Edison investment research

9 September 2011

Victoria Oil & Gas

Year End	Revenue ($m)	PBT* ($m)	EPS* (c)	DPS (p)	P/E (x)	Yield (%)
05/09	0.0	(6.8)	(1.9)	0.0	N/A	N/A
05/10	0.0	(6.1)	(0.6)	0.0	N/A	N/A
05/11e	0.0	(7.9)	(0.4)	0.0	N/A	N/A
05/12e	21.2	7.8	0.3	0.0	20.4	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

Investment summary: Logbaba gas imminent

Q411 should see Victoria Oil & Gas enter production at its flagship Logbaba Gas Field, Cameroon. With operating margins effectively immune to price volatility, 2P reserves of 212bscf and significant upside potential in the form of additional resources, this field alone has the potential to justify a re-rating of the stock.

Base case alone justifies re-rating

The Victoria Oil & Gas (VOG) share price has suffered over the years due to a combination of legal wrangles, drilling delays, exploration set-backs and most recently licence delays, resulting in significant dilution. However, with first gas production from Logbaba expected in Q411 we see compelling economics that, based on 2P reserves development alone, can justify a material stock re-rating.

Demand rather than supply-side sensitivities

With supply capable of outstripping local industrial demand, VOG is also developing multiple monetisation routes for its Logbaba gas. Adding on-site gas fired power generation, conventional gas to power and mini-LNG all offer upside, with reduced risk due to phased drilling and rapid project paybacks. Key risks are demand growth and securing competitive prices for gas to power in what remains a fledgling market.

West Med: Upside yet to be included in valuation

The materiality of VOG's West Med project is also moving firmly into view. A recent independent resource opinion based on passive seismic and gas tomography integrated with 2D seismic has seen prospective resources increase 30% to 1.4bn boe with 670mmbbls of oil. Integrated appraisal and development studies are ongoing with the potential for early development targeting first oil in 2015.

Valuation: 11p core NAV offers three times upside

A core NAV of 11p based on exploitation of Logbaba 2P reserves offers three times upside to the current share price. Adding in Logbaba's prospective resources to be developed via gas to power and mini-LNG and we calculate a RENAV of 16p, with further upside set to crystallise in the near-term from ongoing West Med studies.

Price	3.75p
Market Cap	£82m

Share price graph

Share details

Code	VOG
Listing	AIM
Sector	Oil & Gas
Shares in issue	2,184m

Price

52 week	High	Low
	6.70p	3.01p

Balance Sheet as at August 2011*

Net cash ($m)	9.6

** Edison estimates.*

Business

Victoria Oil & Gas is an E&P company with a focus on both Africa and the Former Soviet Union.

Valuation

Core NAV (p)	11.0
RENAV (p)	16.0

Revenues by geography (2012 estimate)

UK	Europe	US	Other
0%	0%	0%	100%

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Investment summary: Crystallising value

Company description: About to become full-cycle E&P player

VOG has developed a portfolio of near-production, development and exploration assets across Africa and the FSU. In Cameroon, the flagship Logbaba gas field has compelling base case economics given its unique access to the country's key industrial city, Douala. Plans are already afoot to develop the reach of gas supply infrastructure in Douala, with conventional gas to power, and mini-LNG options available to further crystallise value. Beyond this, further development of prospective resources in the West Medvezhye block in Western Siberia is key to realising the share price potential that VOG's asset base offers.

Valuation: Multiples of current share price possible

We calculate a core net asset value (core NAV) of 11p, based solely on Logbaba 2P reserves supplying industrial gas customers with little additional investment required to first gas. By adding in conventional gas to power and mini-LNG options we arrive at a risked exploration NAV (RENAV) of 16p. We currently do not include West Medvezhye in this valuation pending clarification on development plans. However, with 1.4bnboe of prospective resources here the potential for further multiples of the current share price can easily be envisaged.

Sensitivities: Commercial take-up key to economics

The usual risks associated with oil and gas companies apply to VOG, namely geology, funding, political risk etc. We would, however, highlight the following specific risks to investors:

- Licence issues: VOG's development partner, RSM, has failed to meet cash calls and as such its title rights have been forfeited. Should the forfeiture be challenged successfully we consider the impact of this risk in our valuation, although we estimate it is not likely to exceed 3p/share.
- Economics issues: VOG's Logbaba economics are driven by industrial take-up and realised gas prices. Industrial customers are locked into a five-year exclusivity agreement at an attractive $16/mmbtu, although demand take-up is the main risk to core development success. Logbaba upside mainly comes from gas supply into conventional gas to power. This is a fledgling market in Cameroon, creating gas price uncertainty, although value chain analysis does indicate significant economic rent potential.
- Technical issues: Logbaba's gas bearing sands are thin and difficult to quantify. In modelling it has been assumed that the wells drilled to date are representative of sand distribution in Logbaba. Although a reasonable assumption there remains the chance that distribution is variable and hence gas reserves estimates may be subject to revision.

Financials: Additional 10% dilution likely before first gas

We expect VOG to enter into production in Q411 with strong operating margins. Almost all capital investment to first gas is now sunk with only an additional $10-15m likely to be required. Following forfeiture of RSM's interest this must be funded by VOG. We therefore estimate a 10% dilutive fund-raising of c $11m will be required to reach first gas, with 2012 cash flows funding development thereafter.

