

Nautical Petroleum plc

Interim Report

2007



Nautical Petroleum

Highlights



- Drilling of portfolio commenced in October 2007 with 3 wells now completed.
- Successful Kraken well exceeded expectations, confirming a substantial accumulation.
- StatoilHydro, new energised operator of Mariner, expects resources in Heimdal reservoir to increase significantly.
- Active 2008 programme with at least 3 wells (2 operated) and new 3D seismic to be acquired over Mariner.
- An oversubscribed equity placing in October 2007, raising £20 million to further support and accelerate the path to first revenue.

Chief Executive's and Chairman's statement

Expectations Exceeded in 2007

Nautical Petroleum moved strongly ahead on several key elements of our business strategy to add considerable value to the Company over the first six months of the 2008 financial year.

Our early moves to secure an extensive base of discovered oil and selective prospective resources in our chosen area of the specialised heavy oil sector in the North Sea and Europe, were again vindicated by considerable industry activity, such as:

- StatoilHydro's recent US\$1.8 billion acquisition of Anadarko's non-operated 50% interest in the Peregrino heavy oil field offshore Brazil, due onstream in 2010, and a 25% interest in the Kaskida discovery in the US Gulf of Mexico;
- BP's joint venture with Husky Oil creating an integrated North American oil sands business through Sunrise Oil Sands Partnership; and
- StatoilHydro's success in acquiring the Chevron interests in the Mariner and Bressay fields, in a highly competitive process.

These represent a very positive endorsement of both our strategy and the value of our resource base.

In addition, the level of premiums achieved in our strategic farm out programme provides good evidence that other companies recognise both the quality of our assets and of the plans that we have for their exploitation.

Nautical has emerged from the preparatory phase with its primary focus on evaluation, preparation and risk mitigation, progressing to the new and current phase with emphasis on field based appraisal en route to development, oil flow and revenue. Both seismic and drilling operations commenced and the Company had success with our first operated well on the Kraken discovery where the results exceeded our most optimistic expectations.

The positive impact of these events and developments on the value of Nautical has been recognised by both industry peers and the investment community.

Confidence in the future prospects for Nautical was also evident in the support for a £20 million equity raising in October 2007, which was oversubscribed, with shares placed successfully on relatively short notice. As a result, the Company is now funded to cover a more rapid and aggressive planned programme of appraisal and exploration, covering our extensive UKCS and European portfolio.

"Cornerstone" Discovered Assets

The **Kraken** and **Mariner** discovered resources underpin the value of your Company and represent the 'cornerstones' of value in our portfolio. Both have seen a step change in their prospects within the review period.

Kraken – A Successful First Operated Well

Nautical's first operated well (9/2b-2) was drilled on the Kraken accumulation, 2.7 kilometres north of the 9/2-1 discovery well and encountered oil bearing Palaeocene Heimdal Sands at a higher elevation than the discovery well.

“The **Kraken** and **Mariner** discovered resources underpin the value of your Company and represent the ‘cornerstones’ of value in our portfolio. Both have seen a step change in their prospects within the review period.”

Furthermore, 9/2b-2 proved an Oil Down To (ODT) 71 metres deeper than 9/2-1, thus confirming a substantial accumulation. This exceeded the predicted maximum pre-drill estimate.

The reservoir quality was excellent, as predicted, with high porosity and permeability. The gravity of recovered oil samples was higher than expected and viscosity was around 110cp or less (similar to the producing Captain Field). Based on information gained from this highly successful programme, indications are that not only could there be considerably more oil in place, but the higher API and lower viscosity should increase recovery factors and achieve a higher price per barrel.

A series of transactions negotiated by Nautical during the period led to an advantageous combination of acquisition and farm out, resulting in retention of a 45% interest in Kraken, coupled with a lower share of appraisal drilling cost.

Mariner – A New Energised Operator

Our 26.7% share of the Mariner discovery is a key element of the value of Nautical and a core contributor to our planned production profile.

