ViaLogy PLC

Interim Report and Unaudited accounts for six months ended 30 September 2008

ViaLogy PLC

Chairman's statement for the six months ended 30 September 2008

The Interim report covers the six-month period to 30 September 2008. The figures show a loss for the period of £2,597,102, which includes £1,176,605 for amortisation and depreciation. The amortisation charge relates to the value of ViaLogy's Intellectual Property and associated Research and Development, which is amortised over a total of six years. The cash outflow from operations during the period was £1,348,898.

In August 2008 ViaLogy raised £1.8 million by way of a placing of 45 million new ordinary shares at 4p per share. In addition, subject to shareholder approval which was subsequently given at the AGM, the placees received one warrant for every ordinary share purchased in the placing. Each warrant entitles the holder to purchase an additional ordinary share at 5p at any time up to 29 October 2010.

During the April – September months the Company made considerable technical progress particularly in the two sectors where it is focussing its principal commercial efforts, Safety & Security and Oil & Gas.

In the Safety & Security sector we have been working in partnership with governments and international organisations including the US Department of Defence, Cisco and SAIC, to integrate ViaLogy's Sensor Policy Manager (SPM™) product into installations in the US and overseas. Such major contracts take a considerable time to negotiate and plan but we are confident that SPM™ is on its way to becoming an element of these vital security systems.

In September 2008 we analysed the seismic data for an exploratory oil well drilling in Texas with Atascosa Exploration. Using QRI™, our location predictions proved completely accurate and in January 2009 we will embark on two further proof-of-concept drilling projects with Atascosa. We also made satisfactory progress in the adaptation of QRI™ for the precise geolocation of oil and gas pipelines. In October 2008 we carried out the first pipeline survey test flight with Sky Research, combining QRI™ with state-of-the-art synthetic aperture radar. We intend to demonstrate a new approach, and a pipeline survey product, that is cost-effective, robust, and meets pipeline industry criteria.

ViaLogy PLC

Our work throughout 2008 has been carried out in an international financial and commercial environment that is the most difficult I have ever experienced. In such circumstances it is incumbent upon small companies such as ViaLogy, with a strong technology potential but yet to make its commercial mark, to be prudent in its financial planning. We have looked carefully at every aspect of our overhead expenditure and made cost savings wherever possible. In addition, directors and staff have agreed to make personal financial sacrifices to ensure the continued well-being of the Company and I thank them on behalf of the board and the shareholders.

Terry Bond
Chairman
ViaLogy PLC

16 December 2008

Directors
Terry Bond – Executive Chairman
Dr. Robert W Dean – Chief Executive Officer
Dr. Sandeep Gulati – Chief Technology Officer
Michael Kelly – Non-Executive Director
George Rehm – Non-Executive Director
Peter Reynolds – Non-Executive Director

ViaLogy PLC

Chief Executive Officer's review

Oil & Gas

Working closely with San Antonio-based partner Atascosa Exploration LLP, ViaLogy has determined the location of an additional hydrocarbon reservoir, this one gas. Using QuantumRD, ViaLogy's proprietary technology for geoseismic analysis that assesses the location, capacity and payout of hydrocarbon reservoirs, Atascosa plans to complete drilling in January 2009. ViaLogy is also fixing the location of another oil reservoir for Atascosa, and determining the optimal drill location. Drilling on this second project should also be completed in the January/February 2009 timeframe. Success with these projects will give ViaLogy a 5% working interest in their output, and should mark a major milestone in proof-of-concept acceptance of the QuantumRD technology by the oil and gas exploration industry. ViaLogy intends to market its QuantumRD product aggressively, and to enter immediately into additional drilling projects with Atascosa. Atascosa CEO, John Mullins, said, "Our willingness to commit major development funding to the two wells speaks for itself with respect to our confidence in the QuantumRD technology."

ViaLogy has also made significant progress in productizing its core IP, Quantum Resonance Interferometry or QRI™, with its application to precisely geolocate buried oil and gas pipeline. This application of QRI™ is branded as QSUB™. QRI™ itself is a tool for the extraction of hard-to-find information from sensor data that frustrate other software processing techniques; it has wide applicability in that it can be applied to data from virtually any type of sensor. Precisely locating buried pipeline more cost effectively than current techniques is a business service for which there is a substantial market, and for which ViaLogy believes QSUB™ has a direct and cost-cutting utility. ViaLogy's work over the last six months has been to demonstrate a new approach that is dependable, robust, and meets pipeline industry criteria; we have not encountered any setback with the application of the QRI™ technology. We are pleased with our progress toward achieving an industry-accepted proof-of-concept, although a better-funded effort would accelerate progress. Working within ViaLogy's resource constraints, and using multiple synthetic aperture radar data sets to confront the technology with a demanding variety of soil conditions, ViaLogy is showing that QSUB™ can both locate otherwise impossible-to-find buried metal objects, and improve radar's performance by determining when it produces false alarms. This work translates directly into the pipeline application. We hope to be able to report major milestones in the first quarter of 2009 about carrying the pipeline business forward.

