We encounter consistent market recognition that ViaLogy's technology is novel, and goes well beyond what is currently available. Our current FY2011 will be a very important one for us and should result in a new strategic positioning of the company.



Dr. Robert W Dean  
Chief Executive Officer  
17 September 2010



## Chief Technology Officer's review

The company's new tag line REDEFINING SEISMIC™ best captures our technology, R&D and operational focus for FY2010 and going forward. We repurposed and extended our intellectual property portfolio in Quantum Resonance Interferometry (QRI®) for computational weak signal processing developed over the years to demonstrate, validate and bring new capabilities to the upstream oil and gas industry. We focused on positioning and maturing QuantumRD® analytical services to discover, delineate and size reservoirs:

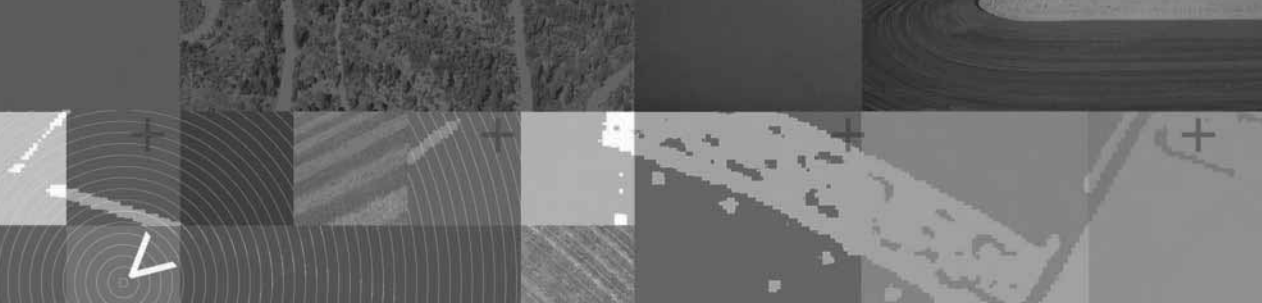
- at intervals where reservoir and non-reservoir lithologies could not be previously differentiated using 3D seismic data;
- achieving areal and depth resolution where reservoir features could be given geological or geomorphological significance; and
- mapping in-place fluid distribution based on new hydrocarbon indicators to amplify conformity with structure.

The best of today's migration, seismic inversion, and stacking algorithms narrow-out the acquired spectral bandwidth to cancel or average out seismic noise. Their purpose is to extract sound-reflecting boundaries below the earth's surface 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 structure can be accurately mapped using current techniques, these reflection-based methods are challenged in accurately discerning subtle changes in rock and fluid properties and porosity in complex stratigraphies.

QuantumRD attacks the subsurface imaging and reservoir de-risking problem at three levels to derive more value from 3D seismic:

- (a) reliance on fundamentally alternate physics of acoustic reflection imaging to derive reservoir attributes; QuantumRD assesses how coherent and random noise within the full seismic acquisition spectrum is differentially and directly modulated by subtle changes in porosity, varying levels of hydrocarbon saturation, anisotropy and lithology. Unlike conventional signal processing, QuantumRD does not filter out coherent and incoherent information, and low and high frequency noise. These reservoir-driven signal changes are extremely small and buried below levels of background noise in the data and have not been exploited due to algorithmic limitations, although their physics has been known for years. Exploiting subtle disturbances in noise, to characterize signals or events of interest is a core paradigmatic tenet of QRI.
- (b) using ViaLogy's patented interferometric signal processing protocol – in software – to see how noise within the seismic data has been impacted by changing reservoir properties of interest, without the need for either explicitly defining or precisely isolating signal from noise. QuantumRD uses a synthetic noise source, designed using rock-physics and well-control data to probe the acquired seismic data and to detect, characterize and amplify changes in seismic noise. Termed Virtual Vibe™, this process of excitation of conventionally acquired seismic data using synthetic noise in software, determines attributes of interest, such as presence of pre-specified levels of porosity, as emergent resonances. ViaLogy's unique expertise and toolkit for designing complex synthetic noise to broadly deploy Virtual Vibe processing enabled QuantumRD to significantly increase confidence and resolution in reservoir attribute processing.
- (c) implementation of a new workflow sequence that relies upon the deconstruction of conventionally processed complex seismic datasets into optimal smaller volume cells (or voxels) over the formation of interest to immunize against errors in velocity estimation and gather conditioning over the entire dataset. Individual voxels analyzed for porosity, fluid and other rock properties are recombined to build net-pay reservoir models from bottom-up. QuantumRD achieves higher precision and accuracy by deploying Virtual Vibe excitation at the individual voxel level.

QuantumRD's key constituents summarized above provide actionable information, significant scale and business leverage. During FY2010 these allowed us to assist our Exploration and Production clients in addressing a broad spectrum of operating challenges and priorities ranging from how to lease prospects; design seismic surveys; discover



and delineate reservoirs on their prospects; generate drilling targets to position wells; develop optimal offsets; how to stimulate and fracture them; and understanding reservoir compartmentalization for enhanced recovery. Industry acceptance of what ViaLogy believes to be a significant advance in the use of seismic data has begun, and will grow with well completion statistics and applications to a variety of formations. We are now focused on standardizing our QuantumRD deliverables, porosity, fluid saturation and fracture maps for conventional reservoirs, and extending the technology to non-conventional shale gas resource plays.

Project execution during FY2010 allowed us to demonstrate our value-proposition in some of the most complex but prolific formations with tremendous opportunity for future growth.

### **Carbonate Reservoirs**

Recognizing that more than 60% of the world's oil and 40% of the world's remaining gas reserves are in carbonates, ViaLogy devoted substantial effort in focusing QuantumRD capability to de-risk and characterize complex stratigraphic carbonates, their stacking, continuity, fracture density and spacing prediction. Porosity prediction is at the heart of discriminating potentially productive carbonate bodies. Carbonate reservoirs continue to be difficult to characterize using 3D seismic due to their greater heterogeneity from rapid vertical and lateral facies variation, lower seismic resolution due to higher velocities, and inherent inability to directly image fracturing. Basin geology models provide limited insight to positioning of individual wells and offsets, as formation properties change unpredictably. Because of the broad-spectrum of diagenesis (chemical, physical, or biological change undergone by a sediment in its initial deposition) that affects carbonate rocks, the final porosity in these carbonates may or may not be related to the depositional environment. Also, unlike other lithologies, the original primary porosity in carbonates may be totally destroyed during diagenesis and significant new secondary porosity may be created. So to get a successful well, it is important to find certain patterns of natural fracturing and high continuous porosities from 3D seismic.

QuantumRD's high vertical and areal resolution and sensitivity in assessing fine-scale lithological variations and heterogeneities to find porous and permeable lenses within carbonate bodies was validated in positioning the successful onshore strawn well in the Midland Basin after 15 previous failures using conventional seismic processing. ViaLogy continues to develop new capabilities to recognize and identify characteristic abrupt changes in rock type distribution to discriminate between local regions of macroporosity (e.g. vugs) and large aperture fractures for exploration, field redevelopment and enhanced recovery. In addition to de-risking new drilling locations, ViaLogy is working on developing a systematic, automated approach to redevelop under-performing or abandoned wells that could be sitting near near-pay zones that may have just been missed.

