Nautical Petroleum plc

Report and Accounts
2006

Nautical Petroleum

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.

Contents

Highlights

Successfully listed on AIM.

Raised £18m.

Two corporate acquisitions including significant stake in highly appraised Mariner discovery.

Nine blocks at June 2006 (four discoveries) in the UK North Sea and France.

Agreed to farm-out interests in four blocks.

Net proven and probable reserves and best estimate contingent resources 71mmbo.

Agreed to acquire two further blocks in July 2006 (both discoveries).

71 *mmbo*
Reserves and contingent resources (post farm-out)

107 *mmbo*
Prospective resources (post farm-out)

9
Number of blocks (as at June 2006)

£18 *m*
Money raised

Chairman's statement

I am pleased to present this Report and Accounts for Nautical Petroleum for the 18 months to 30 June 2006.

The Company has made very substantial progress since listing on the Alternative Investment Market (AIM) in April 2005. In the process, Nautical has achieved widespread recognition as a focused and specialist heavy oil development and production company, which now holds a significant portfolio of reserves, contingent resources and prospects.

Nautical has rapidly achieved several of its key early-phase objectives, including recoverable reserve acquisition.

Financial results
The accounts reflect the pre-revenue phase with a very modest rate of spending, which is mainly associated with the technical programmes in support of licence applications, preparation for farm-out processes and prospective acquisition evaluation.

During the period, two share placings were completed for a total of £18m. This funding covered the cash portion of corporate acquisitions including Alba Resources (Holdings) Group, through which the Company secured its participation in the Mariner heavy oil field. Funds raised have also assured that Nautical has the means to meet its share of projected costs of asset appraisal programmes, and licence work commitments.

Nautical continues to apply its stated policy of equity financing during the pre-revenue phase, complemented by affordable reserve appraisal programmes with risk-sharing through selective farm-outs.

Licence activity
The programme of selective corporate acquisition and licence applications has led to a greatly expanded portfolio of licence participations in the preferred area of the East Shetland platform. This area of the North Sea is a major heavy oil province and therefore a prime target for Nautical. The Company also announced its first licence participation in onshore Europe through a farm-in to the Grenade discovery in South West France, with completion awaiting French Government approval.

A major farm-out initiative was undertaken during the first half of 2006. The industry response (across the whole spectrum from specialists to oil majors) has underscored the rapidly growing interest in heavy oil prospects. The programme led to the announcement during June 2006 of a farm-out agreement with SK Corporation, of South Korea, covering four licence blocks, with completion expected in late September 2006.

Operator approval
A further early objective was to have Nautical approved as an Exploration Operator by the Department of Trade & Industry (DTI). Approval was officially confirmed in October 2005, and Nautical is now qualified to lead asset appraisal development projects on United Kingdom Continental Shelf (UKCS) licences where this complements the Company's strategy.

Directors, staff and associates
By any measure, Nautical has achieved much during this period. This would not have been possible without the determination and dedication of the executive management, as well as the valued advice and support of the non-executive directors.

The Nautical strategy of outsourcing services has led to the creation of close relationships with professional associates and specialist suppliers, whose commitment and contribution have greatly assisted in the early development of the Company.

Outlook
Nautical has established itself as a player in the heavy oil arena with an extended asset base, specialist focus and expertise, assured funding and advantageous market access. The Company is now well placed to progress to the production phase.

Technological developments and market trends continue to favour the profitable development and production of heavier crude oil in most probable future oil market scenarios.

The opportunity to work closely with Chevron and SK Corporation on the appraisal and development phases of offshore fields will add to the capability and standing of the Company in the longer term.

Nautical has the assets, expertise and funding to move forward with partners into the production phase when the focus will shift to the achievement of early production and revenue from the development of selected reserves.

Ian Williams
Chairman
22 September 2006

18 months in review

APRIL 2005

Nautical Petroleum plc Reverse Takeover completion (9/2b and 3/27a plus processing equipment).

Nautical Petroleum plc listed on AIM.

JULY 2005

Raised £8m through private placing.

AUGUST 2005

Completion of purchase of Alba Resources (Holdings) Ltd and First Mariner Ltd (26.67% Mariner, blocks 9/11c and 8/25a).

OCTOBER 2005

Converted block 9/2b from Promote to Traditional Licence and approved as Exploration Operator by DTI.

DECEMBER 2005

Signed an agreement to farm-in to St Laurent licence onshore France in the undeveloped Grenade heavy oil field Partnership with Egdon and Sterling Resources.

Awarded blocks 9/1, 8/5 and 15/7 in the UKCS 23rd Licensing Round.

JANUARY 2006

Raised £10m through private placing.

JUNE 2006

Signed an agreement to farm-out four blocks.

Heavy oil
an overview

The exploitation of heavy oil accumulations in the United Kingdom Continental Shelf (UKCS) is a specialist oil sector which is benefiting from a combination of continuing technological advances and the rise in crude oil prices. In the UK, the Department of Trade & Industry (DTI), is very supportive and is encouraging the industry to develop heavy oil discoveries and appraise prospective reserves as a potential means to mitigate the decline in North Sea crude production.

Summary

- Heavy oil is oil with a high density and low API gravity.
- Estimation of 4,600bn barrels in place of heavy oils, worldwide.
- Acceleration of interest, appraisal and development of UKCS heavy oil.
- Improvement of technology in well control and measurement.
- Development cost comparable to light oil reservoirs.

Relatively recent advances in technology are the prime factors enabling more economic recovery from heavy oil reserves. Continuous improvements and related operating experiences have added to the attractiveness and value of heavy oil reserves not only at present crude oil prices in the US$60/bbl range, but also down to a mid US$20/bbl price.

What is heavy oil?

There is no definite classification for heavy oil, but the industry generally considers it to be oil with a high density (>5 centipoises (cp)) and low (>10 < 22) API gravity (the specific gravity of crude at 60F). The oil is "heavy" due to its high proportion of heavy hydrocarbon fractions.

Although the API figure is the most often quoted oil classification, as it is more relevant to the refining yield value and not the economics of production. When considering production, the most significant factor is viscosity ("thickness"), with heavy oils generally being at greater than 5cp at reservoir conditions.

The producibility of heavy oil relates to the viscosity of the oil in the reservoir. This is often a function of the reservoir temperature and the gas-to-oil ratio. Oils with similar APIs can have very different viscosities.

Other factors which influence productivity include reservoir geometry, oil column thickness and continuity, and the permeability of the reservoir.

How much heavy oil is there?

There have been relatively few studies of global heavy oil reserves mainly due to problems associated with classification. However, recent research indicates, estimates of 4,600bn barrels in place of heavy oils. If 15% of this were recovered, it would equal the current estimated lighter crude resources. The world's major heavy oil deposits are located in Canada, Venezuela and the Former Soviet Union (FSU).

The majority of the heavy oil fields in the North Sea were discovered during the oil boom of the 1970s but technological limitations meant that the discoveries could not be commercially developed at the time. The subsequent focus on the development of lighter oil reserves in the FSU and West Africa in the 1980s, as well as the pattern of oil prices, left these heavy oil fields undeveloped.

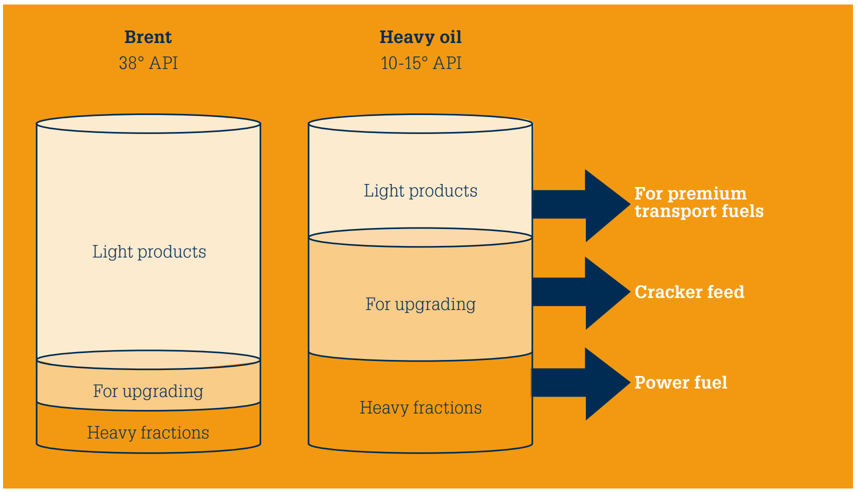
Heavy oil and the North Sea

The development of heavy oil production in the North Sea is not new. Existing producing heavy oil fields include Captain (88cp), Alba (7cp) and Clair (20cp). The activity and interest associated with the appraisal and development of UKCS heavy oil has accelerated recently.

Future development of UKCS heavy oil fields will involve a phased development approach and application of enhanced recovery techniques, including extended horizontal wells designed to maximise rates of recovery.

4,600 *bn barrels*

There are 4,600bn barrels in place of heavy oil worldwide.



UKCS heavy oil fields tend to be relatively shallow, have a relatively thick oil column with a large aquifer beneath and, in a number of cases, a substantial gas cap. Reservoir features often include favourable porosity and permeability features which support relatively high production flow rates per well. Most discovered heavy oil has relatively low sulphur content.

New technology

Continuing technological advances in well control and measurement while drilling (MWD) have greatly assisted the long-term exploitation of heavy oil fields, as well as reduced the number of dry holes.

A key factor in the development of heavy oil fields was the introduction of horizontal well technology. Horizontal well completions permit minimal pressure reduction in the reservoir, but critically maximise the distance between the oil and water contact, the best position generally being near the top of the reservoir. Horizontal wells also increase the production rates as the length of the well in the producing section of a reservoir is much greater than that in a vertical well.

Significant advances in pump technology have probably provided the most important contribution to heavy oil production economics. Electrical and hydraulic submersible pumps are now achieving multiple year run-lives in heavy oil production service without requiring maintenance workovers, thereby step changing oil lifting costs.

Economic viability

Heavy oil extraction may require longer lead times than lighter crudes, but it is no longer regarded as excessively complex or novel. Whilst more extensive appraisal work may be required in the process of developing feasible and economic field development plans, the associated wells are typically shallow and inexpensive when compared to deeper light oil reservoirs.

The capital requirements for the actual field production development of heavy oil are similar to those for lighter crudes. Although the target depths of the reservoirs are lower, the requirement for horizontal drilling increases cost. The requirement for complex process equipment and extended well testing also adds to the scale of total costs.

Marketing and transportation of heavy oil is, for many projects, similar to that of light oil. Although prices are lower (typically 10% to 15% less than Brent), there is a ready market. Transportation methods, in the North Sea, are typically the same as other types of oil, being predominantly by pipeline or tanker.

Although the economics of heavy oil are somewhat tighter than conventional oil, most projects are economically viable at US$30/bbl. Whilst the current high price of oil makes heavy oil more attractive, oil prices remain quite volatile. Therefore, the judicious use of forward market instruments can mitigate oil price related risks and underpin profitable operations to a considerable extent.

In the final analysis, with the correct technology and careful planning, the production of heavy oil can be very profitable. Nautical has access to its own specialist heavy oil processing equipment, as well as access to heavy oil marketing and end-users, through its relationship with the Masefield Group.

Chief Executive's review

This first period has been particularly exciting with strong progress made by implementing our stated business strategy of acquiring, appraising and developing discovered heavy oil resources.

Our Strategy

Nautical Petroleum plc intends to become a significant producer of heavy oil, initially in the UKCS and in Europe.

- Secure further heavy oil discoveries in UKCS and EU through acquisitions, farm-ins and licensing rounds.
- Achieve near term production on current assets.
- Enhance crude value and mitigate risk through our relationships.
- Acquire heavy oil exploration blocks with low/moderate commitments.
- Farm-out to mitigate portfolio risk.

Resulting in enhanced shareholder value.

Nautical is developing rapidly having assembled a valuable and broad base of real assets, through enacting a sound business plan shaped for our specialist niche of heavy oil. Nautical Petroleum is the only UK listed company offering direct exposure to heavy oil development in the UKCS. With a mixture of near-term development, appraisal and exploration, the Company's portfolio is balanced with significant resource upside.

This first period has been particularly exciting with strong progress made by implementing our stated business strategy of acquiring, appraising and developing discovered heavy oil resources and securing high impact exploration acreage with limited work commitments.

Key highlights of the period include the admission to AIM, the agreed acquisition of additional acreage both in the North Sea and South West France and the successful multi-licence farm-out agreement with SK Corporation of South Korea.

Review of activities

Creating a long-term business

The Company aims to retain significant stakes and operate its licences. To this end, Nautical was approved by the DTI as an Exploration Operator in October 2005 and fulfilled all obligations on licence P1077 (Block 9/2b) entering the second two year term.

Licence P1077 was one of the Company's two licences (Licence P1203 being the other) at the time that the Company was admitted to AIM. Since then, its portfolio has been increased with the acquisition of Alba Resources (Mariner discovery and two exploration licences), the award of two licences (three blocks) as operator in the 23rd Seaward Licensing Round, and the farm-in (awaiting French Governmant approval) to earn a 22% interest in the St Laurent Permit in South West France, which marks the Company's first foothold on mainland Europe. Agreements were signed to acquire a further two blocks from Engen Resources Ltd in the post balance sheet period.

Nautical now has interests in 10 blocks (five discoveries) in the UKCS and one licence in France with Nautical operating eight blocks. The Company's main aim during the period was to more tightly define the hydrocarbon volumes in place in both discoveries and exploration prospects. This has been achieved by the careful interpretation of reprocessed seismic data integrated with the petrophysical studies resulting in the reduction of risk. Nautical is further mitigating risk by farming down its interest in four blocks to a respected third party (Celtic Oil Limited, a wholly owned subsidiary of SK Corporation), as well as by accelerating its drilling activity, thereby furthering the Company's exploration and appraisal ambitions.

