



VIALOGY

11

ViaLogy PLC

Report and Financial Statements
Year Ended 31 March 2011



Contents

Directors and Advisers	1
Chairman's statement	2
Chief Executive Officer's report	4
Chief Technology Officer's review	6
Report of the Directors	9
Independent Auditor's Report	14
Consolidated income statement	16
Consolidated statement of comprehensive loss	17
Consolidated statement of changes in equity	18
Consolidated statement of financial position	19
Consolidated statement of cash flows	20
Notes forming part of the financial statements	21
Parent Company balance sheet	42
Notes forming part of the Parent Company financial statements	43

Directors and Advisors

DIRECTORS

Terry Bond	(Chairman)
Dr Robert Dean	(Chief Executive Officer)
Dr Sandeep Gulati	(Chief Technology Officer)
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 the financial results for your company for the year ending 31 March 2011 and to comment on the progress achieved during that year. In these comments I have also included the most up-to-date information.

Our aim has been to fundamentally reposition ViaLogy in the upstream energy industry and it has been a demanding period in the company's development. In January 2010 the Board, in consultation with its advisers, decided to concentrate on a focussed programme aimed at introducing our patented technology, QuantumRD, to leading global oil and gas Exploration and Production (E&P) companies. This is the market that is most relevant to ViaLogy from a business and financial perspective. The ambitious decision followed 18 months during which we had recruited and worked with smaller E&P companies, for the most part in the Texas Permian Basin. We still work with some of these clients, but the technology's potential had to be demonstrated with global companies who work mainly in very large, complex onshore and deep ocean prospects. Our successful wells in Texas, and the experience gained there in establishing the type of seismic data that could best be put to use by the technology (for example, seismic data containing low and high frequencies normally discarded in conventional analysis) opened this door, but the job of convincing the largest global operators was always going to be a challenge.

Our limited resources, as well as the barriers to entry for a new technology in a conservative industry, dictated a focus initially on just a few companies. After more than a year's effort with three firms, following lengthy and successful pilot projects and extensive technical interchanges, I am pleased to say we have reached contract negotiations and expect awards in the near term. In addition, two other global firms are actively evaluating the technology. The sales cycle from the time we can achieve a sufficiently high-level technical hearing, through the process of convincing all the relevant players in a very large organisation, is an extended one – a fact of life in this market. Our goal is to achieve an integral place for QuantumRD in the workflow of major companies to begin producing a healthy revenue stream and to use this technical credibility to grow the company.

Highlights

- Pilot contract completed with Supermajor and currently under technical evaluation
- Pilot contract for offshore prospect signed with major South Asian listed E&P company
- Success of offshore pilot acknowledged by the same major South Asian listed E&P company
- Initial seismic data analysis and extended technical discussions with South Asian National Oil Company (NOC)
- Technology development: QuantumRD validated for offshore application
- Second follow-on contract with large US independent
- Second Permian Basin well success for repeat client
- Request for Tender and bid submission to South Asian E&P Company (above)
- Request for Tender and bid submission to South Asian NOC (above)
- Technical exchange ongoing with two additional global firms

Finance

For the year ending 31 March 2011 the ViaLogy consolidated financial statements accounts show a net loss of £5.8 million (2010: £5.7 million). The loss after tax and after adding back the non-cash items, depreciation and amortisation charge and share based payment expense was £2.01 million (2010: £2.11 million).

As investors ourselves, the directors are conscious that dilution, the issuing of additional equity, is not popular with shareholders. On the other hand, finance is the essential lifeblood for the ongoing activities of young technology businesses such as ViaLogy and it is the duty of the directors to make sure that the company is secure. At the beginning of the 2010-11

year, the refocusing of our business to concentrate on large international contracts and the need to progress the technology's development meant that our revenue stream was going to come later rather than sooner and on 25 January 2011 we considered it prudent to raise £1.25 million through the placing of 41,666,664 new ordinary shares of 1p each ("Placing Shares") at a price of 3p per share. We continue as a Board to evaluate the most appropriate ways in which to finance the company going forward as we move towards meaningful revenue generation.

Our thanks

There are times, if you are lucky, that you may become involved with a team where you feel you are privileged to be included. This is such a case – thoroughly original, technically excellent, and very hardworking – a select group who spare no effort to further the technology they believe in. I am proud to thank them.

I would also like to record our thanks for the contribution of Dr Bob Parney and wish him well with his future plans.

The future

My message is threefold:

First, while because of client-imposed confidentiality we are unable to publicise our progress fully, we count the last year as one of major achievement in bringing the company to the point of landing significant contracted work with major firms in the industry's mainstream and in building the strong relationships that are a prerequisite for this.

Second, impatience in the stock market is understandable, but the enduring test for the technology and for the company's ambitions is the ability to gain acceptance and generate growing revenues from the global firms that determine the energy industry's future, and whose take-up of new technology is a deliberate and incremental process.

Third, the work that it has taken to get the company to this point has been accomplished with a relatively small resource base that has simultaneously supported both business progress and continuous development and adaptation of the technology. While salesmanship and perseverance are essential to this enterprise, the heart of your company is in the mathematics, developed software code, accompanying patents, and the continued progress of all of these.

The directors and management of your company believe we are on the threshold of great things. From this vantage point, the next twelve months will be devoted to performance excellence on our expected contracts, building on that effort to grow revenues, and keeping the technology moving. Perhaps the company's greatest challenge is providing the resources to achieve these objectives. We have made good headway, punching above our weight and capturing the attention – and, we expect shortly, the business – of global clients. There is still a long way to go, but we believe the prize will be worth the effort.

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



Terry Bond

Chairman

29 September 2011



Chief Executive Officer's report

In early 2010 the Board adopted a strategy to position its QuantumRD technology as a seismic data analysis tool in the mainstream of the global Exploration and Production industry, accepted for use by large E&P companies in a variety of onshore and offshore prospects. The target group of companies is the Supermajors, majors, national oil companies, and larger independents - companies that have the capabilities to explore and produce oil and gas anywhere in the world or on an extended basis regionally, and where the areas to be developed often comprise thousands of square kilometres. ViaLogy wants large geographic areas because pricing and revenues are calculated on a square kilometre basis. The Board realized that its successes in Texas, and the further development of those markets, did not necessarily create a path to such firms. They would have to be directly engaged by ViaLogy, and would have to be involved themselves in evaluating and using the technology in pilot projects if they were to adopt it. It is fair to say that the challenges have been considerable in implementing the new strategy. It is also fair to say that we are close to success.