We regard the entry of StatoilHydro as the new Operator as a very encouraging development, which should unlock a clear path to development and oil flow. Of particular relevance is that Mariner has 2 reservoirs in the Palaeocene, the Maureen and Heimdal. Whilst the Maureen accumulation is well defined with probable resources, StatoilHydro share Nautical's positive view on the Heimdal resources and expect these to increase significantly.

Plans for Mariner include new 3D seismic aimed specifically at the Heimdal, scheduled for Summer 2008. Results will be used to locate a horizontal/high angle well which will be tested and integrated into a comprehensive field development plan (FDP) covering both reservoirs. This FDP should be submitted to DBERR in 2009 and, on approval, will set the path to development and long awaited oil flow from the Mariner field.

Interestingly, both of the “cornerstone” resources have tested oil samples of very similar qualities and characteristics, being both low sulphur and naphthenic. Such crude oils are in demand by specialist refiners. Declining production and increasing market demand have led to a progressive shortage of oils of this type. This has precipitated an increase in price realisations and a reduction in discounts off lighter crude oil prices, further supporting the value potential of the Nautical “cornerstone” assets.

Activity on Prospects

The Mermaid prospect was drilled in late 2007 and despite encountering good quality sands at both Heimdal and Maureen levels, the well was water wet. We are currently reviewing the remaining prospectivity of the block.

To the north of Kraken, in block 3/27a, 1,413 km of high resolution, high density 2D seismic was acquired to elevate the Hydra leads to drillable prospects. The data is being processed with the aim of identifying a well location for drilling in Q3 2008.

Chief Executive's and Chairman's statement continued

Elsewhere, reprocessing of existing seismic is ongoing over the large Merrow prospect across blocks 113/29c and 113/30 in the East Irish Sea, and over the Tudor Rose discovery in Block 14/30a in the Moray Firth.

Immediately to the west of Kraken in blocks 8/5 and 9/1 the interpretation of reprocessed 2D seismic was sufficiently encouraging at both Maureen and Heimdal levels for Nautical to convert from a Promote to Traditional licence. New high resolution, high density 2D seismic will be acquired in the summer.

The 2008 drilling programme commenced early in January with the Grenade 3 well. This was a relatively low cost, onshore programme in which Nautical holds a 22% equity share. Unfortunately, this was not a successful well, but has provided useful information on the eastern boundary of the oil bearing reservoir. Despite this result, there is remaining upside in the Grenade oil accumulation with the net

estimated contingent resources remaining at 2.8 million barrels of recoverable oil. In addition there is a large (3.9TCF in place) gas prospect to the west under the Audignon Ridge. The co-venturers will reprocess existing seismic to further delineate this prospect and will seek drilling partners in the near future.

Continuing Active Portfolio Management

Nautical continues to high grade its portfolio and has only retained blocks which are considered economically prospective/viable whilst relinquishing others. Nautical currently operates 8 blocks and is an active partner in 7 others in the UKCS and France, having equity shares varying from 100% to 15%.

The Company continues to follow a conservative policy, focusing on discovered oil with minimal exposure to exploration risk and preferring to retain our highest equity shares in Nautical operated Joint Ventures.

The Company continues to mitigate risk through farming out to aligned partners at a premium, as evidenced by the participation of new UKCS entrant Canamens Energy Limited in Kraken and Silverstone Energy Limited in Mermaid, both along with our existing partner, Celtic Oil Limited. We continue to seek further farmouts, especially on blocks where significant expenditure is required on either new seismic or drilling.

Planned Programme – Accelerating the Pace

The Company is progressively quickening the pace of future appraisal programmes to aggressively realise the potential of our extensive portfolio of opportunities, continuously adding value in the process.

Nautical is well funded to carry out the forthcoming activity for our part of the cost and enjoys the confidence of our very supportive venture partners who share our objectives.

“The Company has the assets, funding, partners and capabilities to progress and perform in our specialist niche to deliver value to our shareholders and investors.”

The first Nautical operated well in the 2008 campaign will be on the Selkie prospect and will be drilled during Q2. Nautical holds a 60% interest and may look to farm down further prior to drilling.