Farm-out agreement

Spreading the risk

It is Nautical's aim to mitigate exploration and appraisal risk by farming out the drilling of mature prospects and in June 2006 it successfully concluded a comprehensive multi-licence farm-out agreement with SK Corporation, Asia's leading energy and petrochemical company. The agreements cover a selection of heavy oil prospects within the Company's portfolio, as well as detailing where Celtic Oil Ltd will carry part of Nautical's exploration expenditures on a two-for-one basis for the proposed work programme. The wells are to be drilled between 2007 and 2008 as part of Nautical's commitment to its licensing terms with the DTI.

The farm-out invitation process followed comprehensive technical preparation by Nautical and was conducted over a two

Nautical will continue to add shareholder value through effective management, fully evaluating our assets and further expanding our portfolio by diligent acquisition and licence round awards.

month period. The programme saw more than 10 companies assess the potential of Nautical's assets on offer and represents independent confirmation of growing industry interest in North Sea heavy oil opportunities, effectively endorsing the business focus and strategy of the Company. Our strategy of thorough technical preparation provided a sound basis for the evaluation of the opportunities in our asset base and this transaction supports an acceleration and expansion of our immediate work programme.

Technology

Nautical owns specialist process equipment suitable for use in the testing of heavy oils down to 10 API. The equipment can handle up to 40,000 barrels per day (bopd) of liquid production of which 25,000bopd can be oil. This technology could be used on the testing of the 9/2b discovery as well as future Nautical development programmes, and when not in use there are opportunities to hire the equipment out to third parties. Ownership of this equipment provides commercial leverage and a competitive advantage.

Oil portfolio audit

RPS Energy audited our oil portfolio held at 30th June 2006. Reserves and resources quoted in this report refer to the figures verified by this audit. All reserves are proven plus probable and all contingent resources and prospective resources are best estimates.

Post-year end

North Sea block acquisitions
Resource additions in our core area

In July 2006, Nautical entered into an agreement to acquire a 98.5% operated interest in the Bluebeard (Block 9/12b, Licence P1079) and Skipper (Block 9/21, Licence P1080) discoveries on the East Shetland Platform from Engen Resources Ltd for a minimum of US$2.65m in shares. This transaction secured significant reserves adjacent to our current portfolio. The Bluebeard discovery is located directly east of the Mariner discovery and is in close proximity to oil transportation facilities capable of accepting additional throughput. Three wells have been drilled (9/12-3 (in 1975), 9/12b-6 (1985) and 9/12b-4 (1982)); the first two wells flowing 144 and 728bopd respectively from the Maureen Formation. This is the same reservoir as Mariner but the oil, with an 18 to 19API and a viscosity of less than 20cp, is of better quality. A further shallower reservoir, the Eocene Mousa Formation was oil bearing in 9/12–3 but the oil is more viscous and with a lower API (10) than the deeper formation. A Competent Persons Report commissioned by Engen assigns best estimate contingent resources of 16.9 million barrels of oil (mmbo) (16.6mmbo net to Nautical) to the Bluebeard discovery.

The Skipper discovery is located immediately east of the Selkie and Kelpie prospects (block 8/25a) and was tested by well 9/21-2 in 1990, encountering a 16 metre oil column in excellent quality Paleocene Dornoch Formation sands. An FDP based on best estimate contingent resources of 33.1mmbo (32.6mmbo net to Nautical) and 2D seismic data interpretation was submitted to the DTI.

Both blocks are subject to a farm-in by a third party which, if concluded, would reduce Nautical's financial exposure on an appraisal well on Bluebeard to a minimal level.

Market overview

Nautical expects international oil prices to remain relatively high for the foreseeable future. Additionally, a narrowing of the heavy crude oil discounts is also anticipated as demand rises and refineries are upgraded to process more complex crudes.

Unfortunately, buoyancy in the commodity price has been accompanied by cost escalation for services, exacerbated by tightening availability, particularly with respect to drilling rigs. The Company has acquired site surveys over two structures so that it is drill-ready and can take advantage of rig slots when they emerge. The challenge in the coming year, and beyond, will be to manage cost escalation, driven by industry-wide shortages of equipment and personnel. The increased call on resources in the upstream sector and attendant cost pressures present a challenge to the sector, but should not prejudice the viability of the Company's business model and, furthermore, are significantly mitigated by our strategy.

The future

Nautical will continue to add shareholder value through effective management, fully evaluating our assets and further expanding our portfolio by diligent acquisition and licence round awards.

Nautical continues to look forward to first revenues from our high-quality discoveries both in the UKCS and onshore Europe with our focus shifting to the development and management of an extensive drilling programme across our asset portfolio.

Steve Jenkins
Chief Executive Officer
22 September 2006

Operational review **Our portfolio**

as at September 2006

BLOCK 8/5 AND BLOCK 9/1 (LICENCE P1277)

Nautical has a 100% interest in these blocks, which were awarded in the 23rd Seaward Licencing Round.

Located on the East Shetland Platform west of the North Viking Graben, contiguous with Block 9/2b.

Across Blocks 9/1 and 8/5, we have acquired 484km of 2D seismic and identified two leads in the Tertiary. We intend to reprocess 250km of seismic to firm up these leads.

BLOCK 9/11A (LICENCE P729)

Nautical acquired a 26.67% interest in the Mariner discovery through the acquisition of Alba Resources Holdings Limited in August 2005.

In 1997 an extended well test (EWT) produced 662,000 barrels of oil over 63 days at a maximum rate of 14,991bopd (14.5 API) from Maureen Formation Sands.

BLOCK 9/11C (LICENCE P979)*

Nautical has a 60% interest in Block 9/11c. The Block was acquired through the acquisition of Alba Resources Holdings Limited in August 2005.

The 3D seismic has been reprocessed, interpreted and has confirmed the robustness of the trap with around 129mmbo best estimate prospective resources.

An exploration well is planned in the first half of 2007.

BLOCK 8/25A (LICENCE P976)*

Nautical has a 60% interest in Block 8/25a. The Block was acquired through the acquisition of Alba Resources Holdings Limited in August 2005.

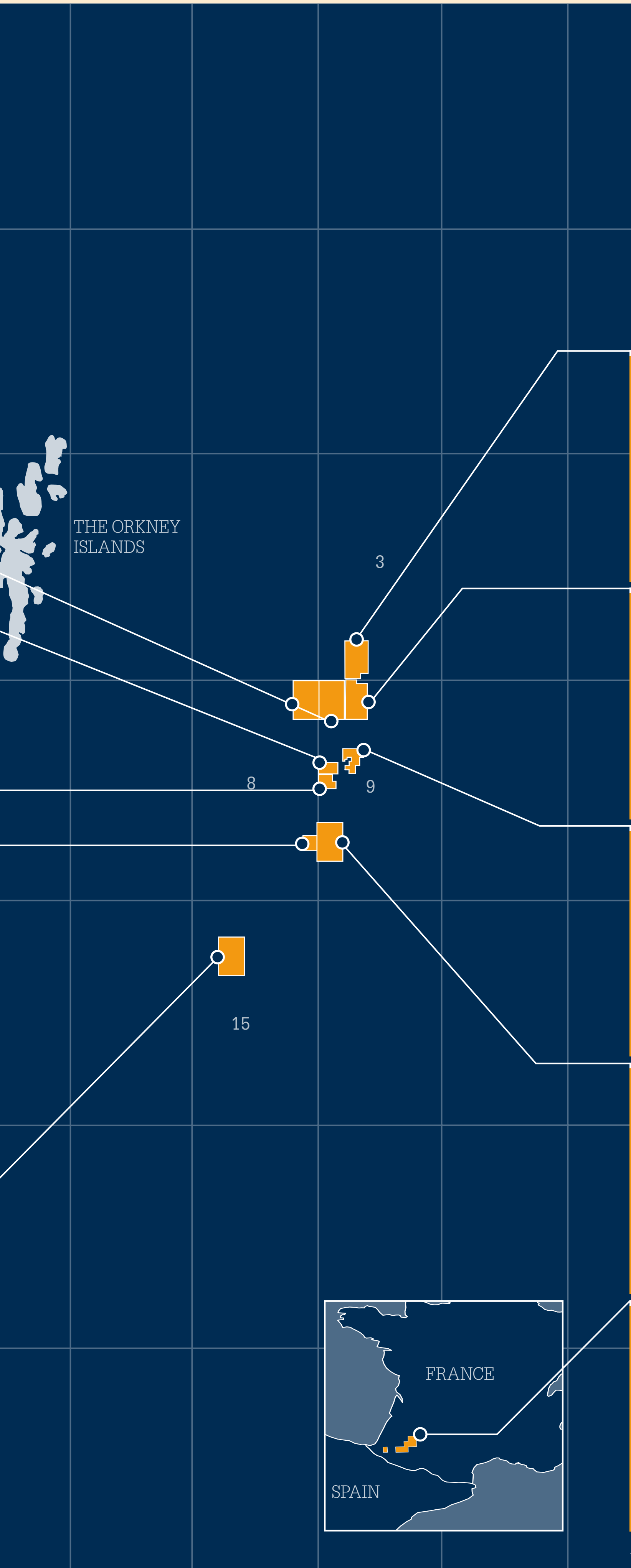
Selkie is mostly covered by recent 3D seismic and we have purchased 2D seismic. A four-way dip closure has been confirmed.

We estimate that this substantial four-way dip closed trap and Kelpie contain 35mmbo best estimate prospective resources.

BLOCK 15/17 (LICENCE P1296)

Nautical has a 50% interest in Block 15/7 as a result of a successful joint application with Egdon Resources plc (50%) in the 23rd Seaward Licensing Round.

We intend to reprocess 160km^2 of 3D and 180km of 2D seismic to further define the Seahorse Prospect and firm up the mapped leads.



BLOCK 3/27A (LICENCE 1203)*

Block 3/27a was awarded by the DTI in 22nd Seaward Licencing Round with an effective date of 1 December 2004.

We have reprocessed 50km of 2D seismic and re-interpreted the data to confirm the leads.

Nautical has a 45% interest in the block.

BLOCK 9/2B (LICENCE P1077)*

Block 9/2b was awarded by the DTI on 1 October 2003, and converted to a traditional licence in October 2005.

We have reprocessed over 200km of 1998 3D seismic and have interpreted this along with the 3D over the nearby Bressay discovery to confirm the large structural closure.

An appraisal well is planned in the first half of 2007, and a site survey was acquired in July 2006.

Nautical has a 45% interest in the block.

BLOCK 9/12B (LICENCE P1079)

Nautical acquired a 98.5% interest in the Bluebeard discovery from Engen Resources Limited in July 2006.

Three wells have been drilled 9/12-3 (1975),9/12b-6 (1985) and 9/12b-4 (1982), the first two wells flowing 144bopd and 728bopd respectively from the Maureen Formation.

BLOCK 9/21 (LICENCE P1080)

Nautical acquired a 98.5% interest in the block from Engen Resources Limited in July 2006.

The well encounterd a 16 metre oil column in excellent quality Palaeocene Dornoch Formation Sands.

An FDP, based on best estimate contingent resources of 33.1mmbo (gross) and 2D seismic interpretation, was submitted to the DTI in October 2005.

ST. LAURENT PERMIT+

Located in Aquitaine Basin, South West France.

Grenade-Sur-Adour produced 8000 barrels in a series of tests

12km^2 3D and 40km 2D has been acquired.

Further gas prospectivity on the permit.

* Percentage interests are post farm-out, which are expected to complete late September 2006.

\+ Permit is awaiting French Government approval.

Operational review ***UK Continental Shelf***

We are now in a strong position to exploit heavy oil reserves in the North Sea and are planning to participate in six exploration and appraisal wells in the next 12 to 18 months.

82 *mmbo*

Mariner Block 9/11a – Maureen Gross 2P reserves

53 *mmbo*

Block 9/2b – Gross best estimate contingent resources

Key Stats

Mariner

- Gross 2P reserves in Maureen Sand 82mmbo.
- Highly appraised (16 well penetrations of reservoirs).
- Excellent characteristics (Ø=31%, k=5D).
- Proven well deliverability 0.66mmbo of oil produced up to 15,000bopd.

Upside:

- Shallower Heimdal Sandstone could contains 51mmbo contingent resources.

Block 9/2b

- Contains Kraken oil discovery (1985).
- Excellent Heimdal Sandstone reservoir.
- 15° API oil, no OWC encountered.
- Contingent resources of 53mmbo.
- Appraisal well planned for 2007.

Mariner Block 9/11a (Licence P726)
(Nautical 26.67%)
Located on the East Shetland Platform, west of the Viking Graben, block 9/11a contains the Mariner discovery drilled in 1981. Since then data from several 3D surveys have been acquired, nine vertical wells and six high-angle horizontal wells have been drilled. The vertical wells produced 1,000 to 1,595bopd.

In 1997, an extended well test (EWT) produced 662,000 barrels of oil over 63 days at a maximum rate of 14,991bopd (14.5 API). The main reservoir is the Tertiary Paleocene Maureen Sandstone which has a gross thickness of up to 122 metres and excellent reservoir characteristics. The trap is both structural and stratigraphic, with the reservoir pinching out to the west, north and south. A shallower reservoir, Heimdal Sandstone Member, could recover gross contingent resources of 51mmbo (14mmbo net to Nautical). This reservoir has flowed up to 1,800bopd on a vertical test.