Company description: E&P status awaits

Formerly focused exclusively on exploration and production activities in the FSU, Victoria Oil & Gas (VOG) has more recently been developing assets in Africa. In particular its Logbaba gas/ condensate project in Cameroon, West Africa, is poised to enter production in Q411. This will be the first material revenue stream that VOG has enjoyed since June 2008 when production stopped at its Kemerkol oil and gas facility in Kazakhstan following a challenge of ownership.

Cameroon: Captive market, production imminent

Logbaba (95% WI, VOG operator)

VOG assumed the rights to develop the PH-79 block in Cameroon when it acquired Bramlin Ltd in late 2008. At the time of the all-share acquisition, Bramlin's principal asset was its 60% interest in the on-shore Logbaba field on the PH-79 block, the remaining 40% being held by RSM Production, an affiliate of Denver-based independent Grynberg Petroleum. In July 2011, VOG increased its effective interest in Logbaba to 95% following serving a Notice of Forfeiture on RSM due to the failure of RSM to meet cash calls associated with Logbaba development. VOG's 5% Logbaba partner is state-owned Societé National des Hydrocarbures (SNH).

Exploration & Appraisal - PH-79 is a 64km^2 block located immediately onshore around the industrial city of Douala. First explored in the 1950s by Elf SEREPCA, four wells were drilled (Elf La-101 to La-104), all of which encountered gas and condensate in multiple reservoir layers. Three of the wells were tested at the time and yielded gas flow rates in the region of 10-20mmscfpd per well. However, the block was abandoned by Elf due to a lack of infrastructure and insufficient local product demand.

Prior to the Bramlin acquisition, independent reserve auditors RPS Energy carried out a reserve study based on an area of 6km^2 (ie only 10% of the PH-79 acreage). RPS concluded that, as of July 2008, the Logbaba field had gross 2P reserves of 104bscf of natural gas and 4mmboe of condensate, amounting to a total of 21.3mmboe of combined hydrocarbons. Based on expected local industrial demand and competitive gas pricing given the captive market, RPS reported that the $NPV_{10\%}$ of the 60% Bramlin share of the prospect was estimated to be worth \$168m. This expected NPV would indicate a value net to VOG today of \$266m (equivalent to 12p per share based on current shares in issue and a 95% interest).

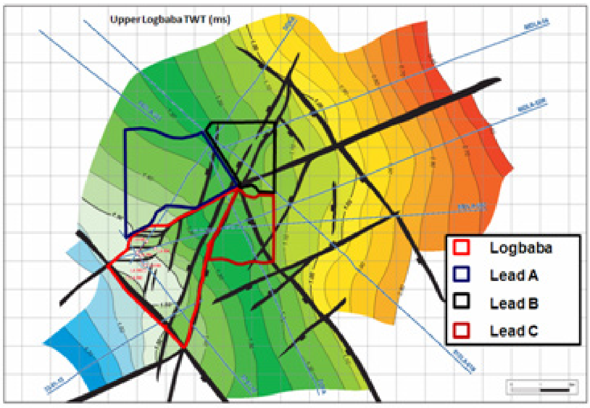
Since the Bramlin acquisition, two further exploration wells have been drilled by VOG as operator. The first well, La-105, spudded in August 2009, and yielded multiple gas-bearing sands with over 300 feet of gross pay. The second well, La-106, spudded in February 2010 from the original Elf La-104 pad and again yielded 300 feet of gross pay. Both wells have since been completed as production wells. During testing, both wells delivered strong flow rates, such that each well is capable of supplying gas in excess of initial expected demand (of 8-16mmscf/d).

VOG did encounter problems during drilling of the La-105 and La-106 wells. The drilling campaign was eventually completed four months behind schedule and with a cost overrun of more than 100% ($53m compared with a budget of $24m). This was due to a combination of the wells being more complex and difficult to control than predicted, as a result of high temperatures and pressures (necessitating heavier mud), coupled with a chronic lack of oil and gas infrastructure in the area.

Despite these problems the results in terms of reserves uplift based on analysis of the new and old well data and existing seismic was impressive. VOG's consultants, Blackwatch Petroleum Services Limited (Blackwatch), released a report in October 2010 indicating uplift in 2P gas reserves to 212bscf, more than doubling the previous 2P of 104bscf. With 20bbl/mmscf of condensate yielding a further 4.24mmboe of liquid the reserve update indicated 2P total reserves of 40mmboe of hydrocarbon. This was based on 10% to 20% of the block area.

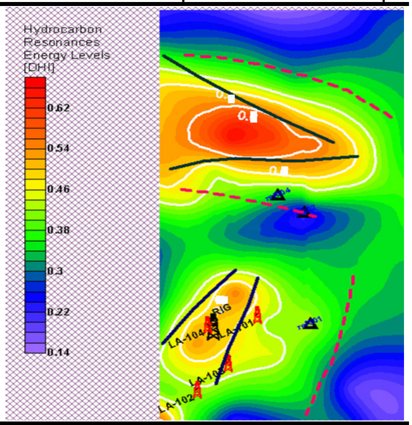
The main issue in determining Logbaba reserves and prospective resources is the continuity of the Logbaba sands. The sands are thin and can be offset by small faults. The Blackwatch reserves report assumes the wells drilled to date are representative of the sand distribution at Logbaba. However, the degree of faulting and complexity of the sands will ultimately determine recovery rates and capital investment required to develop the significant prospective resources.