This will be followed by a well on the Catcher prospect under the operatorship of Oilexco scheduled for the summer.

The second planned Nautical operated well in 2008 will be on the Hydra prospect in block 3/27a. This is currently planned to spud in the fourth quarter and has also been the subject of further farm out discussions.

Nautical will participate in new 3D seismic acquisition over the Mariner discovery aimed at improved imaging of the Heimdal reservoir and locating the optimum well position for the planned horizontal test well.

A 2D seismic programme is also planned to the west of the Kraken discovery over blocks 8/5 and 9/1.

Following full evaluation and assessment of the Kraken 9/2b-2 well, the Company will be planning a horizontal/high angle well to test the production potential of the Kraken Heimdal resource.

We look forward to achieving further positive results from this extensive programme and believe that the acceleration of pace and activity should yield a significant addition to shareholder value.

Nautical will also be seeking to further strengthen our portfolio through successful applications in the upcoming 25th Seaward Licensing Round. The Company will continue to apply our successful policy of selective applications with aligned partners.

Financial results

The Company made a loss for the six months to December 2007 of £4.5 million, (2006: £0.7 million), including exploration write offs of £3.2 million relating primarily to the unsuccessful Mermaid well. Administration costs of £1.5 million (2006: £0.8 million) reflect an increase in activity and also includes a £0.4 million effect from foreign exchange movements compared to the six months to December 2006.

The Future

The Company has continued to be guided by the key strategies defined on formation and has passed significant milestones during the review period towards our prime goals of oil flow and revenue.

The Company adopted an “outsource model” from inception and has, thus far, limited full time specialist employees. As a general policy, this will continue to apply. However, the nature, scale and spread of the activity programme, and the demands of our future path to production, will require the Company to selectively supplement our limited full time specialist management resources.

The outlook for Nautical is very positive. At a global level the interest in heavy oil continues to grow, expectation of sustained higher oil prices is more widespread and appears to be underpinned by fundamentals. The Company has the assets, funding, partners and capabilities to progress and perform in our specialist niche to deliver value to our shareholders and investors.