Safety & Security

In the Physical Security Information Management market, ViaLogy's flagship security software product Sensor Policy Manager™ (SPM™) has made major steps forward in the face of economic and business challenges in the security software business stemming from difficulties in the wider economy. Our Canadian partner Axia Supernet has decided to expand a joint SPM™ air quality monitoring operational pilot as a step toward winning customer acceptance of a province-wide deployment. SPM™ is operating in Los Angeles County as the core piece of a chemical toxin early warning system sponsored by the US Department of Health & Safety and the Company expects this system to be expanded in LA County and further deployed to other major US cities. In cooperation with a major US defense contractor, ViaLogy has successfully integrated multiple perimeter surveillance radars into an Air Force Asian base security system and ViaLogy expects further orders for other bases; SPM™ is also being evaluated for supporting US Army base security systems. In addition, one of ViaLogy's partners, Cisco Systems Inc, has put in place a targeted marketing effort for its COPSS integrated security solution; SPM™ is an integral part of COPSS and Cisco systems Inc and ViaLogy are jointly approaching major potential customers. In summary, the Company has a growing sales pipeline for its SPM™ and looks toward substantial income in 2009.

Outlook

ViaLogy looks back on a year of achievement in presenting its technologies as products that will introduce efficiencies in the energy and security markets. We expect significant expansion of our revenues from operations as the new year progresses.

Robert W. Dean
Chief Executive Officer
ViaLogy PLC

16 December 2008

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Consolidated income statement for the six months ended 30 September 2008

	Unaudited 6 months to 30 Sep 2008	Unaudited 6 months to 30 Sep 2007	Audited Year to to 31 Mar 2008
	£	£	£
Revenue	**32,444**	22,567	31,485
Cost of sales	**10,587**	408	407
Gross profit	**21,857**	22,159	31,078
Administrative expenses	**2,853,184**	2,266,459	5,409,444
Loss from Operations	**(2,831,327)**	(2,244,300)	(5,378,366)
Finance costs	**–**	(1,275)	–
Finance income	**32,128**	52,776	119,985
Loss for the year before taxation	**(2,799,199)**	(2,192,799)	(5,258,381)
Taxation	**202,097**	195,143	389,454
Loss for the year attributable to equity holders of the parent	**(2,597,102)**	(1,997,656)	(4,868,927)
	£	£	£
Loss per share			
Basic and diluted	(0.55)p	(0.46)p	(1.091)p

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Consolidated statement of changes in equity for the six months ended 30 September 2008

	Share capital £	Share premium account £	Warrant reserve £	Foreign exchange reserve £	Retained earnings £	Total £
At 1 April 2008	4,587,736	14,511,702	275,000	(436,394)	(8,437,103)	10,500,941
Loss for period	–	–	–	–	(2,597,102)	(2,597,102)
Exchange differences arising on translation of foreign operations	–	–	–	764,504	–	764,504
Total income and expense recognised for the year	–	–	–	764,504	(2,597,102)	(1,832,598)
Arising on issue of shares	450,000	1,186,500	–	–	–	1,636,500
Arising on issue of	–	–	112,500	–	–	112,500
Share	–	–	–	–	338,685	338,685
Balance at 30 September 2008	5,037,736	15,698,202	387,500	328,110	(10,695,520)	10,756,028

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Consolidated balance sheet at 30 September 2008