### **Clastic Reservoirs**

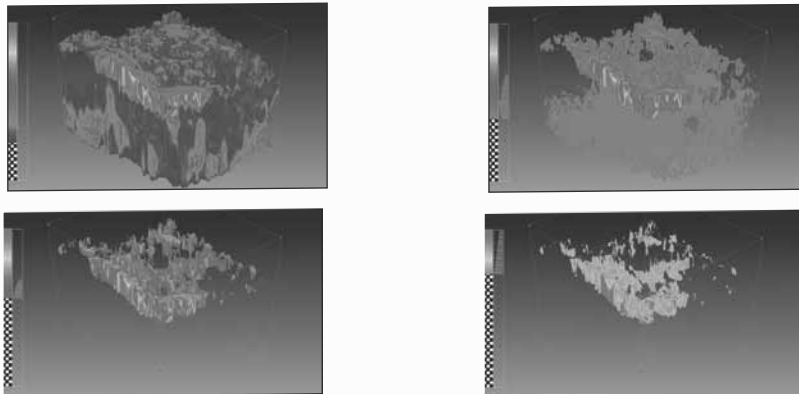
On-shore and deep-water clastic reservoirs are among the world's largest, most explored, and most productive hydrocarbon plays. These include a variety of turbidite sand-body geometries such as channels, lobes, sheets and levees in complex down-slope settings. Post-depositional stresses modify primary sedimentary structures changing pore size distribution and permeability characteristics challenging interpretation of pay and saturation distribution in otherwise sand-prone reservoirs. Exploration success, and subsequent appraisal and development of these highly productive reservoirs depends upon accurately mapping the interplay of sediment dispersal within reservoir-scale or basin-scale geometry to delineate source, seal, and reservoir geologies. Conventional de-risking has relied on acquiring large offsets and higher frequency data. While this has advanced structural interpretation, success has been spotty due to lack of fluid imaging capability. QuantumRD's ability to exploit noise within seismic data and increase resolution for jointly assessing sand-stacking along with in-place fluid saturation could be significant in derisking and finding net pay. QuantumRD clastics application on a New Mexico 3D seismic survey

explained distribution of producers and dry-holes, de-risked and significantly altered the existing reservoir model delivering drilling targets with potential for multiple large gas wells.

### Shale Gas Resource Plays

Unconventional shale gas resource development is rapidly becoming a dominant global trend in onshore exploration. As this hydrocarbon resource is pervasive in the formations, efforts over the past few years focused on grid-based drilling that made extensive use of horizontal drilling and high volume fracturing. But that is changing. The wells produce from low permeability shale formations that are also the source rock for the oil and natural gas. As the larger hydrocarbon volumes are restricted to fracture porosity within the shale, or within micropores, or adsorbed onto the minerals and organic matter within the shale, subtle changes in lithology produce dramatic changes in production outcomes and economics even in closely spaced wells. However, these lithology changes register only as weak changes in conventional 3D seismic signal; that has been designed to primarily image large impedance contrasts across lithologies. As the changes in impedance contrast within shale formations are very subtle, geophysicists struggle to add value by using the signal measured by conventional seismic in unconventional reservoirs. Other influences on shale productivity include the “brittleness” or ability to fracture the reservoir, and the accurate identification of thin stringers embedded with the shales from which they can be produced. Combining the sensitivity and enhanced resolution payoffs demonstrated for carbonates and clastic reservoirs in FY2010, ViaLogy sees shale gas and oil resource plays as a major focus area going forward.

An example of QuantumRD’s ability to determine subtle changes in carbonate porosity, often the determinant of well success or failure



### New Applications

Market leaders and Exploration and Production customers are driving future applications of ViaLogy’s broad subsurface imaging capability. In addition to hardening QuantumRD services to a transferable, licensable product we are assessing new opportunities in improving signal-to-noise in onshore and offshore seismic and electromagnetic acquisitions, microseismic for hydraulic fracture monitoring and optimization, and interferometric acquisition protocol for direct hydrocarbon imaging using conventional 3D vibration sources.



Dr. Sandeep Gulati  
Vice President and Chief Technology Officer  
ViaLogy PLC  
17 September 2010



## Report of the Directors

The Directors present their report together with the audited financial statements for the year ended 31 March 2010.

### Results and dividends

The statement of comprehensive income is set out on page 19 and shows the loss for the year.

The Directors do not recommend a final ordinary dividend for the year (2009 – £Nil).

### Principal activities, trading review and future developments

A detailed review of the business, post balance sheet events and likely future developments is given in the Chairman's statement and the executive reports.

### Key performance indicators

The Directors consider the Group's key performance indicator to be the achievement of the product development milestones laid down by the board at the start of the year and the level of cash resources available for continued research and development of products. The Board are pleased to say that the challenging milestones have been met through the year as described in the chairman's statement. During the year, the loss after tax and after adding back the depreciation and amortisation charge and share based payment expense was £2.11 million (2009: £1.93 million). At 17 September 2010 cash balances stood at £1.7 million.

### Financial instruments

Details and required disclosure of the financial instruments used by the Group are contained in note 16 of the financial statements.

### Payments to suppliers

The Group agrees terms and conditions under which business transactions with suppliers are conducted. It is Group policy that, provided a supplier is complying with the relevant terms and conditions, including the prompt and complete submission of all specified documentation, payment will be made within a reasonable period of the invoice being received and in any case within the agreed payment period. The number of days purchases outstanding at 31 March 2010 for the Group was 4 days (2009 – 6 days).

### Events after reporting date

There are no significant events after the reporting date.

### Risks and uncertainties

The main business risk facing the Group is that its technology cannot be viably developed both economically and technically and that competitors emerge which erode the Group's competitive advantage. The Directors continue to monitor developments within the ViaLogy product markets to ensure ViaLogy retain the competitive advantage.

As a small Group, there is a risk that the founder and/or another key employee will become incapacitated or otherwise be unavailable to the Group, before the products have been fully developed to the point of full commercial viability. The Group has a key man insurance policy to mitigate this risk.

As a small Group there is a risk that errors or omissions made by officers and directors would significantly impact the business of the Group. To mitigate this risk the Group maintains a Directors and Officers Insurance policy.

#### **Donations and political contributions**

The Group made no donations or political contributions in the current or prior year.

#### **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 Company and Group. Since the balance sheet date the Group has delivered analysis for multiple new hydrocarbon prospects, has signed a contract with a global supermajor oil firm and is in advanced talks with prospective clients to apply Quantum RD for shale gas exploration and production.

The Board believes that while the sales pipeline from current clients and new customers will be secured, 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 received 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 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.

Accordingly the financial statements set out on pages 18 to 48 have been prepared on a going concern basis.



## Biographies of the Directors

### EXECUTIVE DIRECTORS

#### **Terry Bond, (72), Executive Chairman**

During the 1960s Terry Bond was Managing Director of a public relations consultancy. Throughout the 1970s he was Sir Chay Blyth's business partner and Managing Director of Chay Blyth Supersail. In 1980 Terry was appointed Managing Director of International Property Marketing Limited ('IPM') and in 1987 he was appointed Sales and Marketing Director for Wimpey Leisure. During the 1990s he was a director of ProShare (UK) Ltd, responsible for building up the British investment club movement to 12,000 clubs. Terry is also a director of Sector Investment Managers, which is investment adviser to Junior Oils Unit Trust. Junior Oils Trust is an authorised and quoted unit trust specialising in investing in quoted oil and gas exploration and production companies.

#### **Dr. Robert Dean, (67), Chief Executive Officer**

Until October 2007 Robert Dean was Senior Vice President, Corporate Market Development, with Science Applications International Corporation (SAIC). Previously he has held senior executive positions in the aerospace industry at Boeing, Lockheed Martin, and Ball Aerospace Corporation. Bob also served in senior executive positions in the US Government at the Central Intelligence Agency, the State Department, and at the White House as Special Assistant to the President during Ronald Reagan's presidency. He is a graduate of Brandeis University, Harvard University, and received his Ph.D. from the University of Denver.

#### **Dr. Sandeep Gulati, (47), Chief Technology Officer**

Dr. Sandeep Gulati is a co-founder, Chief Technical Officer and Vice President, Product Development for ViaLogy LLC. Previously, he headed the Ultracomputing Technologies Group at NASA's Jet Propulsion Lab (JPL) in Pasadena, California. During his 12 year tenure at JPL, he led computational advances in spacecraft autonomy, autonomous diagnostics and prognostics of complex systems, sensor fusion, neural networks, signal processing, command decision modelling and intelligence analysis. At JPL he was a Principal Scientist on a number of programs of national relevance such as the Department of Defence's Joint Strike Fighter, NASA's Reusable Launch Vehicle, the oil industry's DEELOOK Consortium, predictive intelligence capability for Army's All-Source Analysis System, and subsurface imaging for cleanup of formerly used contaminated defence sites. He collaborated on strategic programs with Lockheed Martin, Boeing, Northrop Grumman, McDonnell Douglas, Rockwell, Pratt & Whitney, and NASA Center.

