

Nautical Petroleum plc
Interim Report 2009





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Nautical Petroleum plc is an independent hydrocarbon exploration and development company listed on the London AIM.

The Company's mission is to acquire, develop and add value to discovered heavy oil, on the United Kingdom Continental Shelf and Europe.

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Highlights

- » Site survey completed and rig agreement signed for Catcher, to be drilled in May 2010.
- » Technical work completed on Kraken in readiness for next appraisal well planned for Q3 2010.
- » Loss after tax of £1.3m for the 6 month period ending 31 December 2009.
- » Strong cash position of £16.8m at 31 December 2009. Debt free with £7.5m secured facility undrawn and fully available.

Cornerstone Assets

Mariner

90^{mmbo}

Net best estimate contingent resources
(development pending)

- » Field Development Plan (FDP) submission in 2011

Kraken

29^{mmbo}

Net best estimate contingent resources

40^{mmbo}

Net best estimate prospective resources

- » FDP submission target end 2010

Chief Executive's statement

Nautical is pleased to report continuing progress in the evaluation and commercialisation of its quality portfolio of European assets.

Continued Progress in a More Stable Environment

During the period Nautical used its extensive knowledge of the East Shetland Platform to increase the clarity of our subsurface understanding on our cornerstone assets as both operator and active joint venture partner.

Interpretation and integration of seismic surveys and sedimentological studies were the main focus along with the evaluation of development and marketing options for both Kraken and Mariner.

The oil price appears to have stabilised at above \$70 per barrel which, coupled with the narrow discount of heavier crude to Brent is well above the break even price for the Company's development projects. Semi submersible day rates have settled at around \$250,000 per day which is still considered too high for the moderate level of current and forecast drilling activity. Conversely however, large jack up rates are now below \$150,000 per day and we have taken advantage of these prices to secure a rig to drill the Catcher exploration well, which is scheduled to spud in May 2010.

Service costs have also fallen to more sensible levels and there remains good availability of development equipment, which we will aim to use for the phased development of Kraken.

Portfolio Management - Directing Resources Efficiently

Nautical is committed to progressing both Mariner and Kraken to Field Development Plan (FDP) submission whilst adding value to our focused exploration and appraisal portfolio.

As a result of active portfolio management, a significant number of partial and full blocks have been relinquished, however new licence awards are expected in European heavy oil provinces to enhance the portfolio in the coming year. Although the farm out market remains relatively soft we have continued our strategy to attract companies to share the risk and costs of drilling prospects which we have identified and will announce the outcomes in due course. Judicious portfolio management has enabled Nautical to maintain significant equity in our most attractive opportunities.

Mariner – Charting The Course to Development

The operator, Statoil (UK) Ltd assisted by the Joint Venture partners have advanced and consolidated our understanding of the subsurface, required facilities, oil processing and marketing required to pass from Concept to Definition Phase (through Decision Gate 2, Project Pre-Sanction) at the end of 2010.

Interpretation and integration of the subsurface seismic and geological data has enabled a detailed sedimentological model to be used to define both a robust geomodel and a simulation model for the Maureen reservoir. This is expected to produce a better understanding of fluid flow, optimise the placement of producer wells and determine the hydrocarbon resources to optimally size the facilities. A parallel process is well advanced for the shallower Heimdal reservoir, whose areal and vertical distribution has been imaged by combining the original 3D with recently acquired and processed Ocean Bottom Cable (OBC) seismic data.

Nautical has been instrumental in modifying the Heimdal sedimentological model by utilising its detailed regional knowledge to identify additional remobilised sands in the Lista Section. Since these sands have been derived from the original slope channel sands (penetrated by wells) improved connectivity

through the Heimdal section can be implied. Both reservoir simulations will be completed by mid year when we aim to report updated resources.

As a result of extensive processing and marketing studies it was concluded that the Mariner crude could be blended with lighter hydrocarbons both aiding crude processing (improved water separation and salt removal) and increasing the sale value of the blend.