Exhibit 1: Logbaba structure prospective resources



Source: Victoria Oil and Gas

Exhibit 2: PH-79 passive seismic map



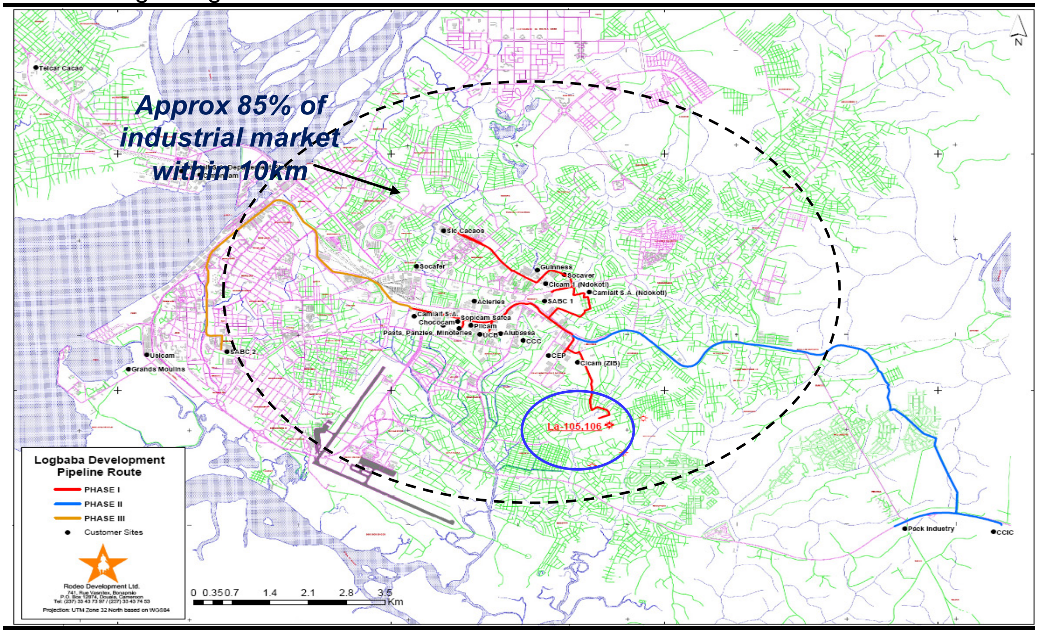
Source: Victoria Oil and Gas

In addition to reserves, Blackwatch estimates prospective resources for the entire block as >1,000bscf. This is based on the appraisal of three adjacent leads to the Logbaba field (leads A, B and C) identified during a passive seismic survey acquired in 2009 (Exhibit 1). The leads are considered prospective at both the late cretaceous Logbaba formation (in this case referring to the age of the source rock) and the deeper early cretaceous Mundeck formation. Gas from the original Logbaba field at the Mundeck formation is also considered as prospective. Meanwhile passive seismic has also identified a significant new structure 4km to the north of the current well sites, as yet undrilled but offering further upside (Exhibit 2).

Development – Logbaba is a unique project in that the field is directly beneath Cameroon's largest industrial city, Douala. As well as developing the gas/condensate production facility, VOG is committing to building downstream processing and distribution facilities to supply gas to Douala's industrial customers. As no gas infrastructure exists at present in Douala, VOG anticipates supplying gas to a wide range of customers that are at present reliant on liquid fuels, principally various fuel oils and diesel. This also means it can supply at significantly higher cost than most international natural gas prices, locking in NPV with strong cashflows in the early years of supply.

Gas processing will involve condensate knock-out, drying and pressure regulation. Condensate is transported by road tanker to the nearby Limbe Refinery north of Douala, while gas is supplied via a new pipeline network to identified industrial customers in the Douala area (Exhibit 3).

Exhibit 3: Logbaba gas distribution



Source: Victoria Oil and Gas

At the time of writing we estimate gross capex of approximately $10-15m is required to complete the initial gas processing and distribution facilities. Approximately 25% of pipeline facilities have been installed, civils for the leased process plant are in hand, while well production trees assembly is now complete. The company appears on target to complete installation and pre-commissioning on schedule and remains confident of meeting its first gas sales target in Q411.