## NON-EXECUTIVE DIRECTORS

### **Peter Reynolds, (72), Non-Executive Director**

Peter Reynolds is an international businessman and investor based in London. He has been involved in directing the growth of several private and publicly-quoted businesses and specialises in assisting research and development companies to maximise their commercial potential.



## Statement of Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

### **Auditors**

All of the current Directors have taken all the steps necessary to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

On behalf of the Board

Terry Bond

Chairman

17 September 2010



## Independent Auditor's Report

### Independent Auditor's Report to the Members of Vialogy Plc

We have audited the consolidated income statement, financial statements of Vialogy plc for the year ended 31 March 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position and company balance sheet, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2010 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Emphasis of matter – going concern**

In forming our opinion on the financial statements which is not qualified we have considered the adequacy of the disclosures made in Note 1 of the financial statements concerning the ability of the company to continue as a going concern.

The Group will require further funding to continue in operational existence if the pipeline of sales is not secured. The directors are confident that the Group's pipeline of sales from current clients and new customers will continue to generate funds to meet its working capital requirements however there can be no certainty of this given the risks associated with the oil and gas industry in which the Group have focussed their efforts. The Directors are also considering other options for raising alternative funds should the need arise.

These conditions indicate the existence of a material uncertainty which may cast significant doubt on the ability of the company to continue as a going concern. These financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Anne Sayers (senior statutory auditor)  
For and on behalf of BDO LLP, statutory auditor  
55 Baker Street  
London  
W1U 7EU  
United Kingdom  
17 September 2010

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## Consolidated income statement for the year ended 31 March 2010

	Notes	2010 £	2009 £
<b>Revenue</b>		151,388	129,028
Cost of sales		326,412	12,369
<b>Gross (loss)/profit</b>		(175,024)	116,659
Share based payments		532,051	1,068,953
Depreciation and amortisation		3,009,785	2,761,158
Other administrative expenses		2,441,074	2,510,311
Total administrative expenses		5,982,910	6,340,422
<b>Loss from operations</b>		(6,157,934)	(6,223,763)
Finance income		687	43,006
Loss for the year before taxation	3	(6,157,247)	(6,180,757)
Taxation	7	489,784	424,345
<b>Loss for the year attributable to equity holders of the parent company</b>		(5,667,463)	(5,756,412)
Loss per share			
Basic and diluted (pence)	8	(0.931)	(1.183)

The notes on pages 23 to 43 form part of these financial statements.

## Consolidated statement of comprehensive income for the year ended 31 March 2010

	2010 £	2009 £
Loss after taxation	(5,667,463)	(5,756,412)
Other comprehensive income		
Exchange differences on translating foreign operations	(678,044)	3,115,225
<b>Total other comprehensive income for the year</b>	<b>(678,044)</b>	<b>3,115,225</b>
<b>Total comprehensive income for the year attributable to the equity holders of the parent company</b>	<b>(6,345,507)</b>	<b>(2,641,187)</b>

The notes on pages 23 to 43 form part of these financial statements.

## Consolidated statement of changes in equity for the year ended 31 March 2010

	Share capital £	Share premium account £	Warrant reserve £	Foreign exchange reserve £	Retained earnings £	Total £
<b>At 1 April 2009</b>	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
<b>Balance at 31 March 2010</b>	<b>6,904,753</b>	<b>20,665,231</b>	<b>–</b>	<b>2,000,787</b>	<b>(18,259,974)</b>	<b>11,310,797</b>

	Share capital £	Share premium account £	Warrant reserve £	Foreign exchange reserve £	Retained earnings £	Total £
<b>At 1 April 2008</b>	4,587,736	14,511,702	275,000	(436,394)	(8,437,103)	10,500,941
Total comprehensive income recognised for the year	–	–	–	3,115,225	(5,756,412)	(2,641,187)
Issue of shares (net of expenses)	450,000	1,194,000	112,500	–	–	1,756,500
Share options expense	–	–	–	–	1,068,953	1,068,953
<b>Balance at 31 March 2009</b>	<b>5,037,736</b>	<b>15,705,702</b>	<b>387,500</b>	<b>2,678,831</b>	<b>(13,124,562)</b>	<b>10,685,207</b>

The notes on pages 23 to 43 form part of these financial statements.

## Consolidated statement of financial position as at 31 March 2010

Company number 3971582		2010	2009
	Notes	£	£
<b>Assets</b>			
<b>Non current assets</b>			
Property, plant and equipment	9	467,064	166,806
Intangible assets	10	8,564,187	12,095,841
Financial assets	11	–	200,000
		9,031,251	12,462,647
<b>Current assets</b>			
Inventories		–	15,945
Trade and other receivables	13	90,006	15,597
Cash and cash equivalents		3,697,866	432,190
		3,787,872	463,732
<b>Total assets</b>		<b>12,819,123</b>	<b>12,926,379</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	14	161,930	240,177
Corporation tax liability		6,288	29,788
<b>Non-current liabilities</b>			
Deferred tax liability	15	1,340,108	1,971,207
<b>Total liabilities</b>		<b>1,508,326</b>	<b>2,241,172</b>
<b>Capital and reserves attributable to equity holders of the parent company</b>			
Share capital	17	6,904,753	5,037,736
Warrant reserve	18	–	387,500
Share premium account	18	20,665,231	15,705,702
Foreign exchange translation reserve	18	2,000,787	2,678,831
Retained deficit	18	(18,259,974)	(13,124,562)
<b>Total equity</b>		<b>11,310,797</b>	<b>10,685,207</b>
<b>Total equity and liabilities</b>		<b>12,819,123</b>	<b>12,926,379</b>

The financial statements on pages 18 to 43 were approved by the Board of Directors and authorised for issue on 17 September 2010 and were signed on its behalf by:

Terry Bond  
Chairman

The notes on pages 23 to 43 form part of these financial statements.

## Consolidated statement of cash flows for the year ended 31 March 2010

		2010 £	2009 £
<b>Cash flow from operating activities</b>			
Loss before tax		(6,157,247)	(6,180,757)
Adjustments for :			
Finance income		(687)	(43,006)
Depreciation	3	55,320	63,570
Amortisation	3	2,954,614	2,697,588
Share option expense	3	532,051	1,068,953
Provision against available for sale investment	3	200,000	-
Foreign exchange movements	3	5,589	(187,804)
<b>Cash flow from operating activities before changes in working capital</b>		<b>(2,410,360)</b>	<b>(2,581,456)</b>
(Increase)/decrease in trade and other receivables		(75,399)	13,519
Decrease/(increase) in inventories		15,945	(5,430)
Decrease in trade and other payables		(78,247)	(52,859)
Interest received		687	43,006
<b>Cash generated from operations</b>		<b>(2,547,374)</b>	<b>(2,583,220)</b>
<b>Tax paid</b>		<b>(23,500)</b>	<b>-</b>
<b>Investing activities</b>			
Internally generated intangible asset	10	(271,512)	(997,859)
Purchase of property plant and equipment	9	(358,827)	(106,991)
		<b>(630,339)</b>	<b>(1,104,850)</b>
<b>Financing Activities</b>			
Cash inflow from issue of new shares	17	6,590,601	1,800,000
Share issue costs		(151,555)	(43,500)
		<b>6,439,046</b>	<b>1,756,500</b>
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>3,237,833</b>	<b>(1,931,570)</b>
Foreign exchange differences on translation of cash and cash equivalents		27,843	173,710
Cash and cash equivalents at beginning of year		432,190	2,190,050
<b>Cash and cash equivalents at end of year</b>		<b>3,697,866</b>	<b>432,190</b>

The notes on pages 23 to 43 form part of these financial statements.

# Notes forming part of the consolidated financial statements for the year ended 31 March 2010

## 1. Principal accounting policies

The Company is a public limited company incorporated and domiciled in the United Kingdom. The address of its registered office is Ashcome Court, Woolsack Way Godalming, Surrey, GU7 1LQ. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### *Basis of preparation*

The consolidated financial statements for the year ended 31 March 2010 have been prepared on the basis of all IFRS and interpretations adopted by the European Union that are mandatory for periods ending 31 March 2010. The consolidated financial statements have been prepared on the historical cost basis as modified by the revaluation of available for sale financial assets.

