
Nautical Petroleum plc
Report and Accounts **2008**



nauticalpetroleum.com

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.

01 Highlights 2008
02 Chairman's statement
04 Heavy oil marketing
06 Chief Executive's review
08 Operational review –
Our portfolio
10 Operational review –
UK continental shelf
20 Operational review – France
22 Finance Director's review
24 Board of Directors

26 Directors' report
29 Remuneration report
30 Corporate governance
31 Directors' responsibilities for the
financial statements
32 Independent auditors' report
33 Consolidated income statement
34 Consolidated balance sheet
35 Consolidated statement of
changes in equity
36 Consolidated cash flow statement

37 Notes to the financial statements
52 Nautical Petroleum plc Company only
accounts 2008
53 Independent auditors' report
54 Company balance sheet
55 Notes to the Company
financial statements
58 Supplementary information
IBC Shareholder information
IBC Glossary

Cornerstone assets

Mariner

23 *mmbo*

*Proven and
probable
reserves*

44 *mmbo*

*Best estimate
contingent
resources*

*Field development
plan submission by
mid 2010*

Kraken

37 *mmbo*

*Best estimate
contingent
resources*

*Field development
plan submission by
the end 2009*

Highlights 2008

- Drilled 4 wells, including successful Kraken 9/2b-02 well.
 - Greatly increased best estimate contingent resources to 94mmbo (a 68% uplift on June 2007), primarily on Mariner and Kraken.
 - Raised £20.0m in October 2007.
 - Farmouts once again endorsed quality of assets, with premium terms being achieved, meaning limited financial exposure on the wells drilled during the period and late 2008.
 - Kraken and Mariner on track for Field Development Plan (FDP) submissions in late 2009/mid-2010.
 - Cash resources of £20.1m to take your Company to FDP submissions.
-

Chairman's statement

“Aside from the activity programme to move the Kraken and Mariner discoveries to FDP, the Company will continue the active appraisal of its substantial exploration portfolio. Nautical is on the move and is well into transition on the journey from prospects to production.”



I am pleased to present this Report and Accounts for Nautical Petroleum for the year ended 30 June 2008.

Introduction

The Company maintained its specialist focus and has achieved considerable progress through a wide ranging programme of asset appraisal activity aimed at the key objectives of near term production development and early oil flow.

The prospectivity of the Company's licence portfolio was further endorsed by a series of farm-in transactions which have now completed, on terms which clearly evidence industry partner confidence in the quality of Nautical's assets. 5 wells and 1 seismic acquisition, with a combined cost of £46m, have been farmed out. Partners will pay £50m, resulting in a £4m surplus and a significant contribution to Nautical's strong cash position.

In addition to the 23mmbo of probable reserves in Mariner, the Company has greatly increased contingent resources, achieving a step change from 56mmbo in the 2007 Report to 94mmbo – a 68% increase. This is accounted for primarily by results for the “cornerstone” Kraken and Mariner discoveries. In oil resource terms, Nautical shareholders have benefited significantly from the exceptional gains associated with the considerable progress made over this period.

Financial results

A successful share placing was completed in October 2007 to raise £20m ahead of the first Nautical operated well drilled on the Kraken discovery late 2007. The funds raised, together with the plans for progressive multi-block farmouts, ensure that sufficient cash exists to cover Nautical's planned equity funding requirements to reach FDP (Field Development Plan) submissions.

The Company continued to apply outsourcing services and risk sharing policies aimed at limiting overhead and sharing asset appraisal risk to conserve cash resources.

Success in this respect has been evidenced by the latest farmouts, which have minimised the Nautical share of costs of a substantially expanded appraisal activity programme. Not all drilling has been successful, but where drill results were negative, the impact on Nautical cash resources was negligible.

The Company continues to be debt free and has also secured a £7.5m contingency facility. This facility is regarded as fallback for unforeseen events and has not, to date, been drawn.

Portfolio management

Nautical has had exceptional success in attracting industry participation in sharing risk by farming in to the portfolio. The commercial skills of the management team have been evidenced by the ability to successfully close deals on highly beneficial terms.

While drilling results have been mixed, the execution of drilling projects has been exemplary. Management has demonstrated a consistent ability to plan effectively and complete on time and within agreed budget. This performance has enhanced the Company's standing both in the industry and with the regulatory authorities.

While the prime focus has been on the discovered “cornerstone assets”, progress has also been made on the extensive portfolio of high graded prospects. The portfolio has been



successfully expanded with partners in on-shore Europe, with further additions secured in France.

Directors, staff and associates

The extended Nautical team comprises a blend of management, expert specialist consultants, independent non-executive directors, partner secondees and contractors. The Company is very appreciative of the commitment and goodwill of all who have contributed to Nautical's progress during the year.

The next phase of development will require additional specialist management capacity and several related changes are planned over the period to December 2008.

Since formation the Company has contracted the services of Hemant Thanawala as CFO and Finance Director, sharing these services with other companies. The increase in business complexity, associated with planned progression to production development, now warrant the appointment of full time financial management in the direct employ of the Company.

The appointment of a Chief Financial Officer has been made, effective October 2008 and it is anticipated that the incumbent will also be appointed to the Board as Finance Director.

The Nautical Board is highly appreciative of the contribution made by Hemant Thanawala from the formation of the Company to the present time and extends their thanks and best wishes to him for his services to the Company.

It is intended to strengthen the management team by the appointment of a General Manager, Engineering. This appointment is also in preparation for the formulation of Field Development Approval over the period to 2010 and subsequent progression to production development and oil flow.

Market rating

The disconnect between the evidenced and assessed value in the Nautical portfolio and the market rating as reflected in the Company share price over the recent past has been a cause for considerable concern to the Board and management.

Advice sought from many quarters failed to provide any rational explanation for this divergence other than that Nautical is a victim of the general market malaise associated with international financial events and conditions.

Studies suggesting that Nautical is more or less in line with peer group trends are cold comfort. The exasperating contradiction is that at a time when the value of the portfolio is increasing rapidly by all conventional assessments, the market capitalisation has trended downwards.

Reality is that Nautical has a well balanced portfolio of assets and opportunities. The Company has the partners, the cash and the capabilities to implement its objective of moving our core assets into the development phase within an estimated 18 months. Peer group research of comparable upstream oil juniors reveal very few able to say the same.

Share consolidation

Having sought advice it was felt appropriate and in shareholders' best interests that the company undertake a 1 for 20 share consolidation which took place on 25 September 2008. The associated effective reduction in the bid to offer spread is expected to reduce volatility, a feature generally supported by the institutional investment sector.

Outlook

The outlook for Nautical continues to be extremely positive on all parameters which drive and deliver value – the more so given the confirmation of recoverable resources and the strong financial condition of the Company.

As previously predicted, global trends continue to reflect the progressively heavier production barrel. Although the oil price has come down from the highs of well above \$100 per barrel, Nautical believes that a step change to high energy prices has taken place. While expert opinion varies at the extremes, consensus suggests that price should remain well within the range required for viable near term production from Nautical's "cornerstone" assets.

Aside from the activity programme to move the Kraken and Mariner discoveries to FDP, the Company will continue the active appraisal of its substantial exploration portfolio. Nautical is on the move and is well into transition on the journey from prospects to production. The Company has added considerable value over the past year and intends to continue to do so in the coming year.

Ian Williams
Chairman



Heavy oil marketing

“The Alba crude has recently been trading at a 6-7% discount to Brent while the Captain discount has been as low as 3%.”

The UK has been producing heavy oil in the North Sea since the 1990s. Currently there are 3 major fields producing heavy oil, Captain, Harding, and Alba, which equates to 8% of current UK oil production.

The perception is that these heavy crude oils can be difficult to market due to the properties of the oil. The general concerns relate to the high levels of residue in the crude (low value product), the acidity (Total Acid Number, TAN), metals content (Nickel, Vanadium etc) and sulphur content.

The heavy crude oils in the North Sea do have a high residue content as can be seen from the table below when compared with Brent and are therefore less valuable to most refiners. The TAN figures are high, with anything above

0.3mg/g, considered problematic for conventional refiners. Metals and sulphur levels for these heavy crude oils are at acceptable levels. Historically these issues have been reflected in the price the market is prepared to pay.

The discount for these crudes have been in excess of 20%. However, more recently as conventional crude oil prices have risen to the \$100 per barrel level we have seen the discount narrow to a point where some heavy North Sea crude oils have been trading at close to parity with Brent.

The Alba crude has recently been trading at a 6-7% discount to Brent while the Captain discount has been as low as 3%. This improvement in the price for these crude oils is due to 2 main factors. These oils are acidic and have characteristics that are of interest to specialist naphthenic refiners. These refiners have seen a decline in the supplies of naphthenic crudes. The main source has been from Venezuela, where over recent years the production levels of these oils have declined severely.

The UK has also been another major source but again there has been a decline

in production from these fields, with Leadon coming off stream completely 3 years ago. At the same time there has been a surge in worldwide demand for the specialist products from the naphthenic refiners. The combined effect has led to the substantial decrease in the discount for these types of crude oil.

The products supplied by these refiners include, cutting and grinding fluids, grease, industrial lubricants, general base oils, transformer oils, switchgear oils and bitumen products.

We at Nautical Petroleum recognise the challenges that heavy oil presents from both a technical and marketing aspect and are working towards appropriate solutions to maximise value for the Company.

	Conventional oil	Venezuelan heavy oil	North sea heavy oil		
	Brent	Tia Juana Pesado	Alba	Captain	Mariner M
API	38.3	11.0	19.4	18.99	14.49
Sulphur wt %	0.36	2.66	1.24	0.72	1.11
TAN mg KOH/g	0.05	4.22	1.42	2.50	4.42
Metals (V+Ni) w ppm	6	463	45	16	35
Vacuum residue wt %	15.1	53.1	33.7	28.3	28.9





Chief Executive's review



We were pleased to welcome a new operator on Mariner (StatoilHydro) and look forward to development on both Mariner and Kraken.

Nautical entered into a new exciting phase of its development, drilling its first operated well on the Kraken discovery – a well which confirmed oil in the main reservoir and found further oil in a lower sand, resulting in an increased oil column and increased resources. This was followed by 2 operated exploration wells on Mermaid and Selkie.

We were pleased to welcome a new operator on Mariner (StatoilHydro) and look forward to development on both Mariner and Kraken. Our focus continues to be to build and manage a portfolio of heavy oil assets, primarily on the East Shetland Platform by means of licensing rounds (most cost effective acquisition). Nautical will continue to drill both appraisal and exploration wells but has successfully attracted partners which has limited our financial exposure and enabled your company to maintain a healthy cash balance despite the high level of drilling activity, seismic acquisition and driving the Mariner and Kraken developments forward. Nautical maintains its position as the only UK listed company offering significant exposure to a portfolio ranging from heavy oil developments to large exploration prospects.

Managing our portfolio

Your Company's portfolio now has 3 solid opportunity legs, the first and second being developments of Kraken and Mariner and the 3rd an extensive portfolio of appraisal/exploration projects maintaining balance. The combined portfolio is now 17 blocks (13 licences) Nautical operating 7 blocks (5 licences).

Kraken – successful appraisal well

Nautical's first operated well (9/2b-2) was a successful well on the Kraken accumulation 2.7 kilometres north of 9/2-1 encountering heavy oil in both the main Heimdal sand and lower sands. The result exceeded Nautical's expectations pushing the oil-down-to (ODT) down 51 metres, giving a gross hydrocarbon column of at least 77 metres of lower viscosity than predicted oil. The well result indicates a large oil accumulation which your Company and its aligned Joint Venture partners are determined to develop in the shortest possible timeframe. In order to achieve this both development and technical studies are either completed or ongoing and a further appraisal well was drilled in September/October 2008 on the extreme north-eastern flank of the mapped structure. Submission of a field development plan is anticipated before the end of 2009.

Mariner – a new energised operator

StatoilHydro purchased Chevron's equity in Mariner, East Mariner and Bressay and became operator in October 2007. Nautical is particularly pleased that the new operator shares its enthusiasm for heavy oil in the East Shetland Platform and endorses your Company's heavy oil strategy. StatoilHydro are aggressively leading the joint Mariner and East Mariner group to develop both accumulations. A vigour illustrated elsewhere in the drilling and production testing of a Bressay well (directly northeast of Kraken).

Both the new 3D and ocean bottom cable surveys were acquired in the summer with results expected by the end of 2008. This accelerated

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.

“We look forward to progressing both Kraken and Mariner to early FDP submission and drilling up our large appraisal and exploration portfolio to add to these development opportunities.”

programme was the first operational activity for 11 years over the Mariner accumulation.

The Joint Venture will now proceed to submit a field development plan (FDP) covering both reservoirs in mid 2010, heralding the long awaited first oil from Mariner.

Further significant appraisal and exploration opportunities

On both our operated blocks and as an active joint venture partner, we continue to acquire seismic data and carry out integrated studies over the blocks to elevate leads to drillable prospects, before releasing the potential through drilling.

The large Jurassic Hydra prospect was confirmed by acquiring our first operated seismic and will be drilled in October 2008, to be followed by a well on Catcher in 2009 (28/9 and 28/10b) postponed from 2008 due to the operator's high level of activity elsewhere.

Work continues apace on Mellow in the East Irish Sea basin confirming a large prospect at both Triassic and Permian levels. Contingent resources have increased on the Tudor Rose discovery due to mapping of reprocessed 3D seismic and new seismic is planned over the Scylla channel (contiguous and directly west of the Kraken discovery).

Nautical has been very successful in mitigating risk by farming out both exploration and appraisal wells, first to Celtic Oil Limited, then Canamens Energy Limited and Silverstone Energy. During the period further farmins were agreed with Canamens over the blocks

8/25a, 9/2b and 3/27a, thus the impact of the unsuccessful exploration wells on Mermaid and Selkie were minimal and your Company has little financial exposure to the just completed Kraken appraisal well and the forthcoming Hydra exploration well whilst retaining 35% equity interests in both. Your Company will continue to attract new partners to opportunities and aims to retain an equity interest of 30-50% in operated blocks and a meaningful interest in non-operated licences. Portfolio management includes the high grading of the blocks resulting in the relinquishment of non-prospective blocks. However, these will be replaced by new opportunities through farmin and most likely through licence awards.

Our extensive database and understanding of the hydrocarbons systems over the East Shetland Platform has enabled Nautical to attract new partners and retain existing co-venturers in high grading blocks for application in the 25th Seaward Licensing Round. In addition we have joined with our existing operators in making selective applications in the Moray Firth. The blocks are likely to be awarded at the end of 2009 or in the new year. Further successful French permit applications at Pontenx and Gex will augment the portfolio when officially awarded.

Oil portfolio audit

RPS Energy carried out an audit as at 30 June 2008. A summary of their report is included in supplementary information at the end of this report. The figures in this report for reserves are proven plus probable and all contingent resources and prospective resources are best estimates.

Oil price still high but so are costs

Nautical expects the oil price to remain high despite the recent sharp fall off from record levels. The narrow quality discount is likely to persist since heavy oil production in the UKCS is still in decline and the sources of naphthenic oil are still few and far between.

Operational costs still remain high but rig slots seem to be appearing. We aim to control costs through farming down to reduce our financial exposure to upcoming wells. Nautical appears to be making some progress in lobbying the UK Treasury for improved fiscal terms for heavy oil development.

Skill shortages still prevail, however we aim to strengthen the engineering expertise in our core team whilst fostering our relationships with aligned contractors. We have demonstrated our operational capability by drilling 3 wells safely and on budget (2 in the winter). This is a great testament to all involved, including specific expertise from our Joint Venture partners.

The future

We look forward to progressing both Kraken and Mariner to early FDP submission and drilling up our large appraisal and exploration portfolio to add to these development opportunities.

Steve Jenkins

Chief Executive

>
Enhance crude value and mitigate risk through our relationships.

>
Acquire heavy oil exploration blocks with low/moderate commitments.

Farmout to mitigate portfolio risk.

Resulting in enhanced shareholder value

Operational review

Our portfolio

Kraken: Block 9/2b (Licence P1077 – 35% interest)

- A successful appraisal well was drilled in October 2007 on the Kraken discovery. A deeper oil-down-to (ODT) was encountered and the oil is of a higher API with less viscosity than predicted.
- A further appraisal well was drilled September/October 2008.
- Aim to submit FDP before end 2009.
- Contingent resources of 106mmbo (gross), 37mmbo (net).