Many of the large energy company websites will tell you that innovation and new technologies are the key to finding and extracting more gas and oil, but most industry professionals will tell you that there are few early adopters of new technology. In situations of high risk and enormous capital expenditures, drilling location decisions are the composite product of the best analytical tools and minds in the industry and of established workflows. The bias is decidedly toward the known. Mistakes are expensive. In a typical complex offshore project, platform and rig costs alone can run to the hundreds of millions of dollars and the timeline from leasing to drilling can be three to six years. It is no surprise that these factors combine to form a conservative, risk-averse culture.

The ViaLogy team has waged a focused, never-let-go campaign to recruit major clients. We would have liked to dictate the pace of QuantumRD's acceptance, but we have had to respect the deliberate evaluation procedures of our prospective clients. I am pleased to say that we are very close to doing business with two, and possibly three, large well-known companies. Two are based in South Asia: one is a large national oil company (NOC), and the other is a recognized, publicly listed firm. The third opportunity is under our previously announced Master Services contract with a Supermajor. We are under binding confidentiality agreements with all of them.

We have worked with each of the three prospective clients for over a year; we have conducted successful pilot projects (a pay-to-play prerequisite for our sales process), and engaged in multiple technical discussions with their in-house geophysical teams. These pilots have demonstrated QuantumRD's added value: in the first case, by delineating non-contiguous gas-bearing deepwater reservoir zones which conventional methods had erroneously shown to be contiguous; in the second case, by identifying permeability barriers in a sandstone channel to refine well placement design over a development field; and in the third case, by correctly estimating formation porosities (a key factor in drilling decisions) across a fifty square kilometre area with carbonate pay, another case where conventional technologies had proved inadequate. Over the last months, the process with two of the firms has evolved to detailed contract discussions, and we believe significant contracted work will soon come our way in precisely the mainstream markets we targeted. Because we have to work so closely with our clients, our goal is to develop business partnerships with four to six firms where expanding follow-on contracts and revenues will be the norm and where further development of the technology will occur. We are aware that our shareholders have expected faster progress, but the goal is worth the effort and our progress should be clear in the coming weeks and months.

We continue to investigate a potential strategic partnership with one of the large international Oil & Gas industry firms although I believe that it is only when we have secured one or more of the potential contracts I have discussed above that we will be in a position to move forward.

I believe it is important to emphasize again that QuantumRD's active signal processing methods are beyond techniques employed in conventional geoseismic approaches and commercial analysis offerings. In brief, our ability to utilize seismic data traces of weaker amplitudes (those normally discarded in other approaches) increases data resolution and extends the bandwidth of geophysical data; this effectively enables use of a greater portion of



the seismic bandwidth to enhance areal and vertical resolution for computation of hydrocarbon reservoir attributes. This means our approach has the capability to pull out reservoir structures and net pay that are otherwise too difficult to discern. Simply put, we believe that ViaLogy's technology can be the next advance in seismic data analysis, and it leverages existing industry workflow techniques to achieve new level of risk reduction and better decision making.

These are significant objectives in an industry that moves only incrementally; so winning acceptance of the technology for widespread operational use will be a continuing effort, but success breeds success and the take-up of the technology should quicken. This has been a year of enormous effort by the team in Pasadena. We have come a long way in achieving the strategic positioning that we intend, even if client names and progress cannot be disclosed. Each of the projects that our CTO details in his accompanying report has resulted in success, each has demonstrated the versatility of the technology to a central player in the industry, and each should win us business going forward. We express our gratitude for the support of our shareholders.



Dr. Robert W Dean

Chief Executive Officer

29 September 2011



Chief Technology Officer's review

ViaLogy's strategic business shift to global majors and larger E&P companies accelerated our product development efforts to scale the QuantumRD® platform's functionality and throughput. Higher oil prices and expanding worldwide demand have intensified the search for new plays, for hydrocarbon production from difficult targets, and for the redevelopment of mature producing fields, all opening new opportunities for QuantumRD. As new reservoirs become smaller and deeper, capital risk increases, and E&P customers want to do everything possible to reduce risk prior to drilling or committing to full-scale field development.

QuantumRD implements a fundamentally alternate geophysical workflow that utilizes multiple seismic scattering events and an extended seismic spectral bandwidth to improve predictability in the characterization of subsurface structures, rock and fluid properties. QuantumRD processing provides an opportunity for short circuiting many of the limitations inherent in conventional geophysical processing, gather conditioning and imaging. Coupling recent industry advances in full seismic wavefront imaging with ViaLogy's proprietary nonlinear signal processing, synthetic noise injection protocols and quantum resonance algorithms, QuantumRD delivers powerful practical computational tools for exploration seismologists and geoscientists to address complex reservoir issues:

- at intervals where reservoir and non-reservoir lithologies could not be previously differentiated using 3D seismic data; and
- to achieve areal and depth resolution where reservoir features can be given geological or geomorphological significance.

As the CEO's report points out, broadly speaking the industry acknowledges that advances in seismic data analysis can only result from the use of novel, disruptive technologies such as QuantumRD. But in addition the sophisticated industry players insist on ensuring upfront that it will work on their hardest problems, in their fields, using their datasets and, under their technical auspices. This past year, ViaLogy's geosciences and engineering staff worked closely with targeted customers to demonstrate and benchmark QuantumRD's value proposition in a variety of complex geological settings, including extensions to both shallow and deepwater exploration plays. Specifically:

- **Deep Water Clastic Reservoir Characterization**

QuantumRD successfully analyzed early-to-late cretaceous sandstone stratigraphic zones in a South Asian deepwater exploration prospect to demonstrate a 2X increase in areal and vertical resolution for characterizing reservoir gas sand bodies. The project used existing datasets that had been extensively analyzed using conventional technology and had led to mixed success. QuantumRD demonstrated new capabilities to extract hydrocarbon mapping markers from seismic datasets and to delineate gas-water and oil-water contacts based on spectral energy adsorption physics. This is an extremely difficult marker to develop using conventional linear signal processing as it entails exploitation of seismic amplitudes that are well below the noise background. Application of the QuantumRD markers altered the resource distribution understanding for the prospect and enabled QuantumRD to explain retrospectively the success or failure outcomes of multiple exploratory wells.