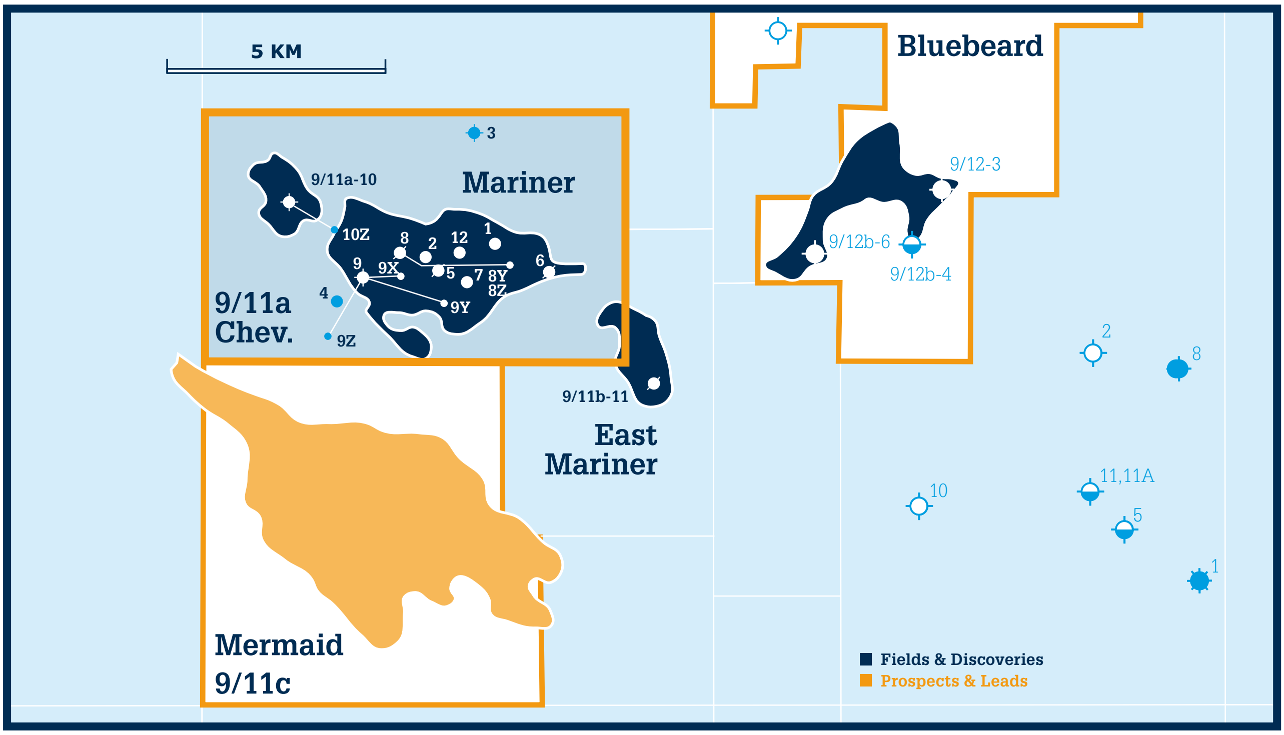
Nautical is an active partner in this highly appraised discovery and is encouraging early development. The Group, led by Chevron, reprocessed the merged 3D seismic data, resulting in greater clarity to the imaging of the Maureen reservoir (a key factor in this pre-development stage). Mapping of the seismic data has reduced the range of hydrocarbon volumes, as well as the stratigraphic and structural uncertainty.

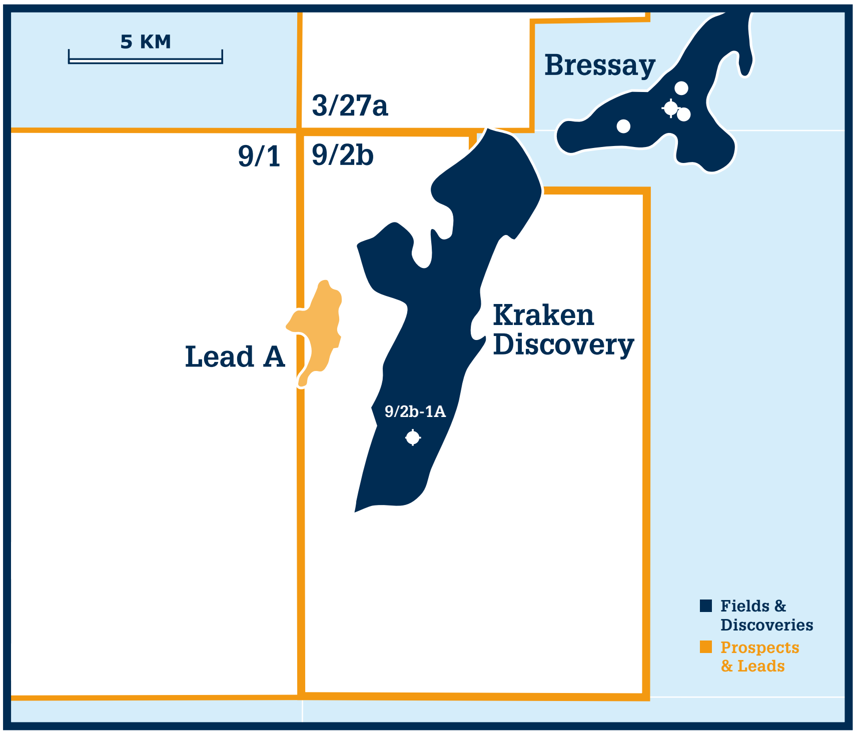
Progress towards the submission of the field development plan continues with the dynamic modelling of the Maureen reservoir, estimating 82mmbo proven and probable reserves for West and Core Area of Mariner (22mmbo net to Nautical). The favoured development concept will be selected by year end and well design is nearing completion. Current scheduling is for first oil in 2009.

Nautical is carrying a 6.67% interest in the Mariner block. Upon field development plan approval, Nautical will either be required to pay £1 to retain this interest or will be reimbursed past costs through the development phase, being £8 million at June 2006.

Block 9/2b (Licence P1077)
(Nautical 45% post farm-out; Operator)
The licence is located on the East Shetland Platform, west of the North Viking Graben and contains the 9/2-1A discovery well drilled in 1985. The well tested 15 API oil on drill stem test (DST) from the Tertiary Palaeocene Heimdal Sandstone Member. Analysis to date has confirmed an oil column of at least 33 metres (with no oil-water contact encountered in the well).

Interpretation of over 200km^2 of reprocessed 3D seismic data has confirmed the large, three-way dip-closed structure (Kraken Discovery) and revealed a crestal, high amplitude anomaly. Petrophysical studies and



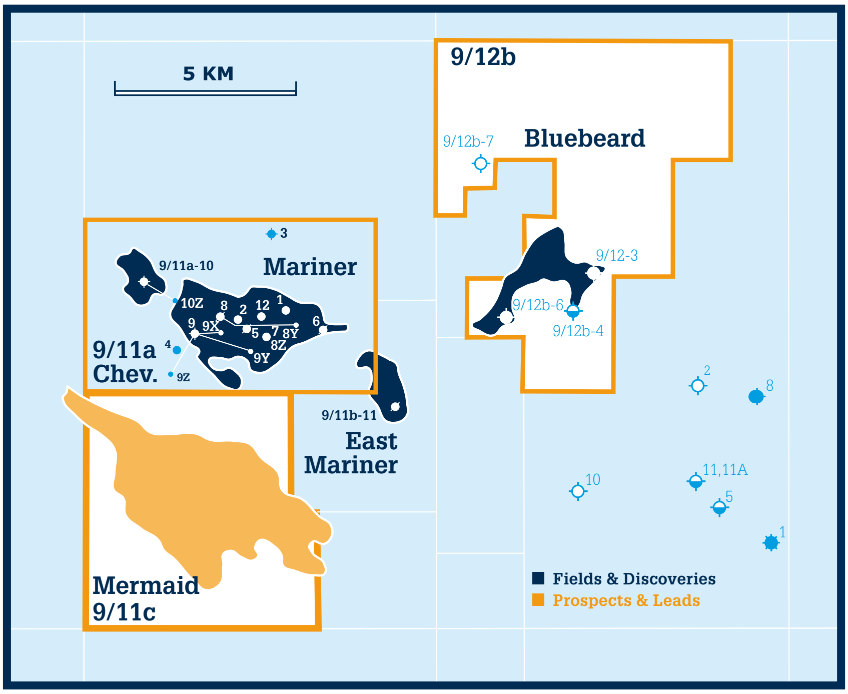


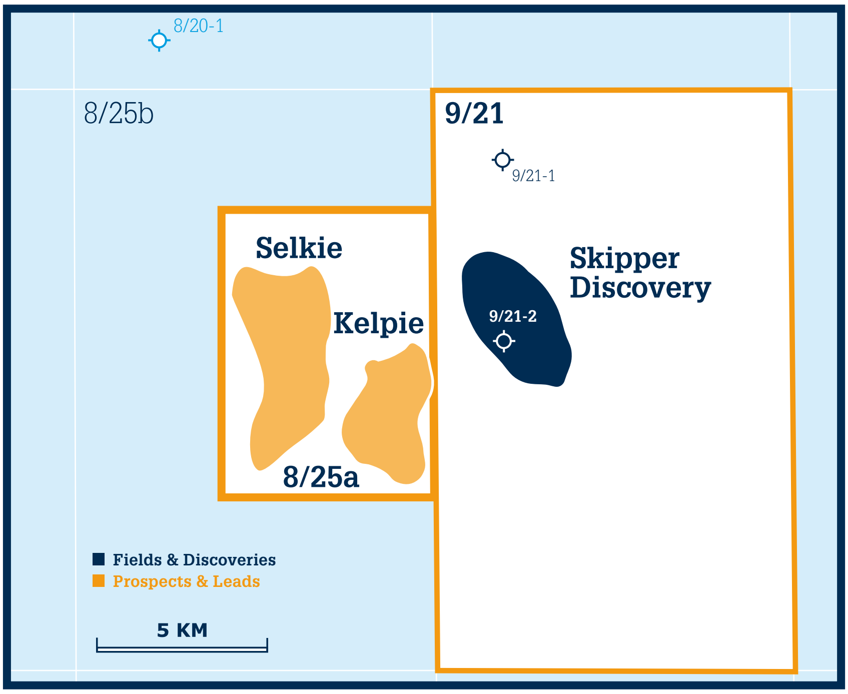
seismic modelling have indicated that the amplitude response is most likely to be a gas cap, up-dip from the oil leg encountered in well 9/2-1A. Encouragingly, the Heimdal reservoir, and its contained hydrocarbons, appear to thicken up-dip from the well towards the crest of this structure. The resultant best estimate contingent resources in the Kraken Discovery, discovery is 53mmbo (24mmbo net to Nautical).

The licence was converted from a "promote" to a "traditional" licence in October 2005 with a commitment to drill a shallow well before the end of September 2007. As a result of the farm-out to Celtic Oil Limited, Nautical's financial exposure will be limited to 15% of a vertical and subsequent horizontal well. In order to be drill ready for 2007 a site survey was acquired in July 2006.

Operational review
UK Continental Shelf

We have established a strong portfolio of exciting low risk exploration and appraisal projects.





Key Stats

Block 9/11c
- Contains large robust Mermaid Prospect.
- Analogous to Mariner discovery.
- Prospective resources of 129mmbo.
- Well planned in 2007.

Block 8/25
- Contains two large, low risk prospects (Selkie and Kelpie).
- Analogous to Skipper discovery.
- Prospective resources of 35mmbo.
- Well planned in 2007/08.

Block 15/7
- Contains Seahorse discovery (1977) and four further leads.
- Two reservoir horizons Dornoch and Forties sands.
- Low viscosity (22cp) oil.
- Contingent and prospective resources of 34mmbo.

129 *mmbo*

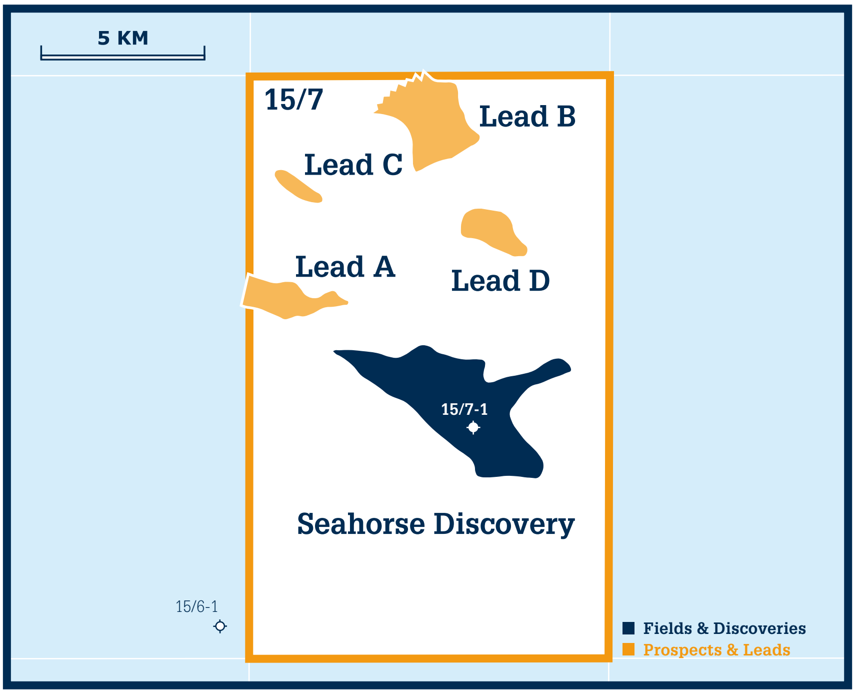
Block 9/11c – Best estimate prospective resources

35 *mmbo*

Block 8/25a – Combined best estimate prospective resources

34 *mmbo*

Block 15/7 – Best estimate contingent and prospective resources



Block 9/11c (Licence P979)
(Nautical 60% post farm-out; Operator)
Located on the East Shetland Platform, directly south of the Mariner discovery, the block contains the low risk, large, undrilled Mermaid Prospect. Reservoir targets are analogous to Mariner (Palaeocene, Maureen and Heimdal Sands) and interpretation of the reprocessed 3D seismic data has increased the confidence of a Maureen pinchout to the north, south and west, and confirmed separation from Mariner. The resultant best estimate prospective resources are 129mmbo (77mmbo net to Nautical) in the Tertiary Maureen Formation. Further significant additional prospective resources are expected in the Heimdal Sandstone Member.