Steve Jenkins
Chief Executive Officer

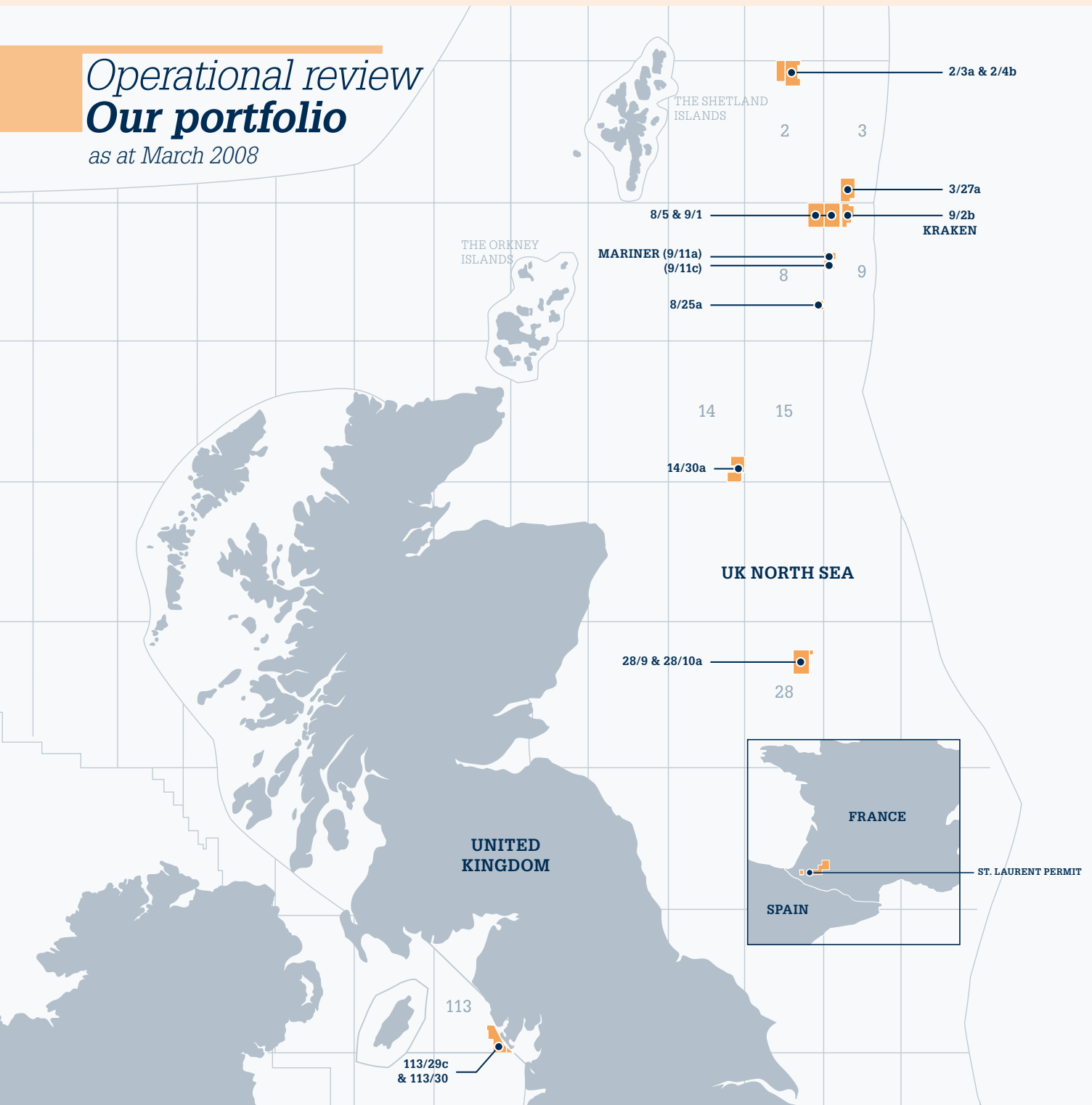
Ian Williams
Chairman

18 March 2008

Operational review

Our portfolio

as at March 2008



BLOCKS 2/3A & 2/4B Dragon (Licence P1492 – 33.33% interest)

- Awarded in February 2007 in the 24th round. The blocks are on the East Shetland Platform, west of the Heather oil field.
- A programme to reprocess and interpret 2D and 3D seismic is underway, mainly over two prospects, one with crestal oil.

BLOCK 3/27A Hydra (Licence 1203 – 70% interest)

- New high density high resolution 2D seismic was acquired in 2007 to define one of the Hydra prospects for drilling. The seismic has been processed and is being interpreted.

BLOCK 8/5 AND BLOCK 9/1 Scylla (Licence P1277 – 100% interest)

- Located on the East Shetland Platform west of the North Viking Graben, contiguous with Block 9/2b.
- Across Blocks 9/1 and 8/5, 484km of 2D seismic has been acquired and reprocessed leading to the delineation of two leads in the Tertiary. The licence has been converted to Traditional.

BLOCK 8/25A Selkie (Licence P976 – 60% interest)

- Selkie is mostly covered by recent 3D seismic and 2D seismic has been purchased. A four-way dip closure has been confirmed analogous to the Skipper discovery
- Together with the Kelpie prospect the block contains 35mmbbl best estimate prospective resources.
- A well will be drilled in Q2 2008.

BLOCK 9/2B Kraken (Licence P1077 – 45% interest)

- A successful appraisal well was drilled in October 2007. A deeper oil-down-to was encountered and the oil is of a higher API with less viscosity than predicted.
- A further appraisal well is planned.

BLOCK 9/11A Mariner (Licence P335 – 26.67% interest)

- In 1997 an extended well test (EWT) produced 662,000 barrels of oil over 63 days at a maximum rate of 14,991bopd (14.5 API) from Maureen Formation Sands.
- The shallower Heimdal sandstone member has flowed up to 1,800bopd on a vertical test.
- 3D seismic will be acquired in Summer 2008.