The consolidated financial statements have been drawn up on the basis of accounting policies consistent with those applied in the financial statements for the year to 31 March 2009. The following standards, interpretations and amendments to existing standards have been adopted for the first time in 2010:

International Accounting Standards (IAS/IFRS)	Effective date
IFRS7 – Amendment – improving disclosures about financial instruments	1 January 2009
IAS 1 (revised) – Amendment – Presentation of financial statements: a revised presentation	1 January 2009
IFRS 8 – Operating segments	1 January 2009
IAS 23 – Amendment – Borrowing costs	1 January 2009
IFRS 2 – Amendment – Share based payment: vesting conditions and cancellations	1 January 2009
IAS32 & IAS1 – Amendment – Puttable financial instrument and obligations arising on liquidation	1 January 2009
IAS39 & IFRIC 9 – Amendment – Embedded derivatives	1 January 2009
Improvements to IFRSs (2009)	1 January 2009
International Financial Reporting Interpretations (IFRIC)	Effective date
IFRIC 15 – Agreements for the Construction of Real Estate	1 January 2009

The adoption of these standards, interpretations and amendments did not affect the Group results of operations or financial positions. The presentation of these financial statements incorporates changes arising from adoption of these standards, interpretations and amendments.

## Notes forming part of the consolidated financial statements for the year ended 31 March 2010

The IASB and IFRIC have issued the following standards and interpretations which are effective for reporting periods beginning after the date of these financial statements, and which the Group is not early adopting:

International Accounting Standards (IAS/IFRS)		Effective date
IAS 27	– Amendment – Consolidated and separate financial statements	1 July 2009
IFRS 3	– Revised – Business combinations	1 July 2009
IAS 39	– Amendment – Financial Instruments: recognition and measurement eligible hedged Items	1 July 2009
IAS 39 & IFRIC 9	– Amendment – embedded derivatives	30 June 2009
Improvements to IFRSs (2010)	– Amendments to various standards Issued 16 April 2009	1 January 2010
IFRS 2	– Amendment – Group cash-settled share-based payment transactions	1 January 2010
IFRS 1	– Amendment – Additional exemptions for first-time adopters	1 January 2010
IAS 32	– Amendment – Classification of Rights Issues	1 February 2010
IAS 24 (revised)	– Revised definition of related party	1 January 2011
IAS 19 & IFRIC 14	– Amendments – Limit of a defined benefit asset, minimum funding requirements and their interaction	1 January 2011
Improvements to IFRSs (2010)*	– Amendments to various standards Issued 6 May 2010	1 January 2011
IFRS 9*	– New standard replacing IAS 39	1 January 2013
International Financial Reporting Interpretations (IFRIC)		Effective date
IFRIC 17	– Distributions of non-cash assets to owners	1 July 2009
IFRIC 18	– Transfers of assets from customers	1 July 2009
IFRIC 19	– Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

\* These standards have not been endorsed by the European Union. The Group is evaluating the impact of the above pronouncements but they are not expected to be material to the Group's earnings or to shareholders' funds.

The Group financial information is presented in UK sterling ('£').

### *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 balance sheet 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 QuantumRD for shale gas exploration and productions.

The Board believes that the sales pipeline from current clients and new customers will be secured, it does recognise that this constitutes a significant uncertainty given the risks associated with the oil and gas industry in which the group have focused their efforts. In the event that these sales 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.

The 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*

Service fees arising from analytical surveys using ViaLogys patented computational software products are recognised once the report is delivered to the customer.

Revenue arising from sales of ViaLogys direct entitlement of oil and gas production is recognised by reference to the quantity and price of oil sold by the customer into the market at the date of transfer of the risk and reward.

#### *Operating segments*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as Dr Robert Dean, Chief Executive Officer.

#### *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. These policies together with references to the related notes to the financial statements can be found below:

Taxation Note 7

Deferred tax Note 15

Intangible assets and amortisation Note 10

# Notes forming part of the consolidated financial statements for the year ended 31 March 2010

Financial assets Note 11

Share based payments Note 19

## *Impairment of property, plant and equipment and intangible assets*

Property, plant and equipment 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 (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
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
Motor vehicles	33.3% per annum reducing balance
Furniture	20% per annum reducing balance

#### *Oil and gas assets*

ViaLogy follows a successful efforts based accounting policy for oil and gas assets.

Interests acquired in successful production wells are initially recognised at cost within property, plant and equipment. Where interests in such wells are acquired as the success fee element of the revenue from an analytical contract, no cost is initially recognised.

Subsequent expenditure is capitalised only where it enhances the economic benefits of the producing asset.

#### *Depletion*

ViaLogy depletes oil and gas assets on a unit of production basis, based on proved and probable reserves on a field by field basis.

#### *Impairment*

Impairment reviews on Oil and Gas assets are carried out on each cash-generating unit. ViaLogy's cash generating units are those assets which generate largely independent cash flows and are normally, but not always, single development areas.

#### *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 statement of comprehensive income 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.

# Notes forming part of the consolidated financial statements for the year ended 31 March 2010

## *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 year end 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 statement of financial position 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 statement of financial position 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.

## *Presentation currency*

These accounts have been presented in Sterling as the Directors consider this to be most useful form of presentation to the shareholders.

## *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 receivables), but also incorporate 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.

## **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.

## Notes forming part of the consolidated financial statements for the year ended 31 March 2010

### 2. Segmental analysis continued

#### 2010 Reportable segment analysis

	Operations £	Head office £	Consolidated £
Revenue from external customers	151,388	–	151,388
Gross profit	151,388	–	151,388
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 plant property 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 charged	530,381	1,670	532,051

#### 2009 Reportable segment analysis

	Operations £	Head office £	Consolidated £
Revenue	129,028	–	129,028
Gross profit	116,659	–	116,659
Finance income	–	43,006	43,006
Tax credit	–	424,345	424,345
Loss for the year after taxation	(6,032,408)	275,996	(5,756,412)
Segment assets	10,379,536	2,546,843	12,926,379
Segment liabilities	149,840	2,091,332	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 material non-current assets are owned by the USA subsidiary and are located in the USA.

#### Revenues by product / service

	2010 £	2009 £
Oil and gas revenues	16,862	–
Revenues from analytical surveys	134,526	–
Sensor Policy Manager	–	129,028
	151,388	129,028

All sales in the current and previous year were to external customers based in the USA £148,412 of total external revenues arose from five customers (2009: three customers attributed £120,315) each of which accounted for over 10% of revenues.

### 3. Loss for the year before taxation

	2010 £	2009 £
This is arrived at after charging/(crediting):		
Staff costs (see note 5)	1,428,273	1,294,723
Share option expense (see note 19)	532,051	1,068,953
Depreciation of property, plant and equipment	55,320	63,570
Amortisation of intangible fixed assets	2,954,614	2,697,588
Provision against available for sale financial asset (see note 11)	200,000	–
Foreign exchange differences	5,589	(187,804)
Operating lease expense	91,429	153,411
Auditors remuneration for :		
Audit of financial statements of the Group	23,500	23,500
Audit of the financial statements of the parent company	3,000	3,000
Taxation services	10,000	10,000

### 4. Company profit and loss account

ViaLogy PLC has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these accounts. The Company's loss after tax was £1,066,366 (2009 – Profit £1,916,519) which is dealt with in the financial statements of the Parent Company.

### 5. Staff costs

The average number of employees during the year, including executive directors were:

	2010 Number	2009 Number
Research and development	7	21
Sales and marketing	1	2
Administration	7	7
	15	30

Staff costs (including directors) comprise:

	2010 £	2009 £
Wages and salaries	1,351,704	1,209,681
Share based payment charge	532,051	1,068,953
Employers national insurance contributions and Similar taxes	76,569	85,042
	1,960,324	2,363,676

## Notes forming part of the consolidated financial statements for the year ended 31 March 2010

### 5. Staff costs continued

Staff costs of £271,512 (2009: £923,241) have been capitalised as research and development during the year and therefore have not been included in staff costs.