Mariner: Block 9/11a (Licence P335 – 26.67% interest)

- This highly appraised field has produced 662,000 barrels of oil on extended test at a maximum rate of 14,991bopd (14.5 API) from the Maureen Formation sands and has flowed up to 1,800bopd from the shallower Heimdal reservoir.
- 3D seismic and an Ocean Bottom Cable (OBC) survey were acquired mid 2008 to better image the large Heimdal Sandstone reservoir.
- No more drilling is required and FDP submission is planned for mid 2010.
- Reserves of 94mmbo (gross), 23mmbo (net) and contingent resources of 180mmbo (gross), 44mmbo (net).

Hydra: Block 3/27a (Licence P1203 – 35% interest)

- High density, high resolution 2D seismic was acquired in 2007 and a potentially large prospect has been defined.
- Drilling will commence in October 2008.

Scylla: Blocks 8/5 and 9/1 (Licence P1277 – 100% interest)

- High resolution 2D seismic was acquired in September and October 2008.
- Results to be integrated with previous data to ascertain if there are drillable prospects.

Tudor Rose: Block 14/30a (Licence P1463 – 20% interest)

- The block contains the Tudor Rose discovery.
- Interpretation of 208 square kilometres of 3D seismic has yielded encouraging results.
- Engineering studies are underway on the 14/30a-2 discovery well to determine the case for further drilling.
- Contingent resources of 49mmbo (gross), and 10mmbo (net). As at September 2008.

Catcher: Blocks 28/9 and 28/10b (Licence P1430 – 15% interest)

- The blocks contain several leads and prospects including the Catcher and Catcher East prospects.
- Catcher is to be drilled in 2009.
- Prospective resources of 21.8mmbo (gross), 3.3mmbo (net).

Merrow: Blocks 113/29c and 113/30 (Licence P1475 – 50% interest)

- The blocks lie on the edge of the East Irish Sea basin.
- Evaluation of seismic and other data has confirmed the large Merrow prospect, adjacent to Walney Island.
- This offshore prospect can be tested by a well from a site onshore.

Mermaid: Block 9/11c (Licence P979 – 50% interest)

- An unsuccessful well was drilled in November 2007.
- Remaining prospectivity will be determined by the work on the adjacent Mariner block, with a possible field extension into 9/11c.

Selkie: Block 8/25a (Licence P976 – 30% interest)

- An unsuccessful well was drilled in May 2008 on the Selkie prospect. The block also contains the Kelpie prospect and is being further evaluated.

Dragon: Blocks 2/3a and 2/4b (Licence P1492 – 33.33% interest)

- Following evaluation of the blocks the Group has decided to relinquish the licence.

St Laurent: France (22% interest)

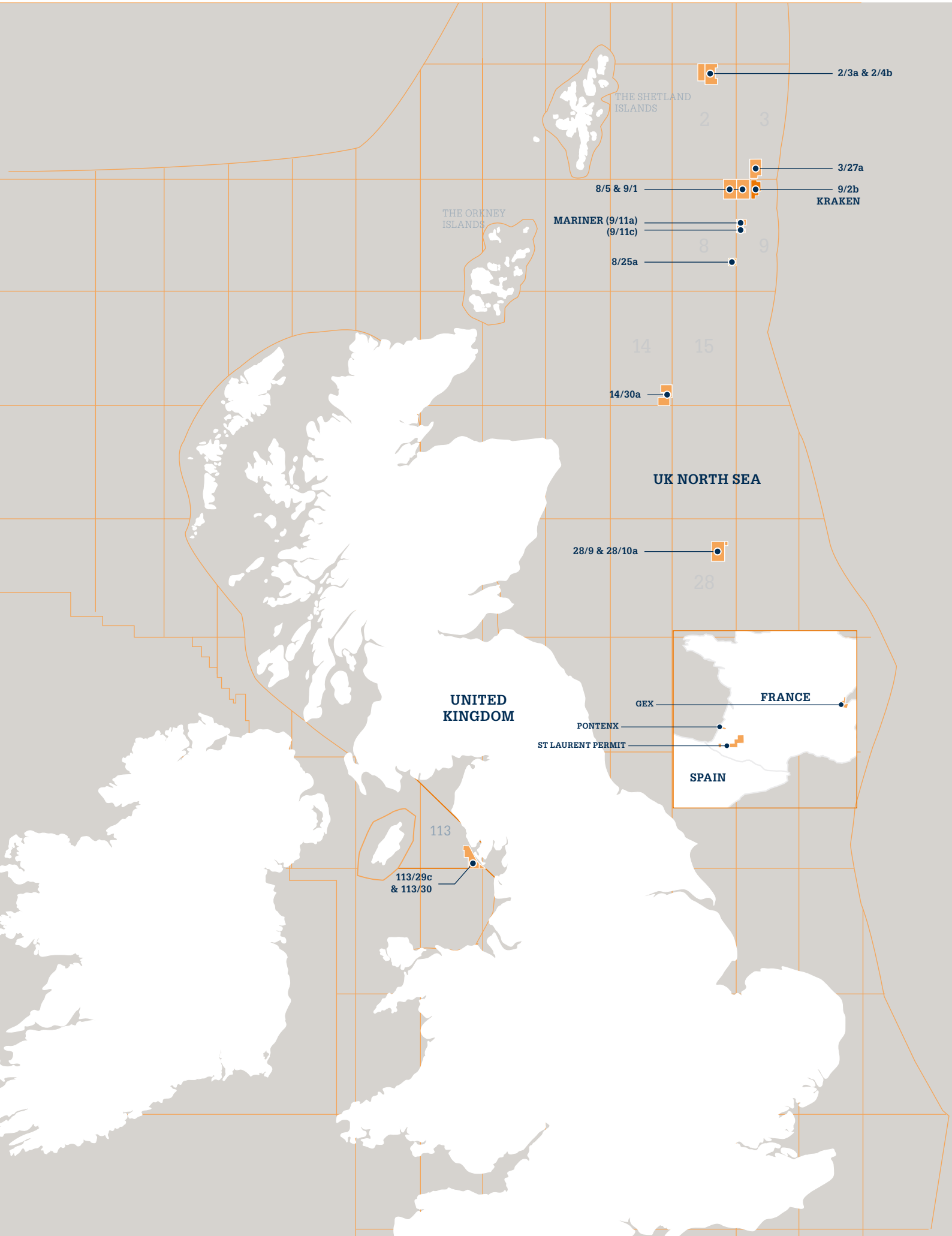
- Located in Aquitaine Basin, south-west France, the Grenade-Sur-Ardour well produced 8,000 barrels in a series of tests.
- An appraisal well drilled in January 2008 failed to find viable reservoir and hydrocarbons. Evaluations are being undertaken on the oil bearing reservoir to determine the feasibility of drilling a production well.
- Following 2D seismic reprocessing on the large Audignon Ridge, subsalt gas prospect in the block, we will seek to farmout prior to drilling a well.
- Grenade has contingent resources of 12.8mmbo (gross), 2.8mmbo (net).

Pontenx: France (20% interest)

- Located in the Parentis Basin, south-west France, the permit application was successful, with official award expected in October 2008.
- The permit contains the abandoned Mimizan Nord field which produced 3.5mmbls of 12 API oil and a number of high potential prospects.

Gex: France (20% interest)

- Located in eastern France near the Swiss border, the permit application was successful, with official award expected in October 2008.
- Previous drilling on the block encountered shallow oil and the initial work programme will be to reprocess and interpret existing seismic and carry out geological studies.

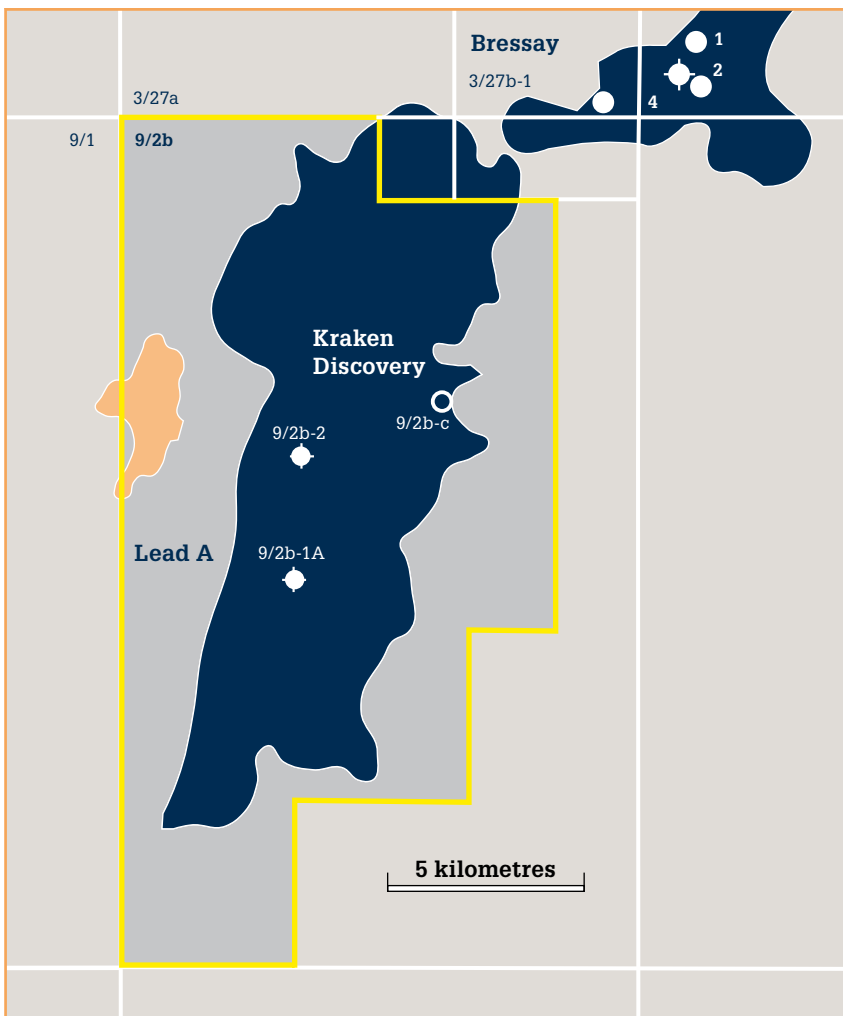


Operational review

UK continental shelf



Kraken



Block 9/2b (Licence P1077) (Nautical 35% Operator)

Nautical's first awarded licence in the UKCS is located on the East Shetland Platform, west of the North Viking Graben and contains the 9/2-1A discovery well drilled in 1985 and the successful 9/2b-2 appraisal well drilled in October 2007 which confirmed the substantial Kraken oil accumulation. The discovery well tested 15 API oil on drill stem test (DST) from the Heimdal Sandstone Member of the Tertiary (Palaeocene) system.

Interpretation of over 200 square kilometres of reprocessed 3D seismic, integrated with newly acquired 2D high resolution 2D seismic confirmed a large 3 way dip closed structure which was appraised in October 2007 with the 9/2b-2 commitment well located 2.7 kilometres north of the 9/2-1A well (the licence entered the 2nd phase on 1 January 2008). Oil bearing sands were encountered in Heimdal sands which were readily correlated with those in the southern well albeit at a higher elevation. A lower sand (represented only by sand stringers in the discovery well) was also oil bearing.

9/2b-2 proved an oil-down-to (ODT) 51 metres deeper than 9/2-1 thus confirming a substantial accumulation. This exceeded the predicted maximum



“The aligned Joint Venture aims to submit a Field Development Plan before the end of 2009.”

“The field could be developed using a conventional platform facility. Alternatively the field could be developed in phases, initially using a floating production vessel (FPSO) to produce from the primary part of the reservoir followed by a fixed platform facility.”

pre-drill estimate resulting in an upgrade of gross best estimate contingent resources from 53mmbo to 106mmbo within the block of which 37mmbo are net to Nautical.

The reservoir quality in all sands was excellent with high porosity and permeability. Gravity of the recovered oil samples was slightly higher than expected and viscosity was around 110cp or less, being a higher API and much less viscous than both Bressay (1000-1500cp) and Bentley (>2000cp) and more similar to the producing Captain field.

The lack of Oil Water Contact (OWC) encountered in both the 9/2-1A and 9/2b-2 wells indicates edge rather than bottom water which will delay water production when the discovery is produced. This is supported by geochemical analysis which indicates that although the oil is biodegraded it is not water washed, implying the water leg is remote from the core of the structure.

A series of transactions negotiated by Nautical during the period led to an advantageous combination of acquisition and farmout (to Canamens) resulting in retention of a 45% interest in the 9/2b-2 well, coupled with a lower share of appraisal drilling.

In anticipation of a further appraisal well and submission of a Field Development Plan, a high level scoping study was commenced by the Joint Venture. Several development scenarios were costed, production profiles generated and economic feasibility studies carried out confirming that the Kraken discovery was economically viable down to less than 30mmbo. If the current best estimate contingent resources are confirmed by future drilling and reservoir simulation, the field could be developed using a conventional platform facility. Alternatively the field could be developed in phases, initially using a floating production vessel (FPSO) to produce from the primary part of the reservoir followed by a fixed platform facility.

A wide range of technical studies have been conducted in the period which led to the choice of the 9/2b-C appraisal well location sited on the extreme north-eastern flank of the mapped structure. This well was designed to intersect the oil-water contact and to assess the opportunity of upside reserves. The studies have also identified potential upside in the south west (e.g. seismic elastic inversion anomalies, which may indicate oil filled sands) and this area will be considered for future upside appraisal drilling.

Again in order to mitigate risk, Nautical has farmed out a further gross 10% equity to Canamens in exchange for back costs and a carry for your Company's 35%. On FDP submission an additional cash bonus will be paid to Nautical. The combination of the farmout to Canamens and the previously negotiated farmout to Celtic Oil Limited reduced Nautical's exposure in the 9/2b-C appraisal well to zero, whilst retaining operatorship and maintaining a significant interest in this large oil discovery. In the event of successful delineation of the Kraken accumulation the aligned Joint Venture aims to submit a Field Development Plan (FDP) before the end of 2009.

Key stats

Kraken

- Contains Kraken oil discovery
- Large 3 way dip closed structure
- 15 API oil
- 9/2b-2 confirmed substantial accumulation
- FDP by end 2009

110 cp or less

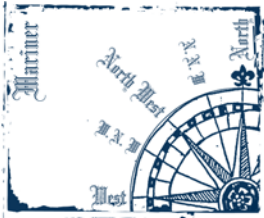
Viscosity
(similar to
the producing
Captain field)

106 mmbo

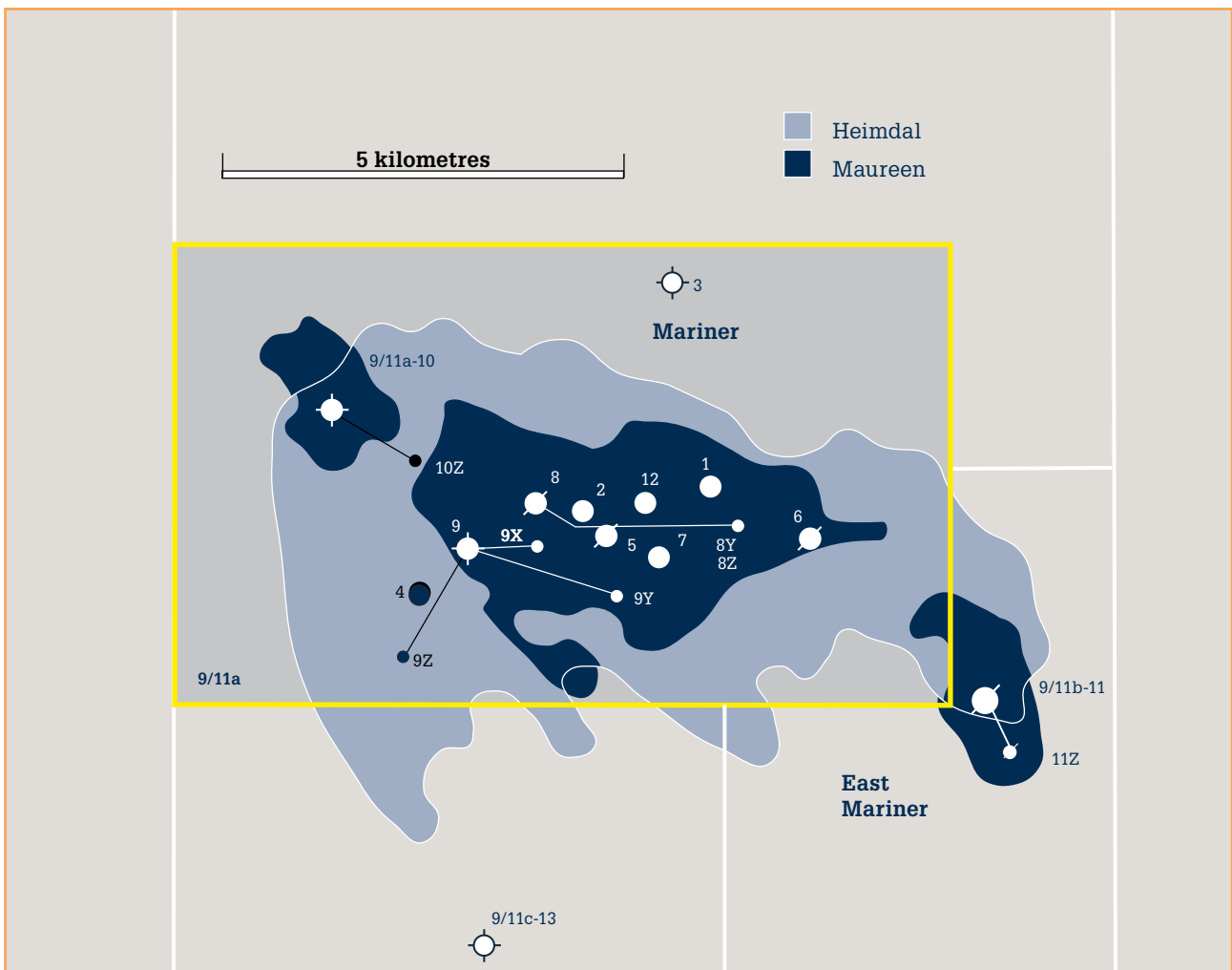
Gross best
estimate
contingent
resources

Operational review

UK continental shelf



Mariner



**Path to FDP
approval (Field
Development
Plan)**

- Interpretation of 3D and Ocean Bottom Cable (OBC) seismic surveys to image the Heimdal
- No more drilling required
- Evaluate field development options

**FDP submission
by mid 2010**

“StatoilHydro have used their considerable expertise in the Heimdal to modify the geological model, away from the multiple well penetrations, resulting in the upgrade in the in-place oil volumes and the upgrading of gross best estimate contingent resources of Mariner and East Mariner to 180mmbo.”