	Notes	**Unaudited 30 Sep 2008 £**	Unaudited 30 Sep 2007 £	Audited 31 Mar 2008 £
Assets				
Non current assets				
Property, plant and equipment		**149,995**	86,558	99,343
Intangible Assets		**10,456,844**	10,390,570	10,148,333
Financial Assets		**200,000**	200,000	200,000
		10,806,839	10,677,128	10,447,676
Current assets				
Inventories		**12,469**	7,363	10,515
Trade and other receivables		**49,272**	45,879	29,116
Cash and cash equivalents		**1,961,491**	3,983,337	2,190,050
		2,023,232	4,036,579	2,229,681
Total Assets		**12,830,071**	14,713,707	12,677,357
Liabilities				
Current liabilities				
Trade and other payables		**317,451**	211,368	380,246
Non-current liabilities				
Deferred tax liability		**1,756,592**	1,940,944	1,796,170
Total liabilities		**2,074,043**	2,152,312	2,176,416
Capital and reserves attributable to equity holders of the Company				
Share capital		**5,037,736**	4,587,158	4,587,736
Share premium account		**15,698,202**	14,481,849	14,511,702
Warrant Reserve		**387,500**	275,000	275,000
Foreign Exchange translation reserve		**328,110**	(656,772)	(436,394)
Retained Earnings		**(10,695,520)**	(6,125,840)	(8,437,103)
Shareholders' funds		**10,756,028**	12,561,395	10,500,941
Total equity and liabilities		**12,830,071**	14,713,707	12,677,357

ViaLogy PLC

Consolidated cash flow statement for six months ended 30 September 2008

	Unaudited 30 Sep 2008 £	Unaudited 30 Sep 2007 £	Audited 31 Mar 2008 £
Operating Activities			
Loss before tax	**(2,799,199)**	(2,192,799)	(5,258,381)
Adjustments for :–			
Finance income	**(32,128)**	(52,776)	(119,985)
Finance cost	**–**	1,275	–
Depreciation	**27,025**	15,689	43,623
Amortisation	**1,176,605**	1,040,359	2,181,438
Share option expense	**338,685**	217,133	806,994
Foreign exchange movements	**(7,109)**	(3,901)	(4,076)
Operating Activities before changes in working capital	**(1,296,121)**	(975,020)	(2,350,387)
Reduction/(Increase) in trade and other receivables	**(20,156)**	(2,547)	14,216
Increase in inventories	**(1,954)**	(5,398)	(8,550)
(Reduction)/Increase in trade and other payables	**(62,795)**	41,673	210,551
Interest received	**32,128**	52,776	119,985
Interest paid	**–**	(1,275)	–
Cash generated from operations	**(1,348,898)**	(889,791)	(2,014,185)
Investing activities			
Internally generated intangible asset	**(535,255)**	(615,626)	(1,245,207)
Acquisition of tangible fixed assets	**(93,406)**	(51,346)	(91,236)
	(1,977,559)	(1,556,763)	(3,350,628)
Financing Activities			
Cash inflow from issue of new shares (net of issuance costs)	**1,749,000**	4,315,680	4,342,823
Cash inflow from exercise of options	**–**	26,565	–
Decrease in cash and cash equivalents	**(228,559)**	2,785,482	992,195
Cash and cash equivalents at beginning of year	**2,190,050**	1,197,855	1,197,855
Cash and cash equivalents at end of year	**1,961,491**	3,983,337	2,190,050

ViaLogy PLC

Notes forming part of the parent company financial statements

1 Accounting policies

Basis of preparation

The financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) and stated in British pounds (£). In preparing the interim financial statements, the same accounting policies are applied as in the preparation of the audited Financial Statements for the year ended 31 March 2008 except for the changes set out below.

The above financial information does not constitute statutory accounts within the meaning of Section 240, Companies Act 1985. The information relating to the six months ended 30 September 2008 has been reviewed but not audited. Information relating to the year ended 31 March 2008 has been extracted from the statutory accounts of the Group which have been audited by the Group's auditors BDO Stoy Hayward and whose report thereon is unqualified.

Going concern

The Group's financial plans require the Group to secure a number of sales contracts over the course of the coming year in order to fund the working capital requirements and the development programme of the Company and Group. The majority of these sales contracts have not yet been secured and although the Board believes that these contracts will be secured this constitutes a significant uncertainty. In the event that these sales contracts are not received in line with the Group's financial plans then Directors are confident that further equity funding could be raised or expenditure could be sufficiently reduced to ensure that funds are available to meet working capital requirements. Accordingly the Group's financial statements have been prepared on a going concern basis.

2 Segmental analysis

The Group's primary and secondary formats for reporting segment information are shown below. The primary operations segment is based in the USA; the head office primary segment is based in the UK. The differing geographical locations being the secondary segment overlap completely with the differing nature of the business segments.