Deep water exploratory wells are very expensive. Each well on this prospect had cost in excess of \$50M and had been drilled on the basis of conventional seismic amplitude analysis and state-of-the-art seismic inversion technology. QuantumRD delineated new reservoir geobodies away from the existing wells, adding to the resource potential for the formation. More importantly, this pilot project for a major South Asian E&P firm reinforced how QuantumRD standardized deliverables, including seismically derived porosity, fluid distribution and lithology volumes, could complement and de-risk beyond conventional products. This study has provided ViaLogy a reference dataset that can be showcased to global customers for winning new projects. This extension of QuantumRD to offshore datasets reduces a barrier to entry for sales to global E&P majors operating both onshore and offshore assets as they seek to standardize and have common interpretation workflows for both regimes.

Onshore and deep-water clastic reservoirs are among the world's largest, most explored, and most productive hydrocarbon plays, and going forward ViaLogy sees a larger opportunity in offshore applications of QuantumRD. These reservoirs include a variety of 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, thereby 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 geometries to delineate source, seal and reservoir geologies. Conventional de-risking has relied on acquiring large offsets and expensive higher frequency data. While this has advanced structural interpretation, success has been spotty due to lack of robust fluid imaging capability. In this study, the client has concluded that QuantumRD's ability to exploit noise within seismic data and to increase resolution for jointly assessing sand-stacking along with in-place fluid saturation could be significant in de-risking and finding additional net pay. ViaLogy is now in discussions on how to deploy this technology in larger operational settings.

- **Dolomitized Shelf Carbonate Reservoir Characterization**

QuantumRD was applied to predict formation porosity for an onshore field. Abandoned two decades ago because of inadequate geophysical imaging technology, the Supermajor owning the lease has now marked it for commercial redevelopment. To locate hydrocarbon-bearing geobodies, QuantumRD analyzed a 50 sq. km. stratigraphic dolomite section on the Northwest Shelf of the Permian Basin in New Mexico. Previous seismic analysis studies had failed to correlate with the earth model interpretation and basin geology, thus preventing cost-effective development drilling using either vertical or horizontal wells. Accurate porosity mapping using broad-area seismic is essential to optimizing hydrocarbon recovery for this type of formation, which is found all over the world. Successful completion of this pilot project should extend the reach of the QuantumRD technology to enable workovers, drilling of replacement wells, drilling new wells, planning horizontals and researching problem wells.

Many of the existing large onshore carbonate reservoirs are slated for enhanced recovery using waterflood and CO₂ injection processes. Clients recognize that such a demonstrated capability for mapping reservoir compartmentalization and porosity distribution in dolomitized carbonates could deliver them significant cost savings. Also, it is estimated that 60% of the world's oil and 40% of the world's remaining gas reserves are in carbonates. One ViaLogy goal has been to expand its technology development efforts focusing on QuantumRD's capability to 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 the difficulty of directly imaging fracturing. Basin geology models provide limited insight for positioning of individual wells and offset wells as formation properties change unpredictably.

- **Delineation and Contiguity of Channel Sandstone Reservoirs**

ViaLogy extended QuantumRD to demonstrate accuracy in delineating productive zones in channel formations on a non-US onshore prospect. Globally, significant oil and gas production continues to be realized from channel and tidal bar geologies. However, most of these structural reservoirs are stratigraphic in character, exhibiting high permeability and porosity variations over small areas. This impacts development drilling using gridded offsets, as each subsequent well has to be individually analyzed, located and sized for resource extraction. The net pay sands are often too thin for horizontal drilling. In this pilot project, ViaLogy applied QuantumRD to show how variability in drilled well outcomes could be explained by a more accurate interpretation of the compartmentalization of the reservoir sandstone.

- **Multi-zone Clastic/Carbonate Stratigraphy**

Prior technical successes, in both clastic and carbonate formations resulted in a contract win for ViaLogy on a large onshore redevelopment prospect. QuantumRD outputs including lithology and fluid saturation volumes will be used to improve decisions on drilling locations and development offset well locations, potentially for over 50 wells in a single Texas field. This is a complex hybrid reservoir with separate plays in Devonian, Wolfcamp, Strawn, and Atoka formations. Each formation needs to be analyzed individually for generating drilling targets.



ViaLogy's development team extended the QuantumRD workflow capabilities to automatically decompose conventionally processed, complex seismic datasets into optimal smaller volume cells (or voxels) over individual sandstone and carbonate zones for each subsurface formation of interest. The individual voxels can then be analyzed, within their rock physics contexts for porosity, fluids and other rock properties, and, then recombined to build net-pay reservoir models from the bottom-up. This is an important advance in automated analysis and interpretation to support the larger E&Ps in their efforts to increase their onshore drilling in the US. This ongoing project will showcase QuantumRD as a cost-effective de-risking technology that can be used to high-grade marginal prospects where additional areal and vertical resolution of hydrocarbon bearing geobodies is important, and where higher confidence on lithology and porosity predictions can maximize recovery via multi-zone wells.

In summary, seismic data analysis for reservoir characterization is not a one-size-fits-all discipline, and QuantumRD must be developed and adapted to, and shown to work in, a variety of subsurface formations. The accomplishments in these projects have demonstrated QuantumRD's effectiveness to sophisticated customers in a number of formation types, both onshore and offshore. Seismic data analysis is not about certainty, and neither professionals in the field nor clients expect certainty. What they do expect is value over time, measured at the end of the day in reducing the aggregate costs of exploration and development. In each of the cases above, QuantumRD provided a striking improvement over what conventional methods now in widespread use had been able to achieve – predicting porosity, fluid distribution and shale distribution.

Microseismic Application Development Underway

While reservoir discovery and characterization continues to be the main focus for ViaLogy, to further broaden its commercial offerings, ViaLogy launched a development project to extend the use of Quantum Resonance Interferometry (QRI), the fundamental patented IP, to the shale gas microseismic market. This rapidly developing market segment utilizes seismic data to monitor subsurface activity during the fracturing process, a key step in the production of natural gas. Vast natural gas deposits in the US and elsewhere will depend upon microseismic analysis for extraction. ViaLogy believes its weak signal detection technology and the ability to detect subtle fractures, can both reduce costs and facilitate production. Natural gas is projected to account for 24% of the global energy supply by 2020 and shale gas is expected to account for over 64% of the natural gas in the US by 2020. ViaLogy's initial results demonstrated ability to detect the onset of micro-fracture events weaker than noise. However, this is a technology development effort which, to realize its promise, calls for significantly more technical staffing and resources in future.