**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 seismic surveys have been acquired and 9 vertical and 6 high-angle horizontal appraisal 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 Palaeocene 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. In 2006/07 mapping of reprocessed merged 3D seismic data resulted in better imaging of the Maureen reservoir, reducing the range of hydrocarbon volumes, as well as the stratigraphic and structural uncertainty. There are probable reserves of 94mmbo in the Mariner field (23mmbo net to Nautical, within the block). A shallower Palaeocene reservoir, the Heimdal Sandstone Member, has been the focus of recent work by the new operator Statoil, which has led to a substantial increase in best estimate gross

contingent resources in the Mariner field from 56mmbo to 180mmbo (44mmbo net to Nautical, within the block). This reservoir has flowed up to 1,800bopd on a vertical test.

Most encouragingly, StatoilHydro ASA were assigned operatorship from Chevron in October 2007. The new operator is a major developer of worldwide heavy oil fields including the nearby Grane field in Norway which has an analogous Heimdal Sandstone reservoir and currently produces in the order of 200,000bopd and the Peregrino field, offshore Brazil which has a similar deep water turbidite reservoir to the Maureen reservoir in Mariner. As well as acquiring Mariner from Chevron, Statoil also acquired East Mariner and Bressay, reinforcing their North Sea heavy oil focus. Mariner and East Mariner are to be developed together under a cost sharing arrangement with the Mariner partners paying 91.5% of costs.

Subsurface, development concept and economic studies have continued apace confirming Mariner to be an economically viable development. StatoilHydro have used their considerable expertise in the Heimdal to modify the geological model, away from the multiple well penetrations, resulting in the upgrade in the in place oil volumes and the upgrading of gross best estimate

contingent resources of Mariner and East Mariner to 180mmbo.

Further characterisation of the Heimdal reservoir and its areal distribution is required prior to FDP submission. To this end StatoilHydro have applied their experience in the Grane field and the Joint Venture has acquired 151 square kilometres of new 3D seismic data, orientated parallel to the depositional direction of both the Heimdal and Maureen sands. Most importantly this was the first significant operational activity on the block since the EWT (in 1997) and lifted the block’s fallow status.

In August 2008 an ocean bottom cable (OBC) seismic survey was acquired and the processed data will be integrated with the 3D seismic (a method proven at Grane) to image and determine the distribution of the Heimdal. The aim is to submit an FDP in mid 2010.

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 £9.0m at June 2008.

Key stats

Mariner

- Large oil accumulations in the Maureen and Heimdal
- Highly appraised with 16 wells
- 63 day test produced 662,000 barrels at 10,000+ bopd
- 14.5 API oil

94 mmbo

Gross proven and probable reserves

180 mmbo

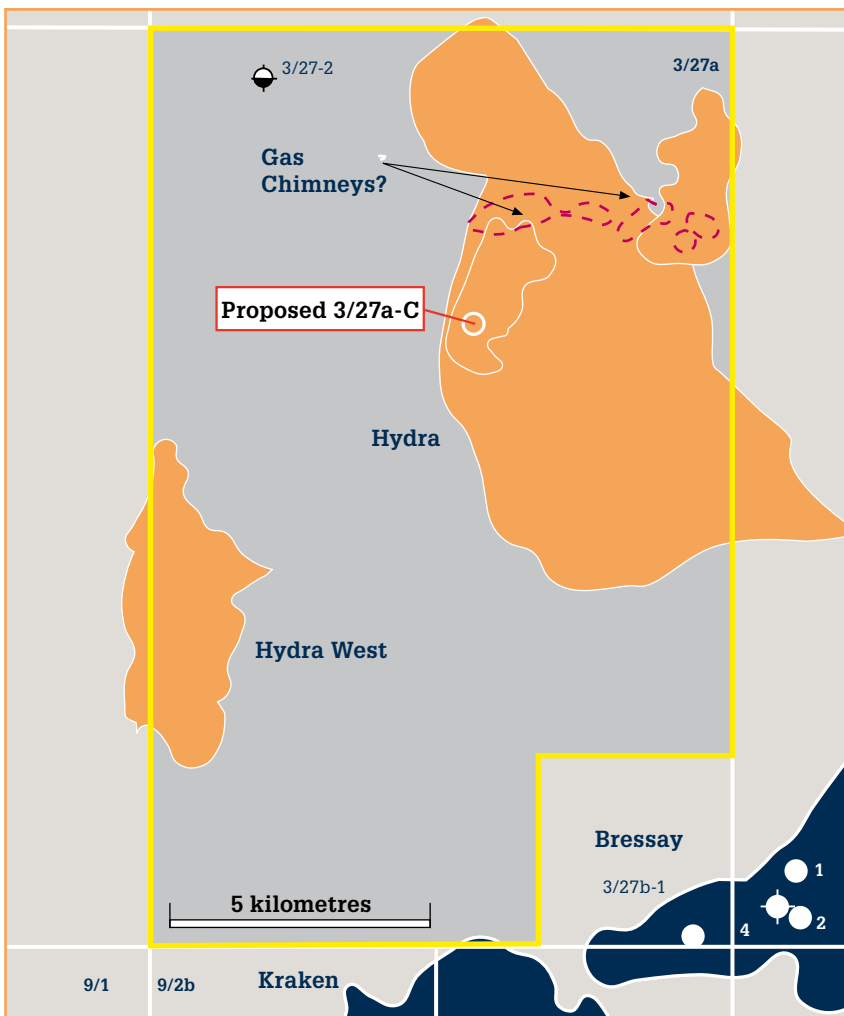
Gross best estimate contingent resources

Operational review

UK continental shelf



Hydra



Block 3/27a (Licence P1203) (Nautical 35% Operator)

Located directly north of Block 9/2b (Kraken discovery) on the East Shetland Platform, the interpretation of both 2D and 3D seismic data was sufficiently encouraging to convert the licence from Promote to Traditional in October 2006 and commit to the Department of BERR to acquire high resolution, high density 2D seismic data and drill a contingent well to penetrate the Jurassic.

During the autumn of 2007, 1,413 kilometres of 2D seismic was acquired over Block 3/27a extending into Block 9/2b, representing Nautical's first operated seismic acquisition. The data showed considerable improvement in imaging both the Heimdal sands and the Jurassic wedge. Interpretation confirmed both the Jurassic Hydra and the Palaeocene Hydra West prospects.

Hydra appears to be larger than previously mapped. However, given the stratigraphic nature of the trap and the uncertainty of Jurassic sand development, Nautical considers this to be one of its higher risk exploration wells. To mitigate this risk your company has farmed down to both Celtic Oil Limited and Canamens and reduced its exposure to less than £1m. A rig has been contracted to drill the Hydra well in October 2008.

Key stats

Hydra

- 1,413 kilometres 2D seismic acquired autumn 2007
- Interpretation confirms both Jurassic Hydra and Palaeocene Hydra West prospects

Drilling 3/27a-C

October 2008



Scylla



Blocks 8/5 and 9/1 (Licence P1277) (Nautical 100% Operator)

Blocks 8/5 and 9/1 are contiguous to the west of block 9/2b (containing the Kraken discovery). Initial mapping of an extensive legacy 2D seismic database highlighted 2 culminations 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. The reprocessing of 250 kilometres of 2D seismic has significantly enhanced the character of the 2 reservoir horizons and the Base Tertiary event.

A single new 2D high resolution seismic line was acquired in October 2007 which showed greater clarity at the reservoir targets. The licence was converted from Promote to Traditional by committing to acquire 150 kilometres of new 2D seismic and drilling a well, the latter contingent on a viable prospect being mapped on the new seismic.

A new high resolution 2D seismic survey was acquired in September and October 2008 covering over 700 kilometres. The results will be integrated with previous data to determine if there are drillable prospects. If the contingent well is to be drilled, Nautical will undertake a farmout campaign prior to drilling.

700^{+kilometres}

2D Seismic acquisition
September/October 2008

Key stats

Scylla

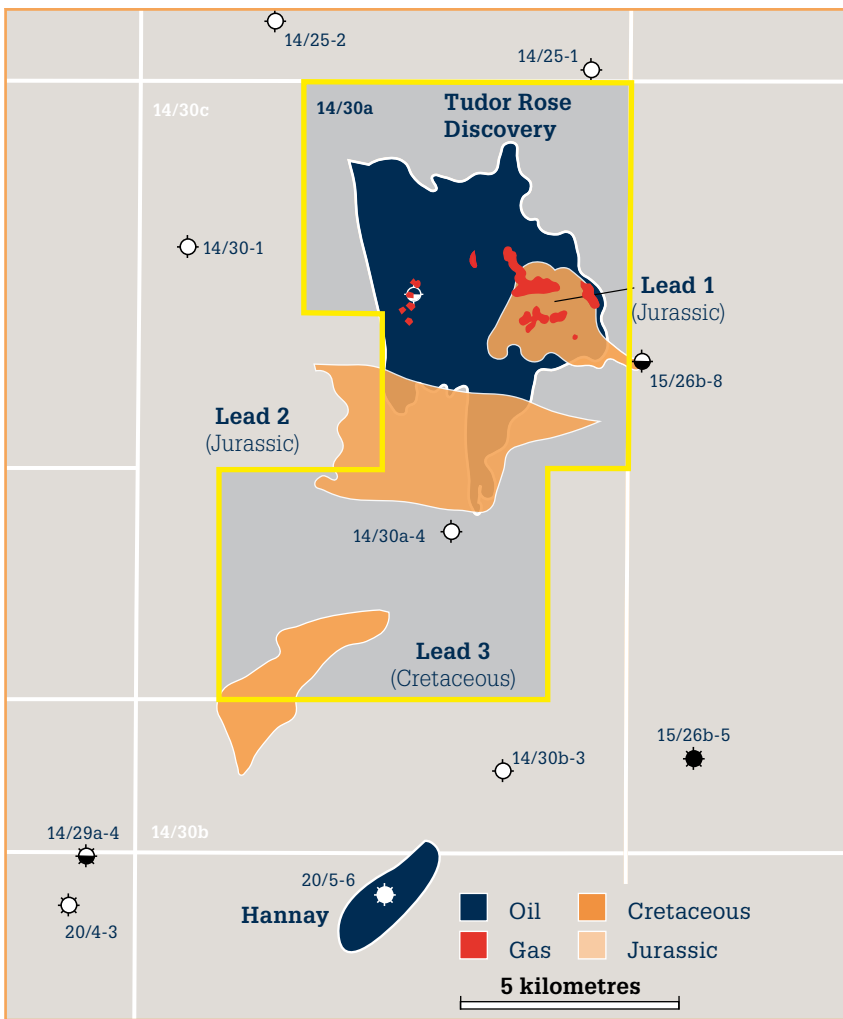
- Seismic signature is analogous to sand rich channels elsewhere on the platform
- 250 kilometres reprocessed seismic and 1 new line (October 07)
- 700 kilometres 2D high resolution 2D seismic September/October 2008

Operational Review

UK continental shelf



Tudor Rose



Block 14/30a (Licence P1463) (Nautical 20%)

Located in the Outer Moray Firth adjacent to Ivanhoe, Rob Roy and Goldeneye fields this Traditional Block, contains 1 undeveloped discovery, 14/30a-2, named Tudor Rose. The well encountered a 24 metre oil column beneath a 3 metre gas cap at around 1000 metres subsea within Tertiary, Dornoch formation sands. Further prospects have been mapped on 3D seismic within the Lower Cretaceous (Kopervik sand) and the Jurassic Sgiath sand.

The 4 year work programme for the block includes reprocessing 3D seismic data and a contingent well to be drilled on the 14/30a-2 discovery.

Interpretation of 208 square kilometres of 3D seismic was completed in the period, yielding encouraging results. The western pinch out of the Dornoch sands was confirmed and the area of the stratigraphic trap in 2 sand bodies (1 undrilled) extended to the south. Gas anomalies (1 coincident with the gas in 14/30a-2) were mapped within the stratigraphic closure. Nautical attributes 49mmbo of gross best estimate contingent resources to the Tudor Rose discovery. Pending further engineering studies, the Joint Venture will then decide if a new well is merited by early 2011.



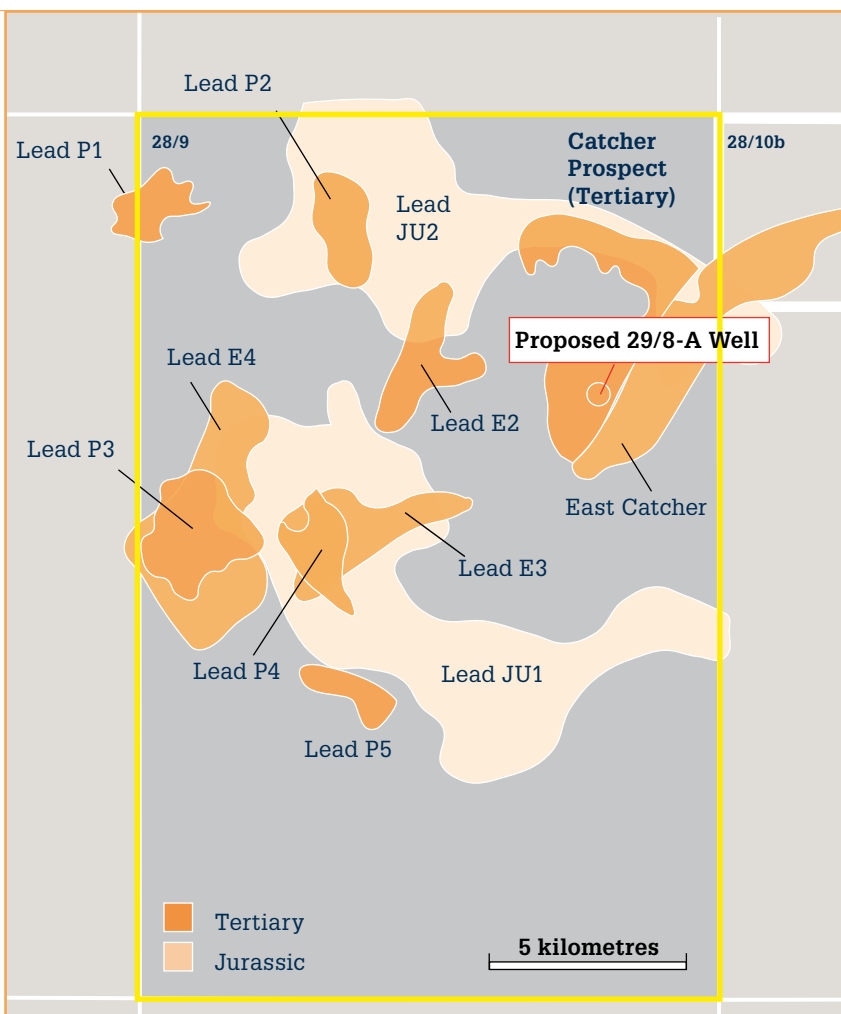
Key stats

Tudor Rose

- Contains undeveloped Tudor Rose discovery
- 208 kilometres of 3D seismic interpreted
- 49mmbo gross best estimate contingent resources



Catcher



Blocks 28/9 and 28/10b (Licence P1430) (Nautical 15%)

This Traditional 24th Seaward Licencing Round Block is located on the West Central Platform, west of the Central Graben and the nearby Guillemot Field.