2008 Business Segements	Operations	Head Office	Unallocated	Consolidated
	£	£	£	£
Revenue	32,444	–	–	32,444
Gross profit	21,857	–	–	21,857
Net finance income	–	–	32,128	32,128
Net tax credit	–	–	202,097	202,097
Net loss for the period	(2,272,618)	(558,709)	234,225	(2,597,102)
Segment assets	8,937,308	2,136,171	1,756,592	12,830,071
Segment liabilities	230,301	87,150	1,756,592	2,074,043
Costs to acquire plant property and equipment	93,406	–	–	93,406
Costs to acquire intangible assets	535,255	–	–	535,255
Depreciation and amortisation	1,202,974	656	–	1,203,630
Share based payments charged	–	338,685	–	338,685

All sales were to external customers.

Notes forming part of the parent company financial statements

2007 Business Segments	Operations £	Head Office £	Unallocated £	Consolidated £
Revenue	22,567	–	–	22,567
Gross profit	22,159	–	–	22,159
Net finance income	–	–	52,776	52,776
Net tax credit	–	–	195,143	195,143
Net loss for the period	(1,894,703)	(546,015)	247,919	(2,192,799)
Segment assets	4,609,529	4,126,655	1,940,944	10,677,128
Segment liabilities	67,283	144,085	1,940,944	2,152,312
Costs to acquire plant property and equipment	50,530	816	–	51,346
Costs to acquire intangible assets	615,626	–	–	615,626
Depreciation and amortisation	1,055,489	559	–	1,056,048
Share based payments charged	–	217,133	–	217,133

All sales were to external customers.

3 Taxation on profits from ordinary activities

The movement on the tax account relates to the release of the provision on the deferred tax credit. The calculation is shown below:

	2008 £	2007 £
At 1 April	**1,908,970**	2,298,425
Release for the six months to 30 Sept 2008	**(202,094)**	(195,143)
Foreign exchange translation	**49,716**	(162,312)
At 30 September	**1,756,592**	1,940,963

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 35%.

4 Loss per share

Basic

The calculation of earnings per share is based on the loss for the period of £2,597,102 (2006 – loss £1,997,656) and on 503,125,537 (2006 – 434,204,404) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

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. 64,830,702 options and 76,193,654 warrants have been excluded from this calculation as this would reduce the loss per share.

Notes forming part of the parent company financial statements

5 Share capital

	Authorised			
	2008	2007	**2008**	2007
	Number	Number	**£**	£
Ordinary Shares of 1p Each	**750,000,000**	750,000,000	**7,500,000**	750,000,000

	Allotted, called up and fully paid			
	2008	2007	**2008**	2007
	Number	Number	**£**	£
Ordinary Shares of 1p Each				
At 1 April	**458,773,621**	403,125,537	**4,587,736**	4,031,255
Shares issued for cash	**45,000,000**	55,000,000	**450,000**	550,000
Employee Share option exercised	**–**	590,334	**–**	59,033
At 30 September	**503,773,621**	458,715,871	**5,037,736**	4,587,158

On 19 August 2008 the Company issued 45,000,000 shares of 1p each at 4p per share by way of a private placing.

6 Reserves

2008	Ordinary share capital	Share Premium account	Warrant Scheme reserve	Foreign Exchange	Retained earnings
	£	£	£	£	£
At 1 April 2008	4,587,736	14,511,702	275,000	(436,394)	(8,437,103)
Arising on issue of Shares	450,000	1,237,500	112,500	–	–
Fundraising costs	–	(51,000)	–	–	–
Loss for the period	–	–	–	–	(2,597,102)
Arising in the period	–	–	–	764,504	–
Share option expense	–	–	–	–	338,685
At 30 September 2008	5,037,736	15,698,202	387,500	328,110	(10,695,520)

Notes forming part of the parent company financial statements

2007	Ordinary share capital £	Share Premium account £	Warrant Scheme reserve £	Foreign Exchange £	Retained earnings £
At 1 April 2007	4,031,255	10,970,508	–	20,075	(4,345,317)
Arising on issue of Shares	555,903	3,595,661	275,000	–	–
Fundraising costs	–	(84,320)	–	–	–
Loss for the period	–	–	–	–	(1,997,656)
Arising in the period	–	–	–	(676,847)	–
Share option expense	–	–	–	–	217,133
At 30 September 2007	4,587,158	14,481,849	275,000	(656,772)	(6,125,840)

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 earnings	Cumulative net gains and losses recognised in the consolidated income statement.
Foreign Exchange	Exchange difference arising on translation of foreign operations.

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