A site survey was acquired in July 2006 to be drill-ready for early 2007. Nautical's financial exposure in the well is 20% due to the farm-out to Celtic Oil Limited.

Block 8/25a (Licence P976)
(Nautical 60% post farm-out; Operator)
The block lies on the East Shetland Platform and is contiguous with, and to the west of Block 9/21, which contains the Skipper discovery. Two large, low-risk, shallow, four-way dip closed prospects (Selkie and Kelpie) have been confirmed by the interpretation of both our proprietary 3D seismic and newly purchased 2D seismic data. These prospects are all the more promising since the oil charge of the Dornoch Formation Reservoir target is proved by the Skipper discovery to the east. Additionally, the Dornoch Formation is proven to have excellent reservoir characteristics in the Skipper discovery.

The combined best estimate prospective resources are 35mmbo (21mmbo net to Nautical) with a well planned to be drilled in 2007/08 in which Nautical has a 20% financial exposure.

Block 15/7 (Licence P1296)
(Nautical 50%; Operator)
Awarded in the 23rd Seaward Licensing Round in 2005, Block 15/7 is located in the Outer Moray Firth, north of the Witch Ground Graben and North Piper Basin and contains the Seahorse heavy oil discovery made by Texaco in 1977. Oil columns were encountered in both the Tertiary Forties and Dornoch sands.

Initial mapping of 170km^2 of 3D seismic and 145km of 2D seismic data has confirmed a four-way dip-closed structure with best estimate contingent resources of 17mmbo (8.5mmbo net to Nautical) and 17mmbo prospective resources (8.5mmbo net to Nautical). Preliminary analysis of oil recovered from the discovery well 15/7-1 implies an API of 17 with a low viscosity of 22cp at reservoir temperature.

Additional potential has been identified in adjacent leads and a potential large pinch-out trap in the Forties Sandstone (Lead B). To further delineate the discovery and elevate the leads to prospects, the Company will reprocess and interpret 160km^2 of 3D seismic and 180km of 2D seismic data.

Operational review
UK Continental Shelf

Our balanced portfolio includes significant leads analogous to our discoveries.

Key Stats

Block 3/27a

- Multiple leads mapped.
- Prospective at both Tertiary (Dornoch and Heimdal Sands) and deeper Jurassic.
- Gas chimneys on seismic.
- Proven oil migration into the block.

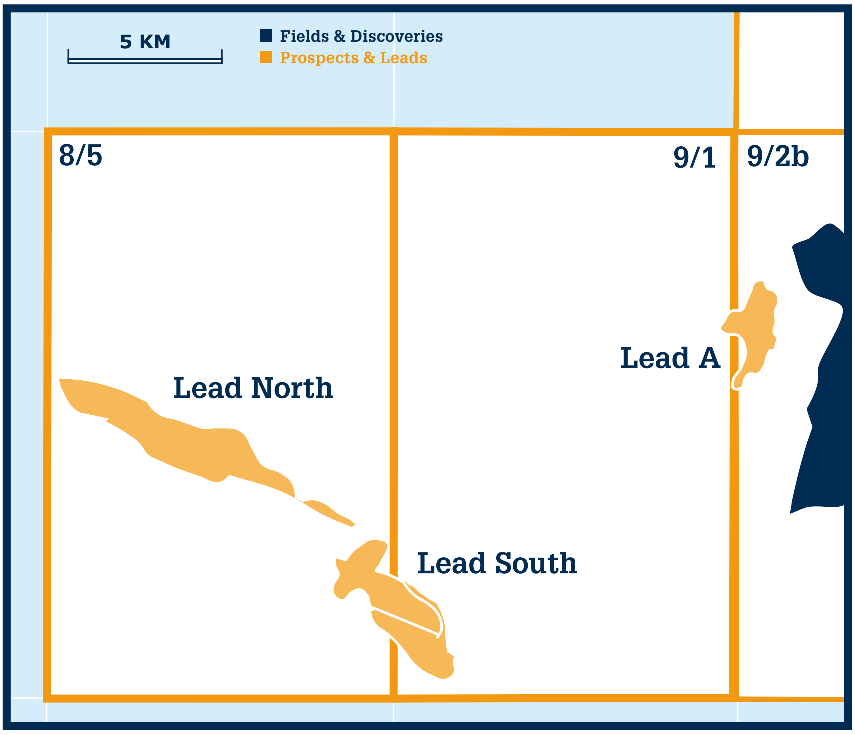
Blocks 8/5 and 9/1

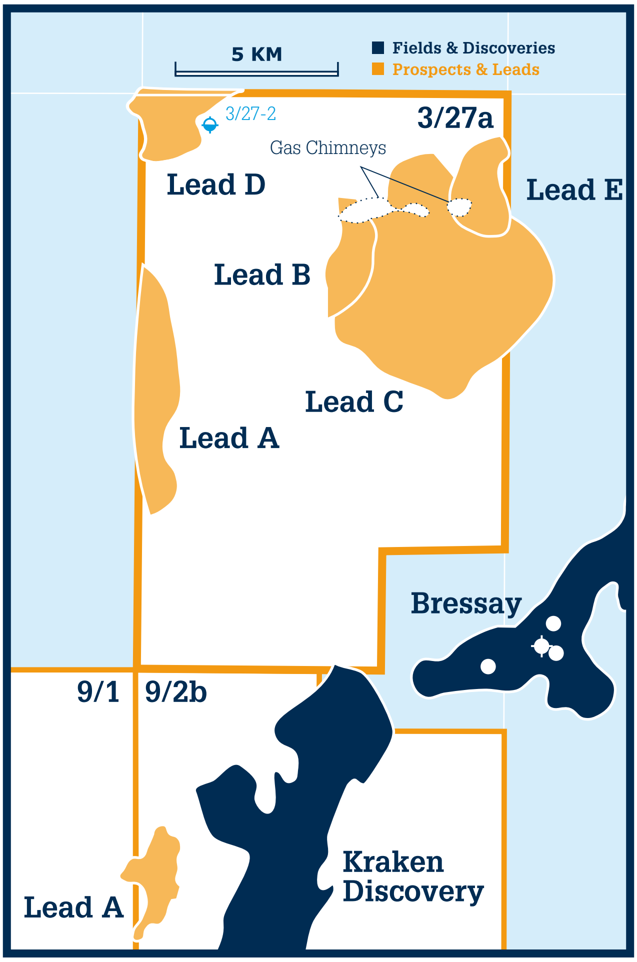
- Two large culminations mapped on potential sand rich channel.
- Reservoirs at two levels: Heimdal and Maureen Sands.
- Seismic to be reprocessed.

Block 3/27a (Licence P1203)
(Nautical 45% post farm-out; Operator)
Located directly north of Block 9/2b (Kraken discovery) on the East Shetland Platform, Block 3/27a was awarded in the 22nd Seaward Licensing Round. Well data and the mapping of 476km of 2D seismic has confirmed that the Heimdal Play, successful in Kraken, continues northward into the Block with three leads being identified (leads A, B and D); lead A being analogous to the Kraken discovery. To the east of the Block a lead has been mapped at Paleocene, Dornoch Formation, (lead E). Deeper in the section there is scope for Jurassic sands thinning to the west in Lead C. Encouragingly, gas chimneys can be interpreted on the seismic to coincide with the prognosed sand zero edge.

The geochemical analysis of samples from the local wells and integration of interpretation of 90km of reprocessed seismic data has confirmed the prospectivity of the Block. Nautical (with our new partner Celtic Oil Limited) intends to convert this licence from promote to traditional, and plans to acquire 150km^2 of new 3D seismic data prior to drilling a well before the end of 2008.

Blocks 8/5 and 9/1 (Licence P1277)
(Nautical 100%; Operator)
Nautical was awarded a 100% interest in 23rd Seaward Licensing Round in 2005 of Blocks 8/5 and 9/1, which are contiguous with block 9/2b (containing the Kraken discovery). The mapping of an extensive 2D seismic database highlighted two cukminations on a north west, south east trending channel like feature at both the Heimdal and Maureen levels. The seismic signature is analogous to sand rich channels elsewhere on the platform. Nautical will reprocess around 250km of 2D seismic data to better delineate the mapped traps.


5 KM
Fields & Discoveries
Prospects & Leads
8/5
9/1
9/2b
Lead A
Lead North
Lead South


5 KM
Fields & Discoveries
Prospects & Leads
3/27-2
3/27a
Gas Chimneys
Lead D
Lead E
Lead B
Lead C
Lead A
Bressay
9/1
9/2b
Kraken
Discovery
Lead A

Operational review **France**

We have made our first acquisition in Europe.

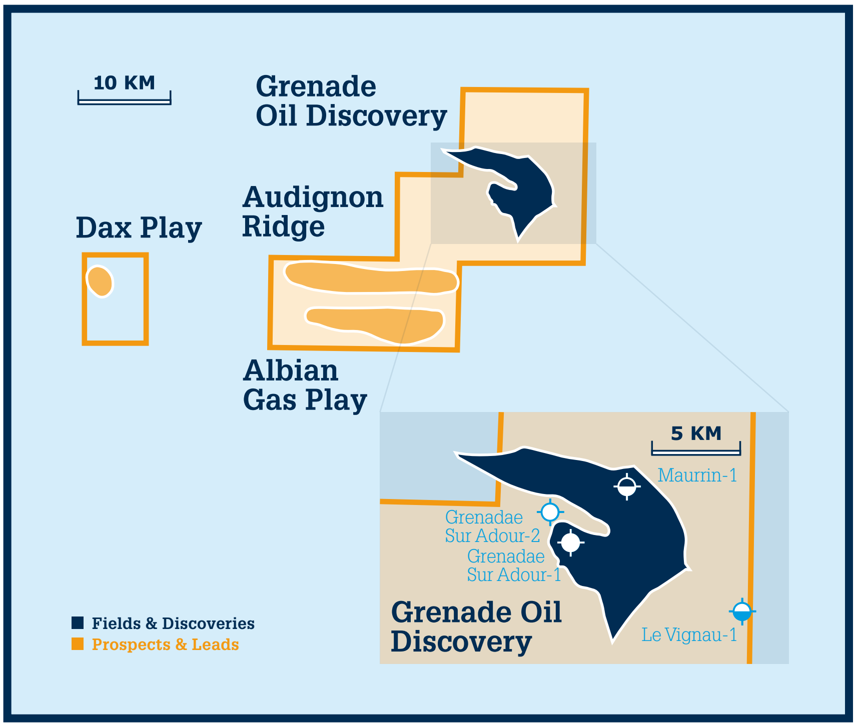
Key Stats

- Contains Grenade discovery (1975)
- 97 m oil column.
- New seismic acquired end 2005.
- Large stratigraphic trap confirmed.
- Horizontal appraisal well planned for 2007.
- Further exploration upside.

St Laurent Permit
(Nautical 22%)
The Saint Laurent Permit in South West France contains the undeveloped Grenade heavy oil accumulation and several further hydrocarbon exploration plays. Nautical purchased a 22% interest from Masefield Energy Holdings AG in December 2005 (awaiting French Government approval) with the primary focus on the development of the Grenade discovery. The discovery well, Grenade-Sur-Adour-1 was drilled by SNEAP (Elf) in 1975 and encountered a 97 metre oil column of 10 API oil in Cretaceous Albian carbonates. Between 1976 and 1985 around 8,000 barrels of oil were recovered from intermittent tests, the well being finally plugged and abandoned during a period of low oil prices in 1985.

At the end of 2005, the Company acquired 40km of 2D seismic and 12km^2 of 3D seismic data over Grenade, and by integrating the new data with both existing reprocessed 2D seismic data and the results of an extensive core study on the Grenade-Sur-Adour 1 and 2 and Maurrin-1 reservoirs, were able to better define the trap. The resultant mapped trap is a large three-way up-dip pinch-out of the reservoirs on a low energy carbonate platform. Best estimate oil in place is with best estimate contingent resources of 12.6mmbo (2.8mmbo net to Nautical).

Extensive subsurface, facilities engineering and marketing studies have shown the field to have the potential for commercial development. To this end, a horizontal well is planned for 2007, which will be placed on long-term test. During this period the remaining, highly prospective exploration plays will be matured through the integration of extensive well data and interpretation of reprocessed 2D seismic data.



Financial review

I am pleased to report a healthy financial position of the Group as at 30 June 2006.

The equity capital raisings in July 2005 and January 2006, as well as the farm-out agreement reached with SK Corporation of South Korea, have assured the financial resources required for a comprehensive exploration and appraisal programme on several of the Group's assets, with the aim of accelerating the production phase. At the same time, the agreed farm-out with SK Corporation helps to mitigate some of the exploration risks for the Group.

Results for the period
The Group recorded a loss of £7.3m for the period ended 30 June 2006, which included a charge of £5.1m for the write-off of goodwill arising from the adoption of reverse acquisition accounting for consolidation purposes. The general and administrative expenses amounted to £1.9m, including a charge for the share options, and the exploration expenditure written-off in the period amounted to £0.7m.

Loss per share was 0.89p.

