

Nautical Petroleum plc
Annual Report and Accounts 2009





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

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

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Highlights 2009

Operational highlights

3D and Ocean Bottom Cable (OBC) seismic surveys completed over Mariner

Site survey completed over Mariner for production platform location

Controlled Source Electromagnetic Survey (CSEM) performed over Kraken

Drilled appraisal well on Kraken

Awarded 8 new blocks in the North Sea and a further 2 licence awards in France

34% increase in Mariner net best estimate contingent resources (development pending)

Financial highlights

Strong cash position of £19.1m at 30 June 2009

Debt free with £7.5m secured facility undrawn and fully available

Completed farmouts on Kraken, Hydra and Selkie for £11.9m of cash and past cost contribution

£11.8m spent on portfolio development

Cornerstone Assets

Mariner

90^{mmbo}

Net best estimate contingent resources (development pending)

» Field development submission in 2011

Kraken

29^{mmbo}

Net best estimate contingent resources

40^{mmbo}

Best estimate prospective resources

» Field development submission target end 2010

The heavy oil market



The heavy oil discount to Brent has continued to narrow over the last year as heavy oil production declines in Mexico and Venezuela, reducing supply to the US and North West Europe markets.

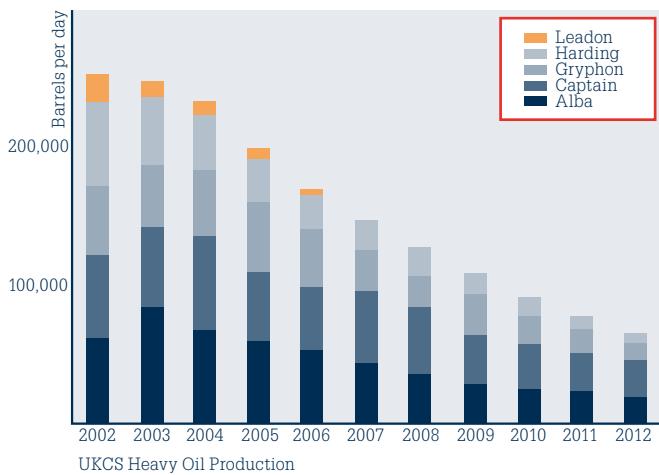
In addition there are a number of large scale refinery modifications in Europe which are due to come on stream in 2010 and 2011. These are aimed at absorbing heavier oil at a time when supply of these oils is declining.

The UK production of heavy oil has been significant, mainly from Captain, Harding, and Alba, but these fields are also in decline, the most recent published figures indicate an annual drop of 20%.

The market for these UK heavy oils remains strong, specifically from specialist refiners. This is reflected in prices achieved for Alba, Captain and Harding. Both Captain and Harding have recently traded at a small premium to Brent. The specialist refiners in North West Europe are now looking further afield for supplies. Some cargoes from Australia are now finding homes here.

With interests in Kraken and Mariner, the location and specific oil qualities of these oils put us in a strong position to meet this demand.

We at Nautical Petroleum recognise the challenges that heavy oil presents from both a technical and marketing aspect. We understand the importance of early marketing and are working closely with the consumers to find solutions to maximise value for the Company.



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Chairman's statement



John Conlin
Chairman

Nautical Petroleum is pleased to report to Shareholders a further year of significant progress in the development of its asset portfolio.

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This progress has however been tempered by a period driven primarily by the dramatic collapse in oil prices seen in the second half of 2008 and the onset of global recession. Our market capitalisation bottomed out at a value equivalent to our cash in hand, where it remained for some six months. Plainly at oil prices of around \$40 per barrel, the market assigned no value to our portfolio of discovered hydrocarbons or our diverse exploration portfolio. Stimulated by the welcome fiscal boost from the Chancellor's April 2009 budget announcement of the new Field Allowance's for heavy oil fields, and subsequently by a recovery in oil price to levels above \$70, the share price has stabilised to its current level.

While short term oil prices trends can be very uncertain there is reasonable consensus that over the medium to long-term timeframe, prices will not drop below \$70 per barrel for a sustained period, while the probability of further growth remains. Importantly for our future heavy oil production streams, the narrowing of the discount related to heavy oil is also a broadly accepted trend.