	2010 £	2009 £
Wages, salaries and benefits capitalised	233,659	854,853
Employers national insurance contributions and similar taxes capitalised	37,853	68,388
	<b>271,512</b>	<b>923,241</b>

### 6. Directors

	2010 £	2009 £
Directors emoluments	541,031	439,660
Share based payment charge	476,400	699,740
Total emoluments	<b>1,017,431</b>	<b>1,139,400</b>

The Remuneration of the Directors during the year was as follows:

	Salaries £	Fees £	Non cash benefit £	Car £	Total 2010 £	Total 2009 £
Terry Bond	122,083	–	2,882	–	124,965	79,166
Robert Dean	204,531	–	6,503	3,479	214,513	161,182
Sandeep Gulati	188,965	–	88	–	189,053	150,146
Peter Reynolds	–	12,500	–	–	12,500	20,000
	<b>515,579</b>	<b>12,500</b>	<b>9,473</b>	<b>3,479</b>	<b>541,031</b>	<b>410,494</b>

### 7. Taxation on profits from ordinary activities

	2010 £	2009 £
<b>Current tax charge/(credit)</b>		
UK corporation tax and income tax of overseas operations on profits for the year	–	29,788
<b>Deferred tax credit</b>		
Release of provision	(489,784)	(454,133)
<b>Total tax credit</b>	<b>(489,784)</b>	<b>(424,345)</b>

## 7. Taxation on profits from ordinary activities continued

The reason for the difference between the actual tax credit for the year and the standard rate of corporation tax in the UK applied to profits for the year are as follows

	2010	2009
	£	£
Loss before tax	6,157,247	6,180,757
Expected tax (recovery)/charge based on the standard rate of corporation tax in the UK of 28% (2009 – 28%)	(1,724,029)	(1,730,612)
Amortisation of intangibles not deductible for tax purposes	827,292	755,325
Expenses not deductible for tax purposes	40,971	323,089
Capital allowances for year in deficit/(excess) of depreciation	–	–
Increase in carried-forward losses	855,766	1,222,517
Brought-forward losses utilised		(530,602)
Deferred tax release	(489,784)	(454,133)
Difference in tax rate from standard		(9,929)
<b>Total tax credit for the year</b>	<b>(489,784)</b>	<b>(424,345)</b>

The Group is required to estimate the income tax in each of the jurisdictions in which it operates. This requires an estimation of the current tax liability together with an assessment of the temporary differences which arise as a consequence of different accounting and tax treatments. These temporary differences result in deferred tax assets or liabilities which are included within the balance sheet. Deferred tax assets and liabilities are measured using substantially enacted tax rates expected to apply when the temporary differences reverse. Management judgement is required to determine the total provision for income tax. Amounts accrued are based on management's interpretation of country specific tax law and the likelihood of settlement.

### *Factors that may affect future tax charges*

Deferred tax assets relating to UK revenue losses and UK capital losses of £446,874 and £1,934,399 respectively (2009: £nil and £1,934,399) have not been recognised as these losses can only be offset against future taxable profits and at present there is insufficient evidence to justify recognition.

Deferred tax assets relating to US revenue losses of £1,469,656 (2009: £2,748,929) have not been recognised as these losses can only be offset against future taxable profits and at present there is insufficient evidence to justify recognition. In addition ViaLogy LLC may be entitled to further tax losses. The maximum amount of losses available is \$6 million, however this is subject to an annual limitation which is estimated at \$250,000 per year. At the balance sheet date the accrued potential losses claimable are estimated at \$1,000,000 (2009 - \$750,000).

## 8. Loss per share

### *Basic*

Basic loss per share is calculated by dividing the loss after tax attributable to the equity holders of the parent company for the year of £5,667,463 (2009: loss £5,756,412) by the weighted average number of ordinary shares in issue during the year 608,928,041 (2009: 486,390,059).

# Notes forming part of the consolidated financial statements for the year ended 31 March 2010

## 8. Loss per share continued

### *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. 72,726,396 options (2009: 77,330,352) and 1,193,654 (2009: 76,193,654) warrants have been excluded from this calculation as the effect would be anti-dilutive.

## 9. Property, plant and equipment

	Office equipment £	Furniture £	Computer equipment £	Motor vehicles £	Oil and gas assets £	Total £
<b>Cost</b>						
At 1 April 2008	9,612	12,925	141,404	–	–	163,941
Additions	786	4,377	84,828	–	–	89,991
Foreign exchange movements	3,117	5,456	69,367	–	–	77,940
<b>At 1 April 2009</b>	<b>13,515</b>	<b>22,758</b>	<b>295,599</b>	<b>–</b>	<b>–</b>	<b>331,872</b>
Additions	–	–	148,355	6,904	203,568	358,827
Foreign exchange movements	(147)	(467)	(9,038)	–	–	(9,652)
<b>At 31 March 2010</b>	<b>13,368</b>	<b>22,291</b>	<b>434,916</b>	<b>6,904</b>	<b>203,568</b>	<b>681,047</b>
<b>Depreciation</b>						
At 1 April 2008	4,959	3,415	56,224	–	–	64,598
Charge for the year	1,092	3,551	58,927	–	–	63,570
Foreign exchange movements	1,844	2,213	32,841	–	–	36,898
<b>At 1 April 2009</b>	<b>7,895</b>	<b>9,179</b>	<b>147,992</b>	<b>–</b>	<b>–</b>	<b>165,066</b>
Charge for the year	617	1,532	46,098	2,279	4,794	55,320
Foreign exchange movements	(106)	(333)	(5,964)	–	–	(6,403)
<b>At 31 March 2010</b>	<b>8,406</b>	<b>10,378</b>	<b>188,126</b>	<b>2,279</b>	<b>4,794</b>	<b>213,983</b>
<b>Net book value</b>						
<b>At 31 March 2010</b>	<b>4,962</b>	<b>11,913</b>	<b>246,790</b>	<b>4,625</b>	<b>198,774</b>	<b>467,064</b>
<b>At 31 March 2009</b>	<b>5,620</b>	<b>13,579</b>	<b>147,607</b>	<b>–</b>	<b>–</b>	<b>166,806</b>

## 10. Intangible assets

	Intellectual property £	Research and development £	Total £
<b>Cost</b>			
At 1 April 2008	11,763,512	1,538,052	13,301,564
Additions			
– Internally developed	–	923,241	923,241
Foreign exchange movements	1,902,932	393,155	2,296,087
At 1 April 2009	13,666,444	2,854,448	16,520,892
Additions			
– Internally developed	–	271,512	271,512
Foreign exchange movements	(315,857)	(71,185)	(387,042)
<b>At 31 March 2010</b>	<b>13,350,587</b>	<b>3,054,775</b>	<b>16,405,362</b>
<b>Amortisation</b>			
At 1 April 2008	2,854,359	298,872	3,153,231
Charge for the year	2,235,684	461,904	2,697,588
Foreign exchange movements	(1,181,636)	(244,132)	(1,425,768)
At 1 April 2009	3,908,407	516,644	4,425,051
Charge for the year	2,411,196	543,418	2,954,614
Foreign exchange movements	376,628	84,882	461,510
<b>At 31 March 2009</b>	<b>6,696,231</b>	<b>1,144,944</b>	<b>7,841,175</b>
<b>Net book value</b>			
<b>At 31 March 2010</b>	<b>6,654,356</b>	<b>1,909,831</b>	<b>8,564,187</b>
<b>At 31 March 2009</b>	<b>9,758,037</b>	<b>2,337,804</b>	<b>12,095,841</b>

In accordance with IAS 36, the Group regularly monitors the carrying value of its intangible assets.

## 11. Financial assets

The principal undertaking in which the Company has an interest at the year end is:

	2010 £	2009 £
<b>Available-for-sale investments</b>		
– unquoted	–	200,000

	Class of share capital held	Percentage of share capital held %
Participating interest (2010 and 2009):		
The Acrobot Company Limited, incorporated in England	Ordinary	7.56%

# Notes forming part of the consolidated financial statements for the year ended 31 March 2010

## 11. Financial assets continued

The investment in Acrobot has been fully provided against following notification from Acrobot that they have encountered a series of commercial and financial setbacks, which has led Acrobot to seek a trade sale for its business. Negotiations are close to completion and while we are assured this will preserve the solvency of the business it is our understanding that it is unlikely that there will be a surplus for distribution to Acrobot shareholders.