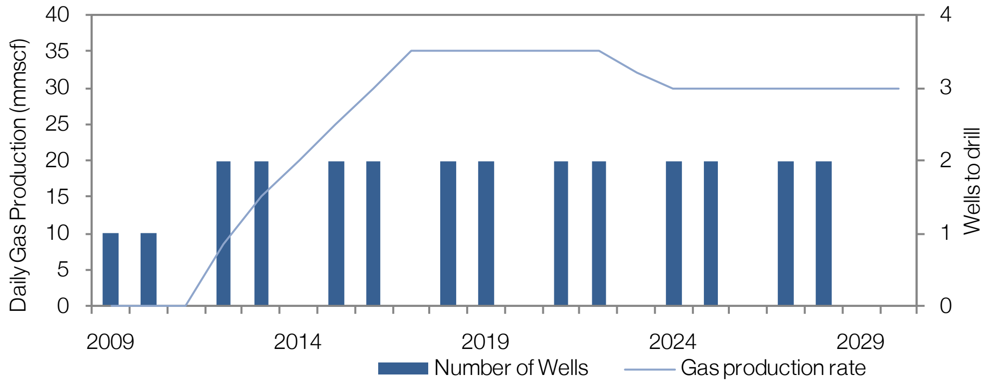
Economics – The keys to attractive base case economics for Logbaba are high-margin production driven off gas prices immune to macroeconomics and growing industrial demand for both gas and onsite power in and around Douala. To access this, VOG is targeting customers in three areas of Douala as indicated by the phased pipeline routes shown in Exhibit 3. Only phase one will be completed prior to first gas, with phases two and three to follow by end 2012.

To date 12 major customers have been signed up on long-term gas supply contracts, with an approximately 30 additional customers identified capable of taking large volumes of gas. VOG estimates a total of 20 customers should have signed up prior to first gas in Q411.

VOG estimates it will access an initial 8mmscfpd in 2012 out of a current 15mmscfpd of industrial demand. However, largely through offering gas for on-site gas fired power generation, VOG estimates it will be able to grow production/ demand rapidly to its industrial customers with production of 44mmscfpd targeted by year end 2014. The on-site gas fired power generation market is important as current industrial output around Douala is severely limited by the availability of stable power. VOG's industrial customers are understandably keen to expand and the ability to install on-site power gas fired generation will allow them to do so.

Given growth sensitivities on a macroeconomic scale and the fact that on-site gas fired power generation remains currently a fledgling market, we have assumed a more conservative ramp up in production/ demand in our models to 35mmscfpd by 2017. However, project economics still remain compelling at these rates (Exhibit 4).

Exhibit 4: Logbaba base case gross production



Source: Edison Investment Research, Victoria Oil and Gas

Coupled with demand growth are highly attractive gas prices. Industrial customers in the Douala area are currently reliant on liquid fuels, which are both expensive and maintenance intensive. Reliability is a distinct issue with customer equipment running fuel oil over gas, with reports of 20% increased downtime.

Fuel costs in Cameroon are heavily regulated such that they are insulated from international price volatility by means of a price stabilisation fund. This means customers are insulated from price volatility but also means that VOG can take confidence in knowing what the cost of substitution would be for its industrial customers and price its gas supply accordingly. VOG estimates that fuel oil on a gas calorific basis in Cameroon is as much as $19.4/mmbtu based on WTI of $75/bbl. Diesel costs are significantly higher than this. Given the lack of price competition, VOG is therefore able to propose gas supplies at a very healthy $16/mmbtu and this is the basis upon which it is already signing up supply agreements with industrial customers on five year exclusivity terms.

Expansion upside – With >1,000bscf of mean prospective resources within the Logbaba block there is potential for gas resources that could equate to more than 50 years of local industrial demand. To access additional demand VOG therefore has plans to develop new monetisation routes for any additional gas/condensate reserves that are identified. These plans are at an earlier stage of development than the supply of gas to local industrial customers, but will become important if further resources both from Logbaba and the remainder of the PH-79 block are discovered and proven up to reserves.

The company is already in talks with interested parties to potentially supply gas to independent power plants (IPP). The Cameroon government plans to triple power generation in the next ten years with much of this to be generated from gas. Industrial development is seen as being hindered by a lack of stable power supply and VOG sees itself as being well placed to be the fuel supplier of choice for any new generating capacity planned in the Douala area. 125mmscfpd is being tentatively targeted by VOG toward power generation from 2015/16, but this is clearly contingent on both proving up prospective resources and the development of government sponsored power generation plans.

From an economics perspective the key to successful development into IPPs is gas pricing. IPP development is still at an early stage of development in Cameroon and we feel it is appropriate to consider the impact of gas pricing accordingly. Assuming 40% conversion efficiency and on an energy equivalent basis, wholesale electricity prices in Cameroon are equivalent to gas prices of around $13-14/mmbtu. However long-term sales agreements are likely to be below this. We understand VOG is in discussions with interested parties to potentially supply gas at prices of around $6 to $8/mscf. However, we also note these cannot be guaranteed. We are aware of a Heads of Terms that exists between Perenco and SNH for the 20-year supply of gas from Perenco's Sanaga Sud field to the proposed Kribi power plant at as little as $2.09/mscf. However this price is probably not a good analogue as it relates to associated gas from an offshore development with significant environmental pressures. Given the range of possible gas prices we have assumed a gas price in our economic model of $6/mscf ie at the lower end of VOG's current discussions and well below current energy equivalent prices but higher than some other mooted deals. Given the sensitivity of our valuation to IPP gas pricing we also consider this further in the Valuation section of our report (Exhibit 7).

The final monetisation route being considered by VOG is through mini-LNG facilities. Although Logbaba is not sufficiently prospective on its own to justify marine export of LNG the potential for small-scale liquefaction for transfer to short-range onshore customers is possible. We would consider plans for LNG as being the least developed of the three upside monetisation routes and would be the last to be developed; however, at a relatively modest 40mmscfpd the financial exposure to VOG from this is relatively low.