With this commodity pricing backdrop, the potential value of Nautical's interests in the successful development of Mariner and Kraken is still very heavily discounted but we are confident that increasing value will be attached to these assets once the respective Joint Ventures move these field developments into the execution phase. This therefore remains our top priority and key to this is the role of Statoil on Mariner.

Mariner

Statoil's strong commitment to the Mariner project, highlighted recently in the media and during the recent visit of its CEO to the UK, is greatly encouraging. Moreover their experience of developing heavy oil fields becomes increasingly visible in the diverse range of technical studies initiated by them to identify the optimal shape of a Mariner development.

As an example, Statoil has applied geophysical techniques proven in their successful Grane heavy oil field by acquiring two further seismic surveys during the period. These mark the first major operational activities on Mariner since the extended well test in 1997. Both surveys have significantly improved our understanding of the Maureen and Heimdal reservoirs and we anticipate the improved imaging will be reflected in updated reservoir forecasting models early in 2010. All the signs are that the Mariner development is economically robust and moving inexorably forward to project sanction and Field Development Plan (FDP) submission in 2011 with first oil in 2015.

One consequence of the projected first oil date of 2015 is the decision to reclassify the Maureen hydrocarbons from reserves to contingent resources in line with industry best practice on resource definition. Based on updated estimates from the Operator Statoil, combined gross contingent resources for the Maureen and Heimdal reservoirs combined are now 369mmbo gross (90mmbo net). This compares to 274mmbo (67mmbo net) carried in 2008.

Kraken

Nautical operates the Kraken discovery with a 35% equity share, and therefore dictates the pace of development. It is also important to note that the oil viscosity in Kraken is within the range of the Captain Field which currently produces at around 25,000bopd and is targeting a recovery factor of over 50%.

While buoyed by the tremendous results of 9/2b-2, the failure of a third well (9/2b-3 drilled in September/October 2008), albeit aggressively located to the northeast of the discovery wells to chase an upside resources scenario, needed to be fully understood.

As a result, a controlled source electromagnetic (CSEM) survey was commissioned to further define the extent of the reservoir. Enhanced seismic processing and regional studies are also in progress. In combination with the CSEM results, this study programme is focussed on the identification of the target for a further appraisal well to be drilled in the first half of 2010.

As a result of the dry well 9/2b-3, the gross contingent resource estimate for Kraken has been reduced from 106mmbo (37mmbo net) to the 83mmbo (29mmbo net) contained in a core area to the north and south of the two successful wells. Encouragingly, the new seismic data has identified significant exploration potential to the west of the core area.

Development concept studies have meanwhile continued, with the Joint Venture favouring a phased development solution. It is anticipated that the results of the upcoming well can be quickly incorporated into our assessment, and hence we believe that it remains realistic to target project sanction and FDP submission by the end of 2010.

Rest of the Portfolio

Whilst Kraken and Mariner have been our key areas of focus, we continued to strengthen our position on the East Shetland Platform by adding a further six blocks to the portfolio in the 25th Licensing Round. We were also pleased to further consolidate our position in France with the award of two further licences.

Financial Positioning

Since the inception of Nautical in 2005, £38m has been raised of which £19.1m remained at year end. Nautical remains debt free and our £7.5m secured debt facility remains undrawn and fully available. The impact of the global financial crisis on the cash positions of small and mid cap E&P companies in particular, suggests that our creative farm-out deals of the recent past may be more challenging to replicate in the immediate future. Nevertheless, we are confident that we have sufficient financial resources to meet the immediate needs of the business as we progress Kraken and Mariner towards development decisions.

Looking further ahead, we continue to position the Group to obtain the necessary financing to implement our heavy oil development strategy through the most effective combination of debt, equity funding and other means. In that regard, the fact that a number of capital raisings have recently been achieved in the E&P sector at moderate discounts, is evidence of emerging confidence in the sector. In parallel, we continue to receive encouraging signals from advisers and the principal lending institutions of fertile ground for project financing particularly for those heavy oil projects put under the spotlight by HM Government's fiscal encouragement.

Capability

We continued with our model of outsourcing evaluation work during the period, enabling us to keep our administration expenses to a minimum, whilst maintaining access to a highly capable group of technical experts. That this works so effectively, is a tribute to the cohesion and versatility of the core executive team. In particular, the commercial creativity of the team is widely acknowledged and will serve Nautical well in our efforts to capitalise on our portfolio of opportunities. However, looking

Our planned activity for next year anticipates a further appraisal well on Kraken as we push towards the goal of project sanction FDP submission by the end of 2010. In parallel, we expect Statoil to continue to progress toward concept selection on Mariner and award of the contract for FEED.

forward to a sharpened focus on field development definition in Mariner and Kraken and the consequential major investment decisions, it is our intention to complement the core in-house team with a full-time Engineering Manager.