The blocks are undrilled but contain numerous structural/stratigraphic leads and prospects at both Eocene (Tay Sandstone) and 2 large Jurassic leads. Traps are defined on recent 3D seismic which has been reprocessed and interpreted, revealing several seismic anomalies. The strongest and most convincing is over the Catcher prospect in the Palaeocene, where a seismic amplitude anomaly (class 2 AVO) indicates a thick sand sequence which is likely to be oil bearing. A flatspot evident on the seismic, which corresponds to closing contour within the prognosed thick, clean sand of this prospect, supports the opportunity for an oil accumulation.

The work programme includes drilling a firm well to test the Catcher prospect. The operator (Oilexco) undertook to drill the well during the period but its development commitments on other discoveries has rescheduled the drilling into 2009.



Key stats

Catcher

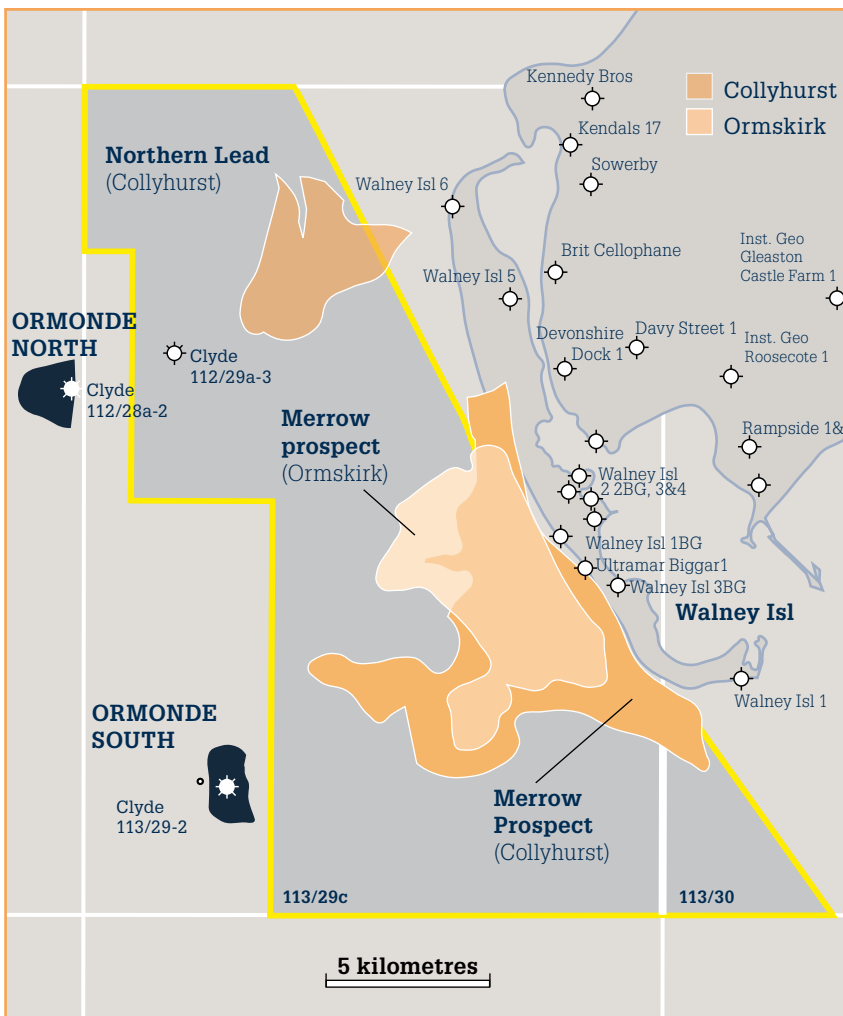
- Well planned to test the Catcher prospect in 2009
- 3D seismic has defined traps
- 2 large Jurassic leads
- 21.8mmbo gross best estimate prospective resources

Operational review

UK continental shelf



Merrow



Blocks 113/29c and 113/30 (Licence P1475)

(Nautical 50% Operator)

Awarded as a Traditional Licence in the 24th Seaward Licencing Round in 2007, the Blocks are located in the East Irish Sea Basin adjacent to Walney Island on the Cumbrian coast. There are numerous oil and gas shows in the offshore wells and hydrocarbon migration through the Blocks are proven by heavy oil columns and hydrocarbon shows in the onshore wells to the east.

Integration and interpretation of over 700 kilometres of onshore transition zone and offshore seismic, gravity, magnetics and outcrop data has confirmed the large Merrow prospect at both the Ormskirk Sandstone (Triassic) and Collyhurst Sandstone (Permian) reservoirs. A small 4 way dip closed high has been mapped at the shallower Ormskirk level but larger traps at both levels are mapped by relying on sealing in the footwall of an antithetic fault to the basin edge (a common trapping mechanism elsewhere in the basin).

Both reservoirs are proven in the basin, the Ormskirk Sandstone being a prolific gas producer in numerous fields, including the 6tcf Morecambe Field and the soon to be developed Ormonde North and South Fields, immediately to the west of the blocks. Merrow appears to

700^{+kilometres}

Onshore transition zone and offshore seismic interpreted

Key stats

Merrow and the North Sea

- Located in east Irish Sea basin
- 700 kilometres onshore transition zone and offshore seismic
- Large Merrow prospect at both Triassic (Ormskirk) and Permian (Collyhurst) reservoirs

Other North Sea activity

be analogous to the basin margin Lennox oil and gas field, to the south. Hydrocarbons are expected to be heavy oil or gas.

Block 9/11c (Licence P979) (Nautical 50% Operator)

Located on the East Shetland Platform, directly south of the Mariner discovery, the Block contains the Mermaid prospect, which was drilled in late 2007. Unfortunately, despite encountering the target Heimdal and Maureen sands on prognosis, they were both water wet and the well was plugged and abandoned. The drilling of the well lifted the Fallow status on the Block and no further activity is requested by BERR until 31 December 2010.

In accordance with Nautical's strategy to mitigate risk on exploration wells the Mermaid 50% interest in the well was farmed out to Celtic Oil Limited and Silverstone Energy at a premium, meaning Nautical was exposed to significantly less than its 50% equity interest. Remaining prospectivity in the Block is very dependent on the interpretation of 2 seismic surveys over Mariner and adjacent blocks indicating the oil bearing Heimdal extends into the North. Similarly, the Group will monitor the Broch well, targeting the Eocene in adjacent Block 9/11e to be drilled in December 2008.

Selkie: Block 8/25a (Licence P976) (Nautical 30%)

Selkie was drilled in May 2008 in 13 days but, despite the Dornoch Formation being penetrated close to prognosis, the well was dry. Initial interpretation indicated that the shale seal, which proved competent in the nearby Skipper discovery, was developed as a siltstone causing an ineffective top seal to the reservoir sands. Nautical had no financial exposure to the well having successfully farmed out its interest to Canamens and Celtic Oil Limited. The Block also contains the Kelpie prospect and is currently being evaluated for further prospectivity. Under the farmout agreement, Canamens became operator for the Licence.

Blocks 2/3a and 2/4b (Licence P1430) (Nautical 33.33%)

Awarded as a Promote Licence in the 24th Seaward Licencing Round in February 2007, the Blocks are located in the north of the East Shetland Platform directly west of the Heather and Broom oil fields and contain 2 oil discoveries. Well 2/4-1 encountered 16.6° API in the Triassic on a bald Brent high. Further 2D and 3D seismic was purchased and reprocessed to confirm the prospectivity of these shallow prospects and further Tertiary and Jurassic leads. A geochemical study confirmed the reported API gravity of the discovered oil.

No further upside in the discoveries and limited prospectivity has led the group to decide to relinquish the Block.

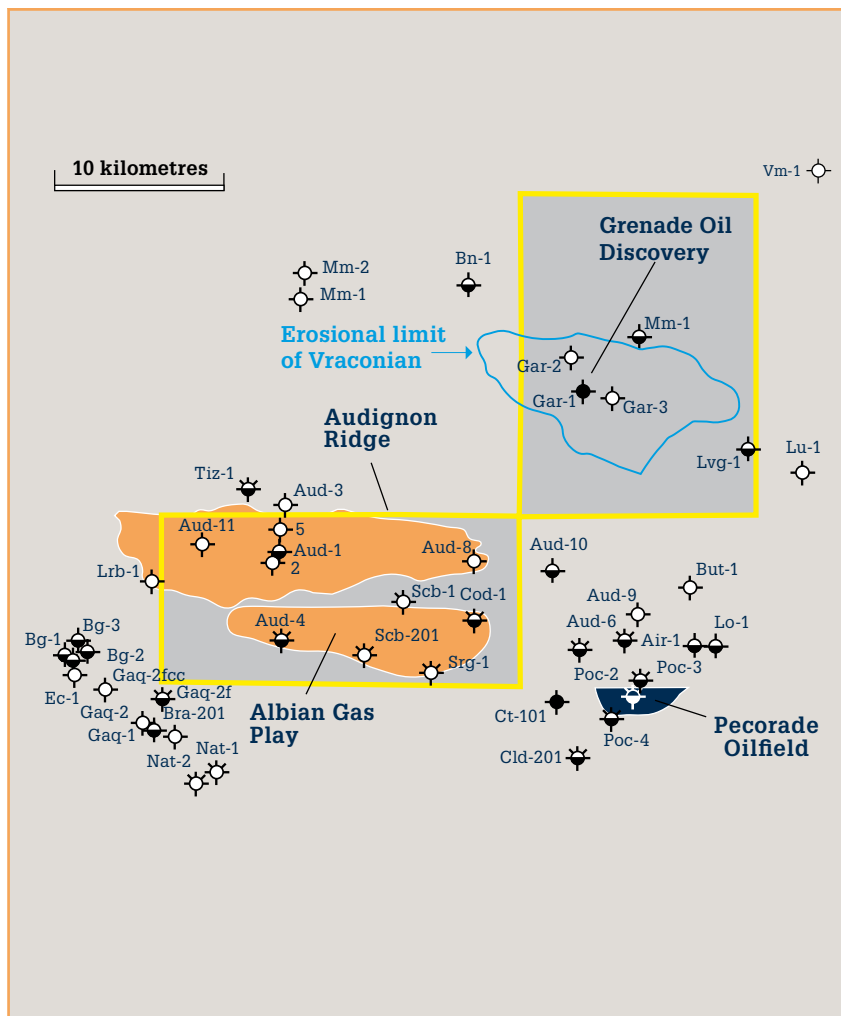
Bluebeard: Block 9/12b (Licence P1079) and Skipper: Block 9/21 (Licence P1080) (Nautical 98.5% Operator)

The blocks contain 3 small discoveries, which after extensive seismic reprocessing and mapping, were judged to be sub-commercial on a standalone basis. The discoveries did not merit drilling and the Blocks were relinquished.

“Merrow appears to be analogous to the basin margin Lennox oil and gas field, to the south. Hydrocarbons are expected to be heavy oil or gas.”

Operational review France

St Laurent Permit Gex and Pontenx applications



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. 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 40 kilometres of 2D seismic and 12 square kilometres 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 3-way up-dip pinch-out of the reservoirs on a low energy carbonate platform.

The Group elected to drill Grenade 3 in January 2007. This relatively low cost onshore well did not encounter reservoir quality carbonates nor any shows but proved useful information on the eastern boundary of the oil bearing reservoir.

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.

Key stats

St Laurent Permit

- Grenade heavy oil accumulation with 12.8mmbb gross best estimate contingent resources
- Large subsalt gas prospect in the Triassic Bunter Sandstone under the Audignon Ridge

“Deeper in the geological section (to the south west) the joint venture has reprocessed 2D seismic data and successfully delineated a large subsalt gas prospect in the Triassic Bunter Sandstone under the Audignon Ridge.”

Despite this result, there is remaining upside in the Grenade oil accumulation. The operator is currently assessing the economics of drilling a further production well.

Deeper in the geological section (to the south-west) the joint venture has reprocessed 2D seismic data and successfully delineated a large subsalt gas prospect in the Triassic Bunter Sandstone under the Audignon Ridge. Gas shows and tests are common in the shallow Cretaceous Albian reservoirs in the area.

A farmin partner will be sought before a well is drilled. Before renewal and entering the next 3 year period, mandatory relinquishment of a portion of St Laurent Permit has been notified. The attendant work programme is very modest.

Gex and Pontenx applications (Nautical 20%)

As a co-venturer of a group operated by Egdon Resources, licence applications made in the previous period have been successful as of September 2008. Under the French licencing system, there will now be an official ratification process, which may take some time. The permits contain redevelopment, appraisal and exploration opportunities. Work programmes for the first 2 years are modest (seismic purchasing, reprocessing and studies), with new

seismic for year 3 and drilling in year 4 and beyond. In both permits there is a break at the end of year 2 and year 3, if prospectivity levels are low.

Pontenx Permit

The Pontenx Permit is located in south-west France on the southern margins of the Parentis Basin, an oil productive region on the west coast of France, and covers an area of 313 square kilometres. This licence contains the abandoned Mimizan Nord heavy oil field and a number of other high potential prospects with good oil shows and tests.

The licence will have a 4 year term and the initial 2 year programme will comprise the reprocessing and interpretation of the existing seismic data, a review of the rejuvenation potential of the Mimizan Nord field and detailed geological studies.

The Mimizan Nord field produced 3.5mmbbls of 12 API oil from the Apto-Albian cretaceous reefal limestone from 1960 to 1986.

Various other wells on the blocks have yielded encouraging results, with a number testing oil at rates up to 250bopd.

Gex Permit

The Gex Permit covers an area of 932 square kilometres and is located in

eastern France near the Swiss border. This permit will have a 5 year duration and the initial 2 year work programme will comprise the reprocessing and interpretation of the existing seismic data and detailed geological studies.

The area covers the Alpine Molasse basin, where seepage and shallow drilling has proven an extensive zone of shallow (<500 metres) oil in the Molasse sands and deeper drilling indicates a working hydrocarbon system with trapping potential. The majority of wells on the block encountered oil.



“There is remaining upside in the Grenade oil accumulation. The operator is currently assessing the economics of drilling a further production well.”

Finance

Director's review



The prime focus for the Group and its management during the year was to engage in substantial exploration and appraisal drilling activity to progress the business towards first oil and revenue.

Introduction

The prime focus for the Group and its management during the year was to engage in substantial exploration and appraisal drilling activity to progress the business towards first oil and revenue. This involved the drilling of Nautical's first operated appraisal well on the Kraken discovery as well as 2 operated exploration wells on the Mermaid and Selkie prospects. In addition, a further non-operated well was drilled by Egdon Resources on the Grenade discovery in south-west France. The results of this drilling programme is covered in more detail in the Chief Executive's review.

In keeping with the established business strategy, Nautical has been successful in minimising the call on its own resources in the exploration drilling programme during the year by entering into further farmout arrangements. Whilst these have not only carefully conserved the existing financial resources of the Group during the drilling programme undertaken, they have in fact provided further capacity for the programme going forward. The management firmly believe that on the execution of the latest farmout agreement with Canamens, the Group now has sufficient cash resources to take both its key assets, Kraken and Mariner, through to field development plan approvals during the course of 2009/early 2010.

The farmout arrangements that Nautical has been able to secure over the last 3 years not only demonstrates the quality of the assets within its portfolio but also management's ability and determination to manage risks effectively, secure strong industry partners and provide the means to take the core assets to production

on a planned and timely basis. With StatoilHydro coming in as the operator of the Mariner field during the year through the acquisition of Chevron's interest in it, Nautical is assured of the commitment to bring this field into production on a faster track.

Results for the year

The after-tax loss for the year to 30 June 2008 is £4.5m (2007: £0.4m). This includes a write off of exploration costs of £3.2m (2007: £nil), general and administrative expenses of £1.7m (2007: £1.3m) and bank deposit interest income of £1.0m (2007: £0.5m). The charge for the share options, included in the general and administrative expenses, is £0.5m (2007: £0.4m).