Russia: Exploration driven upside

West Medvezhye (100% WI, operator)

Prior to the acquisition of Bramlin the West Med discovery in Western Siberia, Russia, was VOG's principal asset. The potential prize was significant with approximately 1,100mmboe of principally gas/condensate estimated in 2006 by independent surveyor DeGloyer and MacNaughton (D&M) as gross unrisked prospective resources. Encouraging results from the appraisal of discovery well 103 had resulted in 14.4mmbbl of oil being classified by the Ministry of Natural Resources (MNR) as C1 and C2 reserves with a further 171mmboe classified as C3 resources. C1, C2 and C3 in Russia are broadly analogous with P1, P2 and P3 reserves as recognised by the Society of Petroleum Engineers (SPE).

In recent years VOG has focused on proving up the resource potential across West Med, through acquisition of passive seismic and gas tomography, and most recently by commissioning an independent Russian geosciences institute, Mineral LLC (Mineral), to re-process/re-interpret available 2D seismic and incorporate this with the results of the passive seismic and gas tomography studies. The technical details of this analysis are currently under internal review, but a preliminary report from Mineral indicates significant upside to the original D&M estimates, with unrisked prospective resources in excess of 1,400mmboe in the Lower Cretaceous Neocomian-Achimov and Jurassic formations. Critically, Mineral has identified significantly higher quantities of oil within the West Med prospects than previously indicated by D&M, making an oil-based development a much more realistic expectation than previously thought.

Meanwhile, VOG's technical consultant, Blackwatch, is carrying out integrated appraisal and development studies, both to assess and plan for commercialisation of the prospective resources and to prepare an early production scheme for oil from well 103. Initial work indicates a development may be possible to achieve first oil sales as early as 2015.

As part of its licence terms VOG is committed to drilling two further exploration or appraisal wells by end 2012. We expect much of the funding for this to come from Logbaba cash flow as well as to fund the ongoing appraisal and development work. Ultimately, though, VOG will require significant resources to fund a full field development. There remains much to do at West Med, but with increasing resources and critically a more "oily" split of hydrocarbons we would expect VOG to attract significant interest from partners looking to share in development of such a large asset assuming ongoing appraisal activities prove successful.

Strategy: Shifting to full cycle E&P

VOG's strategy has shifted from one of explorer to that of near-term monetisation of proven petroleum systems. By developing multiple marketing routes for Logbaba gas, including gas to power and LNG, the company is well placed to leverage the upside potential from prospective resources within its Cameroon acreage. This strategy has been further extended to potentially include novel ways to develop initial reserves from its West Med licence while continuing to prove up the asset base for a more substantial field development.

VOG has entered into two strategic relationships to help it identify and develop its strategy. Blackwatch Petroleum Services provides advice on development and exploitation of the company's assets. It has significant experience in both Africa and the FSU and provides VOG with consultancy services including its recent Logbaba reserves report. Somewhat unusually for an independent consultancy, senior personnel are shared closely with VOG to strengthen and develop the relationship. Key to this are Radwan Hadi, VOG's chief operating officer, and Sam Metcalf, managing director of Blackwatch.

VOG also works closely with Geodynamics Research srl, a pioneer in the technique of passive seismic. Passive seismic is a relatively new and novel technique using low frequency passive seismic spectroscopy to detect and monitor hydrocarbon reservoirs. The technique is easier to set up than regular seismic, hence is highly suited to both Douala and West Med given the difficult topographies in each location, which makes regular seismic difficult to acquire.

Key management

Kevin Foo, chairman, has had an over 30-year career in all aspects of natural resources, including technical, operational, project management and running public companies. Kevin was the former managing director of Celtic Resources Plc and non-executive chairman of Bramlin Limited, AIM-quoted resource companies.

Robert Palmer, finance director, combines his role with his position as a senior partner in The Gallagher Partnership LLP, a business consultancy-based accountancy practice where he specialises in providing financial advice to small and medium sized enterprises. He holds a number of directorships in private companies.

Austen Titford, executive director, is a chartered accountant with more than 17 years' experience from working for FTSE 100 and AIM-listed natural resource companies, including Lonrho, LASMO, BHPB and Celtic Resources on projects in Africa, Iran, Russia and Central Asia. He brings a broad mix of financial experience, covering both the project development and operational phases.

Radwan Hadi, chief operating officer, is a senior petroleum engineer with Blackwatch with over 25 years' experience in oil and gas including in Nigeria, Ghana and Equatorial Guinea.

Sensitivities: Demand and pricing key to economics

Unlike most oil and gas companies, VOG is largely unaffected by international oil and gas prices. However, it is still exposed to a range of sensitivities and we would highlight the following as being specific to VOG.