Cash flow and capital expenditure
As a result of the two equity capital raisings in the period totalling £18m, the Group closed the period with a healthy cash balance of £12.3m. This is after covering the cash consideration of the Alba Resources (Holdings) Group acquisition of £3.4m, the capitalised exploration expenditure of £2.7m and the cash portion of the general and administrative expenditure mentioned above.

Other capital expenditure amounted to £0.1m for the period, most of which was on the extended well test equipment.

Balance sheet and financing
The balance sheet was considerably strengthened by the £18m of equity finance raised during the period, and the acquisition of the Alba Resources (Holdings) Group. Shareholders' funds amounted to £53.2m as at 30 June 2006.

The Group is well funded for its forthcoming exploration and appraisal programme in 2007, having cash resources of £12.3m as at 30 June 2006, and the provision of the agreed farm-out with SK Corporation.

Financial instruments
The Group's financial instruments comprise cash and liquid resources and various other items, such as trade debtors and creditors, which arise directly from its operations. It is, and has been throughout the period under review, Nautical's policy that there is no trading in financial instruments.

The main risks currently arising from the Group's financial instruments are foreign exchange risk, interest risk and liquidity risk. The Board reviews and establishes policies for managing each of these risks and monitors them on a regular basis.

No derivatives or hedges were entered into during the period under review.

Transition to International Financial Reporting Standards
The Group has commenced the transition to International Financial Reporting Standards (IFRS) since 30 June 2006, and plans to issue the 31 December 2006 interim and the 30 June 2007 final financial statements in accordance with IFRS. This will involve restating prior periods' results and updating the Group's accounting policies as necessary.

The future
Nautical Petroleum strategy is to focus on organic growth opportunities in our core markets, whilst making complementary "bolt-on" acquisitions. The financial performance of the Group during the last 18 months reflects the actions to complete the transitional phase into a focused heavy oil production and development company with a clear objective, secured assets and the resources to move forward.

We continue to place cash management at the forefront of our financial strategy and we are focused on minimising the Group's working capital requirements. We intend to continue with niche acquisitions where they supplement our existing businesses.

Hemant Thanawala
Finance Director
22 September 2006

Board of Directors

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1. Ian Williams
Chairman
Ian's wide-ranging industry experience encompasses 27 years with the Royal Dutch/Shell Group including appointments as Managing Director and Deputy Chairman, Shell South Africa, Vice President (Downstream), Shell Philippines and Head of Strategy & Consultancy (Downstream) at Shell International Petroleum Company.

Ian became Chairman of Nautical on 1 April 2005. Ian joined the Masefield Group in 1999 and holds directorships in several Group companies.

2. Steve Jenkins
Chief Executive
Stephen has an MSc in Petroleum Geology and DIC from Imperial College of Science and Technology (University of London), a BSc Hons in Geology from the Queen's University Belfast, and is a Fellow of the Geological Society of London.

As part of a 20 year career in oil and gas, Stephen spent the 11 years prior to joining Masefield at Nimir Petroleum as Business Development and HSE Manager, where he was responsible for acquisition strategy and technical dimensions of strategic planning.

Stephen became Chief Executive of Nautical on 1 April 2005, having joined the Masefield Group in 2003 to be responsible for all upstream technical management prior to floating the Masefield assets through Nautical.

3. Hemant Thanawala
Finance Director
Hemant is a Chartered Accountant with over 25 years' professional and commercial experience, qualifying in 1981 with KMG Thomson McLintock (now KPMG). Post qualification, he was in professional practice for eight years before serving as Chief Financial Officer of Rostel Holdings Group for nine years and Premier Telesports Group for three years.

Hemant became Finance Director of Nautical on 1 April 2005. Having joined the Masefield Group in 2001, Hemant holds directorships in several Group companies.

4. Paul Jennings
Commercial Director
Paul has over 25 years' experience in the oil and gas sector spanning the roles of accountant, economist and commercial and business development director. He has worked with BP and acted as adviser to the Russian and Chinese Governments.

Paul became Commercial Director of Nautical on 1 April 2005. Paul joined the Masefield Group in 2000, assuming responsibilty for exploration and production finance and business development.

5. Philip Dimmock
Non-Executive Director
Philip has over 30 years' experience in the upstream oil and gas business, both in the UK and internationally. He spent a significant part of his career at BP in a wide variety of senior positions, and at Ranger Oil where he held the post of Vice President of the International Division, and served as Chairman. He has also been an Executive Officer of the UK Offshore Operators Association.

6. Patrick Kennedy
Non-Executive Director
Patrick is a Chartered Accountant with bachelors and masters degrees in Economics and has over 20 years experience in business development and strategy, working with corporate leaders and high net worth individuals in the UK and overseas. He is CEO of PK Group, the London based financial services group and serves on the Boards of both publicly listed and private companies.

A director since 30 May 2002, Patrick is Chairman of Nautical's Audit Committee.

7. Christopher Gill
Company Secretary
Christopher is Fellow of the Institute of Chartered Accountants in England and Wales with an Honours degree in Law and with over 30 years' experience of working as a company secretary. During that time, he has been assistant secretary with the Institute of Advanced Motorists, secetary of Anthony Gibbs & Sons plc and of Harrisons & Crosfield plc. Christopher now manages company secretarial matters for clients of PK Partners LLP and is also company secretary of CCH International Plc.

Shareholder information

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+44 20 7550 4946

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Nominated Adviser and Broker
As from 13 October 2005
Bridgewell Limited
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128 Queen Victoria Street
London
EC4V 4BJ

Solicitors
Stringer Saul
17 Hanover Square
London
W1S 1HU

Financial Public Relations
Buchanan Communications Limited
45 Moorfields
London
EC2Y 9AE

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Auditors
Ernst & Young
Blenheim House
Fountainhall Road
Aberdeen
AB15 4DT

Directors' report

The Directors present their report and the Group financial statements for the 18 months ended 30 June 2006.

Principal activities
The principal activity of the Company is heavy oil exploration, development and production in the UK and Europe.

Reverse acquisition and admission to AIM
On 1 April 2005 following the reverse takeover of Bullion Resources Plc, the Group began to trade on AIM and the Company changed its name to Nautical Petroleum plc.

Results and dividends
The Group's loss for the period was £7.3m, including the write-off of goodwill of £5.1m arising on the adoption of reverse acquisition accounting and a £1.3m charge for share option costs. The directors do not recommend the payment of a dividend for the period.

Share capital
During the period the Company issued the following ordinary 1p shares:

Date	Issued share capital	Issue price	Ordinary 1p shares
1 April 2005	Shares issued on AIM listing	8.46p	697,500,000
4 July 2005	Private Equity Placing	9.00p	88,888,889
16 August 2005	Alba Resources (Holdings) Group Acquisition	12.00p	84,591,328
16 August 2005	First Mariner Limited Acquisition	12.00p	26,064,292
3 January 2006	Private Equity Placing	10.25p	97,585,371
30 June 2006			**994,629,880**

In addition, the Group issued 41.5 million share options and 26.3 million share warrants, details of which are set out in note 18 to the financial statements. As at the balance sheet date there were 127,870,012 unissued ordinary shares of 1p each.

Significant events
Following the reverse acquisition of Bullion Resources Plc, the Group commenced trading on AIM on 1 April 2005.

Two private equity placings were made in the period under review. On 4 July 2005, the Company raised £8.0m and on 3 January 2006 the Company raised £10.0m.

Two acquisitions were made on 16 August 2005. 100% of Alba Resources (Holdings) Group was acquired for £13.6m. The consideration being £3.4m in cash and 84,591,328 shares at 12.0p per share. At the same time, 100% of First Mariner Limited was acquired from Masefield Energy Holdings AG for a consideration of £3.1m, discharged by the issue of 26,064,292 shares at 12.0p per share. The principal asset of Alba Resources (Holdings) Group is a 26.67% interest in the Mariner field. First Mariner Limited had acquired certain rights to this field. By acquiring First Mariner Limited at the same time as the Alba Resources (Holdings) Group, the Company took control over all aspects of its 26.67% share of the Mariner field.

On 9 June 2006 the Company announced that it had farmed out four blocks to SK Corporation of South Korea, details of which are in the Chief Executive's review on pages 6 and 7. The arrangements are expected to be concluded in late September 2006.

Review of business and future developments
A discussion of the business and future developments are set out in the Chief Executive's review on pages 6 and 7.

Directors' report continued

Directors and their interests

The beneficial and other interests of the directors and their families in the shares of the Company for the directors holding office at 30 June 2006 were:

Number of ordinary shares and options held:

	At date of appointment or 1 January 2005		**At 30 June 2006**	
	Ordinary shares Number	Share options Number	**Ordinary shares Number**	**Share options Number**
I Williams (Chairman)	25,110,000	4,000,000	**25,631,286**	**8,000,000**
S Jenkins (Chief Executive)	16,740,000	5,000,000	**17,521,929**	**11,000,000**
H Thanawala (Finance Director)	15,512,400	4,000,000	**15,773,043**	**7,000,000**
P Jennings (Commercial Director)	16,740,000	4,000,000	**17,521,929**	**8,000,000**
P Dimmock (Non-Executive Director)	Nil	1,500,000	**Nil**	**3,000,000**
P Kennedy (Non-Executive Director)	1,500,000	Nil	**1,500,000**	**3,000,000**

The above directors were appointed on 1 April 2005, with the exception of P Kennedy, who has been a director throughout the period. The other directors of Bullion Resources Plc, prior to the reverse acquisition, C Bird, M Burne and J Meiring, resigned on 1 April 2005.

The interests of I Williams are held through Tile House Limited, a Jersey registered company whose ultimate beneficiaries are members of I Williams' family.

The interests of H Thanawala are held through Foscote International Limited, a British Virgin Islands registered company whose ultimate beneficiaries are members of H Thanawala's family.

Retirement of directors

P Jennings and H Thanawala retire in accordance with section 108 of the Company's articles of association and offer themselves for re-election.

Events subsequent to the balance sheet date

On 25 July 2006 the Company announced that it had entered into an agreement to acquire a 98.5% interest in the Bluebeard (9/12B) and Skipper (9/21) discoveries in the East of Shetland Platform from Engen Resources Limited, details of which are in the Chief Executive's review.

On 11 September 2006 the Company held an EGM to increase the authorised share capital of the Company from £12m to £16m.

Substantial shareholders

At 30 June 2006 the following had a disclosable interest in 3% or more of the nominal value of the ordinary share capital of the Company:

	Number of shares	Percentage
Masefield Energy Holdings AG	534,730,134	49.9%
Morstan Nominees Ltd	73,933,942	6.9%
MHR Limited	63,347,561	5.9%
Goldman Sachs Securities	56,030,488	5.2%
Mariner Expro Ltd	45,523,250	4.2%
Mellon Nominees Ltd	44,521,100	4.2%

Subsequent to the balance sheet date Masefield Energy Holdings AG reduced its shareholding to 45.3%.

Employees
The success of the business depends upon maintaining a highly qualified and well-motivated workforce and every effort is made to achieve a common awareness of the financial and economic factors affecting the performance of the Group. Nautical Petroleum, despite being a young company, is committed to being an equal opportunity employer and plans to engage employees with broad backgrounds and skills.

Status
The Company is not a close company as defined in the Income and Corporation Taxes Act 1988.

Nominated adviser and broker
On 13 October 2005 the Company announced the change of the Nominated Adviser and Broker to Bridgewell Securities Limited.

Supplier payment policy and practice
It is the Group's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them. Trade creditors at 30 June 2006, amount to 39 days of purchases made in the period.

Financial instruments
The Group's principal financial instruments comprise cash balances, balances with related parties, and other debtors or creditors that arise through the normal course of business as set out in note 25. The Group's financial risk management objectives and policies are set out in the Financial Review on page 17.

Board committees
Information on the Audit Committee and the Remuneration Committee is included in the Corporate Governance section of the Annual Report on pages 25 and 26. The report of the Remuneration Committee will be the subject of an ordinary resolution at the Annual General Meeting.

Director's liabilities
Subject to the conditions set out in the Companies Act 1985, the Company has arranged appropriate directors and officers insurance to idemnify the directors against liability in respect of proceedings brought by third parties. Such provision remains in force at the date of this report.

Auditors
A resolution to reappoint Ernst & Young LLP as auditors will be proposed at the forthcoming Annual General Meeting at a fee to be agreed in due course by the Audit Committee and the directors.

Annual General Meeting
The Annual General Meeting will be held on 20 October 2006 as stated in the Notice of Meeting, which accompanies this Annual Report.

By Order of the Board.

Christopher Gill
Company Secretary
22 September 2006

Remuneration report

Directors' emoluments

The details set out below need not and do not comply with Sch7A of the Companies Act 1985.

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for all executive directors and the Executive Team. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of executive directors' and officers' emoluments to the Company's financial and operational performance.

Details of the nature and amount of each element of the emoluments of each director of the Company for the previous 18 months are as follows:

Name	Salary £'000	Fees £'000	Bonus £'000	Pension £'000	Other £'000	**Total June 2006 £'000**
S Jenkins	132	–	47	9	3	**191**
I Williams	–	60	–	–	–	**60**
H Thanawala	–	50	–	–	–	**50**
P Jennings	–	68	–	–	–	**68**
P Dimmock	–	15	–	–	–	**15**
P Kennedy	–	15	–	–	–	**15**
Total	132	208	47	9	3	**399**

I Williams, H Thanawala and P Jennings provide services to the Company through a service agreement with Masefield Energy Services Limited, which is a related party.