Exploration costs written off principally comprised costs associated with the unsuccessful well drilled on the Mermaid prospect during the year.

Basic and diluted loss per share is 0.37p (2007: 0.05p).

Balance sheet

At 30 June 2008, the Group had net assets of £65.5m (30 June 2007: £50.6m). The most significant balances are intangible exploration and evaluation assets of £56.4m (2007: £49.8m) and cash and short-term deposits of £20.1m (2007: £8.9m).

The net movement in the total exploration and evaluation assets of £6.6m comprises £10.5m of expenditures less £0.7m of exchange effects and £3.2m of write-offs. The significant components of spend in the year included £7.2m on the Kraken, Mermaid, Selkie and Grenade licences, primarily for drilling; £0.6m on Hydra, principally for seismic



“The management firmly believe that on the execution of the latest farmout agreement with Canamens, the Group now has sufficient cash resources to take both its key assets, Kraken and Mariner, through to field development plan approvals during the course of 2009/early 2010.”

and £2.6m on the Mariner field, including development preparation work. £2.2m of costs were reimbursed post year end, following conclusion of the farmout of the Selkie well.

Cash flow

The Group ended the year with £20.1m of cash and short-term deposits (2007: £8.9m). The Group remains debt free, although it has at its disposal an undrawn standby loan facility with Bank of Scotland for £7.5m expiring in May 2009.

On 17 October 2007 the Group placed 190,476,191 ordinary shares of 1p each at 10.5p each, raising £19.2m net of expenses.

During the year, the Group spent £1.7m funding the operations, of which £0.9m related to staff costs. £7.2m was spent on intangible exploration and evaluation assets after adjustments for working capital movements. Post year end, in addition to the £2.2m for the drilling of the Selkie well, a further £4.8m was received as part of the farmout of Kraken, Hydra and Selkie.

All the Group's cash is held with Bank of Scotland and BNP Paribas, and at 30 June 2008, £15m was held on short-term deposits.

Capital structure

The Group had 1,268,165,810 ordinary shares of 1p each in issue, out of its authorised share capital of 2,000,000,000 ordinary shares, at 30 June 2008. Following a 20:1 share consolidation on 25 September 2008, there are currently 63,408,291 ordinary shares of 20p each in issue out of 100,000,000 authorised. Taking into consideration the

outstanding options, warrants and committed shares, the Board presently has a remaining authority to issue 25,000,000 ordinary shares under section 80 and 4,267,723 ordinary shares under section 89 of the Companies Act 1985. These authorities will be reviewed at the next AGM, as appropriate.

Treasury and financial risk management

Control over treasury and risk management is exercised by the Board and its Audit Committee through the setting of policy and the regular review of forecasts and financial exposures. Presently, the Group's financial instruments comprise principally cash and liquid resources and other items, such as accounts receivable and payable, which arise directly from its operations. It is still the Group's policy not to undertake any trading activity in financial instruments, including derivatives.

The Board and management are actively monitoring the current turmoil in the financial markets and have already taken measures to reduce credit and liquidity risk by ensuring cash deposits are not all held with one financial institution.

Taxation

At 30 June 2008, the Group has tax losses of approximately £3.5m (2007: £2.9m) arising in the UK that are available indefinitely against future taxable profits under current legislation. Deferred tax assets of approximately £1.9m (2007: £1.1m) have not, however, been recognised in the financial statements as a result of the uncertainties of their realisation in the foreseeable future.

A deferred tax liability of £6.4m (2007: £6.6m) has been recognised in the financial statements on the acquisition of a subsidiary company prior to the transition date for IFRS (1 January 2005). The tax rate applicable for the periods after April 2007 has been reduced to 28% for this purpose.

Outlook

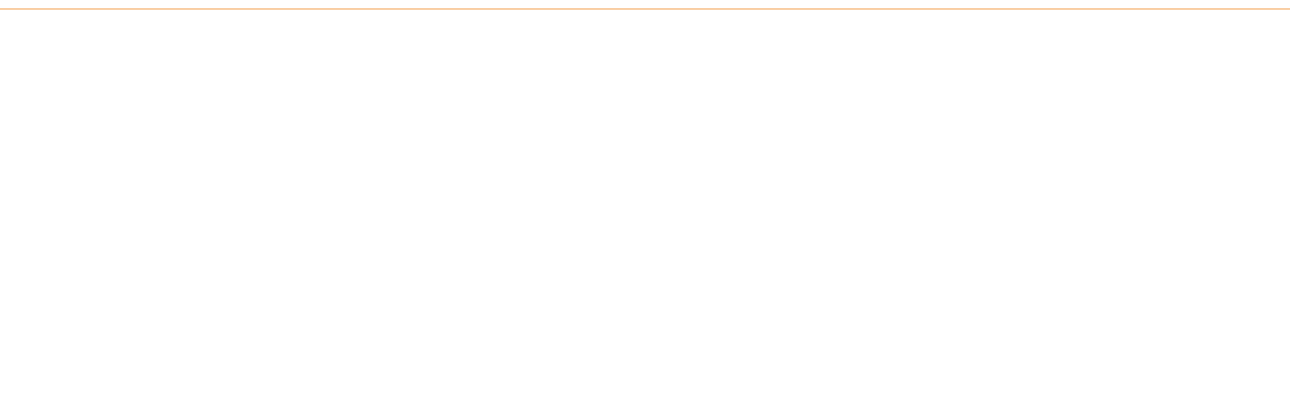
The Group has firmly adhered to its core business strategy during the year under review and will continue to do so going forward. We believe that in following this strategy, the Group is well positioned to reach its primary goal of taking its core assets, Kraken and Mariner, right through to their field development plan approvals without the call for any further financial support from our shareholders. At the same time, the Group should be able to continue with its exploration activity on a number of its assets, on a selective basis, in conjunction with its partners.

The management continues to place a strong emphasis on both our financial strategy and risk management strategy in order to ensure not only a rapid but a carefully managed progression to revenue. As noted in the Chairman's statement, steps have already been taken in the new year to further strengthen the financial management function within the Group not only to support these strategies but also the anticipated increase in the level of activity in the foreseeable future.

Hemant Thanawala
Finance Director



Board of Directors



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.

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 8 years before serving as Chief Financial Officer of Rostel Holdings Group for 9 years and Premier Telesports Group for 3 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 responsibility 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 and is currently chief operating officer of Equator Exploration Ltd.

Philip 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 public and private companies.

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

7. Audrey Clarke**Company Secretary**

A fellow of the Institute of Chartered Secretaries with experience covering a wide range of corporate secretarial work with private, AIM and fully quoted companies.

Directors' report

The directors present their report together with the Group and Company financial statements for the year ended 30 June 2008.

Business review and future activities

The principal activity of the Company is heavy oil exploration, development and production in the UK and Europe. The Company is a public limited company incorporated in England and Wales and is listed in London on AIM under the designation NPE. A discussion of the business and future developments are set out in the Chairman's statement, Chief Executive's review, Operational review and the Finance Director's review.

Results and dividends

The Group's loss for the year was £4.52m (2007: £0.39m), including exploration write offs of £3.24m (2007: £nil) primarily for the unsuccessful Mermaid exploration well, a foreign exchange loss of £0.17m (2007: gain of £0.27m) and a £0.45m charge for share options (2007: £0.39m). The directors do not recommend the payment of a dividend.

Events since the balance sheet date

On 18 July 2008 the Company completed the farmout to Canamens of a 30% interest in its Selkie North Sea exploration asset. This had been agreed in principle in May 2008 dependent upon certain conditions, including approval by the Department of Business Enterprise and Regulatory Reform (DBERR). The farmout comprises a cash payment of \$1.0m upon completion plus payment of 40% of the cost of the well drilled in May 2008, representing a carry of 10% of the costs.

On 20 September 2008 the Company completed the farmout to Canamens of an additional 10% interest in the Kraken 9/2b block, Canamens already having a 25% interest. Canamens will carry Nautical's 35% share of the 2nd Kraken appraisal well subject to a minimum dry hole cost of \$20.0m and a maximum well cost of \$25.0m. There is a cash payment of \$6.0m upon completion and a further payment of \$5.0m upon approval of the Field Development Plan (FDP) by DBERR.

On 20 September 2008 the Company completed the farmout to Canamens of a 35% interest in the Hydra 3/27a block. The farmout comprises a cash payment of \$1.5m upon completion plus the carry of 5% of the costs of the planned exploration well.

On 25 September 2008, the Company carried out a 1 for 20 share consolidation, following which the authorised share capital is 100 million shares of 20p each (previously 2,000 million shares of 1p each) and the issued share capital is 63,408,291 shares of 20p each (previously 1,268,165,820 shares of 1p each). Using the post consolidation numbers, the loss per share of 0.37p would have been 7.44p.

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 2008 were:

Number of ordinary shares and options held:

	At 30 June 2008		At 30 June 2007	
	Ordinary shares Number	Share options Number	Ordinary shares Number	Share options Number
I Williams (Chairman)	25,631,286	11,000,000	25,631,286	9,500,000
S Jenkins (Chief Executive)	17,521,929	16,500,000	17,521,929	13,500,000
H Thanawala (Finance Director)	15,873,043	9,000,000	15,773,043	8,000,000
P Jennings (Commercial Director)	17,521,929	11,500,000	17,521,929	9,500,000
P Dimmock (Non-Executive Director)	Nil	4,000,000	Nil	3,500,000
P Kennedy (Non-Executive Director)	1,500,000	4,000,000	1,500,000	3,500,000

The above directors have been directors throughout the year.

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 Fosco International Limited, a British Virgin Islands registered company whose ultimate beneficiaries are members of H Thanawala's family. S Jenkins and P Jennings hold part of their shareholding with OMX Securities Nominees Limited.

Retirement of directors

P Kennedy retires in accordance with section 108 of the Company's articles of association and offers himself for re-election.

Directors' 3rd party indemnity provisions

The Company maintains indemnity insurance for its directors and officers against liability in respect of proceedings brought by 3rd parties, subject to the terms and conditions of the Companies Act 1985.

Substantial shareholders

At 6 October 2008 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
International Energy Group AG	19,609,425	30.93%
MHR Advisors LLC	5,027,686	7.93%
Shin Cheon Co. Limited	3,814,971	6.02%
Drawbridge Global Macro Master Fund Limited	3,697,072	5.83%

* Post 1 for 20 share consolidation.

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.

Nominated adviser and broker

The Company's Nominated adviser and broker is KBC Peel Hunt 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 2008 amount to 69 days of purchases made in the year (2007: 39 days).

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 17. The financial risk management objectives and policies are discussed in the Finance Director's review and note 17.

Principal business risks

As a participant in the upstream oil & gas industry, Nautical encounters and has to manage several business risks of varying degrees. These include:

- Loss of key employees.
- Taxation – legislative changes.
- Delays and cost over-run on major projects.
- Lack of operational resources.
- Poor reservoir performance.
- Commercial misalignment with co-venturers.
- Oil price movements and fluctuations in discounts for heavy oil.
- Exploration and appraisal well failures.

These risks are considered typical for an upstream group of Nautical's size and stage of development. The Board conducts an annual review of the Group's system of risk management for the specific risks it faces.

Board committees

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

Directors' report *continued*

Disclosure of information to the auditors

Having made enquiries of fellow directors and of the Company's auditors, each of the directors confirms that, to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and each director has taken all the steps a director might reasonably be expected to have taken to be aware of the relevant audit information and to establish that the Company's auditors are aware of that information.

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 2 December 2008 as stated in the Notice of Meeting, which accompanies this Annual Report.

On behalf of the Board.

Steve Jenkins

Director

15 October 2008

Remuneration report

Directors' emoluments

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for all executive directors. 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 12 months are as follows:

Name	Salary £'000	Fees £'000	Bonus £'000	Pension £'000	Total 2008 £'000	Total 2007 £'000
S Jenkins	136	–	184	10	330	236
I Williams	–	151	–	–	151	88
H Thanawala	–	111	–	–	111	71
P Jennings	–	181	–	–	181	107
P Dimmock	–	29	–	–	29	12
P Kennedy	–	35	–	–	35	12
Total	136	507	184	10	837	526

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

S Jenkins has entered into a loan agreement with the Company for £3,769 with an outstanding balance due to the Company at 30 June 2008 of £1,570.

The pension is a defined contribution scheme.

Share options granted to directors

	Year to June 2008 Issued 18 January 2008		Year to June 2007 Issued 18 January 2007	
	Number of shares	Exercise price per share	Number of shares	Exercise price per share
I Williams	1,500,000	10.55p	1,500,000	8.85p
S Jenkins	3,000,000	10.55p	2,500,000	8.85p
H Thanawala	1,000,000	10.55p	1,000,000	8.85p
P Jennings	2,000,000	10.55p	1,500,000	8.85p
P Dimmock	500,000	10.55p	500,000	8.85p
P Kennedy	500,000	10.55p	500,000	8.85p

For the options granted in the year, 25% are exercisable after 17 July 2008, 25% after 17 January 2009, 25% after 17 July 2009 and 25% after 17 January 2010. The options must be exercised by 18 January 2016. None of the directors exercised options during the year.

Philip Dimmock

Chairman of the Remuneration Committee
15 October 2008

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 smaller companies should have at least 2 non-executive directors. The Board comprises 4 executive and 2 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. Mr Kennedy is also a partner in PK Partners LLP, which has provided consultancy services to the Group and the services of Mr C Gill, the Company Secretary until May 2008.

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 International Energy Services Limited, a related party.

All directors are subject to re-election by shareholders every 3 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 4 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. Each of the non-executives could not attend 1 meeting during the year. There was full attendance at all other meetings throughout the year.

Audit Committee

The Audit Committee comprises the 2 non-executive directors and is chaired by P Kennedy. Executive directors may attend by invitation. The minutes of every meeting are taken by the Audit Committee 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.

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 Remuneration Committee 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.

Directors' responsibilities for the financial statements

Group financial statements

The directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) as adopted by the European Union.

The directors are required to prepare Group financial statements for each financial year, which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Nautical Petroleum plc

We have audited the Group financial statements of Nautical Petroleum plc for the year ended 30 June 2008 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity and the Consolidated Cash Flow Statement and the related notes 1 to 26. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Nautical Petroleum plc for the year ended 30 June 2008.

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' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group 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 Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information in the Directors' report includes that specific information presented in the Operating and Financial Review that is cross referenced from the Business Review section of the Directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's 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 group financial statements. The other information comprises only the highlights, the Chairman's statement, the explanation of heavy oil marketing, the Chief Executive's review, the Operational review, the Finance Director's review, the Board of Directors, Shareholder information, the Directors' report, 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 Group 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 Group financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group'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 Group 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 Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 June 2008 and of its loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the Group financial statements.

Ernst & Young LLP

Registered auditor
Aberdeen
15 October 2008

Consolidated income statement

For the year ended 30 June 2008

	Notes	2008 £'000	2007 £'000
Operating costs		(157)	(161)
Gross loss		(157)	(161)
Administrative expenses		(1,711)	(1,269)
		(1,868)	(1,430)
Exploration costs written off		(3,244)	–
Operating loss	4	(5,112)	(1,430)
Finance income	9	1,130	741
Finance costs	9	(538)	(174)
Loss before tax		(4,520)	(863)
Tax	10	–	472
Loss for the year		(4,520)	(391)
Attributable to:			
Equity holders of the Company		(4,505)	(490)
Minority interests		(15)	99
		(4,520)	(391)
Basic and diluted loss per share	11	(0.37)	(0.05)

The results above were entirely derived from continuing operations.