- **Licence issues**: VOG's key licence sensitivity was removed in May 2011 when it eventually was awarded the presidential degree for exploitation of Logbaba. Since this time, VOG's development partner, RSM, has failed to meet cash calls and as such its title rights have been forfeited. Should this forfeiture be challenged and successful we consider the impact of this risk in our valuation, although we estimate it is likely not to impact overall NAV by more than 3p.
- **Economics issues:** VOG's Logbaba economics are driven by industrial take-up and realised gas prices. Industrial customers are locked into a five-year exclusivity agreement at an attractive $16/mmbtu, although demand take-up is the main risk to core development success. Logbaba upside mainly comes from gas supply into conventional gas to power. This is a fledgling market in Cameroon creating gas price uncertainty, although value chain analysis does indicate significant economic rent potential.
- **Technical issues:** The main issue in determining Logbaba reserves and prospective resources is the continuity of the Logbaba sands. The sands are thin and can be offset by small faults. Blackwatch's assumptions regarding this in its reserves report are clear and seem reasonable. However, the degree of faulting and complexity of the sands will ultimately determine recovery rates and capital investment required to develop the significant prospective resources. The multi-well drilling programme over many years will allow VOG to optimise its sub-surface understanding and drilling techniques as it continues to prove up and develop the field.

- **Financing:** Although Logbaba revenues are expected to fully fund Cameroon development activities these will be insufficient to fund West Med full-field developments on a sole risk basis. We ultimately expect VOG to mitigate this through securing farm-in partners if exploration is successful and the field is developed.

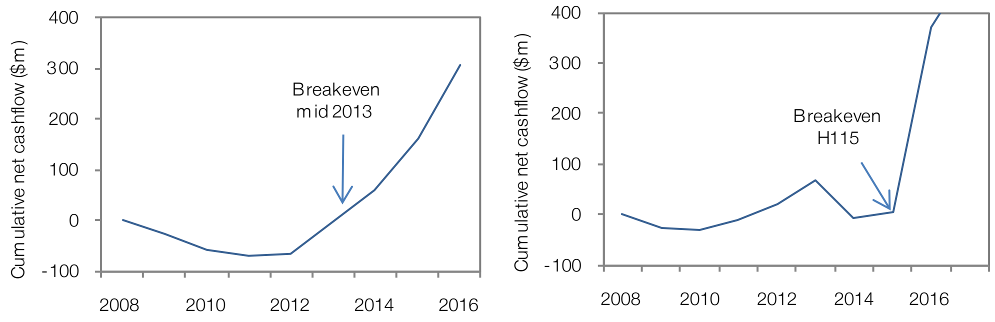
Valuation: 11p core NAV offers three times upside

When considering valuation it is important to consider that initial Logbaba development costs are relatively low. We estimate $10-15m capex will be required to complete facilities installation and pre-commissioning ahead of first gas. Additional capex in both the base and upside cases is then largely driven by the drilling schedule. In reality the Logbaba project economics are more akin to shale gas plays in this respect, albeit with more attractive margins. Any downward pressure on margins and VOG has the ability to suspend development of any of its monetisation routes and not endanger project economics up to that point. As such Logbaba offers significant upside potential, but with considerably lower development risk than similar sized projects where full field development capex is fully committed prior to entering production.

Logbaba break-even

With the exception of the outstanding $10-15m, base case initial capex has been sunk and hence positive cash flows will be expected immediately once Logbaba enters production. Even including historic capex we estimate economic breakeven from the base case will be reached within 18 months of first gas. The upside case, involving gas to power and LNG options, although undoubtedly ambitious, still provides relatively quick payback and positive cash flow. We estimate economic break-even from the base and upside combined case will be reached in H115 (Exhibit 5).

Exhibit 5: Cumulative cash flow Logbaba base and combined cases ($m net to VOG)



Source: Edison Investment Research

VOG valuation

Turning to overall valuation we estimate the base case assumptions to develop existing Logbaba 2P reserves will deliver a risked-NPV net to VOG of $433m, equivalent to 11.3p per share. This is based on a $16/mscf industrial gas price, 35mmscfpd maximum production and a 10% discount rate. We apply an 80% chance of success to this, largely to reflect unanticipated development issues associated with the complex Logbaba geology and the potential challenge to 38% of VOG's interest associated with RSM's licence forfeiture. Adjusting for net cash and G&A we estimate a core NAV of 11.0p per share, offering roughly three times uplift to the current share price (Exhibit 7).

The potential challenge to VOG's 95% interest from RSM is difficult to quantify. However, assuming 10% of the reduction in our CoS is related to licence issues, and a legal challenge from RSM to back into Logbaba is successful, we would estimate that the resulting negative impact on VOG's resulting 57% interest in Logbaba following reinstatement of full cost recovery would be less than 3p per share.

Valuing the upside potential of Logbaba requires taking a different view in that VOG will have to both prove up prospective resources and develop new monetisation routes for additional gas. We have currently assumed only a 15% chance of success for this, primarily reflecting the geological risk associated with proving up prospective resources. This is slightly more conservative than figures quoted in Blackwatch's Logbaba reserves report, where the probability of success is estimated at 20-30% in the Logbaba formation and 10-15% in the lower Mundeck formation (19.3% weighted average). The further reduction in CoS reflects uncertainty around the development of the different gas to power and LNG strategies, each of which is contingent on third-party involvement. Despite the conservative chance of success we estimate the risk weighted exploration upside potential within Logbaba is worth $194m or the equivalent of 5p per share. This drives an overall RENAV of 16p with significant upside as prospective resources are proved up and gas to power and LNG strategies are de-risked.