I would like to take this opportunity to thank Ian Williams who led Nautical energetically as chairman through its formative years until his departure at the end of 2008. The Board would also wish to express our appreciation for the supportive leadership of Patrick Kennedy who took on the role of acting Chairman during the first half of 2009.

Moving Forward in 2010

The past 12 months has been turbulent for E&P companies, and whilst the overall economy remains fragile there are signs of confidence returning to the sector. Importantly for Nautical, there is some evidence albeit mixed as yet, of a lower cost environment emerging and having successfully preserved our financial resources during this period of instability, we are now better positioned to take advantage of this.

Our planned activity for next year anticipates a further appraisal well on Kraken as we push towards the goal of project sanction and FDP submission by the end of 2010. In parallel we expect Statoil to continue to progress toward concept selection on Mariner and award of the contract for Front End Engineering and Design (FEED). Whilst our key focus will remain on Kraken and Mariner, we will continue to progress our exploration portfolio, with the first material activity scheduled to be the drilling of the Catcher prospect in Q2, 2010.

John Conlin
Chairman

Chief Executive's review



Steve Jenkins
Chief Executive Officer

Nautical is committed to progressing both Mariner and Kraken to FDP submission and adding value to the third leg of material appraisal and exploration opportunities.

Nautical is pleased to report that against the backdrop of difficult economic conditions during the period significant progress has been made.

Steady Progress in Challenging Times

During the period Nautical focused on the technical development and appraisal of our cornerstone assets by drilling a well and acquiring both test and controlled source electro magnetic (CSEM) surveys over Kraken and participating in three seismic surveys over Mariner.

Exploration activity was somewhat muted, restricted to an operated seismic survey over blocks 8/5 and 9/1. During the autumn a planned well on the Hydra block encountered an extensive period of severe weather conditions which prevented the well spudding and resulted in the demobilisation of the rig. The period also saw a drop of over \$100 per barrel in the Brent spot price before recovering to a more comfortable \$70 per barrel, well above the break even price for both the Company's main projects.

Costs have not fallen in line with the oil price, especially on semi submersible day rates which remain around \$250,000 per day. Fortunately large jack up rigs rates have fallen to around \$150,000 per day and can be utilised on most of Nautical's blocks. It has become apparent that rig stacking is occurring as service companies seek to maintain day rates and insulate their exposure to the cost decreases seen elsewhere in the industry. Whilst unhelpful, Nautical believes competition will remedy this situation and we hope to see rig rates following the downward trends of other services.

A Good Result from the Chancellor

Nautical's share price tracked the fall in global equity markets, with the AIM market particularly impacted by the economic and financial crisis which gripped the industry in the period. However the Company received a welcome uplift in the April budget, with the introduction of the new Field Allowance in which licence holders will be able to offset against the Supplementary Charge (20%). Heavy oil related developments have been given a Field Allowance of £800m as a specific target. This will enhance the value of all Nautical's heavy oil portfolio and specifically improve the profitability of the Kraken and Mariner developments. Nautical has been engaged with Government since inception to secure this positive fiscal change, as both an individual company and through the Chairmanship of the Oil and Gas Independents Association (the main voice of UKCS independents). The company is pleased with this outcome and will continue to try to secure further incentives for both exploration and development activity.

Managing Our Portfolio Through Growth and Judicious Pruning

Nautical is committed to progressing both Mariner and Kraken to FDP submission and adding value to the third leg of material appraisal and exploration opportunities which has benefited from the addition of a producing asset (Keddington). Including the awards in the 25th Licensing Round, blocks secured post round and two further awards in France, the augmented portfolio now consists of 25 blocks (18 licences) of which 11 blocks (8 licences) are operated by Nautical. However through active portfolio management this will be reduced through relinquishments of blocks with diminished prospectivity, thus enabling resources to be directed towards the most promising blocks.