Dr. Sandeep Gulati

Vice President and Chief Technology Officer

ViaLogy PLC

29 September 2011

Report of the Directors

The Directors present their report together with the audited financial statements for the year ended 31 March 2011.

Results and dividends

The statement of comprehensive loss is set out on page 17 and shows the loss for the year.

The Directors do not recommend a final ordinary dividend for the year (2010 - £Nil).

Principal activities, trading review and future developments

A detailed review of the business, post reporting date events and likely future developments is given in the Chairman's Statement and the executive reports on pages 2 to 8.

Key performance indicators

The Directors consider the Group's key performance indicator to be the acceptance of Quantum RD as a seismic data analysis tool by several large Exploration and Production companies in a variety of onshore and offshore prospects. 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 £2.01 million (2010: £2.11 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 2011 for the Group was 5 days (2010: 4 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 retains the competitive advantage.



Donations and political contributions

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

Going concern

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

The financial 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 16 to 46 have been prepared on a going concern basis.



Biographies of the Directors

EXECUTIVE DIRECTORS

Terry Bond, (73), 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, (68), Chief Executive Officer

Until September 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, (48), Chief Technology Officer

Dr. Sandeep Gulati is a co-founder, Chief Technology 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 DIRECTOR

Peter Reynolds, (73), 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

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 prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and elected to prepare 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
29 September 2011



Report of the Independent Auditors'

Independent Auditor's Report to the Members of ViaLogy Plc

We have audited the financial statements of ViaLogy Plc for the year ended 31 March 2011 which comprise the consolidated income statement, consolidated statement of comprehensive loss, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated statement of cash flows, the company balance sheet 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 sections 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 and express an opinion on 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

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

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 2011 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 modified we have considered the adequacy of the disclosures made in Note 1 of the financial statements concerning the Group's ability to continue as a going concern.

The Group's current pipeline of sales from existing clients and new significant customers will generate cash inflows but in order to continue to develop the Group's assets and fully fund its working capital requirements additional financing will be needed. While the directors are confident that additional funding can be raised in order to meet its development and working

capital requirements there is an inherent uncertainty that this funding may not be raised. This condition indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

These financial statements do not include the adjustments that would result if the Group 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

Date: 29 September 2011

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 2011

	Notes	2011 £	2010 £
Revenue		58,365	151,388
Cost of sales		535,645	326,412
Gross loss		(477,280)	(175,024)
Share based payments		575,306	532,051
Depreciation and amortisation		3,239,218	3,009,785
Other administrative expenses		2,066,625	2,441,074
Total administrative expenses		5,881,149	5,982,910
Loss from operations		(6,358,429)	(6,157,934)
Finance income		969	687
Loss for the year before taxation	3	(6,357,460)	(6,157,247)
Taxation	7	532,116	489,784
Loss for the year attributable to equity holders of the parent company		(5,825,344)	(5,667,463)
Loss per share			
Basic and diluted (pence)	8	(0.834)	(0.931)

The notes on pages 21 to 41 form part of these financial statements.

Consolidated statement of comprehensive loss for the year ended 31 March 2011

	2011 £	2010 £
Loss after taxation	(5,825,344)	(5,667,463)
Other comprehensive loss		
Exchange differences on translating foreign operations	(394,365)	(678,044)
Total other comprehensive loss for the year	(394,365)	(678,044)
Total comprehensive loss for the year attributable to the equity holders of the parent company	(6,219,709)	(6,345,507)

The notes on pages 21 to 41 form part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 March 2011

	Share capital £	Share premium account £	Warrant reserve £	Foreign exchange translation reserve £	Retained deficit £	Total £
At 1 April 2010	6,904,753	20,665,231	–	2,000,787	(18,259,974)	11,310,797
Total comprehensive loss recognised for the year	–	–	–	(394,365)	(5,825,344)	(6,219,709)
Issue of shares	436,274	872,848	–	–	–	1,309,122
Share issue expenses	–	(100,000)	–	–	–	(100,000)
Share options expense	–	–	–	–	575,306	575,306
Balance at 31 March 2011	7,341,027	21,438,079	–	1,606,422	(23,510,012)	6,875,516

	Share capital £	Share premium account £	Warrant reserve £	Foreign exchange translation reserve £	Retained deficit £	Total £
At 1 April 2009	5,037,736	15,705,702	387,500	2,678,831	(13,124,562)	10,685,207
Total comprehensive loss recognised for the year	–	–	–	(678,044)	(5,667,463)	(6,345,507)
Issue of shares	1,867,017	5,102,959	(379,375)	–	–	6,590,601
Share issue expenses	–	(151,555)	–	–	–	(151,555)
Warrants lapsed during year	–	8,125	(8,125)	–	–	–
Share options expense	–	–	–	–	532,051	532,051
Balance at 31 March 2010	6,904,753	20,665,231	–	2,000,787	(18,259,974)	11,310,797

The notes on pages 21 to 41 form part of these financial statements.

Consolidated statement of financial position

as at 31 March 2011

Company number 3971582		2011	2010
	Notes	£	£
Assets			
Non current assets			
Intangible assets	10	5,473,599	8,564,187
Property, plant and equipment	9	461,805	467,064
		5,935,404	9,031,251
Current assets			
Trade and other receivables	13	268,102	90,006
Cash and cash equivalents		1,624,130	3,697,866
		1,892,232	3,787,872
Total assets		7,827,636	12,819,123
Liabilities			
Current liabilities			
Trade and other payables	14	180,043	161,930
Corporation tax liability		–	6,288
		180,043	168,218
Non-current liabilities			
Deferred tax liability	15	772,077	1,340,108
Total liabilities		952,120	1,508,326
Capital and reserves attributable to equity holders of the parent company			
Share capital	17	7,341,027	6,904,753
Share premium account	18	21,438,079	20,665,231
Foreign exchange translation reserve	18	1,606,422	2,000,787
Retained deficit	18	(23,510,012)	(18,259,974)
Warrant reserve	18	–	–
Total equity		6,875,516	11,310,797
Total equity and liabilities		7,827,636	12,819,123

The financial statements on pages 16 to 41 were approved by the Board of Directors and authorised for issue on 29 September 2011 and were signed on its behalf by:

Terry Bond
Chairman

The notes on pages 21 to 41 form part of these financial statements.