Exhibit 6: VOG valuation

Note: FD shares assumes a 10% dilution to raise c $12m to fund capex up to Logbaba first gas sales.

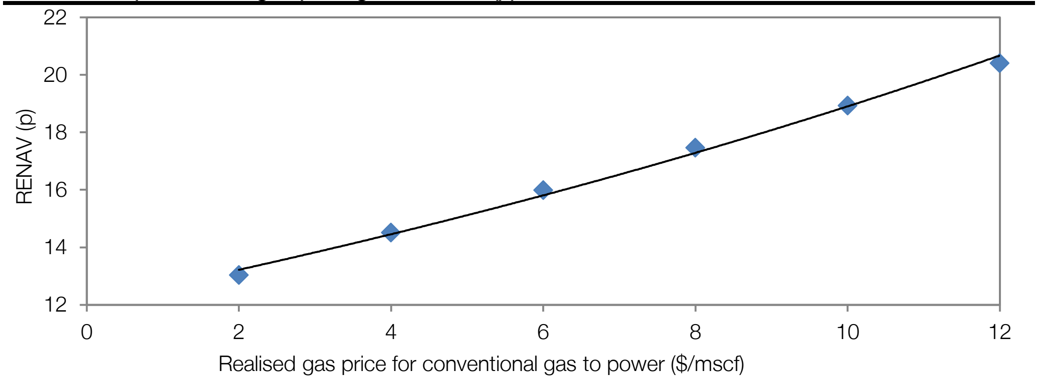
FD Shares (mn)	2,403	WI	Hydroc.	CoS	Unrisked		Netback	EMV	Value/Sh
£/$	1.60	%	fluid	%	Reserves/resources		NPV/boe	$m	p
Assets	Country/ licence				Gross mmboe	Net mmboe	$/boe		
Development									
Logbaba	Cameroon	95%	Gas	80%	41.8	39.7	13.6	433.3	11.3
Cash/(net debt)								21.3	0.6
G&A 2P								(29.8)	(0.8)
Core NAV							Total	424.8	11.0
Exploration/appraisal									
Logbaba upside	Cameroon	95%	Gas	15%	275.9	262.1	4.9	194.1	5.0
G&A upside								(3.0)	(0.1)
RENAV							Total	615.9	16.0

Source: Edison Investment Research

Valuation sensitivities

As previously mentioned we see significant sensitivity within our RENAV to price assumptions for gas supply into IPP facilities. We have assumed a supply price of $6/mscf, significantly below industrial spot prices and at the low end of the range in which VOG is currently in discussion with interested parties. However, we flag the possibility that realised prices could be lower than this given the lack of precedents and some reports of lower prices for supply into other proposed power plants such as Kribi. We include in Exhibit 7 a sensitivity chart for the impact of IPP gas supply pricing on our RENAV. This shows that for every $2/mscf increase in sales price there is a 1.5p increase in RENAV based on our risked economics.

Exhibit 7: Impact of IPP gas pricing on RENAV (p)



Source: Edison Investment Research

Finally, we do not include West Medvezhye at present in our valuation pending clarification on development plans. We anticipate significant news flow in the next two months regarding this project and expect to incorporate this into our valuation once resources and development plans are better defined. With in excess of 1,400mmboe of resources the potential impact of West Med is highly significant and has the potential to further re-rate the stock price once resource details and potential development plans are better understood.

Financials: Final fundraise probable before first gas

Once Logbaba production commences we expect VOG to move immediately to strong profitability as a result of the compelling base case economics. However, following forfeiture of RSM's interest we estimate the company will require an additional $10-15m injection to fund final capex requirements to Logbaba first gas. Assuming this is equity financed this would result in an approximate 10% dilution. We have assumed this in both our forecasts and valuation modelling at the current share price of 3.75p.

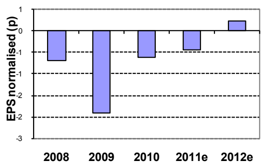
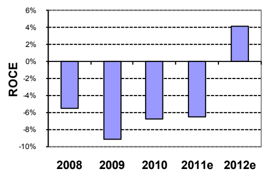
During August 2011 VOG announced it had acquired a one-third interest in Cameroon Holdings limited (CHL) for $6m. CHL had a royalty over Logbaba production that operates on a sliding scale from 15% down to 6%. The acquisition of this interest reduced CHL's royalty to a sliding scale from 10% down to 4%. We estimate that on a discounted cash flow basis the impact of this acquisition is to increase our overall RENAV for VOG by $26m or 1.1p of the diluted share price.

Given the highly encouraging news on West Med we feel it is prudent to await details of VOG's assessment of the Mineral LLC analysis, the Mineral final report and preliminary appraisal and development studies before ascribing any value to the 1.4 billion barrel resource. We anticipate news flow over the coming weeks and months that will allow us to assess and include this in our valuation models and forecasts.