The operator is screening a variety of development concepts including a fixed platform and floating systems. The studies are on schedule for concept selection at the end of the third quarter with Decision Gate 2 (Project Pre-Sanction) at year-end. After passing through Decision Gate 2, the Joint Venture intends to sanction the development and submit an FDP in 2011, anticipating first oil in 2015.

Kraken – Subsurface Clarity Promotes Significant Upside

One of the greatest challenges over Kraken was the prediction of the areal distribution of the Heimdal reservoir. However, utilising both regional seismic and sedimentology; sand body distribution modelling has been completed and we have concluded that the Heimdal sands sourced from the west have been channelled southwards along the topographic low created by the Kraken fault. Additionally the Controlled Source Electro Magnetic (CSEM) survey has confirmed an anomaly over both 9/2-1A and 9/2b-2 wells which extends to the west of the fault and to the south of the 9/2-1A well. Therefore there is a possibility that additional Heimdal sands have been deposited to the west of the fault and more generally towards the south of the present discoveries. As a consequence of the completion of this technical work we are now ready to drill the next appraisal well, which is planned for Q3 2010.

We are now ready to drill the next Kraken appraisal well, which is planned for Q3 2010.



Chief Executive's statement continued

The Co-venturers on Blocks 28/9 and 28/10b have contracted a heavy duty jack-up rig, the Transocean Galaxy II, to test the Tertiary (Eocene) Catcher prospect, which is expected to be spudded in May 2010.

Nautical intends to drill a dual penetration appraisal well which will both investigate the prognosed additional sands on the west of the fault and confirm the southern extent of the eastern hydrocarbon accumulation, with the expectation of increasing the contingent resources. The eastern penetration will be designed to recover core and obtain fluid samples, with the aim of providing data which will optimise the field development.

In anticipation of a favourable result from the appraisal well, development planning and concept selection studies are already underway. Our current plan foresees a phased development initially targeting the resources in the core area to the east of the Kraken fault.

Nautical has appointed a full-time Manager of Engineering and Operations to drive the Kraken development forward. We are reviewing the market for development equipment to identify what could be available to enable Kraken to be brought onstream in an accelerated time frame. Encouragingly, as part of Nautical's marketing initiative, an assay has been carried out by a refiner who has expressed a strong desire to purchase Kraken crude. Assuming success of the next appraisal well, our plan remains to submit an FDP before year end, with the anticipation of first oil in 2012.

Exploration and Appraisal Opportunities – increased activity

Following a relatively low level of operational activity Nautical anticipates that a sidetrack on the Keddington 2 well will be drilled in Q1 2010. This downflank well is designed to boost production to 150 – 200 bopd (15-20 bopd net).

The Co-venturers on Blocks 28/9 and 28/10b have contracted a heavy duty jack-up rig, the Transocean Galaxy II, to test the Tertiary (Eocene) Catcher prospect, which is expected to be spudded in May 2010. In the event of a successful crestal well we have made provision for a downdip side track to the north and a further sidetrack to test the Paleocene East Catcher prospect. Nautical's 15% interest in the wells and potential sidetrack benefits from a 20% carry by Premier Oil plc.



To the west of Britain in the East Irish Sea Nautical has mapped the large Merrow prospect in the Permian Collyhurst Sandstone which we hope to test in 2011.

Elsewhere in the UKCS seismic interpretation is ongoing on the Jurassic Spaniards prospect, downdip from the 15/21-38 well which tested 2660 bopd of 25° API oil from the Upper Claymore Sandstone. Seismic amplitude mapping indicates the presence of sand to the north of the well.

In France the main activity has been the marketing of the large Audignon Ridge gas prospect, to be drilled in 2012, subject to successful farmout. Nautical are anticipating the award of at least 3 further blocks in a heavy oil province in Europe.

Our ambitions in the recently announced UKCS 26th Licensing Round will be concentrated on blocks in our East Shetland Platform core area, close to our existing interests.

Financial Results

The financial results for the period reflect the continued steady progress on our portfolio, with £2.5m of capital expenditure incurred during the 6 months to 31 December 2009, primarily in Mariner and Kraken.