Consolidated balance sheet

As at 30 June 2008

	Notes	At 30 June 2008 £'000	At 30 June 2007 £'000
Non-current assets			
Intangible assets	12	56,400	49,768
Property, plant and equipment	12	2,446	2,588
		58,846	52,356
Current assets			
Trade and other receivables	13	604	290
Short-term deposits	14	15,000	–
Cash and cash equivalents	14	5,118	8,943
		20,722	9,233
Total assets		79,568	61,589
Current liabilities			
Trade and other payables	15	(4,658)	(1,386)
Non-current liabilities			
Deferred tax	15	(6,431)	(6,609)
Other payables	15	(3,024)	(2,974)
		(9,455)	(9,583)
Total liabilities		(14,113)	(10,969)
Net assets		65,455	50,620
Equity attributable to equity holders			
Called up share capital	18	11,588	9,683
Share premium		37,748	20,491
Other reserves	19	29,169	29,169
Cumulative translation reserve		(1,659)	(1,330)
Accumulated losses		(11,391)	(11,612)
Equity attributable to equity holders		65,455	46,401
Minority interests		–	4,219
Total equity		65,455	50,620

The financial statements were approved by the Board on 15 October 2008 and were signed on its behalf by:

I Williams
Chairman

H Thanawala
Finance Director

Consolidated statement of changes in equity

For the year ended 30 June 2008

	Share capital £'000	Share premium £'000	Other reserves £'000	Cumulative translation reserve £'000	Retained earnings £'000	Minority interests £'000	Total equity £'000
At 1 July 2006	9,627	20,116	29,169	(12)	(11,513)	4,537	51,924
Currency translation adjustments	–	–	–	(1,318)	–	(417)	(1,735)
Total expenses recognised directly in equity	–	–	–	(1,318)	–	(417)	(1,735)
Loss for the year	–	–	–	–	(490)	99	(391)
Total recognised income and expense for the year	–	–	–	(1,318)	(490)	(318)	(2,126)
Share-based payments	–	–	–	–	391	–	391
New shares issued	56	375	–	–	–	–	431
At 30 June 2007	9,683	20,491	29,169	(1,330)	(11,612)	4,219	50,620
Currency translation adjustments	–	–	–	(329)	–	72	(257)
Total expenses recognised directly in equity	–	–	–	(329)	–	72	(257)
Loss for the year	–	–	–	–	(4,505)	(15)	(4,520)
Total recognised income and expense for the year	–	–	–	(329)	(4,505)	57	(4,777)
Share-based payments	–	–	–	–	450	–	450
New shares issued	1,905	18,095	–	–	–	–	20,000
Costs associated with issuance of shares	–	(838)	–	–	–	–	(838)
Effect of change in minority interest	–	–	–	–	4,276	(4,276)	–
At 30 June 2008	11,588	37,748	29,169	(1,659)	(11,391)	–	65,455

Consolidated cash flow statement

For the year ended 30 June 2008

	Notes	2008 £'000	2007 £'000
Net cash outflow from operating activities	20	(1,684)	(677)
Cash flows from investing activities			
Finance income		988	493
Expenditure on intangible assets		(7,222)	(2,695)
Net cash flow from investing activities		(6,234)	(2,202)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		19,162	–
Increase in amounts due to JV Partners		562	–
Repayment of loans		–	(360)
Finance expense		(366)	–
Increase in cash placed on short-term deposit	14	(15,000)	–
Decrease in balances due to related undertakings		(265)	(118)
Net cash flow from financing activities		4,093	(478)
Decrease in cash and cash equivalents		(3,825)	(3,357)
Cash and cash equivalents at beginning of year		8,943	12,300
Cash and cash equivalents at end of year	14	5,118	8,943

Notes to the financial statements

1. Authorisation of Financial Statements and Statement of Compliance with IFRS

The Group's financial statements of Nautical Petroleum plc for the year ended 30 June 2008 were authorised for issue by the Board of Directors on 15 October 2008 and the balance sheet was signed on the Board's behalf by Ian Williams and Hemant Thanawala. Nautical Petroleum plc is a public limited company incorporated in England and Wales. The Company's ordinary shares are traded on AIM on the London Stock Exchange.

2. Accounting policies for the Consolidated Financial Statements

(2.1) Basis of preparation

The consolidated financial information presented has been prepared on a historical cost basis. The consolidated financial statements are presented in UK sterling ("£"), due to the nature of the Group's activities and the fact that the Group is expected to transact more of its business in UK sterling than any other currency. All values are rounded to thousands of pounds except when otherwise indicated.

These financial statements have been prepared in accordance with the requirements of IFRSs (International Financial Reporting Standards) and IFRIC (International Financial Reporting Interpretations Committee) interpretations which have been issued and effective, or issued and early adopted, as at the date of these statements.

The preparation of financial statements in conformity with IFRS accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The Board has reviewed the accounting policies set out below and considers them to be the most appropriate to the Group's business activities.

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. The share capital of the Group is determined using reverse acquisition rules as set out in the note on share capital.

(2.2) Basis of consolidation

These consolidated financial statements of the Group comprise the financial statements of Nautical Petroleum plc ("Nautical") and its subsidiaries as at 30 June 2008, including the results of the subsidiaries, which are prepared for the same reporting year as the parent company using consistent accounting policies.

All intercompany balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control is normally evident when Nautical, or a company which it controls, owns more than 50% of the voting rights of a company's share capital.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Where a minority interest is acquired, the difference between the cost of the additional interest in the subsidiary and the minority interest's share of the assets and liabilities reflected in the consolidated balance sheet at the date of the acquisition of the minority interest is reflected as being a transaction between owners and the difference is therefore taken to equity.

(2.3) Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, management make judgements and estimates. The key assumptions concerning the future, and other sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the financial year are as follows:

- The Group determines whether the exploration and evaluation assets are impaired in accordance with policy 2.8.
- The estimates determining the unwinding of the discount on long-term payables, being the expected timings of field development approval and first oil on the Mariner field.
- The Group determines whether the Extended Well test equipment has been impaired in accordance with policy 2.10.

(2.4) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenues can be reliably measured. To date the Group is in a pre-revenue generating phase.

Notes to the financial statements

continued

2. Accounting policies for the Consolidated Financial Statements continued

(2.5) Foreign currency translation

The consolidated financial statements are presented in UK sterling, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency using the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

The functional currency of Nautical Petroleum AG (NPAG) changed during the year from US dollars to UK sterling. The trigger for the change was an underlying change in the currency in which the majority of the underlying cash flows are denominated. At the time of the change in October 2007 major work programmes were being undertaken in NPAG, including drilling and seismic, which were predominantly denominated in UK sterling.

Up until October 2007 NPAG was accounted for as a foreign subsidiary whereby the assets and liabilities of this subsidiary were translated into UK sterling at the rate of exchange ruling at the balance sheet date and its income statement was translated at the weighted average rates for the period. The exchange differences arising on the translation were taken directly to a separate component of equity ("Cumulative Translation Reserve"). On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement as part of the gain or loss on sale.

(2.6) Business combinations

The results of businesses acquired are consolidated from the effective date of acquisition, whereby upon the acquisition of a business, assets and liabilities are restated at fair value in accordance with IFRS.

(2.7) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

(2.8) Intangible assets

Intangible assets – exploration and evaluation assets capitalisation

Certain costs (other than payments to acquire the legal right to explore) incurred prior to acquiring the rights to explore are charged directly to the income statement. All costs incurred after the rights to explore an area have been obtained, such as geological and geophysical costs and other direct costs of exploration (drilling, trenching, sampling and technical feasibility and commercial viability activities) and appraisal are accumulated and capitalised as intangible exploration and evaluation ("E&E") assets.

E&E costs are not amortised prior to the conclusion of appraisal activities. At completion of appraisal activities, if technical feasibility is demonstrated and commercial reserves are discovered, then, following development sanction, the carrying value of the relevant E&E asset will be reclassified as a development and production asset, but only after the carrying value of the relevant E&E asset has been assessed for impairment, and where appropriate, its carrying value adjusted. If, after completion of appraisal activities in an area, it is not possible to determine technical feasibility and commercial viability or if the legal right to explore expires or if the Company decides not to continue exploration and evaluation activity, then the costs of such unsuccessful exploration and evaluation is written off to the income statement in the period the relevant events occur.

Impairment

If and when facts and circumstances indicate that the carrying value of an E&E asset may exceed its recoverable amount an impairment review is performed. For E&E assets when there are such indications, an impairment test is carried out by grouping the E&E assets with the development and production assets belonging to the same geographical segment to form the Cash-Generating Unit ("CGU") for impairment testing. The equivalent combined carrying value of the CGU is compared against the CGU's recoverable amount and any resulting impairment loss is written off to the income statement. The recoverable amount of the CGU is determined as the higher of its fair value less costs to sell and its value in use.

(2.9) Development and Production assets

Development and Production (D&P) assets are accumulated into single field cost centres and represent the cost of developing the commercial reserves and bringing them into production together with the E&E expenditures incurred in finding commercial reserves previously transferred from E&E assets as outlined in the policy above.

Depreciation

Costs relating to each single field cost centre are depleted on a unit of production method based on the commercial proven and probable reserves for that cost centre. Development assets are not depreciated until production commences. The amortisation calculation takes account of the estimated future costs of development of recognised proven and probable reserves, based on current price levels. Changes in reserve quantities and cost estimates are recognised prospectively from the last reporting date.

Impairment

A review is performed for any indication that the value of the Group's D&P assets may be impaired. For D&P assets when there are such indications, an impairment test is carried out on the cash-generating unit. Each cash-generating unit is identified in accordance with IAS 36. Nautical's cash-generating units are those assets which generate largely independent cash flows and are normally, but not always, single development or production areas. If necessary, additional depletion is charged through the income statement if the capitalised costs of the cash-generating unit exceed the associated estimated future discounted cash flows of the related commercial oil and gas reserves.

Nautical currently does not have any D&P assets.

(2.10) Plant and equipment

All equipment is stated at cost less depreciation unless otherwise shown. Cost includes all relevant external expenditure incurred in acquiring the asset. No property assets are held within the Group.

The initial cost of equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the equipment has been placed into operation, such as repairs and maintenance and overhaul costs, are normally charged to the income statement in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of equipment beyond its original assessed standard of performance, the expenditures are capitalised as an additional cost of equipment.

Depreciation

The Group selects its depreciation rates carefully and reviews them regularly to take account of any changes in circumstances. When determining expected economic lives, the Group considers the expected rate of technological developments and the intensity at which the assets are expected to be used. Depreciation is calculated on a straight-line basis over the useful life. Useful lives of major classes of depreciable assets are:

Extended well test equipment	20 years
Computer equipment	3 years

The useful life and depreciation method are reviewed periodically to ensure that the method and year of depreciation are consistent with the expected pattern of economic benefits from items of equipment.

An item of equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Impairment

At each balance sheet date, reviews are carried out of the carrying amounts of the assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where the asset does not generate cash flows that are independent from the other assets, estimates are made of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a discount rate appropriate to the specific asset or cash-generating unit. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised immediately in the income statement.

(2.11) Joint ventures

The Group is engaged in oil and gas exploration, development and production through unincorporated joint ventures. The Group accounts for its share of the results and net assets of these joint ventures as jointly controlled assets. Where Nautical acts as operator to the joint venture, the gross liabilities, cash and receivables (including amounts due to or from non-operating partners) of the joint venture are included in the Group balance sheet.

Notes to the financial statements

continued

2. Accounting policies for the Consolidated Financial Statements continued

(2.12) Other financial assets

Financial assets are classified as either financial assets at fair value through the profit or loss, loans and receivables, held to maturity investments or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are at fair value plus, in the case of investments not at fair value through the profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Loans and receivables

Trade and other receivables and trade and other payables are initially recognised at fair value. Fair value is considered to be the original invoice amount, discounted where material, for short-term receivables and payables. Long-term receivables and payables are measured at amortised cost using the effective interest rate method, with the unwinding of the discount passing through income statement as a finance cost. At each balance sheet, the estimates used to determine the discount period are assessed and changes made as appropriate, with the effect of the change being recorded in the current year. Where amounts are denominated in a foreign currency, retranslation is made in accordance with the foreign currency accounting policy previously stated.

(2.13) Taxation

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 tax authorities. The tax rates and the tax laws used are those that are enacted, or substantively enacted, by the balance sheet date.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except:

- (a) where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss; and
- (b) in respect of taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- (a) where the deferred income tax asset relating to the deductible temporary differences arise from the initial recognition of an asset or liability;
- (b) in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future; and
- (c) deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognisable deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

(2.14) Employee benefits

The Group operates a defined contribution pension scheme. Contributions payable for the year are charged to the income statement.

(2.15) Share-based payments

Employees (including directors and senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby these individuals render services as consideration for equity instruments ("equity-settled transactions"). These individuals are granted share option rights as approved by the Board, which can only be settled in shares of the respective companies that award the equity-settled transactions. No cash settled awards have been made or are planned.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant individuals become fully entitled to the award ("vesting point"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments and value that will ultimately vest. The income statement charge for the year represents the movement in cumulative expense recognised as at the beginning and end of that year.

The fair value of share-based remuneration is determined at the date of grant and recognised as an expense in the income statement on a straight-line basis over the vesting period, taking account of the estimated number of shares that will vest. The fair value is determined by use of a binomial model.

(2.16) Separately disclosable items

Items that are both material in size and unusual and infrequent in nature are presented as separately disclosable items in the income statement or separately disclosed in the notes to the financial statements. The directors are of the opinion that the separate disclosure of these items provides helpful information about the Group's underlying business performance.

(2.17) Cash and cash equivalents

Cash and cash equivalents comprise cash-in-hand and deposits held with banks with original maturities of 3 months or less.

(2.18) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings, are subsequently measured at amortised cost using the effective interest rate method. Interest payable is accounted for on the accruals basis in the income statement using the effective interest rate method. No interest or borrowing costs have been capitalised.

(2.19) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(2.20) Commitments and contingencies

Commitments and contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(2.21) Impact of new standards and interpretations

In the current year, the Group has adopted IFRS 7 Financial Instruments: Disclosures, which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 Presentation of Financial Statements. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 17).

No other IFRS/IFRIC effective during the year have impacted on the results or disclosures of the Group.

Notes to the financial statements

continued

2. Accounting policies for the Consolidated Financial Statements continued

(2.21) Impact of new standards and interpretations continued

Standards and interpretations not yet adopted:

International Accounting Standards (IAS/IFRS)	Effective date
IFRS 2 (Amendment) Share Based Payment – vesting conditions and cancellations	1 January 2009
IFRS 3 (Revised) Business Combinations	1 July 2009
IFRS 8 Operating Segments	1 January 2009
IAS 1 (Revised) Presentation of Financial Statements	1 January 2009
IAS 23 (Revised) Borrowing Costs	1 January 2009
IAS 27 (Amended) Consolidated and Separate Financial Statements	1 July 2009
IAS 32 Financial Instruments: Presentation	1 January 2009
IAS 39 (Amended) Financial Instrument Recognition and Measurement – re-eligible hedged items	1 July 2009
Amendment to IAS 27 and IFRS 1 re cost of an investment in a subsidiary, jointly controlled entity or associate	1 January 2009
Amendment to IAS 32 and IAS 1 re puttable financial instruments and obligations arising on liquidation	1 January 2009
International Financial Reporting Interpretations Committee (IFRIC)	
IFRIC 13 Customer Loyalty Programmes	1 July 2008
IFRIC 15 Agreements for the construction of Real Estate	1 January 2009
IFRIC 16 Hedges of a Net Investment in Foreign Operation	1 October 2008

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements when adopted or recognised from the accounting periods noted above.

Upon adoption of IFRS 8, the Group will have to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the different business activities in which it engages and the economic environment in which it operates. For the Group's current business activities, the identification, aggregation and measurement of reportable segments under IFRS 8, would not result in any differences from the Group's current interpretation of IAS 14 Segment Reporting, the prevailing standard that IFRS 8 will replace. IFRS 8 will, however, require additional disclosures for each reportable segment as follows:

- Criteria for identification.
- Nature, geographic location of business and main customers.
- Financial performance metrics, both Income Statement and Balance Sheet.
- Inter-segment transactions.
- Differences in Accounting policy and methodology between segments.

3. Turnover and segmental information

No turnover has arisen to date.

For the purposes of segmental information the primary segment reporting format is determined to be the business segment. The Group has one class of business segment, the exploration for and production of hydrocarbon liquids. No further disclosure is required in relation to primary segment reporting in this note as all the relevant disclosure is already detailed throughout the Group financial statements.

The secondary segment information is reported geographically. The Group's geographical segments are the United Kingdom and Europe. The following tables present certain asset information regarding the Group's geographical segments.

Segment assets	2008 £'000	2007 £'000
United Kingdom	58,563	52,427
Europe	887	219
Assets held centrally	20,118	8,943
	79,568	61,589

Capital expenditure	2008 £'000	2007 £'000
United Kingdom	9,898	3,065
Europe	668	60
	10,566	3,125

4. Operating loss

	2008 £'000	2007 £'000
Operating loss is stated after charging:		
Exploration costs written off (see note 12)	3,244	–
Depreciation of property, plant and equipment	142	144
Foreign exchange losses/(gains)	171	(267)

5. Auditors' remuneration

	2008 £'000	2007 £'000
Audit of the Group accounts	52	50
Audit of the Company's accounts	6	6
	58	56
Other fees to auditors:		
Audit of the Company's subsidiaries pursuant to legislation	15	14
Other services pursuant to legislation	16	62
Taxation services	51	43
Corporate finance services – transaction costs	–	40
	82	159

6. Information regarding directors' emoluments

Aggregate directors' emoluments, which exclude pensions, are £827k (2007: £516k). The emoluments of the highest paid director were £320k (2007: £226k). In addition he received contributions to a defined contribution pension scheme of £10k (2007: £10k). Further information is included in the Remuneration report.