The Group's investment is a 7.56% interest in The Acrobot Company Limited. This Company is not accounted for on an equity basis as the Group does not have representation on the Board and hence does not have the power to participate in the Acrobot's operating and financial policies, as a result the Group does not have significant influence.

## 12. Subsidiaries

ViaLogy Plc has one subsidiary, which has been included in these consolidated financial statements:

Name	Country of incorporation	Country of operation	Proportion of ownership interest and share capital held
ViaLogy LLC	USA	USA	100%

## 13. Trade and other receivables

	2010 £	2009 £
Trade receivables	49,559	5,276
Other receivables	30,110	8,654
Prepayments and accrued income	10,337	1,667
	<b>90,006</b>	<b>15,597</b>
Aged receivable summary		
Current	38,160	–
Over 30 days old	11,399	–
Over 90 days old	–	5,276
	<b>49,559</b>	<b>5,276</b>

There has been no provision made for doubtful receivables, as the Board consider all receivables to be recoverable.

The book values of trade and other receivables approximate to the fair values.

## 14. Trade and other payables

	2010 £	2009 £
Trade payables	42,929	80,715
Accruals and deferred income	119,001	159,462
	<b>161,930</b>	<b>240,177</b>

The book value of trade and other payables approximate to the fair values. See note 16 for maturity analysis.

## 15. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 35% as the deferred tax is expected to be offset against profits in the US.

The movement on the deferred tax account is as shown below:

	2010 £	2009 £
At 1 April	1,971,207	1,796,170
Exchange rate adjustment	(141,315)	629,170
Release for the year	(489,784)	(454,133)
At 31 March	1,340,108	1,971,207

On 26 October 2006 the Group acquired the remaining 56.74% of the share capital in ViaLogy Corp, a company whose principal activity is developing applications for its patented Quantum Resonance Interferometry (QRI) technology. QRI is a technology which separates the background 'noise' that envelopes weak signals.

The accounting policy of the acquired entity was not to recognise internally generated intangibles; however, it is the policy of the Group to recognise such an intangible.

A deferred tax liability was recognised in respect of the increase in the intangible asset on acquisition. The deferred tax liability is released over a period of 6 years in accordance with the amortisation period of the acquired intangible assets.

## 16. Financial instruments

### *Risk and sensitivity analysis*

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The Group and Company are exposed through their operations to one or more of the following financial risks: foreign currency risk, fair value and cash flow interest rate risk, liquidity risk. The policy for managing these risks is set by the Board and all such risks are managed at a Group level within the organisation. There have been no changes in the way the Group and Company manages risks from previous years. The policies for these risks are described further below:

### *Foreign currency risk*

Foreign exchange risk arises because the Group has operations located in the USA whose functional currency is not the same as the parent company's functional currency (sterling). The net assets from such overseas operations are exposed to currency risk giving rise to gains or losses on retranslation to sterling for the purposes of the consolidated financial statements. In the future it is planned that the foreign exchange risk will be mitigated by sales in US dollars.

A US\$0.25 increase in the value of the US dollar against sterling will result in a fall in pre-tax losses by £678,979 (2009: decrease in loss of £764,887).

## Notes forming part of the consolidated financial statements for the year ended 31 March 2010

### 16. Financial instruments continued

The table below shows the split between currency that balances are denominated in.

2010	US\$	GBP£	Total GBP£
Trade and other receivables	73,145	16,861	90,006
Cash and cash equivalents	1,983,243	1,714,623	3,697,866
Trade and other payables	58,739	103,191	161,930

2009	US\$	GBP£	Total GBP£
Trade and other receivables	5,276	–	5,276
Cash and cash equivalents	322,105	110,085	432,190
Trade and other payables	102,564	137,613	240,177

#### *Liquidity risk*

Liquidity risk is the risk that the company fails to have sufficient funds to meet its debts as they become due. The liquidity risk of the Group is managed centrally. The Group holds funds in short-term bank deposits so that they are available when required.

#### *Maturity analysis of financial liabilities*

All financial liabilities are due for payment within one year as follows

	2010 £	2009 £
Due:-		
Current	42,929	53,364
31-60 days	119,001	181,063
61-90 days	–	5,750
	161,930	240,177

The Board believe the current level of financial liabilities to be in line with expectations. The level of cash balances and trade and other receivables is sufficient to discharge the group's financial liabilities.

#### *Credit Risk*

During the year, the Group's credit risk was primarily attributable to its cash balances, and its trade receivables. Credit risk, is the risk that the counterparty fails to discharge its obligation in respect of the instrument. The credit risk on liquid funds is limited as the funds are held at banks with high credit ratings. The risk to the Group of trade receivables going bad is low due to the low levels of trade receivables. There were no allowances for debt recovery as at 31 March 2010 or 31 March 2009.

The Group's maximum exposure to credit risk by class of financial instruments amounts to their carrying value of £3,747,425, (2009 £437,466). The Group deems that entities from whom credit exposure arises are of adequately strong credit quality are able to pay the amounts due when they arise.

## 16. Financial instruments continued

### *Investment risk*

Investment risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

The Group is exposed to interest rate risk from its interest-earning financial assets. The floating rate assets are held in a money market account earning interest at Bank of England base rate less 0.3 %. The interest rate risk is mitigated by the fact cash is held in short-term deposits allowing rapid transfer of funds to alternative commercial banks to obtain improved interest rates. There are no financial assets earning interest at fixed rates.

### *Principle financial instruments*

The principle instruments used by the group, from which the financial instrument risk arises, include cash and cash equivalents, trade receivables, trade payables, and available for sale financial assets.

A summary of the financial instruments held by category is shown below:

### *Categories of financial assets*

	2010 £	2009 £
<b>Current financial assets</b>		
Loans and receivables	90,006	13,930
Cash and other equivalents	3,397,866	432,190
<b>Total current financial assets</b>	<b>3,477,535</b>	<b>446,120</b>
<b>Non-current financial assets</b>		
Available for sale financial assets	3,487,872	200,000
<b>Total financial assets</b>	<b>3,487,872</b>	<b>646,120</b>

### *Categories of financial liabilities*

	2010 £	2009 £
<b>Current financial liabilities</b>		
Trade and other payables	42,929	80,715
Accrued amounts	119,001	159,462
<b>Total other financial liabilities</b>	<b>161,930</b>	<b>240,177</b>

### *Capital*

As described in note 18 the Group considers its capital to comprise its ordinary share capital, share premium and accumulated retained deficit as its capital reserves. In managing its capital the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through capital growth. In order to achieve this objective, the Group seeks to commercialise the development which has been undertaken to date, through major sales in a number of markets.

There has been no other significant changes to the Group's capital management objectives, policies and processes in the year not has there been any change in what the Group considers to be its capital.

# Notes forming part of the consolidated financial statements for the year ended 31 March 2010

## 17. Share capital

	Authorised			
	2010 Number	2009 Number	2010 £	2009 £
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 Number	2009 Number	2010 £	2009 £
Ordinary shares of 1p each				
At 1 April	503,773,621	458,773,621	5,037,736	4,587,734
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

The Group raised £1.65 million, before 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 £1.98 million before expenses via a private placing of 49,564,800 shares at 4 pence per share on 18 August 2009.

The Group also raised a further £2.88 million before expenses, via a private placing of 59,118,858 shares at 4.875 pence per share on 26 February 2010.

### Share Options

At 31 March 2010, the following share options were outstanding in respect of Ordinary shares:-

Number	Exercise Period	Exercise Price
840,070	August 2005 to August 2015	1.00p
18,480	March 2007 to March 2013	1.75p
36,170,168	October 2009 to October 2016	4.00p
16,984,544	June 2007 to August 2016	4.50p
1,613,440	August 2010 to August 2017	7.38p
4,807,000	October 2010 to October 2017	8.38p
1,000,000	January 2011 to January 2018	6.25p
3,950,000	October 2011 to October 2018	2.08p
2,874,214	November 2011 to November 2018	3.00p
1,764,480	February 2012 to February 2019	1.83p
2,704,000	October 2010 to October 2017	5.00p
72,726,396	(note 19)	

## 17. Share capital continued

Share options vest over three years.