The Company's loss after taxation for the six month period ending December 2009 was £1.3m, including administration costs of £0.7m and exploration and evaluation expenses of £0.5m, of which £0.3m related to the relinquishment of Block 8/25a Selkie.

Nautical starts 2010 with £16.8m in cash and deposits and remains debt free, with our £7.5m secured facility fully available and undrawn. We are well positioned to execute the upcoming Catcher well and to meet the immediate needs of the business as we progress Kraken and Mariner towards development decisions.

Increased operational activity, coupled with the submission of FDP in Kraken and passing through DG2 on Mariner should crystallise significant value.

Appraise, Explore and Add Value

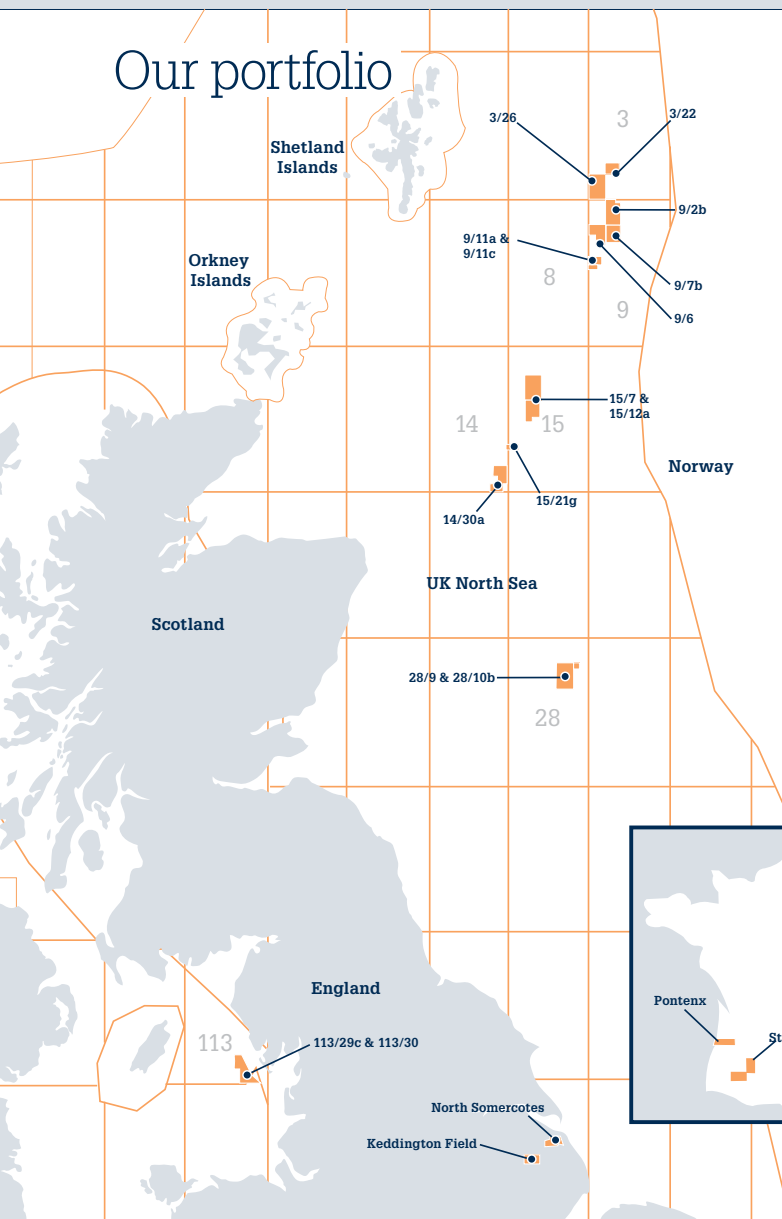
We look forward to a higher level of drilling activity in 2010 with at least two appraisal wells (Keddington and Kraken) and one exploration well (Catcher). Increased operational activity, coupled with the submission of FDP in Kraken and passing through DG2 on Mariner should crystallise significant value and result in a share price that better reflects the Company's net resources and revenue generating potential.