7. Employees**Headcount**

	2008 Number	2007 Number
Average number of employees of the Group (including executive directors) during the year was:		
Management	4	4
Technical staff/support/other	2	2

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

Staff costs

	2008 £'000	2007 £'000
Wage and salaries	672	469
Bonuses	191	97
Social security costs	55	39
Other pension costs	16	17
	934	622
Equity settled share-based payments	450	391
	1,384	1,013

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

8. Pension commitments

For direct employees of Nautical Petroleum plc, the Company contributes 7% of salary to a defined contribution pension scheme. £16k has been charged to the income statement for the year (2007: £17k).

Notes to the financial statements

continued

9. Interest and similar items

	2008 £'000	2007 £'000
Finance income		
Bank interest	988	493
Other financial income	142	248
	1,130	741

	2008 £'000	2007 £'000
Finance costs		
Costs of borrowing facility	366	–
Unwinding of discounts on long-term payables	172	174
	538	174

10. Tax on loss on ordinary activities

	2008 £'000	2007 £'000
Current and deferred taxation		
Loss before tax	(4,520)	(863)
Loss before tax at the standard UK corporation tax rate of 28% (2007: 30%)	(1,266)	(259)
Effects of:		
Expenses and (income) not deductible for tax purposes	191	(34)
Changes in tax rates on deferred tax liability	–	(472)
Ring fence expenditure supplement	(297)	–
Depreciation in excess of capital allowances	914	–
Unrelieved tax losses and other deductions arising	458	293
Total tax credit on loss on ordinary activities	–	(472)

Movement on the deferred tax liability representing changes in exchange rates is accounted for through reserves whilst the movement attributable to tax rate changes is reflected through the income statement. The Group has tax losses of approximately £3.5m (2007: £2.9m) arising in the UK that are available indefinitely against future taxable profits. The Group has depreciation in excess of capital allowances of £3.2m (2007: £nil). Deferred tax assets of approximately £1.9m at 28% (2007: £1.1m at 28%) have not been recognised as a result of existing uncertainties of their realisation.

11. Loss per share

	2008	2007
Loss for the year attributable to equity holders (£'000)	(4,505)	(490)
Basic weighted average number of shares in issue in the year (thousands)	1,211,806	1,075,450
Basic and diluted loss per ordinary share (pence)	(0.37)	(0.05)

In addition at 30 June 2008 there were a total of 59.05 million options (2007: 49.75 million) and 26.3 million warrants (2007: 26.3 million) in issue, which have not been included in the above calculations. On 25 September 2008 a 1 for 20 share consolidation took place. Applying this to the above numbers would have resulted in a loss per share of 7.44p in 2008 and 0.91p in 2007.

12. Intangible assets and property, plant and equipment

Movements during the year were as follows:

Cost	Intangible assets Exploration and evaluation assets £'000	Property, plant and equipment Extended well test equipment £'000	Other £'000	Total £'000
At 1 July 2006	49,279	2,796	7	52,082
Additions	3,125	–	–	3,125
Exchange adjustments	(2,636)	–	–	(2,636)
At 30 June 2007	49,768	2,796	7	52,571
Additions	10,566	–	–	10,566
Exchange adjustments	(690)	–	–	(690)
Written off	(3,244)	–	–	(3,244)
At 30 June 2008	56,400	2,796	7	59,203
Depletion and depreciation				
At 1 July 2006	–	70	1	71
Provided in year	–	140	4	144
At 30 June 2007	–	210	5	215
Provided in year	–	140	2	142
At 30 June 2008	–	350	7	357
Net book value				
At 30 June 2008	56,400	2,446	–	58,846
At 30 June 2007	49,768	2,586	2	52,356

The exploration and evaluation balance represents the costs related to the fields currently being evaluated and appraised. The amounts written off relate to unsuccessful exploration costs (primarily the Mermaid well) and to licences relinquished in the year.

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 £9.0m as at June 2008 (2007: £8.3m). If the party declines to take up its option, the Company retains the 6.67% interest upon payment of £1.

Management has carried out an impairment review on the extended well test equipment in accordance with the policy set out in note 2.10 and have considered the following:

- Due to the specialist nature of the equipment there has been infrequent interest from companies wishing to rent or buy it.
- In the absence of a binding sale agreement or an active market, management is required to make their best estimate of fair value less cost to sell.
- Management is currently in discussions over the sale of the equipment and are of the opinion that the carrying value represents the fair value of the equipment.
- Management have therefore concluded that no impairment is necessary

13. Trade and other receivables

	30 June 2008 £'000	30 June 2007 £'000
Other debtors	481	160
Prepayments and accrued interest	123	130
	604	290

None of the above are impaired.

Notes to the financial statements

continued

14. Cash and short-term deposits

	30 June 2008 £'000	30 June 2007 £'000
Cash at bank and in hand	3,649	556
Deposits of 3 months or less	1,469	8,387
	5,118	8,943
Short-term deposits	15,000	–

Cash at bank earns interest at floating rates. Deposits of 3 months or less earn interest at the respective bank deposit rates. Short-term deposits are made for varying original periods of greater than 3 months and less than 12 months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

15. Trade and other payables

	30 June 2008 £'000	30 June 2007 £'000
Current liabilities		
Trade creditors	1,806	383
Amounts owed to related companies	509	896
Accruals	2,343	107
	4,658	1,386

Amounts owed to related parties are due on demand and are treated as creditors and are analysed further below.

	2008 £'000	2007 £'000
Amounts owed to related parties		
At 1 July	896	1,079
Cash flow	(265)	(118)
Acquisition	(193)	–
Exchange adjustments	71	(65)
At 30 June	509	896

The acquisition of UAH Limited on 31 October 2007 (see note 26) resulted in an amount of £193k previously owed by the Group being eliminated on consolidation and is presented above as a non cash movement.

	Deferred tax £'000	Conditional payments £'000
Non-current liabilities		
At 1 July 2007	6,609	2,974
Exchange adjustments	(178)	20
Effect of change in estimates	–	(142)
Unwinding of discount	–	172
At 30 June 2008	6,431	3,024

The deferred tax balance relates entirely to exploration assets which were acquired prior to the transition date for IFRS (1 January 2005). Hence the income statement movement was booked to reserves on transition. Since the transaction relates to the assets in Nautical Petroleum AG (NPAG), it was based in US dollars and there are exchange fluctuations. These movements are recorded in the cumulative translation reserve. NPAG changed its functional currency to UK sterling on 31 October 2007, after which there are no further exchange adjustments.

The conditional payments comprise 2 amounts relating to the Mariner Field of: (1) \$4.0m due on Field Development Plan (FDP) approval by the Department of Business, Environment and Regulatory Reform which is not expected before end of 2009; and (2) \$2.8m due on first oil which is not expected before the end of 2011. The Company believes these events to be sufficiently probable as to provide for their payment. The liabilities were acquired as part of the acquisition of the Alba Resources (Holdings) Group in August 2005. At this date they were fair valued. The movement in the year includes both exchange movements and unwinding of the discount, which are shown in the income statement.

16. Borrowing facility

On 2 November 2007, the Group entered into an 18 month £7.5m borrowing facility with the Bank of Scotland for general working capital purposes. Any amounts drawn are repayable in full by 2 May 2009. No amounts had been drawn at the balance sheet date. The facility is secured by a first ranking debenture over the assets of the Company and the assets of certain subsidiaries, principally Alba Resources Limited which has a 26.67% interest in the Mariner field. Interest is chargeable at Bank of Scotland base rate plus a margin of 2.5%.

17. Financial instruments

	30 June 2008 Book value £'000	30 June 2007 Book value £'000
Financial assets		
Cash and cash equivalents	5,118	8,943
Short-term deposits	15,000	–
Other debtors (note 13)	481	160
Financial liabilities		
Trade and other payables – current	4,794	1,386
Trade and other payables – non-current	3,024	2,974

There is no material difference between the carrying value and fair value of the financial instruments.

Financial risks

The Group is exposed to financial risks arising out of market risks, credit risks and liquidity risks. The Board reviews and establishes appropriate policies for the management of these risks and monitors them on a regular basis.

Market risks

Market risks relate to commodity prices, foreign currency exchange rates and interest rates.

(1) Commodity price risk

The Group does not yet have revenue, so is not exposed to commodity price risk on its financial instruments.

(2) Foreign currency risk

The Group has transactional currency exposure whereby expenditure is incurred in currencies which are not the functional currency (UK sterling). The primary exposure is to the US dollar. The Group monitors exchange rate movements and considers forward purchase of US dollars prior to major capital programmes requiring dollars.

The non-current liabilities are payments which are triggered on future events as set out in note 16, which are in US dollars. The impact of a 10% change in the UK sterling/USD exchange rate would have caused \pm £302k (2007: £297k) effect on the profit before tax.

(3) Interest rate risk

The Group has not drawn on its bank facility. If it were to do so, it would be exposed to interest movements, as the rate is linked to the Bank of Scotland base rate.

There is an insignificant risk of change in value of cash deposits.

Credit risks

Credit risk is primarily that a partner fails to pay amounts due causing financial loss to the Group. The Group has very limited exposure to such credit risk. Maximum exposure would be the amounts shown in the balance sheet. The Group is exposed to credit risk on the financial institutions with which it holds cash and short-term deposits, all of which were with Bank of Scotland at 30 June 2008. Subsequent to the year end some funds were transferred to BNP Paribas.

Liquidity risks

Liquidity risk is the risk that sources of funding for the Group's business activities are not available. As a business which primarily focuses on oil and gas exploration and appraisal, the primary source of funding of the Group's activities is equity. The Group has been successful in raising equity on a number of occasions, most recently in October 2007, when £20.0m (before issue costs) were raised. When appropriate, the Group seeks to supplement equity funding with borrowing and a £7.5m facility was secured with Bank of Scotland in November 2007 for general working capital purposes. The Board always ensures that there is sufficient funding available before committing to any significant expenditure. In addition the Group has been successful at mitigating risk through its farmout programmes whereby the majority of expenditure on its drilling programmes is borne by partners. There is currently, therefore, limited exposure to a liquidity risk.

The maturity profile of the Group's non-current financial liabilities is dependent upon certain events as explained in note 15. The current liabilities are all due within 1 year. The Group's payment policy is to settle amounts in accordance with agreed payment terms which is typically 30 days.

Capital management

The Group defines capital as the total equity of the Group. The objective of the Group's capital management is to ensure that it makes the maximum use of its capital to support its business and maximise shareholder value. There are no external constraints on the Group's capital. As the Group's primary focus is on exploration and appraisal, equity has been the principal form of funding. The Group's policy is to utilise debt where possible. A credit facility has been arranged with Bank of Scotland in order to provide added flexibility (see note 16). As the Group begins to develop its fields, debt will become more significant.

Notes to the financial statements

continued

18. Share capital

	At 30 June 2008		At 30 June 2007	
	Number	£'000	Number	£'000
Authorised				
Ordinary shares of 1p each	2,000,000,000	20,000	1,600,000,000	16,000
Allotted, called up and fully paid				
Ordinary shares of 1p each	77,500,000	100	77,500,000	100
Reverse acquisition capital adjustment	697,500,000	6,556	697,500,000	6,556
Ordinary shares of 1p each	493,165,810	4,932	302,689,619	3,027
	1,268,165,810	11,588	1,077,689,619	9,683

Under reverse acquisition accounting, the legal parent is Nautical Petroleum plc, but the Group results at the date of acquisition are as if Nautical Holdings Limited were the parent. The value of the shares at the date of acquisition is based on the value of the share capital of Nautical Holdings Limited at the date of acquisition (1 April 2005). Following the reverse acquisition, the Group shows the additions made for Nautical Petroleum plc only. 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.

The movement on issued shares is set out in the following table. All movements are for ordinary 1p shares.

	Date issued	Issue price	Number of shares issued
At 1 July 2006			1,072,129,880
Asset purchase	24 November 2006	7.75p	5,559,739
At 30 June 2007			1,077,689,619
Private equity placing	17 October 2007	10.50p	190,476,191
At 30 June 2008			1,268,165,810

The Group announced on 24 November 2005 the acquisition of 22% of the St Laurent Permit onshore France field with the consideration to be satisfied by the issuance of 387,755 new ordinary shares of 1p each. The acquisition is subject to approval from the Ministère de l'Économie des Finances et de l'Industrie, France, which has now been received.

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 year 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 year to 3 January 2010.

Equity settled 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 were granted on 7 March 2005, exercisable at 4p per share on or before 1 April 2008. 10 million were exercisable from 1 April 2006 and 10 million from 1 April 2007. On 20 November 2007, the terms of these options were changed to conform with the provisions of the Rules of the Nautical Petroleum PLC Share Option Scheme. Following the change the options are now exercisable on or before 7 March 2013. None of the options have been exercised. They are all held by directors as set out in the Directors' report.

Share options to subscribe for 20.5 million ordinary shares were granted on 26 September 2005, exercisable at 11p per share on or before 26 April 2010. 10.25 million were exercisable from 27 September 2006 and 10.25 million from 27 September 2007. On 20 November 2007, the terms of these options were changed to conform with the provisions of the Rules of the Nautical Petroleum PLC Share Option Scheme. Following the change the options are now exercisable on or before 26 September 2013. None of the options have been exercised. 20 million are held by directors as set out in the Directors' report.

Share options to subscribe for 1.0 million ordinary shares were granted on 23 September 2005 in association with the acquisition of the Alba Resources (Holdings) Group, exercisable at 12.5375p per share at any time on or before 23 September 2010. None of the options have been exercised.

Share options to subscribe for 8.25 million ordinary shares were granted on 18 January 2007, exercisable at 8.85p per share on or before 18 January 2015. 2,062,500 options are exercisable after 17 July 2007, 2,062,500 options are exercisable after 17 January 2008, 2,062,500 options are exercisable after 17 July 2008 and 2,062,500 options are exercisable after 17 January 2009. None of the options have been exercised. 7.5 million are held by directors as set out in the Directors' report.

Share options to subscribe for 9.0 million ordinary shares were granted on 18 January 2008, exercisable at 10.55p per share on or before 18 January 2016. 2,250,000 options are exercisable after 17 July 2008, 2,250,000 options are exercisable after 18 January 2009, 2,250,000 options are exercisable after 17 July 2009 and 2,250,000 options are exercisable after 17 January 2010. None of the options have been exercised. 8.5 million are held by directors as set out in the Directors' report.

Share options to subscribe for 0.3 million ordinary shares were granted on 15 April 2008, exercisable at 9.25p per share on or before 15 April 2016. 75,000 options are exercisable after 14 October 2008, 75,000 options are exercisable after 14 April 2009, 75,000 options are exercisable after 14 October 2009 and 75,000 options are exercisable after 14 April 2010. None of the options have been exercised.

The weighted average share price in the year was 9.71p (2007: 8.95p). The weighted average remaining contract life at 30 June 2008 was 5.55 years (2007: 2.79 years). The weighted average fair value of options granted in the year was 4.24p (2007: 3.97p). The expense recognised for share-based payments in the year to 30 June 2008 was £450k (2007: £391k).

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options during the year.

	2008 Number	2008 WAEP	2007 Number	2007 WAEP
Outstanding at beginning of year	49,750,000	7.86	41,500,000	7.66
Granted during the year	9,300,000	10.51	8,250,000	8.85
At 30 June	59,050,000	8.28	49,750,000	7.86

At 30 June 2008, 45.63 million options are exercisable (2007: 31.25 million).

The fair value of the share options granted is estimated using a binomial model. The following table lists the inputs and assumptions used in the model.

	2008	2007
Dividend yield	—	—
Expected share price volatility	54%	52%
Risk free interest rate	4.50%	5.46%
Leaver rate	5%	5%

Volatility has been based on a weighted average of Nautical's and its peer group's share prices. For those options whose terms were changed in the year, a revised calculation was performed. Volatility used was 53%, risk free rate used was 5.46% and leaver rate used was 5%. There was a charge to income and equity of £121k as a result of this revision.

In addition to the above terms, the options expire 1 year after the person ceases being connected to Nautical either by way of direct employment or service contract, with the exception of the 1,000,000 options granted on 23 September 2005 in association with the acquisition of the Alba Resources (Holdings) Group.

19. Reconciliation of movements in equity

The reconciliation of movements in equity is detailed in the consolidated statement of changes in equity. The following is a description of the nature and purpose of each reserve.