Consolidated statement of cash flows for the year ended 31 March 2011

	Notes	2011 £	2010 £
Cash flow from operating activities			
Loss before tax		(6,357,460)	(6,157,247)
Adjustments for :			
Finance income		(969)	(687)
Depreciation	3	133,072	55,320
Amortisation	3	3,106,146	2,954,614
Share option expense	3	575,306	532,051
Provision against available for sale investment	3	–	200,000
Foreign exchange movements	3	89,576	5,589
Cash flow from operating activities before changes in working capital		(2,454,329)	(2,410,360)
Increase in trade and other receivables		(178,096)	(75,399)
Decrease in inventories		–	15,945
Increase/(decrease in trade and other payables)		18,113	(78,247)
Interest received		969	687
Cash generated from operations		(2,613,343)	(2,547,374)
Tax recovered/(paid)		23,388	(23,500)
Net cash flows from operating activities		(2,589,955)	(2,570,874)
Investing activities			
Internally generated intangible asset	10	(451,115)	(271,512)
Purchase of property, plant and equipment	9	(136,321)	(358,827)
Payment for non compete services		(331,873)	–
Net cash used in investing activities		(919,309)	(630,339)
Financing Activities			
Cash inflow from issue of new shares	17	1,309,122	6,590,601
Share issue costs		(100,000)	(151,555)
Net cash from financing activities		1,209,122	6,439,046
(Decrease)/ increase in cash and cash equivalents		(2,300,142)	3,237,833
Foreign exchange differences on translation of cash and cash equivalents		226,406	27,843
Cash and cash equivalents at beginning of year		3,697,866	432,190
Cash and cash equivalents at end of year		1,624,130	3,697,866

The notes on pages 21 to 41 form part of these financial statements.

Notes forming part of the consolidated financial statements for the year ended 31 March 2011

1. Principal accounting policies

ViaLogy PLC ('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 consolidated financial statements of the Company as at and for the period ended 31 March 2011 comprise the Company and its subsidiaries (together referred to as 'the Group'). 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 2011 have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board (IASB) as adopted by the European Union.

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 2010. The following standards, interpretations and amendments to existing standards have been adopted for the first time in 2011:

International Accounting Standards (IAS/IFRS)		Effective date
IAS 27	– Amendment – Consolidated and Separate Financial Statements	1 July 2009
IFRS 3	– Revised – Business Combinations	1 Jul 2009
IAS 39	– Amendment – Financial Instruments: Recognition and Measurement: Eligible Hedged Items	1 Jul 2009
IFRS 2	– Amendment – Group Cash-settled Share-based Payment Transactions	1 Jan 2010
'Additional exemptions for first-time adopters' (Amendment to IFRS 1)		1 Jan 2010
Improvements to IFRSs (2009)		Generally 1 Jan 2010
IAS 9 & IFRIC 9	– Amendment – Embedded Derivative	1 Jan 2010
International Financial Reporting Interpretations (IFRIC)		Effective date
IFRIC 16	– Hedges of a Net Investment in a Foreign Operation	1 Jan 2010
IFRIC 17	– Distributions of Non-cash Assets to Owners	1 Jan 2010
IFRIC 18	– Transfer of Assets from Customers	1 Jan 2010

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 2011

1. Principal accounting policies continued

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 32	Amendment – Classification of Right Issues	1 Feb 2010
IFRS 1	Amendment – First Time Adoption of IFRS	1 Jul 2010
IAS 24	Revised – Related Party Disclosures	1 Jan 2011
IFRS 7 *	Amendment – Transfer of financial assets	1 Jul 2011
IFRS 1 *	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 Jul 2011
	Improvements to IFRSs (2010) *	1 Jan 2011
IAS 12 *	Deferred Tax: Recovery of Underlying Assets	1 Jan 2012
IFRS 9 *	Financial instruments	1 Jan 2013
IFRS 13 *	Fair Value Measurement	1 Jan 2013
IFRS 12 *	Disclosure of Interest in Other Entities	1 Jan 2013
IFRS 11 *	Joint Arrangements	1 Jan 2013
IFRS 10 *	Consolidated Financial Statements	1 Jan 2013
International Financial Reporting Interpretations (IFRIC)		Effective date
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 Jul 2010
IFRIC 14	Amendment – IAS 19 Limit on a defined benefit asset	1 Jan 2011

The Group has not yet assessed the impact of IFRS 9. Except for the amended disclosure requirements of IAS 24 (the above revised standards), amendments and interpretations are not expected to materially affect the Group's reporting or reported numbers.

* 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.

Going concern

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

The financial 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.

Service fees arising from government contracts are billed at the end of each month based on man hours worked on the project.

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 statement of financial position, the acquirees 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 reporting date and reported profit or loss 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:

Intangible assets and amortisation Note 10

The group capitalises development costs based on the recognition criteria identified in IAS 38. Internally generated intangible assets are amortised over a period of six years on a straight line basis. The key judgement relates to the demonstrability of the capitalisation criteria for these costs which are dependent upon the belief of management in the feasibility of the product.

Notes forming part of the consolidated financial statements for the year ended 31 March 2011

1. Principal accounting policies continued

Share based payments Note 19

The fair value is measured by use of a Black Scholes model which takes into account conditions attached to the vesting and exercise of the equity instruments. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Management are also required to apply their judgement in assessing a reasonable volatility figure to be applied in the model.

Impairment of property, plant and equipment and intangible assets

Property, plant and equipment and identifiable intangibles are reviewed for impairment at the reporting 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 asset recognised by the Group and its useful economic life is shown below:

Intangible assets	Useful economic life
Intellectual Property	6 years

Internally generated intangible assets (research and development costs)

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

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

Capitalised development costs are amortised on a straight line basis 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 reporting 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 2011

1. Principal accounting policies continued

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 reporting 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 occur. 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 reporting 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.

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 (trade and other payables), are measured at their fair value plus, if appropriate, any transaction costs that are directly attributable to the issue of the financial liability. These financial liabilities are subsequently carried at amortised cost.