Steve Jenkins

Chief Executive Officer
22 March 2010

Operational review

Our portfolio



Kraken: Block 9/2b

(Licence P1077 – 35% interest)

- » A successful appraisal well was drilled in 2007 on the Kraken discovery. A deeper oil-down-to (ODT) was encountered and the oil is of a higher API with less viscosity than predicted.
- » A further appraisal well drilled September/October 2008 was dry – the well was plugged and abandoned.
- » Controlled source Electro Magnetic survey (CSEM) confirmed anomaly over accumulation.
- » Next appraisal well is planned for Q3 2010.
- » Target to submit FDP before end 2010.
- » Contingent resources of 83mmbo (gross), 29mmbo (net).
- » Prospective resources of 114mmbo (gross), 40mmbo (net).

Mariner: Block 9/11a

(Licence P335 – 26.67% interest)

- » This highly appraised field has produced 662,000 barrels of oil on extended test at a maximum rate of 14,991bopd (14.5 API) from the Maureen Formation sands and has flowed up to 1,800bopd from the shallower Heimdal reservoir.
- » 3D seismic and an Ocean Bottom Cable (OBC) survey acquired mid 2008 have improved imaging of both Heimdal and Maureen reservoirs.
- » Platform site survey acquired in summer 2009.
- » No more drilling is required and FDP submission is planned for 2011.
- » Best estimate contingent resources (development pending) of 369mmbo (gross), 90mmbo (net).

Tudor Rose: Block 14/30a

(Licence P1463 – 20% interest)

- » The block contains the Tudor Rose discovery.
- » Interpretation of Amplitude verses offset (AVO) volume is ongoing.
- » Engineering studies are underway on the 14/30a-2 discovery well to determine the case for further drilling.
- » Contingent resources of 49mmbo (gross), and 10mmbo (net).
- » Additional prospectivity at Cretaceous (Kopervik sandstone) level.

Catcher: Blocks 28/9 and 28/10b

(Licence P1430 – 15% interest)

- » The blocks contain several leads and prospects including the Catcher and Catcher East prospects.
- » Catcher is to be drilled in May 2010.
- » Prospective resources of 21.8mmbo (gross), 3.3mmbo (net).

Merrow: Blocks 113/29c and 113/30

(Licence P1475 – 50% interest)

- » The blocks lie on the edge of the East Irish Sea basin.
- » Interpretation of reprocessed seismic has confirmed the large Merrow prospect adjacent to Walney Island.

Mermaid: Block 9/11c

(Licence P979 – 80% interest)

- » Possible southern extension of Mariner accumulation in Heimdal Sandstone.

Blocks 3/22 and 3/26

(Licences P1573 and P1574 – 40% interest)

- » New 2D high density, high resolution data confirms Lusca prospect.
- » EM feasibility studies ongoing.

Scylla south: Blocks 9/6 and 9/7

(Licences P1575 – 35% interest)

- » Contains probable continuation of Scylla channel and possible Kraken analogue.
- » EM feasibility studies ongoing.

Spaniards: Block 15/21g

(Licences P1655 – 30% interest)

- » 3D seismic obtained and to be reprocessed.
- » Large Jurassic prospect down dip from 15/21a-38 oil discovery.

Blocks 15/7 and 15/12a

(Licences P1652 – 33% interest)

- » Contains Funnel and Atco prospects.
- » Evaluation of reprocessed 3D and 2D seismic in progress.

Keddington

(Licence PEDL005, 10% interest)

- » Acquired interest in this UK onshore producing field in January 2009.
- » Appraisal well to be drilled in Q1 2010.

St Laurent: France

(22% interest)

- » Located in Aquitaine Basin, south-west France, the Grenade-Sur-Ardour well produced 8,000 barrels in a series of tests.
- » Following 2D seismic reprocessing on the large Audignon Ridge, subsalt gas prospect in the block, we will seek to farmout prior to drilling a well.
- » Grenade has best estimate contingent resources of 4.2mmbo (gross), 0.9mmbo (net).

Pontenx: France

(20% interest)

- » Located in the Parentis Basin, south-west France.
- » The permit contains the abandoned Mimizan Nord field which produced 3.5mmbls of 12 API oil and a number of high potential prospects.