Mariner – Less Risk and Increasingly Robust

Statoil (UK) Ltd (operator) continues to share Nautical's enthusiasm and commitment to bring Mariner to development. Activity levels remained high with the acquisition of three seismic surveys namely, high resolution 3D seismic, ocean bottom cable (OBC) seismic and a platform site survey. The combination of the 3D and OBC (a technique proven on the Grane heavy oil field – Norway) was successful in imaging and defining the areal distribution of the Heimdal Sandstone reservoir and defining the Top Maureen Sand reservoir (increasing the hydrocarbon column). Additionally areas of Maureen Sand erosion proved to be more limited than on previous mapping. These increased volumes have not been included in the quoted resources since modified reservoir simulations have yet to be run. Furthermore studies through the period which have revealed reduced platform drilling costs, increased recovery rates, decreased water cut (using autonomous valves) will also be incorporated in the simulation and we aim to report the anticipated increase in resources in 2010.

The joint venture intends to pass through a major decision gate at the end of 2010 before submitting an FDP in 2011, followed by first oil in 2015.

Kraken – An Operated Substantial Accumulation

A third well was drilled on the north east flank of the Kraken hydrocarbon accumulation, 3.3km ENE of the successful 9/2b-2 well and 5km from the 9/2-1A discovery well. The well was designed to intersect the oil water contact and investigate the upside (P10) resources. The reservoir (Heimdal Sandstone) proved to be absent. However, there are still substantial best estimate contingent resources (83mmbo gross, 29mmbo net) both around the successful wells and to the north and south. Exploration upside is evident to the west with best estimate prospective resources of 114mmbo gross (40mmbo net).

Considerable technical efforts are focused on predicting the areal distribution of the reservoir over Kraken. Both sedimentological and seismic studies will be integrated with CSEM survey results to locate an appraisal well to be drilled in 2010 prior to submitting an FDP before end 2010. We are strengthening our management team to fulfil our ambition for first oil in 2012.

Again Nautical was successful in mitigating risk and reducing its financial exposure by farming out the 9/2b-3 appraisal to both Canamens Energy and Celtic Oil Limited, resulting in a zero cost participation in the well and an additional cash bonus to be received on FDP approval.

Exploration and Appraisal Opportunities – Expansion in the UKCS and France

Nautical continues to be a significant operator and an active joint venture partner, although operational activity was below 2008 levels with a seismic survey acquired over the Scylla channel (blocks 8/5 and 9/1) and the aborted spud of the Hydra well in block 3/27a. The Scylla prospect proved to be too high risk and small, consequently both blocks and Hydra will be allowed to lapse or be relinquished. On a more positive note the new operator of Catcher (Blocks 28/9 and 28/10b) will drill a well in the first half of 2010 (postponed due to Oilexco entering administration).

Further interpretation of recently reprocessed seismic has confirmed the large Merrow prospect at Collyhurst (Permian) level and identified further leads. The joint venture is currently identifying onshore drilling locations.

We look forward to an increased level of operational activity in the coming year as we progress Mariner and Kraken further towards development decisions, as well as seek further resources from our exploration portfolio through successful drilling.

Nautical strengthened its position on the East Shetland Platform with the award of six blocks (four as operator) and securing the merger of the previously relinquished portion of 9/2b with the retained area. In the Moray Firth two additional blocks were secured post round to add to the award of Block 15/21g (containing the exciting 'Spaniards' prospect, downdip from tested oil).

At the end of 2008 Nautical purchased its first production (10% of the Keddington field) from Egdon Resources. We see considerable upside in this field and aim to drill a sidetrack in late 2009 to boost production.

Our position in France has also been strengthened by two further awards, Pontenx and Gex. Both permits offer heavy oil appraisal/development opportunities with added conventional oil upside in Pontenx and potentially large oil/gas traps in the Jura basin (Gex). These complement the existing development opportunity in St Laurent (Grenade-sur-Adour) and the large gas prospect beneath the Audignon Ridge.

We have made strong applications for heavy oil exploration blocks in Europe and are negotiating on a potential heavy oil field reactivation. Being mindful of overstretching our treasury we will concentrate on evaluating discovered oil blocks in the upcoming UKCS 26th Licensing Round.

Oil portfolio audit

RPS Energy audited our oil portfolio held at 30 June 2009. Resources quoted in this report refer to the figures verified by this audit. All contingent resources and prospective resources are best estimates.