BLOCK 9/11C Mermaid (Licence P979 – 50% interest)

- An unsuccessful well was drilled on the Mermaid prospect in November 2007. The block is being assessed for further potential.

BLOCK 14/30A Tudor Rose (Licence P1463 – 20% interest)

- Awarded in February 2007 in the 24th round. The block is in the Outer Moray Firth, 3D seismic has been reprocessed and geochemical studies are ongoing.
- The block contains the Tudor Rose discovery.

BLOCKS 28/9 & 28/10B Catcher (Licence P1430 – 15% interest)

- Awarded in February 2007 in the 24th round. The blocks are on the West Central Platform in the North Sea, with a well to be drilled in the Summer of 2008.
- The block contains the Catcher prospect and numerous leads and prospects defined on 3D seismic.

BLOCKS 113/29C & 113/30 (Licence P1475 – 50% interest)

- Awarded in February 2007 in the 24th round. The blocks lie on the edge of the East Irish Sea Basin.
- Over 700km of 2D seismic are being reprocessed leading to a drill or drop decision.
- The block contains the large Merrow prospect which can be drilled from onshore.

ST. LAURENT PERMIT* (22% interest)

- Located in Aquitaine Basin, SW France, The Grenade-Sur-Adour well produced 8,000 barrels in a series of tests.
- An unsuccessful appraisal well was drilled in January 2008.
- Further gas prospectivity is present on the permit.

* Permit is awaiting French Government approval.

Consolidated income statement

For the 6 months ended 31 December 2007

	Notes	6 months to 31 December 2007 (unaudited) £'000	6 months to 31 December 2006 (unaudited) £'000	Year to 30 June 2007 £'000
Cost of sales		(79)	(83)	(161)
Gross loss		(79)	(83)	(161)
Administrative expenses		(1,527)	(777)	(1,269)
Exploration costs written off		(1,606)	(860)	(1,430)
		(3,243)	–	–
Operating loss		(4,849)	(860)	(1,430)
Finance income		483	255	741
Finance costs		(86)	(125)	(174)
Loss before tax		(4,452)	(730)	(863)
Tax		–	–	472
Loss for the period		(4,452)	(730)	(391)
Attributable to:				
Equity holders of the company		(4,438)	(727)	(490)
Minority interests		(14)	(3)	99
		(4,452)	(730)	(391)
		pence	pence	pence
Basic and diluted loss per share	3	(0.38)	(0.07)	(0.05)

The results were entirely derived from continuing operations.

Consolidated balance sheet

As at 31 December 2007

	Notes	As at 31 December 2007 (unaudited) £'000	As at 31 December 2006 (unaudited) £'000	As at 30 June 2007 £'000
Non-current assets				
Intangible assets		51,380	49,653	49,768
Property, plant and equipment		2,517	2,661	2,588
		53,897	52,314	52,356
Current assets				
Trade and other receivables		4,055	893	290
Cash and cash equivalents		27,702	10,092	8,943
		31,757	10,985	9,233
Total assets		85,654	63,299	61,589
Current liabilities				
Trade and other payables		(10,856)	(2,297)	(1,386)
Non-current liabilities				
Deferred tax		(6,431)	(7,260)	(6,609)
Other payables		(3,074)	(3,262)	(2,974)
		(20,361)	(12,819)	(10,969)
Net assets		65,293	50,480	50,620
Equity attributable to equity holders				
Called up share capital	4	11,587	9,683	9,683
Share premium		37,751	20,491	20,491
Other reserves		29,169	29,169	29,169
Cumulative translation reserve		(1,689)	(994)	(1,330)
Accumulated losses		(11,525)	(12,082)	(11,612)
Equity attributable to equity holders		65,293	46,267	46,401
Minority interests		–	4,213	4,219
Total equity		65,293	50,480	50,620