Gex: France

(20% interest)

- » Located in Jura Basin, eastern France (near the Swiss border).
- » Previous drilling on the block encountered shallow oil.
- » Additional prospectivity on large basement involved anticlines at Triassic level.

Consolidated statement of comprehensive income

For the 6 months ended 31 December 2009

	Notes	6 months to 31 December 2009 (unaudited) £'000	6 months to 31 December 2008 (unaudited) £'000	Year to 30 June 2009 £'000
Revenue		35	–	25
Cost of sales		(46)	–	(28)
Impairment & operating costs of extended well test equipment		–	(2,460)	(2,472)
Gross loss		(11)	(2,460)	(2,475)
Exploration & evaluation: gain on farmout		–	491	491
Exploration & evaluation: expense		(505)	(260)	(4,526)
Administrative expenses		(716)	(874)	(1,577)
Foreign exchange (loss)/gain		(65)	364	486
Operating loss		(1,297)	(2,739)	(7,601)
Finance income		153	1,039	1,314
Finance costs		(143)	(131)	(349)
Loss before tax		(1,287)	(1,831)	(6,636)
Tax	3	–	409	749
Loss for the year		(1,287)	(1,422)	(5,887)
Basic and diluted loss per share (pence)	4	(2.03)	(2.24)	(9.28)

The results above were entirely derived from continuing operations.

Consolidated statement of financial position

As at 31 December 2009

	As at 31 December 2009 (unaudited) £'000	As at 31 December 2008 (unaudited) £'000	As at Year to 30 June 2009 £'000
Non-current assets			
Intangible assets	50,777	51,122	48,857
Property, plant and equipment	268	–	277
Long-term deposits	–	–	1,000
	51,045	51,122	50,134
Current assets			
Trade and other receivables	643	1,430	573
Short-term deposits	3,496	12,500	16,000
Cash and cash equivalents	13,293	11,270	3,061
	17,432	25,200	19,634
Total assets	68,477	76,322	69,768
Current liabilities			
Trade and other payables	(566)	(2,928)	(809)
Non-current liabilities			
Deferred tax	(5,682)	(5,376)	(5,682)
Provisions	(3,652)	(3,839)	(3,466)
	(9,334)	(9,215)	(9,148)
Total liabilities	(9,900)	(12,143)	(9,957)
Net assets	58,577	64,179	59,811
Equity attributable to equity holders			
Called up share capital	11,588	11,588	11,588
Share premium	37,748	37,748	37,748
Other reserves	29,169	29,169	29,169
Cumulative translation reserve	(1,659)	(1,659)	(1,659)
Accumulated losses	(18,269)	(12,667)	(17,035)
Total equity	58,577	64,179	59,811

Consolidated statement of changes in equity

For the 6 months ended 31 December 2009

	Share capital £'000	Share premium £'000	Other reserves £'000	Cumulative translation reserve £'000	Retained earnings £'000	Total equity £'000
At 1 July 2008	11,588	37,748	29,169	(1,659)	(11,391)	65,455
Loss for the period	–	–	–	–	(1,421)	(1,421)
Total recognised income and expense for the period	–	–	–	–	(1,421)	(1,421)
Share-based payments	–	–	–	–	146	146
At 31 December 2008	11,588	37,748	29,169	(1,659)	(12,666)	64,180
Loss for the period	–	–	–	–	(4,466)	(4,466)
Total recognised income and expense for the period	–	–	–	–	(4,466)	(4,466)
Share-based payments	–	–	–	–	97	97
At 30 June 2009	11,588	37,748	29,169	(1,659)	(17,035)	59,811
Loss for the period	–	–	–	–	(1,287)	(1,287)
Total recognised income and expense for the period	–	–	–	–	(1,287)	(1,287)
Share-based payments	–	–	–	–	53	53
At 31 December 2009	11,588	37,748	29,169	(1,659)	(18,269)	58,577