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.

2011 Reportable segment analysis

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

Notes forming part of the consolidated financial statements for the year ended 31 March 2011

2. Segmental analysis continued

2010 Reportable segment analysis

	Operations £	Head office £	Consolidated £
Revenue from external customers	151,388	–	151,388
Gross profit	175,024	–	175,024
Finance income	–	687	687
Tax credit	489,784	–	489,784
Loss for the year after taxation	(4,601,097)	(1,066,366)	(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

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

Revenues by product / service	2011 £	2010 £
Oil and gas revenues	10,437	16,862
Revenues from analytical surveys	47,928	134,526
	58,365	151,388

All sales in the current and previous year were to external customers based in the USA.

£58,365 of total external revenues arose from two customers (2010: five customers attributed £148,412) each of which accounted for over 10% of revenues.

3. Loss for the year before taxation

	2011 £	2010 £
This is arrived at after charging:		
Staff costs (see note 5)	1,227,092	1,428,273
Share option expense (see note 19)	575,306	532,051
Depreciation of property, plant and equipment	133,072	55,320
Amortisation of intangible fixed assets	3,106,146	2,954,614
Provision against available for sale financial asset (see note 11)	–	200,000
Foreign exchange differences	89,576	5,589
Plant, property and equipment operating lease expense	107,091	91,429
Auditors remuneration for :		
Audit of financial statements of the Group	27,000	27,000
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 £315,230 (2010 – Loss £1,066,366) 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:

	2011 Number	2010 Number
Research and development	7	7
Sales and marketing	1	1
Administration	7	7
	15	15

Staff costs (including directors) comprise:

	2011 £	2010 £
Wages and salaries	1,152,497	1,351,704
Share based payment charge	575,306	532,051
Pension Contributions	6,372	–
Employers national insurance contributions and Similar taxes	74,595	76,569
	1,808,770	1,960,324

Staff costs of £451,115 (2010: £271,512) have been capitalised as research and development during the year and therefore have not been included in staff costs.

	2011 £	2010 £
Wages, salaries and benefits capitalised	420,056	252,819
Employers national insurance contributions and similar taxes capitalised	31,059	18,693
	451,115	271,512

Notes forming part of the consolidated financial statements for the year ended 31 March 2011

6. Directors

	2011 £	2010 £
Directors emoluments	952,516	541,031
Share based payment charge	495,037	476,400
Total emoluments	1,447,553	1,017,431

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

	Salaries £	Fees £	Non cash benefit £	Benefits in kind £	Total 2011 £	Total 2010 £
Terry Bond	100,000	–	5,952	–	105,952	124,965
Robert Dean	224,917	–	9,437	4,901	239,255	214,513
Sandeep Gulati	223,752	331,873	90	16,594	572,309	189,053
Peter Reynolds	–	35,000	–	–	35,000	12,500
	548,669	366,873	15,479	21,495	952,516	541,031

7. Taxation on profits from ordinary activities

	2011 £	2010 £
Current tax (credit)		
UK corporation tax and income tax of overseas operations on profits for the year	(29,676)	–
	(29,676)	
Deferred tax credit		
Release of provision	(502,440)	(489,784)
Total tax credit	(532,116)	(489,784)

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 losses for the year are as follows:

	2011 £	2010 £
Loss before tax	(6,357,460)	(6,157,247)
Expected tax (recovery)/charge based on the standard rate of corporation tax in the UK of 28% (2010 – 28%)	(1,780,089)	(1,724,029)
Amortisation of intangibles not deductible for tax purposes	858,600	827,292
Expenses not deductible for tax purposes	204,402	40,971
Increase in carried-forward losses	717,087	855,766
Brought-forward losses utilised	–	–
Adjustment relating to prior years	(29,676)	–
Deferred tax release	(502,440)	(489,784)
Total tax credit for the year	(532,116)	(489,784)

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 statement of financial position. 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 £2,828,943 and £1,934,399 respectively (2010: £446,874 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 £3,906,773 (2010: £1,469,656) 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 reporting date the accrued potential losses claimable are estimated at \$1,250,000 (2010 – \$1,000,000).

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 £5,825,344 (2010: loss £5,667,463) by the weighted average number of ordinary shares in issue during the year 698,322,321 (2010: 608,928,041).

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. 108,152,274 options (2010: 72,726,396) and 1,193,654 (2010: 1,193,654) warrants have been excluded from this calculation as the effect would be anti-dilutive.

Notes forming part of the consolidated financial statements for the year ended 31 March 2011

9. Plant, property and equipment

	Office equipment £	Furniture £	Computer equipment £	Motor vehicles £	Oil and gas assets £	Total £
Cost						
At 1 April 2009	13,515	22,758	295,599	–	–	331,872
Additions	–	–	148,355	6,904	203,568	358,827
Foreign exchange movements	(147)	(467)	(9,038)	–	–	(9,652)
At 1 April 2010	13,368	22,291	434,916	6,904	203,568	681,047
Additions	–	10,226	120,387	5,708	–	136,321
Foreign exchange movements	(267)	(1,236)	(20,956)	–	–	(22,459)
At 31 March 2011	13,101	31,281	534,347	12,612	203,568	794,909
Depreciation						
At 1 April 2009	7,895	9,179	147,992	–	–	165,066
Charge for the year	617	1,532	46,098	2,279	4,794	55,320
Foreign exchange movements	(106)	(333)	(5,964)	–	–	(6,403)
At 1 April 2010	8,406	10,378	188,126	2,279	4,794	213,983
Charge for the year	808	4,860	120,976	3,411	3,017	133,072
Foreign exchange movements	(186)	(734)	(13,031)	–	–	(13,951)
At 31 March 2011	9,028	14,504	296,071	5,690	7,811	333,104
Net book value						
At 31 March 2011	4,073	16,777	238,276	6,922	195,757	461,805
At 31 March 2010	4,962	11,913	246,790	4,625	198,774	467,064
At 31 March 2009	5,620	13,579	147,607	–	–	166,806