Share options granted to directors

	7 March 2005		26 September 2005	
	Number of shares	Exercise price per share	Number of shares	Exercise price per share
I Williams	4,000,000	4.0p	4,000,000	11.0p
S Jenkins	5,000,000	4.0p	6,000,000	11.0p
H Thanawala	4,000,000	4.0p	3,000,000	11.0p
P Jennings	4,000,000	4.0p	4,000,000	11.0p
P Dimmock	1,500,000	4.0p	1,500,000	11.0p
P Kennedy	1,500,000	4.0p	1,500,000	11.0p

For the share options granted on 7 March 2005, each share option may be exercised in respect of 50% of the number of ordinary shares at any time after 1 April 2006 and in respect of the balance at any time after 1 April 2007. All share options must be exercised before 1 April 2008. For the share options granted on 26 September 2005, each share option may be exercised in respect of 50% during the period 27 September 2006 to 26 September 2010 and in respect of the remainder, the period 27 September 2007 to 26 September 2010.

Philip Dimmock
Chairman of the Remuneration Committee
22 September 2006

Corporate governance

As the Company is listed on the Alternative Investment Market (AIM) of the London Stock Exchange, it is not required to comply with the provisions of the Combined Code. However, the Board is committed to the high standards of good corporate governance embodied in the Combined Code on Corporate Governance and seeks to apply the principles of the Combined Code where practicable for a company of Nautical's size and complexity.

Board of directors

The Board is responsible for the direction and overall performance of the Group with emphasis on policy and strategy, financial results and major operational issues.

The Code recommends that at least one-third of Board members should be non-executive directors. The Board comprises four executive and two non-executive directors who are independent of management and do not participate in the Group's bonus or pension schemes although both non-executive directors have share options and Mr P Kennedy is a shareholder.

The roles of the Chairman and Chief Executive, both of which are executive, are separate, thus ensuring a division of responsibility at the head of the Group.

The Chief Executive is employed under a service contract with the Company but the services of the other executive directors are secured through a contract for services with Masefield Energy Services Limited, a related party.

All directors are subject to re-election by shareholders every three years and, on appointment, at the first Annual General Meeting after appointment.

Appropriate directors and officers' liability insurance has been arranged by the Company.

Meetings of the Board of Directors

The Board meets at least four times a year after all relevant information has been circulated in good time, to discuss a formal scheduled agenda covering key areas of the Group's affairs including operational and financial performance and quarterly management accounts.

All members of the Board are expected to attend Board Meetings which are scheduled in advance and full attendance was achieved throughout the period.

Audit Committee

The Audit Committee comprises the two non-executive directors and is chaired by P Kennedy. Executive directors may attend by invitation. The minutes of every meeting are taken by the Chairman and circulated to the Board at the next Board Meeting at which the Chairman provides a verbal report of meetings of the Committee.

The Audit Committee, which meets at least twice a year, is responsible for keeping under review the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditors. It also has oversight responsibility for public reporting and the Company's internal controls.

Corporate governance continued

Remuneration Committee
The Remuneration Committee is chaired by P Dimmock and its other member is P Kennedy. The minutes of every meeting are taken by the Chairman and circulated to the Board at the next Board Meeting at which the Chairman provides a verbal report of meetings of the Committee.

The Remuneration Committee, which meets at least twice a year, is responsible for considering the remuneration packages for executive directors and the bonus and share option strategy for the Group and making recommendations as appropriate.

The Remuneration Committee is also responsible for reviewing the performance of the executive directors and ensuring that they are fairly and responsibly rewarded for their individual contributions to the Group's overall performance. The Committee's scope extends to all remuneration of directors including bonus and share options.

None of the Committee has any day-to-day involvement in running the Company and no director participates in discussions about his own remuneration.

Internal control
The Board is responsible for the effectiveness of the Group's internal control and is supplied with information to enable it to discharge its duties. Internal control systems are designed to meet the particular needs of the Group and to manage rather than eliminate the risk of failure to meet business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Patrick Kennedy
Chairman of the Audit Committee
22 September 2006

Directors' responsibilities for the financial statements

The directors are responsible for preparing the report and financial statements in accordance with applicable UK law and UK Generally Accepted Accounting Practice.

The directors are required to prepare financial statements for each financial period, which 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. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for maintaining and keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of the Group's website on the internet. However, information is accessible in many different countries where legislation governing the preparation and dissemination of financial statements may differ from that applicable in the United Kingdom.

Independent auditors' report to the members of Nautical Petroleum plc

We have audited the Group and parent company financial statements (the "financial statements") of Nautical Petroleum PLC for the 18 month period ended 30 June 2006 which comprise the Consolidated profit and loss account, the Consolidated statement of total recognised gains and losses, Reconciliation of movements in consolidated shareholders' funds, the Consolidated and Company balance sheets, the Consolidated cash flow statement, and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Highlights, Chairman's Statement, Our period in review, Heavy oil overview, Chief Executive's review, Operational review, Financial review, Board of Directors, Shareholder information, the Remuneration report, the Corporate governance statement, the Supplementary information and the Glossary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 30 June 2006 and of the Group's loss for the year then ended; and the financial statements have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered auditor
Aberdeen
22 September 2006

Consolidated profit and loss account

for the 18 months ended 30 June 2006

	Notes	Ongoing £'000	Acquisitions £'000	**18 months ended 30 June 2006 £'000**	12 months ended 31 December 2004 £'000
Turnover	3	–	–	**–**	–
Cost of sales		(79)	–	**(79)**	–
Gross (loss)		(79)	–	**(79)**	–
Exploration costs written off	4	(123)	(561)	**(684)**	–
Administrative expenses	4,6	(45)	(1,838)	**(1,883)**	(19)
		(247)	(2,399)	**(2,646)**	(19)
Goodwill on reverse acquisition	22	–	(5,077)	**(5,077)**	–
Operating (loss)	4	(247)	(7,476)	**(7,723)**	(19)
Interest income	8	–	432	**432**	–
(Loss) on ordinary activities before taxation		(247)	(7,044)	**(7,291)**	(19)
Tax on loss on ordinary activities	9	–	–	**–**	–
(Loss) on ordinary activities after taxation		(247)	(7,044)	**(7,291)**	(19)
Minority interests		11	–	**11**	(2)
Retained (loss) attributable to shareholders		(236)	(7,044)	**(7,280)**	(21)

	Notes	**Pence**	Pence
Basic and diluted loss per share	10	**(0.89)**	(0.03)
Basic and diluted loss per share from continuing operations	10	**(0.89)**	(0.03)

Consolidated statement of total recognised gains and losses

For the period ended 30 June 2006

	18 months ended 30 June 2006 £'000	12 months ended 31 December 2004 £'000
(Loss) for the financial period attributable to shareholders	**(7,280)**	(21)
Exchange difference on re-translation of net investments	**1,147**	(822)
Total recognised (losses) for the period	**(6,133)**	(843)

Reconciliation of movements in consolidated shareholders' funds

For the period ending 30 June 2006

	Notes	**18 months ended 30 June 2006 £'000**	12 months ended 31 December 2004 £'000
Total recognised (losses)		**(6,133)**	(843)
Proceeds of ordinary shares issued for cash	19	**1,865**	–
Premium on ordinary shares issued for cash	19	**16,137**	–
Cost associated with issuance of shares	19	**(947)**	–
Reverse acquisition capital adjustment	22	**6,556**	–
Shares issued for acquisition of Nautical Petroleum AG		**–**	5,289
Capital reserve on acquisition of Nautical Petroleum AG		**–**	14,031
Capital contribution of assets to Nautical Holdings Limited		**–**	2,702
Shares issued for the acquisition of Alba Resources (Holdings) Group	22	**10,151**	–
Shares issued for the acquisition of First Mariner Limited	22	**3,128**	–
Share option charges	19	**1,251**	–
Net change in shareholders' funds		**32,008**	21,179
Shareholders' funds brought forward		**21,179**	–
Shareholders' funds at end of the period		**53,187**	21,179

Consolidated balance sheet

As at 30 June 2006

	Notes	At 30 June 2006 £'000	At 31 December 2004 £'000
Fixed assets			
Intangible assets	12	**49,551**	25,097
Tangible assets	13	**2,732**	2,702
Total fixed assets		**52,283**	27,799
Current assets			
Trade debtors and other receivables	15	**733**	–
Cash at bank and in hand		**12,300**	8
Total current assets		**13,033**	–
Creditors: amounts falling due within one year	16	**(1,902)**	(466)
Net current assets/(liabilities)		**11,131**	(458)
Total assets less current liabilities		**63,414**	27,341
Non-current liabilities			
Creditors	17	**(3,732)**	–
Total net assets		**59,682**	27,341
Capital and reserves			
Called up share capital	18	**9,627**	100
Share premium	19	**20,116**	5,189
Merger reserve	19	**12,173**	–
Warrant reserve	19	**263**	–
Capital reserve	19	**14,031**	14,031
Capital contribution	19	**2,702**	2,702
Profit and loss reserves	19	**(5,725)**	(843)
Shareholders' funds		**53,187**	21,179
Minority interests		**6,495**	6,162
Total equity		**59,682**	27,341

The financial statements, accompanying accounting policies, and notes 1 to 28 (forming an integral part of these financial statements), were approved by the Board on 22 September 2006 and were signed on its behalf by:

I Williams	**H Thanawala**
Chairman	Finance Director

Company balance sheet

As at 30 June 2006

	Notes	At 30 June 2006 £'000	At 31 December 2004 £'000
Fixed assets			
Intangible assets	12	**221**	–
Tangible assets	13	**4**	–
Investments	14	**11,884**	–
Total fixed assets		**12,109**	–
Current assets			
Trade debtors and other receivables	15	**2,716**	34
Cash at bank and in hand		**12,228**	1,886
Total current assets		**14,944**	1,920
Creditors: amounts falling due within one year	16	**(659)**	(64)
Net current assets		**14,285**	1,856
Total net assets		**26,394**	1,856
Capital and reserves			
Called up share capital	18	**10,721**	775
Share premium	19	**19,383**	4,456
Warrant reserve	19	**263**	–
Profit and loss reserves	19	**(3,973)**	(3,375)
Shareholders' funds		**26,394**	1,856

The financial statements, accompanying accounting policies, and notes 1 to 28 (forming an integral part of these financial statements), were approved by the Board on 22 September 2006 and were signed on its behalf by:

I Williams	**H Thanawala**
Chairman	Finance Director

Consolidated cash flow statement

For the period ended 30 June 2006

	Notes	18 months ended 30 June 2006 £'000	12 months ended 31 December 2004 £'000
Net cash flow from operating activities	20	**(995)**	(19)
Returns on investments and servicing of finance			
Interest income		**302**	–
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(99)**	–
Purchase of intangible fixed assets		**(2,687)**	(135)
Disposal of intangible fixed assets		**–**	278
		(2,786)	143
Acquisitions and disposals			
Purchase of the Alba Resources (Holdings) Group	22	**(3,514)**	–
Net cash received on acquisition of Bullion Resources Plc	22	**1,545**	–
Net cash received on acquisition of the Alba Resources (Holdings) Group	22	**39**	–
		(1,930)	–
Net cash inflow/(outflow) before financing		**(5,409)**	124
Financing			
(Repayment)/drawn down under facility from related undertaking	21	**646**	(116)
Proceeds from issue of ordinary shares	18	**18,002**	–
Costs associated with share issues	19	**(947)**	–
Net cash inflow/(outflow) from financing		**17,701**	(116)
Increase in cash		**12,292**	8

Reconciliation of net cash/(debt)

	Notes	18 months ended 30 June 2006 £'000	12 months ended 31 December 2004 £'000
Increase in cash in the period		**12,292**	8
Cash (inflow)/outflow from (increase)/decrease in loans	21	**(646)**	116
Amount due to related undertakings acquired with subsidiary		**–**	(576)
Loan acquired with subsidiary		**(363)**	–
Effect of exchange rate differences		**16**	–
Movement in net cash/debt		**11,299**	(452)
Net (debt) at start of period		**(452)**	–
Net cash/(debt) at end of period		**10,847**	(452)

Notes to the financial statements

1. Accounting policies

Basis of preparation

The financial statements have been prepared under the historic cost convention and in accordance with applicable United Kingdom accounting standards. With regard to accounting for the reverse acquisition, the true and fair view override has been applied as set out in note 2.

In addition to the requirements of UK accounting standards, the accounting for oil and gas exploration and production activities is guided by the Statement of Recommended Practice ("SORP") "Accounting for Oil and Gas Exploration, Production and Decommissioning Activities" issued by the UK Oil Industry Accounting Committee on 7 June 2001. The financial information has been prepared in accordance with the provisions of the SORP.

Basis of consolidation

The financial statements for the 18 months ended 30 June 2006 represent the results and assets of the Company and its subsidiary undertakings. The Group has adopted reverse acquisition accounting as set out in note 2.

Foreign currencies

Non-sterling transactions are translated into sterling, or where the functional currency of a Group company is not sterling into that functional currency, at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. Realised exchange differences and unrealised translation differences are taken to the profit and loss account.

The financial statements of subsidiaries with non-sterling functional currencies are translated at the rate of exchange ruling at the balance sheet date. Exchange differences arising on retranslation of the opening net assets are taken directly to reserves.

Goodwill

Goodwill arising on consolidation, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and amortised, using an appropriate method with regard to the type of assets acquired, over its estimated useful economic life. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

The goodwill arising on the reverse acquisition of Bullion Resources Plc has been written off in the first financial period for the reasons explained in note 2.

Exploration, appraisal and development expenditure

The Company accounts for exploration and development costs on "the successful efforts" basis whereby all licence acquisition, exploration drilling and appraisal costs are initially capitalised as intangible assets in cost centres by well, field or exploration area, as appropriate, pending determination of commercial reserves. These costs are then written off, unless commercial reserves have been established or the determination process has not been completed. Following the establishment of commerciality, the attributable costs are transferred to tangible fixed assets, in a single field cost centre. Other pre-licence and exploration costs are initially capitalised and then written off in the period incurred. All development costs are capitalised on a field-by-field basis.