Consolidated statement of changes in equity

For the 6 months ended 31 December 2007

	6 months to 31 December 2007 (unaudited) £'000	6 months to 31 December 2006 (unaudited) £'000	Year to 30 June 2007 £'000
(Loss) for the period attributable to shareholders	(4,438)	(727)	(490)
Currency translation adjustments	(359)	(987)	(1,318)
Share based payment charges	219	163	391
Effect of change in minority interest	4,306	–	–
New shares issued	19,164	431	431
Net change in equity attributable to shareholders	18,892	(1,120)	(986)
Equity attributable to shareholders brought forward	46,401	47,387	47,387
Equity attributable to shareholders at end of the period	65,293	46,267	46,401

Consolidated cash flow statement

For the 6 months ended 31 December 2007

	Notes	6 months to 31 December 2007 (unaudited) £'000	6 months to 31 December 2006 (unaudited) £'000	Year to 30 June 2007 £'000
Operating activities				
Cash outflow from operating activities	5	(998)	(484)	(677)
Finance income		483	255	493
Cash flows from operating activities		(515)	(229)	(184)
Cash flows from investing activities				
Expenditure on intangible assets		(2,340)	(1,263)	(2,695)
Net cash flows from investing activities		(2,340)	(1,263)	(2,695)
Financing activities				
Proceeds from issue of ordinary shares		19,164	–	–
Increase/(decrease) in amounts due to JV partners		2,969	–	–
(Repayment) of loans		–	(360)	(360)
(Decrease)/increase in balances due to related undertaking		(519)	(356)	(118)
Cash flows from financing activities		21,614	(716)	(478)
Net (decrease)/increase in cash and cash equivalents		18,759	(2,208)	(3,357)
Cash and cash equivalents at beginning of period		8,943	12,300	12,300
Cash and cash equivalents at end of period		27,702	10,092	8,943

Notes to the financial statements

1. General information

The information for the period ended 31 December 2007 does not constitute statutory accounts as defined in section 240 of the Companies Act 2005. The financial statements were authorised for issue on 19 March 2008 by the Board of Directors.

2. Basis of preparation

The interim accounts have been prepared on the basis of the accounting policies set out in the June 2007 annual report and accounts. The 30 June 2007 figures have been extracted from the audited accounts and the audit report was unqualified.

3. Earnings per share

	6 months to 31 December 2007 (unaudited)	6 months to 31 December 2006 (unaudited)	Year to 30 June 2007
(Loss) for the period attributable to shareholders (£'000)	(4,438)	(727)	(490)
Weighted average number of shares in issue in the period ('000)	1,155,329	1,073,278	1,075,450
Basic (loss) per ordinary share (pence)	(0.38)	(0.07)	(0.05)

4. Share capital and reserves

On 17 October 2007, Nautical issued 190,476,191 shares at 10.5p to raise approximately £20.0 million before expenses.

At 31 December 2007 there were 1,268,165,810 shares in issue. On 31 October 2007, Nautical acquired UAH limited thereby becoming the 100% shareholder of Nautical Petroleum AG (NPAG), which holds the 9/2b and 3/27a licences. As a consequence there is no longer a minority interest with regard to the 25% of NPAG previously held outside of the Group. The effect of this change is to increase the equity attributable to shareholders by £4,306,000.

5. Net cash flows from operating activities

	6 months to 31 December 2007 (unaudited) £'000	6 months to 31 December 2006 (unaudited) £'000	Year to 30 June 2007 £'000
Loss for the period	(4,452)	(730)	(391)
Finance income	(483)	(255)	(741)
Finance costs	86	125	174
Taxation	–	–	(472)
Share based payment charges	219	164	391
Exploration write-offs	3,243	–	–
Depreciation	70	70	144
Foreign exchange movements	90	(267)	(267)
Operating cash flow before working capital movements	(1,227)	(893)	(1,162)
(Increase)/decrease in trade and other receivables	(77)	(5)	443
(Decrease)/increase in trade and other payables	306	414	42
Net cash outflow from operating activities	(998)	(484)	(677)

www.nauticalpetroleum.com

Nautical Petroleum plc

*Parnell House
25 Wilton Road
London
SW1V 1YD*

T: 020 7550 4890

F: 020 7550 4946