10. Intangible assets

	Intellectual property £	Research and development £	Total £
Cost			
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)
At 1 April 2010	13,350,587	3,054,775	16,405,362
Additions			
– Internally developed	–	451,115	451,115
Foreign exchange movements	(104,962)	(26,846)	(131,808)
At 31 March 2011	13,245,625	3,479,044	16,724,669
Amortisation			
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
At 1 April 2010	6,696,231	1,144,944	7,841,175
Charge for the year	2,473,501	632,645	3,106,146
Foreign exchange movements	241,883	61,866	303,749
At 31 March 2011	9,411,615	1,839,455	11,251,070
Net book value			
At 31 March 2011	3,834,010	1,639,589	5,473,599
At 31 March 2010	6,654,356	1,909,831	8,564,187
At 31 March 2009	9,758,037	2,337,804	12,095,841

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:

	2011 £	2010 £
Available-for-sale investments – unquoted	–	–

	Class of share capital held	Percentage of share capital held %
Participating interest (2011 and 2010):		
The Acrobot Company Limited, incorporated in England	Ordinary	7.56%

The business assets and liabilities of Acrobot were sold to Stanmore Implants Worldwide Limited. The consideration was sufficient to enable the Acrobot to settle its liabilities but there was no equity return for shareholders. An amount of £200,000 was provided in the prior year.

Notes forming part of the consolidated financial statements for the year ended 31 March 2011

12. Subsidiaries

ViaLogy PLC has one subsidiary, ViaLogy LLC, which has been included in these consolidated financial statements: ViaLogy LLC is 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.

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

	2011 £	2010 £
Trade receivables	1,609	49,559
Other receivables	10,075	30,110
Prepayments and accrued income	256,418	10,337
	268,102	90,006
Aged receivable summary		
Current	1,609	38,160
Over 30 days old	–	11,399
	1,609	49,559

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.

The increase in prepayments relates to the balance of the non compete payment made during the year. The prepayment will be released over the remainder of the term to which the payment relates.

14. Trade and other payables

	2011 £	2010 £
Trade payables	59,675	42,929
Accruals and deferred income	120,368	119,001
	180,043	161,930

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:

	2011 £	2010 £
At 1 April	1,340,108	1,971,207
Exchange rate adjustment	(65,591)	(141,315)
Release for the year	(502,440)	(489,784)
At 31 March	772,077	1,340,108

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

Principal financial instruments

The principal instruments used by the group, from which the financial instrument risk arises, include cash and cash equivalents, trade receivables and trade payables.

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, liquidity risk, credit risk and investment 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 currency 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 £857,540 (2010: decrease in loss of £ 678,979).

Notes forming part of the consolidated financial statements for the year ended 31 March 2011

16. Financial instruments continued

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

2011	US\$	GBP£	Total GBP£
Trade and other receivables	4,812	6,872	11,684
Cash and cash equivalents	539,214	1,084,916	1,624,130
Trade and other payables	34,508	25,167	59,675

2010	US\$	GBP£	Total GBP£
Trade and other receivables	73,145	6,524	79,669
Cash and cash equivalents	1,983,243	1,714,623	3,697,866
Trade and other payables	18,959	39,691	58,650

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 (trade and other payables) are due for payment within one year as follows:

	2011 £	2010 £
Due:-		
Current	59,675	42,929
	59,675	42,929

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 2011 or 31 March 2010.

The Group's maximum exposure to credit risk by class of financial instruments amounts to their carrying value of £1,635,827 (2010 £3,747,425). The Group deems that entities from whom credit exposure arises are of adequately strong credit quality and will therefore be able to pay the amounts due when they arise.

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.

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

Categories of financial assets

	2011 £	2010 £
Current financial assets		
Loans and receivables	11,684	79,669
Cash and other equivalents	1,624,130	3,697,866
Total current financial assets	1,635,814	3,777,535

Categories of financial liabilities

	2011 £	2010 £
Current financial liabilities		
Trade and other payables	59,675	42,929
Total other financial liabilities	59,675	42,929

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 nor 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 2011

17. Share capital

	2011	Authorised		2010
	Number	2010 Number	2011 £	£
Ordinary shares of 1p each	1,000,000,000	750,000,000	10,000,000	7,500,000

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

The Group raised £1.25 million before expenses via a private placing of 41,666,684 shares at 3 pence per share on 25 January 2011. All shares in issue have equal voting rights.

Share Options

At 31 March 2011, the following share options were outstanding in respect of Ordinary shares:

Number	Exercise Period	Exercise Price
25,991,384	August 2005 to January 2021	1.00p
18,480	March 2007 to March 2013	1.75p
764,480	February 2012 to February 2019	1.83p
3,655,556	October 2011 to October 2018	2.80p
2,206,849	November 2011 to November 2018	3.00p
12,807,495	June 2010 to June 2020	3.75p
36,170,168	October 2009 to October 2016	4.00p
16,184,544	June 2007 to August 2016	4.50p
2,704,000	October 2010 to October 2017	5.00p
167,767	April 2010 to April 2020	5.25p
500,000	April 2010 to April 2020	5.50p
861,111	January 2011 to January 2018	6.25p
1,313,440	August 2010 to August 2017	7.38p
4,807,000	October 2010 to October 2017	8.38p
108,152,274	(note 19)	

Share options vest over differing periods from date of issue to three years.

	2011 Weighted average exercise price	2011 Number	2010 Weighted average exercise price	2010 Number
Outstanding at start of year	£0.044	72,726,396	£0.044	77,330,352
Granted during the year	£0.012	38,626,576	£0.050	10,768,022
Forfeited during the year	£0.043	(1,239,971)	£0.052	(12,353,923)
Exercised during the year	£0.030	(1,960,727)	£0.029	(3,018,055)
Outstanding at end of year	£0.044	108,152,274	£0.044	72,726,396

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

	At 1 April 2010	Awarded	Lapsed	At 31 March 2011	Exercise price	Earliest date of exercise	Latest date of exercise
Terry Bond							
-Unapproved scheme	6,000,000	-	-	6,000,000	4p	02/12/09	02/12/16
-Unapproved scheme	-	4,475,408	-	4,475,408	1p	22/06/13	22/06/20
-Unapproved scheme	-	4,475,408	-	4,475,408	3.75p	22/06/13	22/06/20
Robert Dean							
-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	-	3,032,422	-	3,032,422	1p	22/06/12	22/06/20
-Unapproved scheme	-	3,032,421	-	3,032,422	3.75p	22/06/12	22/06/20
Sandeep Gulati							
-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	-	12,343,819	-	12,343,819	1p	26/10/10	25/01/21
Peter Reynolds							
-Unapproved scheme	403,500	-	-	403,500	8.38p	24/10/10	24/10/17

No directors have exercised share options during the year.