Commercial reserves

Commercial reserves are proven and probable oil and gas reserves, as defined in the UK SORP.

Depreciation of tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided to write off the costs less estimated residual values of each asset over its expected useful life on a straight line basis, as follows:

Extended well test equipment	20 years
Computers, fixtures and fittings	3 years

Impairment

The Group undertakes a review of impairment of a fixed asset or intangible asset, on a field-by-field basis, if events or changes in circumstance indicate that the carrying amount of the fixed asset or intangible asset may not be recoverable. To the extent that the carrying amount exceeds the recoverable amount (being the higher of the net realisable value and the value in use), the fixed asset or intangible asset is written down to its recoverable amount.

Exploration and appraisal costs capitalised pending determination of whether or not they have found commercial reserves are specifically exempt from the detailed rules for assessing impairment set out in FRS 11.

1. Accounting policies continued

Joint arrangements

Exploration, development and production activities are generally conducted jointly with other companies. Since these arrangements do not constitute entities in their own right, the financial statements reflect the relevant proportions of costs, revenues, assets and liabilities applicable to the Group.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events have occurred at that date, will result in an obligation to pay more, or a right to pay less or receive more, tax.

Pension costs

The Company contributes to a defined contribution scheme. Contributions are charged to the profit and loss account as they become payable.

Share option costs

The costs of share options are calculated as the difference between the exercise price and the price prevailing on the date of award. Where the share options are based on future performance criteria, the cost is charged to the profit and loss account over the period from when the share options come into effect and the date(s) when they can be exercised. Where the share options are granted for past performance, the cost is charged to the profit and loss account on the date the share options come into effect.

Cash and liquid resources

Cash for the purposes of the cash flow statement, comprises cash at bank and on short term deposit.

2. Reverse acquisition accounting

On 1 April 2005 the Company became the legal parent company of Nautical Holdings Limited in a share-for-share transaction and changed its name from Bullion Resources Plc to Nautical Petroleum plc. Due to the relative size of the companies, Nautical Holdings Limited shareholders became the majority holders of the enlarged share capital. Further, the Company's continuing operations and executive management became those of Nautical Holdings Limited. Accordingly, the substance of the combination was that Nautical Holdings Limited acquired Nautical Petroleum plc in a reverse acquisition.

Under the requirements of the Companies Act 1985 it would normally be necessary for the Company's consolidated accounts to follow the legal form of the business combination. In that case, the pre-combination results would be those of Nautical Petroleum plc and Nautical Holdings Limited would be included only in relation to its performance from 1 April 2005. However, this would portray the combination as the acquisition of Nautical Holdings Limited by Nautical Petroleum plc and would, in the opinion of the directors, fail to give a true and fair view of the substance of the business combination. Accordingly, the directors have adopted reverse acquisition accounting as the basis of consolidation in order to give a true and fair view.

In invoking the true and fair override the directors note that reverse acquisition accounting is endorsed under IFRS 3 and that the Urgent Issues Task Force (UITF) of the UK's Accounting Standards Board has considered the subject and concluded that there are instances where it is right and proper to invoke the true and fair override in such a way (UITF Information Sheet 17).

By adopting reverse acquisition accounting for consolidation purposes, goodwill on acquisition arises, which has been fully written off to the profit and loss account because Bullion Resources Plc had no continuing business and therefore no intrinsic value. The goodwill is £5,077k, as set out in note 22.

Given that Nautical Holdings Limited was incorporated on 18 August 2004, the comparative figures for the prior year under reverse acquisition accounting are for the Nautical Holdings Group for the period from this date to 31 December 2004. The Company information presented is for the legal parent, Nautical Petroleum plc.

Notes to the financial statements *continued*

2. Reverse acquisition accounting continued
The effect on the consolidated financial statements of adopting reverse acquisition accounting, rather than following the legal form, are widespread. However, the following table indicates the principal effect on the composition of the reserves.

	Reverse acquisition (as disclosed) £'000	Normal acquisition accounting £'000	Impact of reverse acquisition accounting £'000
Called up share capital	9,627	10,721	1,094
Share premium	32,552	35,306	2,754
Capital reserve	14,031	14,031	–
Capital contribution	2,702	2,702	–
Profit and loss reserves	(5,725)	(3,446)	2,279
Total shareholders' funds	53,187	59,314	6,127

3. Turnover and segmental information
The Group is engaged in oil exploration, development and production in one geographical area, the UK and Europe. In the opinion of the directors, the Group's activities comprise one class of business. As the Group's activities are at the pre-revenue phase, no turnover has arisen to date.

4. Operating loss

	18 months ended 30 June 2006 £'000	2004 £'000
Operating loss is stated after charging:		
Auditors' remuneration – audit services – Ernst & Young	**58**	–
– other	**7**	–
– non-audit services	**85**	–
Goodwill on reverse acquisition	**5,077**	–
Exploration costs written off	**684**	–
Depreciation of fixed assets	**71**	–
Foreign exchange (gains)	**(55)**	–
Share option charges	**1,251**	–
Operating lease payments	**24**	–
Staff costs including executive directors' fees	**435**	–

Details of share options are set out in note 18.

Administration expenses relating to acquisitions in the period to June 2006 were £1,820k for Nautical Petroleum plc and £18k for the Alba Resources (Holdings) Group.

5. Information regarding directors' emoluments
Aggregate directors emoluments, which exclude pensions, are £390k. The emoluments of the highest paid director were £182K. Contributions to his pension were £9K. One director was a member of a money purchase scheme. Further information is included in the Remuneration report.

6. Employees
Headcount

	Period ended 30 June 2006 Number	2004 Number
Average number of employees of the Group (including executive directors) during the year was:		
Management	**4**	–
Technical staff/support/other	**2**	–

Three directors provide services to the Company through a service agreement with Masefield Energy Services Limited, which is a related party.

6. Employees continued

Staff costs

	18 months ended 30 June 2006 £'000	2004 £'000
Wage and salaries	**403**	–
Social Security costs	**20**	–
Other pension costs	**12**	–
	435	–

Wages and salaries include fees for three executive directors through a service agreement with Masefield Energy Services Limited.

7. Pension commitments

For direct employees of Nautical Petroleum plc, the Company contributes 7% of salary to a defined contribution pension scheme.

8. Interest and similar items

	18 months ended 30 June 2006 £'000	2004 £'000
Interest income	**432**	–

9. Tax on loss on ordinary activities

	18 months ended 30 June 2006 £'000	2004 £'000
Loss on ordinary activities before tax	**(7,291)**	(19)
Loss on ordinary activities before tax at the standard UK corporation tax rate of 30% (2004: 30%)	**(2,187)**	(6)
Effects of:		
Disallowed expenses	**1,512**	–
Timing differences	**605**	–
Utilisation of prior years' tax losses	**(14)**	–
Current period UK tax losses not utilised	**84**	6
Total current tax on loss on ordinary activities	**–**	–

The Group has tax losses of approximately £1.47m (2004: £1.17m) arising in the UK that are available indefinitely against future taxable profits. Deferred tax assets of approximately £692k (at 30%) have not been recognised as a result of existing uncertainties of their realisation.

10. Loss per share

	18 months ended 30 June 2006	2004
Operating loss for the period (£'000)	**(7,280)**	(21)
Basic weighted average number of shares in issue in the period (000)	**815,604**	77,500
Basic loss per ordinary share (pence)	**(0.89)**	(0.03)
Operating loss of continuing operations for the period (£'000)	**(7,280)**	(21)
Basic weighted average number of shares in issue in the period (000)	**815,604**	77,500
Basic loss per ordinary share of continuing operations (pence)	**(0.89)**	(0.03)

The calculation of basic loss per share is based on the loss for the period divided by the weighted average number of shares in the period. Potential ordinary shares resulting from the exercise of share options and warrants have an anti-dilutive effect. Therefore no diluted loss per share is presented.

11. Losses attributable to Nautical Petroleum plc

The loss for the period dealt with in the accounts of Nautical Petroleum plc was £1,820k (12 months to December 2004: loss of £115k). As provided by s230 of the Companies Act 1985, no profit and loss account is presented in respect of Nautical Petroleum plc.

Notes to the financial statements *continued*

12. Intangible assets

Goodwill

	Group £'000	Company £'000
At 1 January 2005	–	–
Additions	5,077	–
Written off	(5,077)	–
At 30 June 2006	**–**	**–**

Exploration and appraisal

	Group £'000	Company £'000
At 1 January 2005	25,097	–
Additions	23,644	581
Exchange adjustments	1,494	–
Written off	(684)	(360)
At 30 June 2006	**49,551**	**221**

The balance represents primarily the costs related to the fields currently being evaluated and appraised. No amounts have been charged to amortisation or impairment in respect of these intangible assets.

The above balances include amounts relating to a 6.67% interest in the Mariner Field, being carried by the Company. Upon field development approval, the party to the carry agreement has the option to earn back its 6.67% interest by reimbursement of costs during the development phase. These costs amount to approximately £8m as at June 2006. If the party declines to take up its option, the Company retains the 6.67% interest upon payment of £1.

13. Tangible assets

Group

	Computers, fixtures and fittings £'000	Extended well test equipment £'000	Total £'000
Cost			
At 1 January 2005	–	2,702	2,702
Additions	19	94	113
Disposals/writeoffs	(12)	–	(12)
At 30 June 2006	**7**	**2,796**	**2,803**
Depreciation:			
At 1 January 2005	–	–	–
Charge for the period	1	70	71
At 30 June 2006	**1**	**70**	**71**
Net book value at 30 June 2006	**6**	**2,726**	**2,732**
Net book value at 31 December 2004	–	2,702	2,702

Company

	Computers, fixtures and fittings £'000
Cost	
At 1 January 2005	–
Additions	5
Disposals/writeoffs	–
At 30 June 2006	**5**
Depreciation:	
At 1 January 2005	–
Charge for the period	1
At 30 June 2006	**1**
Net book value at 30 June 2006	**4**
Net book value at 31 December 2004	–

14. Investments

Company

	Total £'000
Cost	
At 1 January 2005	–
Additions in the period	11,884
At 30 June 2006	**11,884**

Details of subsidiary companies are shown in note 28.

In accounting for the acquisitions of Nautical Holdings Limited, the Alba Resources (Holdings) Group and First Mariner Limited the Company has taken advantage of section 131 of the Companies Act 1985 and accounted for the transactions using merger relief.

15. Debtors

	Group 30 June 2006 £'000	**Company 30 June 2006 £'000**	Group 31 December 2004 £'000	Company 31 December 2004 £'000
Amounts owed by subsidiaries	**–**	**2,470**	–	–
Other debtors	**583**	**96**	–	8
Prepayments and accrued interest	**150**	**150**	–	26
	733	**2,716**	–	34

16. Creditors – amounts falling due within one year

	Group 30 June 2006 £'000	**Company 30 June 2006 £'000**	Group 31 December 2004 £'000	Company 31 December 2004 £'000
Trade creditors	**416**	**74**	6	22
Amounts owed to related companies	**1,079**	**538**	460	–
Taxation and Social Security	**18**	**18**	–	1
Accruals	**29**	**29**	–	41
Loan payable	**360**	**–**	–	–
	1,902	**659**	466	64

The loan payable was due on 16 August 2006 and is settlement of amounts outstanding following the purchase of Alba Resources (Holdings) Group. Amounts owed to related parties are due on demand and are treated as creditors.

17. Creditors – amounts falling due after one year

	Group 30 June 2006 £'000	**Company 30 June 2006 £'000**	Group 31 December 2004 £'000	Company 31 December 2004 £'000
Creditors – amounts falling due after more than one year	**3,732**	**–**	–	–

The above comprise two amounts relating to the Mariner Field of: (1) US$4.0m due on field development plan (FDP) approval by the Department of Trade and Industry; and (2) US$2.8m due on first oil.

Notes to the financial statements *continued*

18. Share capital

Group

	At 30 June 2006		At 31 December 2004	
	Number	**£'000**	Number	£'000
Authorised				
Ordinary shares of £1 each	**100,000**	**100**	100,000	100
Ordinary shares of 1p each	**1,200,000,000**	**12,000**	–	–
Allotted, called up and fully paid				
Ordinary shares of £1 each	**100,000**	**100**	100,000	100
Reverse acquisition capital adjustment	**697,500,000**	**6,556**	–	–
Ordinary shares of 1p each	**297,129,880**	**2,971**	–	–
	994,729,880	**9,627**	100,000	100

Under reverse acquisition accounting, the legal parent is Nautical Petroleum plc, but the Group results are as if Nautical Holdings Limited were the parent. The 100,000 £1 shares are those of Nautical Holdings Limited and pre-date the reverse acquisition. Following the reverse acquisition, in order to give a true reflection of the changes in share capital, the Group shows the additions made for both Nautical Holdings Limited and Nautical Petroleum plc. The reverse acquisition capital adjustment is the deemed value of capital acquired on the reverse takeover and the associated number of shares is the share capital issued for the takeover.

Company

	At 30 June 2006		At 31 December 2004	
	Number	**£'000**	Number	£'000
Authorised				
Ordinary shares of 1p each	**1,200,000,000**	**12,000**	400,000,000	4,000
Allotted, called up and fully paid				
Ordinary shares of 1p each	**1,072,129,880**	**10,721**	77,500,000	775

During the period the Company issued the following ordinary 1p shares:

Date	Issued share capital	Issue price	Ordinary 1p shares
1 April 2005	Shares issued on AIM listing	8.46p	697,500,000
4 July 2005	Private Equity Placing	9.00p	88,888,889
16 August 2005	Alba Resources (Holdings) Group Acquisition	12.00p	84,591,328
16 August 2005	First Mariner Limited Acquisition	12.00p	26,064,292
3 January 2006	Private equity placing	10.25p	97,585,371
30 June 2006			**994,629,880**

The Group agreed in December 2005 the acquisition of 22% of the St Laurent Permit onshore France field for £47,500 with the consideration to be satisfied by the issuance of 387,755 new ordinary shares of 1p each subject to approval from the Ministere de l'Economie, des Finances et de I'Industrie, France. At the financial statements reporting date, Ministry approval is still pending and accordingly the shares have not yet been issued.