	2010 Weighted average exercise price	2010 Number	2009 Weighted average exercise price	2009 Number
Outstanding at start of year	£0.044	77,330,352	£0.061	65,580,702
Granted during the year	£0.050	10,768,022	£0.028	12,499,650
Forfeited during the year	£.0520	(12,353,923)	£0.062	(750,000)
Exercised during the year	£0.029	(3,018,055)	–	–
Lapsed during the year	–	–	–	–
<b>Outstanding at end of year</b>	<b>£0.044</b>	<b>72,726,396</b>	<b>£0.044</b>	<b>77,330,352</b>

The options held by the Directors at the beginning and end of the year are as detailed below

	At 1 April 2009	Awarded	lapsed	At 31 March 2010	exercise price	Earliest date of exercise	Latest date of exercise
<b>Terry Bond</b>							
- Unapproved scheme	6,000,000	–	–	6,000,000	4p	02/12/09	02/12/16
- Unapproved scheme	–	1,275,000	(1,275,000)	–	5p	–	–
<b>Robert Dean</b>							
- Unapproved scheme	403,500	–	–	403,500	4p	31/10/09	31/10/16
- Unapproved scheme	77,000	–	–	77,000	4.5p	26/10/09	26/10/16
- Unapproved scheme	21,133,168	–	–	21,133,168	4p	24/10/10	24/10/17
- Unapproved scheme	–	2,345,331	(2,345,331)	–	5p	–	–
<b>Sandeep Gulati</b>							
- Unapproved scheme	9,004,898	–	–	9,004,898	4.5p	01/03/10	01/03/16
- Unapproved scheme	7,230,000	–	–	7,230,000	4p	31/10/09	31/10/16
- Unapproved scheme	4,000,000	–	–	4,000,000	8.38p	24/10/10	24/10/17
- Unapproved scheme	–	2,704,000	–	2,704,000	5p	24/10/10	24/10/17
- Unapproved scheme	–	2,257,381	(2,257,381)	–	5p	–	–
<b>Peter Reynolds</b>							
- Unapproved scheme	403,500	–	–	403,500	8.38p	24/10/10	24/10/17

Options lapsed as a result of performance goals not being achieved.

The options held by the Directors at the beginning and end of the previous year are as detailed below.

	At 1 April 2008	Awarded	lapsed	At 31 March 2009	exercise price	Earliest date of exercise	Latest date of exercise
<b>Terry Bond</b>							
- Unapproved scheme	6,000,000	–	–	6,000,000	4p	02/12/09	02/12/16
<b>Robert Dean</b>							
- Unapproved scheme	403,500	–	–	403,500	4p	31/10/09	31/10/16
- Unapproved scheme	77,000	–	–	77,000	4.5p	26/10/09	26/10/16
- Unapproved scheme	21,133,168	–	–	21,133,168	4p	24/10/10	24/10/17
<b>Sandeep Gulati</b>							
- Unapproved scheme	9,004,898	–	–	9,004,898	4.5p	01/03/10	01/03/16
- Unapproved scheme	7,230,000	–	–	7,230,000	4p	31/10/09	31/10/16
- Unapproved scheme	4,000,000	–	–	4,000,000	8.38p	24/10/10	24/10/17
<b>Peter Reynolds</b>							
- Unapproved scheme	403,500	–	–	403,500	8.38p	24/10/10	24/10/17

# Notes forming part of the consolidated financial statements for the year ended 31 March 2010

## 17. Share capital continued

### Warrants

At 31 March 2010, the following warrants were outstanding in respect of Ordinary shares:-

Number	Exercise Period	Exercise Price
1,193,654	March 2010 to March 2016	4.50p
1,193,654		

There are no conditions attached to the warrants.

### Warrants

Outstanding at start of year	76,193,654
Exercised during the year	(74,187,500)
Lapsed during the year	(812,500)
<b>Outstanding at end of year</b>	<b>1,193,654</b>

## 18. Reserves

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 deficit	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.
Foreign exchange translation reserve	Exchange difference arising on translation of foreign operations.
Warrant reserve	Amount subscribed during placing attributable to warrants.

## 19. Share-based payment

The Group operates two equity-settled share based remuneration schemes for employees: an inland revenue approved scheme and an unapproved scheme, jointly known as the "option scheme". Under the scheme employees may be granted options to purchase shares, which vest over three to four years and must be exercised within 10 years from the date of grant.

The exercise price of options outstanding at the end of the year ranged between 1p and 8.38p and their weighted average contractual life was 7.1 years (2009: 7.7 years).

Of the total number of options outstanding at the end of the year, 63,235,132 (2009: 46,236,568) had vested and were exercisable at the end of the year at a weighted average exercise price of 5.6p.

The weighted average fair value of each option granted during the year was 2.9p (2009: 2.1p).

The Black-Scholes method was used to calculate the fair value of options at the date of grant. The volatility assumption, measured as the standard deviation of expected share price returns is based on analysis of daily share prices over a three year period. The table below lists the inputs to the model used for options granted during the year.

	2010	2009
Weighted average share price	4.36p	4.35p
Volatility	70%	70%
Dividend Yield	0%	0%
Risk- free interest rate	1.5%	2.19%
Weighted average exercise Price	4.36p	4.35p
Expected option life	5 years	5 years

Share based payment expense for the year	2010 £	2009 £
Issued to employees of parent	1,670	68,171
Issued to employees of subsidiary	530,381	1,000,782
	<b>532,051</b>	<b>1,068,953</b>

## 20. Leases

### *Operating leases*

ViaLogy LLC leases its premises on an annual basis. Non-cancellable operating lease commitments are analysed as:

	2010 £	2009 £
Not later than one year	83,811	48,195

## 21. Related party transactions

During the year there were no related party transactions, other than those with key management personnel. Key management personnel are considered to be the Directors; their emoluments are disclosed in note 6.

## 22. Events after the reporting period

There are no significant events after the reporting period.

## Parent Company balance sheet as at 31 March 2010

	Note	2010 £	2010 £	2009 £	2009 £
<b>Fixed assets</b>					
Tangible assets	4		7,288		2,864
Investments	5		11,875,523		11,545,142
			11,882,811		11,548,006
<b>Current assets</b>					
Debtors due within one year	6	15,661		29,258	
Debtors due in more than one year	6	11,454,403		9,149,555	
Cash at bank and in hand		3,592,471		344,005	
		15,062,535		9,522,818	
<b>Creditors: amounts falling due within one year</b>	7	89,966		120,175	
<b>Net current assets</b>			14,972,569		9,402,643
<b>Total assets less current liabilities</b>			26,855,380		20,950,649
<b>Capital and reserves</b>					
Called up share capital	8, 9		6,904,753		5,037,736
Share premium account	9		20,665,231		15,705,702
Warrant Reserve	9		–		387,500
Profit and loss account	9		(714,604)		(180,289)
<b>Shareholders' funds</b>			26,855,380		20,950,649

The financial statements on pages 44 to 48 were approved by the Board of Directors and authorised for issue on 17 September 2010 and were signed on its behalf by:

Terry Bond  
Chairman

# Notes forming part of the parent company financial statements for the year end 31 March 2010

## 1. Accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and UK Generally Accepted Accounting Principles (UKGAAP). The following accounting policies have been applied:

### *Depreciation*

Depreciation is provided to write off the cost, less estimated residual values, of all fixed assets, evenly over their expected useful lives. It is calculated at the following rates:

Office equipment	–	20% per annum, reducing balance
Motor vehicles	–	33.3% per annum, reducing balance

### *Impairment of property, plant and equipment*

Property, plant and equipment 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.

### *Valuation of investments*

Investments held as fixed assets are stated at cost less any provision for impairment.