Share capital and share premium

The Group's share capital and share premium are explained in note 18.

Cumulative translation reserve

The cumulative translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries whose functional currency is not UK sterling and any fair value adjustments associated with their acquisition. These movements related to Nautical Petroleum AG, which change its functional currency from US dollars to UK sterling in October 2007, following which no further movements have been recorded.

Notes to the financial statements

continued

19. Reconciliation of movements in equity continued

Other reserves

Other reserves comprise the following:

	30 June 2008 £'000	30 June 2007 £'000
Capital contribution	2,702	2,702
Merger reserve	12,173	12,173
Warrant reserve	263	263
Capital reserve	14,031	14,031
	29,169	29,169

The capital contribution arose on the formation of Nautical Holdings Limited (see note 18 for explanation of reverse acquisition accounting) when equipment was contributed to the Company.

The merger reserve arises from UK law for merger relief, which sets out rules for subsidiaries acquired in whole or in part for shares, where at least 90% of the company is acquired. In such circumstances, where the Company prepares accounts under UK GAAP, the investment in the company's financial statements is at the nominal value of the shares issued. In the Group's financial statements, the premium is recorded in the merger reserve.

The warrant reserve shows the value of share warrants issued.

The capital reserve arose from the fair value exercise on acquisition of Nautical Petroleum AG.

20. Net cash flows from operating activities

	2008 £'000	2007 £'000
Loss for the year	(4,521)	(391)
Finance income	(1,130)	(741)
Finance costs	538	174
Taxation	–	(472)
Exploration costs written off	3,244	–
Share-based payment charges	450	391
Depreciation	142	144
Foreign exchange movements	171	(267)
Operating cash flow before working capital movements	(1,106)	(1,162)
(Increase)/decrease in trade and other receivables	(432)	443
(Decrease)/increase in trade and other payables	(146)	42
Net cash outflow from operating activities	(1,684)	(677)

21. Analysis of net cash

	At 1 July 2006 £'000	Cash flow £'000	At 1 July 2007 £'000	Cash flow £'000	At 30 June 2008 £'000
Cash at bank and in hand	12,300	(3,357)	8,943	(3,825)	5,118
Short-term deposits	–	–	–	15,000	15,000
Net cash	12,300	(3,357)	8,943	11,175	20,118

22. Commitments

The Group has an obligation to drill a well on block 3/27a. All other licence commitments have been met. The Group has capital commitments of £nil (2007: £5.8m).

23. Related party transactions

(a) Key management personnel

The Group defines key management personnel as the directors of the Company. There are no transactions with directors, other than their remuneration as disclosed in the Remuneration report.

(b) Other related parties

Executive directors, I Williams, H Thanawala and P Jennings provide services under a service agreement with International Energy Services Limited (IESL). The charges in the year were £443k (2007: £266k).

IESL is a 100% subsidiary of International Energy Group AG (IEG). Nautical Petroleum plc is an associate of IEG and as such IESL is a related party. IESL provides services to companies within the IEG Group and associates. Such shared services include the occupation of shared office space and facilities and some administrative functions and amounted to £273k (2007: £257k), which was in addition to the services of the directors. At the year end an amount of £157k (2007: £302k) was due to IESL. In addition, at the year end there was £451k (2007: £401k) due to IEG.

Non-executive director P Kennedy is also a partner in PK Partners LLP which has provided to the Group consulting services and the services of C Gill, the Company Secretary until May 2008, for the amount of £7k (2007: £14k).

On 31 October 2007 Nautical Holdings Limited acquired 100% of UAH Limited (see note 26).

24. Events since the balance sheet date

On 18 July 2008 the Company completed the farmout to Canamens Energy North Sea Limited (Canamens) of a 30% interest in its Selkie North Sea exploration asset. This had been agreed in principle in May 2008 dependent upon certain conditions, including approval by the Department of Business Enterprise and Regulatory Reform (DBERR). The farmout comprises a cash payment of \$1.0m upon completion plus payment of 40% of the cost of the well drilled in May 2008, representing a carry of 10% of the costs.

On 20 September 2008 the Company completed the farmout to Canamens of an additional 10% interest in the Kraken 9/2b block, Canamens already having a 25% interest. Canamens will carry Nautical's 35% share of the 2nd Kraken appraisal well subject to a minimum dry hole cost of \$20.0m and a maximum well cost of \$25.0m. There is a cash payment of \$6.0m upon completion and a further payment of \$5.0m upon approval of the Field Development Plan (FDP) by DBERR.

On 20 September 2008 the Company completed the farmout to Canamens of a 35% interest in the Hydra 3/27a block. The farmout comprises a cash payment of \$1.5m upon completion plus the carry of 5% of the costs of the planned exploration well.

On 25 September 2008, the Company carried out a 1 for 20 share consolidation, following which the authorised share capital is 100 million shares of 20p each (previously 2,000 million shares of 1p each) and the issued share capital is 63,408,291 shares of 20p each (previously 1,268,165,820). Using the post consolidation numbers, the loss per share of 0.37p would have been 7.44p.

25. Ultimate parent undertaking and controlling party

Following the private placing on 17 October 2007, the shareholding of International Energy Group AG (IEG), a company registered in Switzerland, fell from a 44.1% direct shareholding to 37.5%, at which point it ceased to be considered the ultimate controlling party. Following a share sale on 14 April 2008, the shareholding of IEG decreased a further 5% to 32.5%. The directors consider that no company has a controlling interest in Nautical.

26. Subsidiary undertakings

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

* Held by subsidiary undertakings

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

100% of UAH limited (UAH) was acquired by Nautical Holdings Limited (NHL) on 31 October 2007. UAH holds a 25% interest in Nautical Petroleum AG (NPAG) which holds interests in the 9/2b (Kraken) and 3/27a (Hydra) North Sea licences. The consideration for the transaction was £1. UAH had previously been 100% owned by International Energy Group AG (IEG). It has been treated as an asset acquisition, with the additional impact being that the Group no longer has any minority interests, as it has acquired the minority interest held by IEG in full. Following the transaction NPAG became a 100% Group company.

Nautical Petroleum plc Company only accounts 2008

Directors' responsibilities for the parent company financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company for that year. 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 UK 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 Company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Nautical Petroleum plc

We have audited the parent company financial statements of Nautical Petroleum plc for the year ended 30 June 2008 which comprise the Company Balance Sheet and the related notes 27 to 36. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Nautical Petroleum plc for the year ended 30 June 2008.

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' responsibilities for preparing the Annual Report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company 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 parent Company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the parent company directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 parent company financial statements. The other information comprises only the Highlights, the Chairman's statement, the explanation of heavy crude oil, the Chief Executive's review, the Operational review, the Finance Director's review, the Directors' report, the 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 parent company 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 parent company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the 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 parent company 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 parent company financial statements.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 June 2008;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the parent company financial statements.

Ernst & Young LLP

Registered auditor
Aberdeen
15 October 2008

Company balance sheet

As at 30 June 2008

	Notes	2008 £'000	2007 £'000
Fixed assets			
Intangible assets	30	1,289	1,482
Tangible assets	31	–	2
Investments	32	11,884	11,884
Total fixed assets		13,173	13,368
Current assets			
Trade debtors and other receivables	33	12,491	4,603
Cash at bank and in hand		20,096	8,921
Total current assets		32,587	13,524
Creditors: amounts falling due within 1 year	34	(2,207)	(729)
Net current assets		30,380	12,795
Net assets		43,553	26,163
Capital and reserves	35		
Called up share capital		12,682	10,777
Share premium		37,015	19,758
Warrant reserve		263	263
Profit and loss reserve		(6,407)	(4,635)
Total shareholders' funds		43,553	26,163

The financial statements were approved by the Board on 15 October 2008 and were signed on its behalf by:

I Williams
Chairman

H Thanawala
Finance Director

Notes to the Company financial statements

27. Accounting policies

(a) Basis of accounts preparation

The financial statements have been prepared under the historic cost convention and in accordance with applicable United Kingdom accounting standards. 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.

(b) Exploration, evaluation and development expenditure

All costs incurred after the rights to explore an area have been obtained are accumulated and capitalised as intangible exploration and evaluation (E&E) assets. If facts and circumstances indicate that the carrying value of the E&E asset may exceed its recoverable amount an impairment review is performed.

Development and Production (D&P) assets are accumulated into single field cost centres and represent the costs of developing the commercial reserves and bringing them into production together with the E&E expenditures incurred in finding commercial reserves.

When production commences the capital costs incurred plus an estimate of future costs of development are depleted on the unit of production method based on proven and probable reserves for the cost centre. Changes in reserve quantities are recognised prospectively from the last reporting date.

(c) Depreciation

The cost of fixed assets is written off over their expected useful lives as follows:

Computer equipment	3 years
--------------------	---------

(d) Foreign currencies

Assets, liabilities, revenues and costs denominated in foreign currencies are recorded at the rates of exchange ruling at the date of the transactions; monetary assets and liabilities at the balance sheet date are translated at the year end rate of exchange. The resulting profits or losses are dealt with in the profit and loss account.

(e) Share-based payments

Employees (including directors and senior executives) of the Company receive remuneration in the form of share-based payment transactions, whereby these individuals render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant individuals become fully entitled to the award ("vesting point"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments and value that will ultimately vest. The income statement charge for the year represents the movement in cumulative expense recognised as at the beginning and end of that year.

The fair value of share-based remuneration is determined at the date of grant and recognised as an expense in the income statement on a straight-line basis over the vesting period, taking account of the estimated number of shares that will vest. The fair value is determined by use of a binomial model.

(f) Investments in subsidiaries

The Company records investments in subsidiaries at cost less provision for impairment. Where subsidiaries have been acquired in part for shares and at least 90% of the Company has been acquired the Company applies section 131 of the Companies Act 1985 and accounts for the transactions using merger relief. The share element of the transaction is recorded at the nominal value of the shares issued.

28. Losses attributable to Nautical Petroleum plc

The loss for the year dealt with in the accounts of Nautical Petroleum plc was £2,222k (2007: £1,086k). 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 Company financial statements

continued

29. Employees

Headcount

	2008 Number	2007 Number
Average number of employees of the Company (including executive directors) during the year was:		
Management	4	4
Technical staff/support/other	2	2

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

Staff costs

	2008 £'000	2007 £'000
Wage and salaries	672	466
Bonuses	191	97
Social Security costs	55	39
Other Pension costs	16	17
	934	619

Wages and salaries include fees for 3 executive directors through a service agreement with International Energy Services Limited.

	2008 £'000	2007 £'000
Equity settled share-based payments	450	391

30. Intangible assets

	Total £'000
Exploration and evaluation assets	
At 1 July 2007	1,482
Additions	1,005
Exploration costs written off	(1,197)
At 30 June 2008	1,289

The exploration and evaluation balance represents the costs related to the fields currently being evaluated and appraised. The amounts written off correspond to licences relinquished in the year.

31. Tangible assets

	Total £'000
Computer equipment	
Cost:	
At 1 July 2007	5
Additions	–
At 30 June 2008	5
Depreciation:	
At 1 July 2007	3
Additions	2
At 30 June 2008	5
Net book value	
At 30 June 2008	–
At 30 June 2007	2

32. Investments

Investments in subsidiary companies	Total £'000
Cost	
At 1 July 2007 and at 30 June 2008	11,884

Details of subsidiary companies are shown in note 26.

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

33. Trade debtors and other receivables

	2008 £'000	2007 £'000
Amounts owed by subsidiaries	11,888	4,270
Other debtors	480	202
Prepayments and accrued interest	123	131
	12,491	4,603

34. Creditors: amounts falling due to within 1 year

	2008 £'000	2007 £'000
Trade creditors	1,651	225
Amounts owed to related companies	213	397
Accruals	343	107
	2,207	729

35. Share capital and reserves

	Share capital £'000	Share premium £'000	Warrant reserve £'000	Profit and loss reserve £'000	Total equity £'000
At 1 July 2007	10,777	19,758	263	(4,635)	26,163
Shares issued in the year	1,905	17,257	–	–	19,162
Share option charges added back	–	–	–	450	450
Loss for the year	–	–	–	(2,222)	(2,222)
At 30 June 2008	12,682	37,015	263	(6,407)	43,553

Details of share capital and share-based payments are set out in note 18.

36. Related party transactions

Executive directors, I Williams, H Thanawala and P Jennings provide services under a service agreement with International Energy Services Limited (IESL). The charges in the year were £443k (2007: £266k).

IESL is a 100% subsidiary of International Energy Group AG (IEG). Nautical Petroleum plc is an associate of IEG and as such IESL is a related party. IESL provides services to companies within the IEG Group and associates. Such shared services include the occupation of shared office space and facilities and some administrative functions and amounted to £273k (2007: £257k), which was in addition to the services of the directors. At the year end an amount of £157k (2007: £302k) was due to IESL.

Non-executive director P Kennedy is also a partner in PK Partners LLP which has provided to the Group consulting services and the services of C Gill, the Company Secretary until May 2008, for the amount of £7k (2007: £14k).

At the year end there was £113k (2007: £25k) due to IEG.

Supplementary information

Audit of Reserves and Resource Volumes for Annual Report and Accounts of Nautical Petroleum plc ("the Company")

We have been asked to provide an updated comment on the resources and reserves estimates for a number of the assets of the Company.

The Company asserts that there have been no material technical changes to the inputs and methods that the Company would use in the estimation of these quantities, save for the following material changes to the data or interpretations available that have taken place on the following assets over the past year:

- **Mariner (Quad 9)**: the previous Operator has been replaced by StatoilHydro ASA, an established North Sea Operator with experience of heavy oil development in similar reservoirs. The results of StatoilHydro's studies are quoted by the Company. These studies have ratified the previous Operator's estimates of reserves for the Maureen formation, and have increased the estimated Contingent Resources for the Heimdal formation. RPS has not had sufficient access to data to verify these estimates. However, given the new Operator's experience in the heavy oil play in the region RPS has no reason to assume that these estimates are invalid.
- **Tudor Rose (14/30a)**: the 3D seismic data have been reprocessed resulting in a revised interpretation and an increase in estimated Contingent Resources.
- **Kraken (9/2b)**: an appraisal well has been drilled resulting in an increase in estimated Contingent Resources.

The Company has also stated that it will not re-run economic evaluations of the properties despite the increase in commodity prices compared to last year.

On this basis, we can repeat our opinion that the Company's estimates of Proved plus Probable reserves and Best Estimate Contingent Resources are, in aggregate, reasonable and have been prepared in accordance with generally accepted petroleum engineering and evaluation principles as set forth in the Petroleum Resource Management System (2007) and the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserve Information, both promulgated by the Society of Petroleum Engineers et al¹.

We draw your attention to the following points, some of which are being repeated from previous years:

- The recoverable volumes in the Mariner field (for the Maureen formation only) remain classified as Reserves based on past and current assurances that the field will be developed within a reasonable timeframe, which we take to be a maximum of five years from the date of evaluation, and that the arrival of a new Operator does not endanger this in any way. Significant delays to the submission of a development plan, or indeed other contingencies, 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 the inherent uncertainty in the methods used to arrive at the estimate.
- Many of the Company's projects remain relatively immature and are the subject to 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 becomes available.
- We have not reviewed the "risking" or "chance of success" associated with any of the Prospective or Contingent Resources in your portfolio.

Yours faithfully,

R T Kelly
Technical Director
RPS Energy Ltd.
2 October 2008

Notes

Notes

Shareholder information

Registered and Corporate Office

Parnell House
25 Wilton Road
London
SW1V 1YD

+44 (0)20 7550 4890
+44 (0)20 7550 4946

www.nauticalpetroleum.com

Nominated Adviser and Broker

KBC Peel Hunt
111 Old Broad Street
London
EC2N 1PH

+44 (0)20 7418 8900

Solicitors

CMS Cameron McKenna LLP
Mitre House
160 Aldersgate Street
London
EC1A 4DD

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

Glossary

API	American Petroleum Institute®	EWT	extended well test
bbl	barrels	FDP	field development plan
bcf	billion cubic feet	km	kilometres
bn	billion	K	thousand
bopd	barrels of oil per day	m	million
cp	centipoises	mmbo	million barrels of oil
D	Darcy	MWD	measurement while drilling
DBERR	Department of Business, Environment and Regulatory Reform	OWC	oil-water contact
DST	drill stem test	UKCS	United Kingdom Continental Shelf
		FPSO	Floating, Production, Storage and Offtake

Nautical Petroleum plc

*Pamell House
25 Wilton Road
London
SW1V 1YD*

*T: 020 7550 4890
F: 020 7550 4946*



www.nauticalpetroleum.com