Consolidated cash flow statement

For the 6 months ended 31 December 2009

	6 months to 31 December 2009 (unaudited) £'000	6 months to 31 December 2008 (unaudited) £'000	Year to 30 June 2009 £'000
Net cash outflow from operating activities	(821)	752	(367)
Cash flows from investing activities			
Finance income	109	213	840
Expenditure on development and production assets	–	–	(285)
Expenditure on intangible assets	(2,508)	(8,358)	(11,519)
Decrease/(increase) in cash placed on short-term deposit	12,504	2,500	(1,000)
Decrease/(increase) in cash placed on long-term deposit	1,000	–	(1,000)
Proceeds from asset disposals	–	11,488	11,938
Net cash flow from investing activities	11,105	5,843	(1,026)
Cash flows from financing activities			
Finance expense	(52)	(38)	(156)
Repayment of balances due to related undertakings	–	(405)	(508)
Net cash flow from financing activities	(52)	(443)	(664)
Increase/(decrease) in cash and cash equivalents	10,232	6,152	(2,057)
Cash and cash equivalents at beginning of year	3,061	5,118	5,118
Cash and cash equivalents at end of year	13,293	11,270	3,061

Notes to the financial statements

1. General Information

The information for the period ended 31 December 2009 does not constitute statutory accounts as defined in section 240 of the Companies Act 2006. The interim financial statements were authorised for issue on 22 March 2010 by the Board of Directors.

2. Basis of Preparation

The interim accounts have been prepared on the basis of the accounting policies set out in the June 2009 annual report and accounts. The June 2009 figures have been extracted from the audited accounts and the audit report was unqualified. Certain comparatives for December 2008 have been adjusted for consistency with the June 2009 presentation.

3. Taxation

	6 months to 31 December 2009 (unaudited) £'000	6 months to 31 December 2008 (unaudited) £'000	Year to 30 June 2009 £'000
Current income tax charge for the period	–	(646)	–
Deferred income tax:			
Relating to origination and reversal of temporary differences	–	1,055	1,151
Benefit of previously unrecognised tax losses	–	–	(1,900)
	–	409	(749)

4. Loss per share

	6 months to 31 December 2009 (unaudited)	6 months to 31 December 2008 (unaudited)	Year to 30 June 2009
Loss for the period attributable to equity holders (£'000)	(1,287)	(1,422)	(5,887)
Basic weighted average number of shares in issue in the period ('000)	63,408	63,408	63,408
Basic and diluted loss per ordinary share (pence)	(2.03)	(2.24)	(9.28)

5. Net cash flows from operating activities

	6 months to 31 December 2009 (unaudited) £'000	6 months to 31 December 2008 (unaudited) £'000	Year to 30 June 2009 £'000
Loss for the period	(1,287)	(1,422)	(5,887)
Finance income	(153)	(1,039)	(1,314)
Finance costs	143	131	349
Taxation	–	(409)	(749)
Impairment of equipment	–	2,376	2,376
Exploration gain	–	(491)	(491)
Exploration costs written off	232	24	4,057
Share-based payment charges	53	146	243
Depreciation	9	71	79
Unrealised foreign exchange movements	95	1,275	804
Operating cash flow before working capital movements	(908)	662	(533)
Decrease/(increase) in trade and other receivables	184	(7)	38
(Decrease)/increase in trade and other payables	(97)	97	128
Net cash flows from operating activities	(821)	752	(367)

Shareholder information

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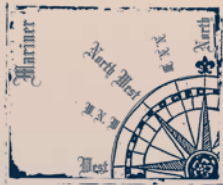
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Glossary

API	American Petroleum Institute®	DST	drill stem test	OWC	oil-water contact
bbl	barrels	EWI	extended well test	UKCS	United Kingdom Continental Shelf
bcf	billion cubic feet	FDP	field development plan	FPSO	Floating, Production, Storage and Offtake
bn	billion	km	kilometres	FEED	Front End Engineering and Design
bopd	barrels of oil per day	K	thousand		
cp	centipoises	m	million		
D	Darcy	mmbo	million barrels of oil		
DECC	Department of Energy and Climate Change	MWD	measurement while drilling		

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