On 4 July 2005 the Group announced the issuance of 11,666,667 warrants to subscribe for new ordinary shares at 20p per share exercisable up to 3 July 2009. The Company has the right to require warrant holders to exercise their warrants should the closing price of the Company's ordinary shares remain above 40p per share for 90 consecutive trading days in the period to 3 July 2009.

On 3 January 2006 the Group announced the issuance of 14,637,800 warrants to subscribe for new ordinary shares at 20p per share exercisable up to 3 January 2010. The Company has the right to require warrant holders to exercise their warrants should the closing price of the Company's ordinary shares remain above 40p per share for 90 consecutive trading days in the period to 3 January 2010.

18. Share capital continued

Share options

At the balance sheet date and at the date of this report, the following share options are outstanding:

Share options to subscribe for 20 million ordinary shares exercisable at 4p per share on or before 1 April 2008. Of these, 10 million are not exercisable until 1 April 2007. All of these share options are held by directors as set out in the Directors' report.

A further 20.5 million ordinary shares exercisable at 11p per share on or before 26 April 2010. Of these, 10.25 million are not exercisable until 27 September 2006 and 10.25 million are not exercisable until 27 September 2008. 20 million of these share options are held by directors as set out in the Directors' report.

One million ordinary shares exercisable at 12.5375p were awarded on 23 September 2005 in association with the acquisition of the Alba Resources (Holdings) Group.

19. Reserves

Group

	Share premium £'000	Merger reserve £'000	Warrant reserve £'000	Capital reserve £'000	Capital contribution £'000	Profit and loss reserve £'000
At 1 January 2005	5,189	–	–	14,031	2,702	(843)
Shares issued in the period	15,874	12,173	263	–	–	–
Less cost of issues	(947)	–	–	–	–	–
Exchange gain	–	–	–	–	–	1,147
Share option charges added back	–	–	–	–	–	1,251
Loss for the period	–	–	–	–	–	(7,280)
At 30 June 2006	**20,116**	**12,173**	**263**	**14,031**	**2,702**	**(5,725)**

Company

	Share premium £'000	Warrant reserve £'000	Profit and loss reserve £'000
At 1 January 2005	4,456	–	(3,375)
Shares issued in the period	15,874	263	–
Less costs of issue	(947)	–	–
Share option charges added back	–	–	1,251
Loss for the period	–	–	(1,849)
At 30 June 2006	**19,383**	**263**	**(3,973)**

In accounting for the acquisitions of Nautical Holdings Limited, the Alba Resources (Holdings) Group and First Mariner Limited the Company has taken advantage of section 131 of the Companies Act 1985 and accounted for the transactions using merger relief.

20. Cash flow from operating activities

	18 months ended 30 June 2006 £'000	2004 £'000
Reconciliation of operating loss to net cash inflow from operating activities		
Operating (loss)	**(7,723)**	(19)
Goodwill	**5,077**	–
Share options charges	**1,251**	–
Depreciation, depletion and amortisation (including intangible writeoff)	**767**	–
Foreign exchange losses	**(55)**	–
(Increase) in accounts receivable	**(146)**	–
(Decrease) in creditors	**(166)**	–
Net cash (outflow) from operating activities	**(995)**	(19)

Notes to the financial statements *continued*

21. Analysis of net cash/(debt)

	At 1 January 2005 £'000	Cash flow £'000	Acquisition £'000	Exchange differences £'000	**At 30 June 2006 £'000**
Cash at bank and in hand	8	12,292	–	–	**12,300**
Amounts due to related party undertakings	(460)	(646)	–	13	**(1,093)**
Short term loan	–	–	(363)	3	**(360)**
Net cash/(debt)	**(452)**	**11,646**	**(363)**	**16**	**10,847**

22. Acquisitions

Reverse acquisition of Bullion Resources Plc

On 1 April 2005 Bullion Resources Plc acquired 100% of Nautical Holdings Limited. The nature of the acquisition was a reverse takeover as set out in note 2.

	Book and fair value of Bullion assets acquired £'000
Net assets acquired of:	
Debtors	36
Cash	1,545
Creditors	(102)
Net assets acquired	1,479
Goodwill	5,077
Consideration	**6,556**

In the absence of a reliable valuation of Nautical Holdings Limited, the cost of the business combination was calculated using the average price for the 10 dealing days prior to acquisition of 8.459p for the 77,500,000 shares in issue in Bullion Resources Plc at the date of acquisition.

In its last financial year to 31 December 2004 Bullion Resources Plc made a loss after tax of £115k. The summarised profit and loss for the period 1 January 2005 to 31 March 2005 is as follows:

	£'000
Operating loss	(46)
Interest income	17
Loss for the three months ended 31 March 2005	**(29)**

There were no recognised gains and losses in the three months ended 31 March 2005 other than the £314k loss above. Bullion Resources Plc, which changed its name to Nautical Petroleum plc on 1 April 2005 utilised £912k of the Group's operating cash flow, contributed £302k of interest income and utilised £600k for capital expenditure.

Acquisition of Alba Resources (Holdings) Group

On 16 August 2005 the Group acquired 100% of the Alba Resources (Holdings) Group.

	Book value of assets acquired £'000	Fair value adjustment £'000	16 August 2005 £'000
Net assets acquired of:			
Fair value of intangible assets	6,056	12,869	18,925
Computer equipment	7	–	7
Debtors	29	–	29
Cash	39	–	39
Creditors	(192)	–	(192)
Loans	(363)	–	(363)
Long term liabilities	(4,780)	–	(4,780)
Net assets acquired	**796**	**12,869**	**13,665**
Satisfied by:			
Cash consideration on completion			3,432
Shares consideration	84,591,328 shares at 12.0p/share		10,151
Transaction costs			82
Total consideration			**13,665**

22. Acquisitions continued

Alba Resources (Holdings) Limited was incorporated 27 October 2004. The loss for the Company and its subsidiaries for the period to 30 June 2005 was £379k. The summarised profit and loss for the two months from 1 July 2005 to the acquisition is as follows:

	£'000
Operating loss	(287)
Loss for the two months ended August 2005	**(287)**

There were no recognised gains and losses in the two months ended August 2005 other than the £287k loss above.

The Alba Resources (Holdings) Group utilised £68k of the groups operating cash flow, contributed £2k of interest income and utilised £1,148k for capital expenditure.

Acquisition of First Mariner Limited

On 16 August 2005 the Group acquired a 100% interest in First Mariner Limited from Masefield Energy Holdings AG and minority parties. By virtue of Masefield Energy Holdings AG being a substantial shareholder in Nautical Petroleum Plc, then this transaction is deemed a related party transaction.

		Book value of assets acquired £'000	Fair value adjustment £'000	16 August 2005 £'000
Net assets acquired of:				
Fair value of Intangible Assets		–	2,159	2,159
Receivable		969	–	969
		969	2,159	3,128
Satisfied by:				
Shares consideration		26,064,292 shares at 12.0p/share		3,128
Total consideration				3,128

There have been no transactions since the acquisition.

23. Commitments

The Group has satisfied the minimum expenditure obligations on all licences.

24. Related party transactions

Executive directors, I Williams, H Thanawala and P Jennings provide services under a service agreement with Masefield Energy Services Limited. The charges in the period were £178k.

Masefield Energy Services Limited is a 100% subsidiary of Masefield Energy Holdings AG, the parent company of Nautical Petroleum plc and provides services to companies within the Masefield Energy Holdings Group. Such shared services include the occupation of shared office space and facilities and some administrative functions and amounted to £181k, which was in addition to the services of the directors. At the period end an amount of £446k was due to Masefield Energy Services Limited.

Non-executive director P Kennedy is also a partner in PK Partners LLP which has provided accounting and consulting services to the Group and for the services of C Gill, the Company Secretary, for the amount of £103k.

At the period end there was £538k due to Masefield Energy Holdings AG and £95k to UAH Limited, a subsidiary of Masefield Energy Holdings AG.

The acquisition of First Mariner Limited for £3.1m described in note 22 was a related party transaction with Masefield Energy Holdings AG. In addition the executive directors of Nautical Petroleum plc held 9.0% of the shares of First Mariner Limited at the date of the acquisition.

Notes to the financial statements *continued*

25. Derivatives and other financial instruments

The Group's principal financial instruments comprise cash balances, accounts payable and accounts receivable arising in the ordinary course of its operations. In accordance with FRS 13, the Group has taken advantage of the exemption permitting the exclusion of short term debtors and creditors from the following disclosures except for the currency risk disclosures.

Foreign currency risk

The Group does not generally undertake foreign currency hedging. The Group's significant service and procurement contracts are denominated in British pounds.

The net monetary liabilities in currencies other than British pounds at the balance sheet date were US$7.4m. This included US$18,054 cash at bank held at the balance sheet date for Nautical Petroleum AG.

Commodity price risk

The Group currently has no production. When production commences, the Group may undertake commodity price hedging as appropriate.

Interest rate risk

The Group had a fixed rate financial liability at the year-end of US$580,576 with an interest rate of 5% relating to loans acquired with the Alba Resources (Holdings) Group. The Group has floating rate financial assets in the form of deposit accounts with major banking institutions.

Fair values of financial assets and liabilities

There are no material differences between the fair value of the Group's financial assets and liabilities and their carrying values in the financial information.

Borrowing facilities

The Group had no external borrowing facilities.

26. Events subsequent to balance sheet date

On 25 July 2006 the Company announced that it had entered into an agreement to acquire a 98.5% interest in the Bluebeard (9/12B) and Skipper (9/21) discoveries in the East of Shetland Platform from Engen Resources Limited, details of which are in the Chief Executive's review.

On 11 September 2006 the Company held an EGM to increase the authorised share capital of the Company from £12m to £16m.

27. Ultimate parent undertaking and controlling party

The directors consider Masefield Energy Holdings AG, a company registered in Switzerland, to be the ultimate controlling party by virtue of its 49.9% direct shareholding and 5.3% indirect shareholdings. The Nautical Group is included in the Masefield Energy Holdings AG consolidation, the accounts of which are not publicly available.

28. Subsidiary undertakings

Subsidiary	% interest held	Country of incorporation/ registration	Activity
Nautical Holdings Limited	100%	England	Investment and oil equipment
Nautical Petroleum AG	75%	Switzerland	Exploration, development and production
Alba Resources (Holdings) Limited	100%	Scotland	Investment
Alba Resources Limited	100%	Scotland	Exploration, development and production
Mountwest 560 Limited	100%	Scotland	Exploration, development and production
Mountwest 561 Limited	100%	Scotland	Exploration, development and production
Mountwest 562 Limited	100%	Scotland	Dormant
First Mariner Limited	100%	England	Exploration, development and production

Nautical Petroleum AG carries out its activities through a UK Branch.

Supplementary information

Audit of Reserves and Resource Volumes for Annual Report and Accounts of Nautical Petroleum plc ("the Company")
At your request, we have examined the estimates as of Reserves, Contingent and Prospective Resources set forth in the Company's Annual Report and Accounts. Our examination included such tests and procedures as we considered necessary under the circumstances to render the opinion set forth herein.

We are independent with respect to the Company as provided in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserve Information promulgated by the Society of Petroleum Engineers.

It should be understood that our above–described audit does not constitute a complete reserve and resource study of the oil and gas properties of the Company. In the conduct of our report, we have not independently verified the accuracy and completeness of information and data furnished by the Company with respect to ownership interests, agreements relating to current and future operations and sales of production, and likely development timing. We have, however, specifically identified to you the information and data upon which we so relied so that you may subject such to those procedures that you consider necessary. Furthermore, if in the course of our examination something came to our attention which brought into question the validity or sufficiency of any of such information or data, we did not rely on such information or data until we had satisfactorily resolved our questions relating thereto or independently verified such information or data.

Please be advised that, based upon the foregoing, in our opinion the above-described estimates of Company's Proved plus Probable reserves and Best Estimate Contingent and Prospective Resources are, in the aggregate, reasonable and have been prepared in accordance with generally accepted petroleum engineering and evaluation principles as set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserve Information promulgated by the Society of Petroleum Engineers.

We would, however, draw your attention to the following points:
- The recoverable volumes in the Mariner field (Core and West areas) are classified as reserves based on your assurance that the field will be developed within a reasonable timeframe. The Society of Petroleum Engineers defines a reasonable timeframe to be a maximum of five years from the date of evaluation. Significant delays to development planning would require these volumes to be re-classified as contingent resources.
- Estimates of reserves and resources are inherently imprecise and uncertain. Presentation of a single estimate does not illustrate this uncertainty.
- Many of the Company's projects are relatively immature and are the subject of ongoing technical evaluation by the Company. Although we deem the estimates to be reasonable, these estimates may be subject to significant change as new data become available.
- We have not reviewed the "risking" or "chance of success" associated with any of the Prospective or Contingent Resources in your portfolio.

Francis Boundy
Director, Valuations

RPS Energy Limited
18 September 2006

Glossary

API	American Petroleum Institute®
bbl	barrels
bcf	billion cubic feet
bn	billion
bopd	barrels of oil per day
cp	centipoises
DST	drill stem test
DTI	Department of Trade & Industry
EWT	extended well test
FDP	field development plan
km	kilometres
K	thousand
m	million
mmbo	million barrels of oil
MWD	measurement while drilling
OWC	oil-water contact
UKCS	United Kingdom Continental Shelf

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