### *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 profit and loss account 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 statement of comprehensive income over the remaining vesting period.

Where share based options are awarded to employees of subsidiaries the charge in respect to the share based payments is treated as a capital contribution and forms part of the investment in that subsidiary.

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

### *Foreign currency*

The functional currency of the Company is Pounds Sterling. Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates of exchange ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

## Notes forming part of the parent company financial statements for the year end 31 March 2010

### 2. Company profit and loss account and cash flow statement

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not included its own profit and loss account in these accounts. The Company's loss after tax was £1,071,100 (2009: profit £1,916,519).

The Company has taken advantage of the exemption allowed by FRS1 and not included its own cash flow statement as its results are included in the group accounts. The group consolidated statement of cash flows is shown on page 22.

### 3. Staff costs

The average number of employees during the year, including executive directors were:

	2010 Number	2009 Number
Administration	2	2

Staff Costs (including directors) comprise

	2010 £	2009 £
Wages and salaries	183,308	160,627
Share based payment expense	1,670	68,171
Employers national insurance contributions and similar taxes	20,374	16,551
	<b>205,352</b>	<b>245,349</b>

Emoluments of the highest paid director were £204,531 (2009: £161,182).

### 4. Tangible fixed assets

	Office equipment £	Motor Vehicles £	Total £
<b>Cost</b>			
At 1 April 2009	9,369	–	9,369
Additions	806	6,904	7,710
<b>At 31 March 2010</b>	<b>10,175</b>	<b>6,904</b>	<b>17,079</b>
<b>Depreciation</b>			
At 1 April 2009	6,505	–	6,505
Charge for the year	1,007	2,279	3,286
<b>At 31 March 2010</b>	<b>7,512</b>	<b>2,279</b>	<b>9,791</b>
<b>Net book value</b>			
<b>At 31 March 2010</b>	<b>2,663</b>	<b>4,625</b>	<b>7,288</b>
<b>At 31 March 2009</b>	<b>2,864</b>	<b>–</b>	<b>2,864</b>

## 5. Investments

	Unlisted investments £	Investment in subsidiary £	Total
<b>Cost</b>			
At 1 April 2009	604,500	11,345,142	11,949,642
Share based payment on behalf of subsidiary (see note 10)	–	530,381	530,381
<b>At 31 March 2010</b>	<b>604,500</b>	<b>11,875,523</b>	<b>12,480,023</b>
<b>Provision</b>			
At 31 March 2009	404,500	–	404,500
Provided during the year	200,000	–	200,000
<b>At 31 March 2010</b>	<b>604,500</b>	<b>–</b>	<b>604,500</b>
<b>Net book value</b>			
<b>At 31 March 2010</b>	<b>–</b>	<b>11,875,523</b>	<b>11,875,523</b>
<b>At 31 March 2009</b>	<b>200,000</b>	<b>11,345,142</b>	<b>11,545,142</b>

## 6. Debtors

	2010 £	2009 £
<b>Debtors due within one year</b>		
Trade debtors	–	22,550
Other debtors, prepayments and accrued income	15,661	6,708
<b>Debtors due in more than year</b>		
Inter company debtor	11,454,403	9,149,555
	<b>11,470,064</b>	<b>9,178,813</b>

## 7. Creditors: amounts falling due within one year

	2010 £	2009 £
Accounts payable	14,215	28,533
Accruals and deferred income	63,500	56,899
Other creditors	5,963	4,955
Corporation tax	6,288	29,788
	<b>89,966</b>	<b>120,175</b>

## 8. Called up share capital

For detail of share capital see note 17 of the consolidated financial statements.

# Notes forming part of the parent company financial statements for the year end 31 March 2010

## 9. Reserves

	Ordinary share capital £	Share premium £	Warrant reserve £	Profit and loss £
At 1 April 2009	5,037,736	15,705,702	387,500	(180,289)
Arising on issue of shares	1,867,017	4,951,404	(379,375)	–
Warrants lapsed for the year	–	8,125	(8,125)	–
Loss for the year	–	–	–	(1,066,366)
Share based payments (see note 10)	–	–	–	532,051
<b>At 31 March 2010</b>	<b>6,904,753</b>	<b>20,665,231</b>	<b>–</b>	<b>(714,604)</b>

## 10. Share-based payments

As detailed in note 19 to the consolidated financial statements the company issues share options to both its own employees and employees of its subsidiary.

## 11. Related party transactions

The Company has taken advantage of the exemption conferred by Financial Reporting Standard 8 "Related party disclosures" not to disclose transactions with members of the Group headed by ViaLogy Plc on the grounds that the consolidated accounts are presented with the parents financial statements.

## 12. Ultimate controlling party

The Company does not have an ultimate controlling party as no shareholder owns more than 15% of the shares of the Company.

## 13. Post balance sheet events

There are no significant events after the balance sheet date.

# Notice of Annual General Meeting

## VIALOGY PLC

Notice is hereby given that the Annual General Meeting of ViaLogy PLC (the "Company") will be held at the offices of Seymour Pierce Limited, 20 Old Bailey, London EC4M 7EN at 10 a.m. on Wednesday, 13 October 2010 for the following purposes:

1. To receive the Company's Report and Accounts for the year ended 31 March 2010.
2. To re-elect Mr. T. Bond, who retires by rotation, as a Director.
3. To re-appoint BDO LLP as auditors of the Company and to authorise the Directors to determine their remuneration.

### Special Business

To consider and, if thought fit, to pass the following resolutions as to the resolution numbered 4 as an Ordinary Resolution and as to the resolution numbered 5 as a Special Resolution:

4. THAT the Directors be and they are hereby authorised generally and unconditionally for the purposes of Section 551 of the Companies Act 2006 (the "Act") to exercise all powers of the Company to allot shares in the Company or to grant rights to subscribe for, or to convert any security into, shares in the Company (such shares and/or rights being "Relevant Securities") up to an aggregate nominal amount of £2,307,584.44 provided that this authority shall, unless renewed, varied or revoked by the Company, expire five years from the date of the passing of this Resolution save that the Company may, before such expiry, make offers or agreements which would or might require Relevant Securities to be allotted and the Directors may allot Relevant Securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this Resolution has expired.
5. **THAT** the Directors be and they are hereby generally empowered pursuant to Section 570 of the Act to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the authority conferred under Resolution 6 above as if sub-section 561(1) of the Act did not apply to such allotment, provided that this power shall be limited to:-
  - (a) the allotment of equity securities in connection with a rights issue or any pre-emptive offer in favour of holders of ordinary shares in the Company where the equity securities attributable to the respective interests of such holders are proportionate (as nearly as maybe) to the respective numbers of ordinary shares held by them on the record date for such allotment subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or any legal or practical difficulties under the laws of, or the requirements of, any regulatory body or stock exchange of any overseas territory or otherwise;
  - (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £692,275.33;

## Notice of Annual General Meeting

and shall expire on the date being the earlier of the date 15 months after the passing of this Resolution and the conclusion of the Annual General Meeting of the Company to be held in 2011, provided that the Company may before such expiry make an offer or agreement which would require equity securities to be allotted in pursuance of such offer or agreement as if the power conferred hereby had not expired and provided further that this authority shall be in substitution for and supersede and revoke any earlier power given to directors.

By Order of the Board  
Mark Collingbourne  
Secretary

Registered Office:  
Ashcombe Court  
Woolsack Way  
Godalming  
Surrey  
GU7 1LQ

20 September 2010

### Notes:

1. A member of the Company is entitled to appoint a proxy or proxies to attend, speak and vote at the meeting in his stead. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. A proxy does not need to be a member of the Company.
2. The appointment of a proxy does not preclude you from attending the meeting and voting in person. If you appoint a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.
3. To be effective Forms of Proxy must be duly completed and returned so as to reach the Capita Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0JQ not less than 48 hours before the time appointed for the holding of the meeting.
4. To be entitled to attend and vote at the meeting (and for the purpose of the determination by Company of the number of votes they may cast), members must be entered in the Register of members at 10.00 a.m. on 11 October 2010 ("the specified time"). If the meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If however the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's Register of Members at the time which is not less than 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.



# VIALOGY

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