Exhibit 8: Financials

$'000s	2009	2010	2011e	2012e
Year end 31 May	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue	0	0	0	21,197
Cost of Sales	0	0	0	(5,192)
Gross Profit	0	0	0	16,004
EBITDA	(43,857)	(6,259)	(8,330)	6,895
Operating Profit (before amort and except)	(7,738)	(5,929)	(7,901)	7,758
Intangible Amortisation	(35,541)	0	0	0
Exceptionals	0	0	0	0
Other	0	0	0	0
Operating Profit	(43,279)	(5,929)	(7,901)	7,758
Net Interest	917	(178)	5	67
Profit Before Tax (norm)	(6,821)	(6,107)	(7,896)	7,825
Profit Before Tax (FRS 3)	(42,362)	(6,107)	(7,896)	7,825
Tax	0	0	0	0
Profit After Tax (norm)	(6,821)	(6,107)	(7,896)	7,825
Profit After Tax (FRS 3)	(42,362)	(6,107)	(7,896)	7,825
Average Number of Shares Outstanding (m)	355.8	968.9	1,801.7	2,320.7
EPS - normalised (c)	(1.9)	(0.6)	(0.4)	0.3
EPS - normalised fully diluted (c)	(1.9)	(0.6)	(0.4)	0.3
EPS - (IFRS) (c)	(11.9)	(0.6)	(0.4)	0.3
Dividend per share (p)	0.0	0.0	0.0	0.0
Gross Margin (%)	N/A	N/A	N/A	75.5
EBITDA Margin (%)	N/A	N/A	N/A	32.5
Operating Margin (before GW and except) (%)	N/A	N/A	N/A	36.6
BALANCE SHEET				
Fixed Assets	83,186	137,883	151,658	142,207
Intangible Assets	83,149	115,917	121,719	132,237
Tangible Assets	37	221	6,208	9,969
Investments	0	21,745	23,731	0
Current Assets	1,448	7,810	8,271	40,269
Stocks	0	0	0	213
Debtors	737	1,776	1,149	5,227
Cash	711	6,034	7,123	34,829
Other	0	0	0	0
Current Liabilities	(4,885)	(19,449)	(5,522)	(6,119)
Creditors	(3,885)	(17,595)	(4,595)	(5,192)
Short term borrowings	(1,000)	(1,854)	(927)	(927)
Long Term Liabilities	(11,178)	(14,558)	(13,950)	(13,950)
Long term borrowings	0	0	0	0
Other long term liabilities	(11,178)	(14,558)	(13,950)	(13,950)
Net Assets	68,571	111,686	140,458	162,406
CASH FLOW				
Operating Cash Flow	(6,787)	(8,545)	(21,831)	28,659
Net Interest	0	0	5	67
Tax	0	0	0	0
Capex	(1,117)	(35,522)	(12,218)	(16,143)
Acquisitions/disposals	(849)	0	0	1,000
Financing	736	49,431	36,059	14,123
Dividends	0	0	0	0
Net Cash Flow	(8,017)	5,364	2,016	27,706
Opening net debt/(cash)	(5,577)	289	(4,180)	(6,196)
HP finance leases initiated	0	0	0	0
Other	2,151	(895)	0	0
Closing net debt/(cash)	289	(4,180)	(6,196)	(33,902)

Source: Company accounts, Edison Investment Research

Growth	Profitability	Balance sheet strength	Sensitivities evaluation	
		N/A	Litigation/regulatory	◖
			Pensions	○
			Currency	◖
			Stock overhang	●
			Interest rates	○
			Oil/commodity prices	○

Growth metrics	%	Profitability metrics	%	Balance sheet metrics		Company details	
EPS CAGR 08-12e	N/A	ROCE 11e	(6.7)	Gearing 11e	N/A	Address:	
EPS CAGR 10-12e	N/A	Avg ROCE 08-12e	(4.8)	Interest cover 11e	N/A	Hatfield House 52-54 Stamford Street London SE1 9LX	
EBITDA CAGR 08-12e	N/A	ROE 11e	(5.5)	CA/CL 11e	N/A		
EBITDA CAGR 10-12e	N/A	Gross margin 11e	N/A	Stock turn 11e	N/A	Phone	(0)207 921 8820
Sales CAGR 08-12e	N/A	Operating margin 11e	N/A	Debtor days 11e	N/A	Fax	(0)207 921 8821
Sales CAGR 10-12e	N/A	Gr mgn / Op mgn 11e	N/A	Creditor days 11e	N/A	www.victoriaoilandgas.com	

Principal shareholders	%
Noor Petroleum	3.8

Forthcoming announcements/catalysts	Date *
Annual results	October
AGM	November
*Note: * = estimated*	

Management team
Chairman: Kevin Foo
Kevin has 30-year plus career in all aspects of natural resources, including technical, operational, project management and running public companies. He was former managing director of Celtic Resources Plc and non-executive chairman of Bramlin Limited, AIM-quoted resource companies
Executive Director: Austen Titford
Austen is a chartered accountant with more than 17 years' experience from working for FTSE 100 and AIM-listed natural resource companies, including Lonrho, LASMO, BHPB and Celtic Resources on projects in Africa, Iran, Russia and Central Asia. He brings a broad mix of financial experience, covering both the project development and operational phases
COO: Radwan Hadi
Radwan is a senior petroleum engineer with Blackwatch with over 25 years' experience in oil and gas including in Nigeria, Ghana and Equatorial Guinea

Companies named in this report
Perenco, Societé National des Hydrocarbures