The options held by the Directors at the beginning and end of the previous 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
Terry Bond							
-Unapproved scheme	6,000,000	-	-	6,000,000	4p	02/12/09	02/12/16
-Unapproved scheme	-	1,275,000	(1,275,000)	-	5p	-	-
Robert Dean							
-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	-	-
Sandeep Gulati							
-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	-	-
Peter Reynolds							
-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.

Notes forming part of the consolidated financial statements for the year ended 31 March 2011

17. Share capital continued

Warrants

At 31 March 2011 and 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

There are no conditions attached to the warrants.

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 income statement.
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 varying periods 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 7.2 years (2010: 7.1 years).

Of the total number of options outstanding at the end of the year 88,931,169 (2010: 63,235,132) had vested and were exercisable at the end of the year at a weighted average exercise price of 4.8p.

The weighted average fair value of each option granted during the year was 2.8p (2010: 2.9p).

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.

	2011	2010
Weighted average share price	3.78p	4.36p
Volatility	70%	70%
Dividend Yield	0%	0%
Risk- free interest rate	0.25%	1.5%
Weighted average exercise Price	1.18p	4.36p
Expected option life	5 years	5 years

Share based payment expense for the year	2011	2010
	£	£
Issued to employees of parent	63,525	1,670
Issued to employees of subsidiary	511,781	530,381
	575,306	532,051

20. Leases

Operating leases

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

	2011	2010
	£	£
Not later than one year	74,840	83,811
More than one year	24,947	185,775

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 2011

	Note	2011 £	2011 £	2010 £	2010 £
Fixed assets					
Tangible assets	4		9,067		7,288
Investments	5		12,387,304		11,875,523
			12,396,371		11,882,811
Current assets					
Debtors due within one year	6	162,829		15,661	
Debtors due in more than one year	6	14,371,309		11,454,403	
Cash at bank and in hand		1,478,873		3,592,471	
		16,013,011		15,062,535	
Creditors: amounts falling due within one year	7	84,804		89,966	
Net current assets			15,928,207		14,972,569
Total assets less current liabilities			28,324,578		26,855,380
Capital and reserves					
Called up share capital	8, 9		7,341,027		6,904,753
Share premium account	9		21,438,079		20,665,231
Profit and loss account	9		(454,528)		(714,604)
Shareholders' funds			28,324,578		26,855,380

The financial statements on pages 42 to 46 were approved by the Board of Directors and authorised for issue on 29 September 2011 and were signed on its behalf by:

Terry Bond
Chairman

Notes forming part of the parent company financial statements for the year ended 31 March 2011

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.

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 ended 31 March 2011

2. Company profit and loss account and cash flow statement

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 20.

3. Staff costs

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

	2011 Number	2010 Number
Administration	2	2

Staff Costs (including directors) comprise

	2011 £	2010 £
Wages and salaries	158,399	183,308
Share based payment expense	63,525	1,670
Pension Contributions	6,372	–
Employers national insurance contributions and similar taxes	19,181	20,374
	247,477	205,352

Emoluments of the highest paid director were £572,309 (2010: £214,513).

4. Tangible fixed assets

	Office equipment £	Motor Vehicles £	Total £
Cost			
At 1 April 2010	10,175	6,904	17,079
Additions	299	5,708	6,007
At 31 March 2011	10,474	12,612	23,086
Depreciation			
At 1 April 2010	7,512	2,279	9,791
Charge for the year	817	3,411	4,228
At 31 March 2011	8,329	5,690	14,019
Net book value			
At 31 March 2011	2,145	6,922	9,067
At 31 March 2010	2,663	4,625	7,288

5. Investments

	Unlisted investments £	Investment in subsidiary £	Total
Cost			
At 1 April 2010	604,500	11,875,523	12,480,023
Share based payment on behalf of subsidiary (see note 10)	–	511,781	511,781
At 31 March 2011	604,500	12,387,304	12,991,804
Provision			
At 31 March 2010	604,500	–	604,500
At 31 March 2011	604,500	–	604,500
Net book value			
At 31 March 2011	–	12,387,304	12,387,304
At 31 March 2010	–	11,875,523	11,875,523

6. Debtors

	2011 £	2010 £
Debtors due within one year		
Other debtors, prepayments and accrued income	162,829	15,661
Debtors due in more than one year		
Inter-company debtor	14,233,028	11,454,403
Other debtors, prepayments and accrued income	138,281	–
	14,534,138	11,470,064

7. Creditors: amounts falling due within one year

	2011 £	2010 £
Accounts payable	25,169	14,215
Accruals and deferred income	58,650	63,500
Other creditors	985	5,963
Corporation tax	–	6,288
	84,804	89,966

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 ended 31 March 2011

9. Reserves

	Ordinary share capital £	Share premium £	Profit and loss £
At 1 April 2010	6,904,753	20,665,231	(714,604)
Arising on issue of shares	436,274	872,848	–
Share issue expenses	–	(100,000)	–
Loss for the year	–	–	(315,230)
Share based payments (see note 10)	–	–	575,306
At 31 March 2011	7,341,027	21,438,079	(454,528)

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 post balance sheet events.

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 28 October 2011 for the following purposes:

1. To receive the Company's Report and Accounts for the year ended 31 March 2011.
2. To re-elect Dr. S Gulati, who retires by rotation, as a Director.
3. To re-appoint BDO Stoy Hayward 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 resolutions numbered 5 and 6 as Special Resolutions:

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 £2,447,350.43 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 4 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 £1,468,410.26;

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 2012, 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.

6. **THAT:**

(a) all the provisions of the Company's Memorandum of Association (which, by virtue of Section 28 of the Act, have been treated as provisions of the Company's Articles of Association with effect from 1 October 2009) be deleted; and

(b) Article 4 of the Articles of Association be deleted and replaced with the following wording:

"4. The liability of the members is limited to the amount, if any, unpaid on the shares held by them."

By Order of the Board
Mark Collingbourne
Secretary

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

29 September 2011

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, 34 Beckenham Road, Beckenham, BR3 4TU 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 26 October 2011 ("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.





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