Firm Heavy Oil Demand Coupled with a Stable Price

Nautical agrees with the consensus that the oil price will remain stable and will rise as the world emerges more fully from recession and demand rises. We see this price upswing being mirrored or being more acute for naphthenic crude as world sources are few and distant and the UKCS heavy oil production is in rapid decline. The fall in development costs and the recently announced tax incentives, combined with this price scenario make our development projects increasingly robust and attractive.

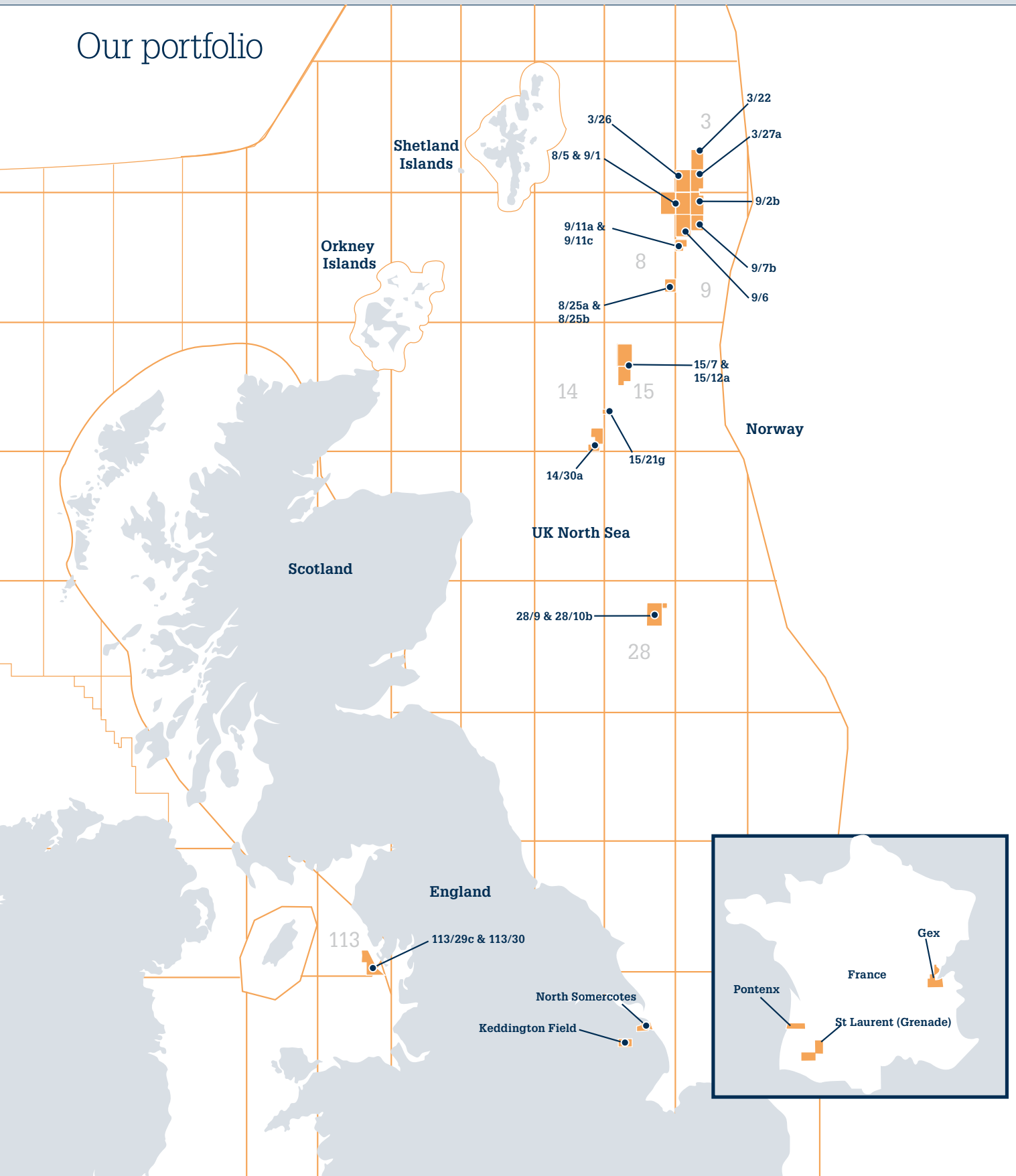
A More Active Future

We look forward to an increased level of operational activity in the coming year as we progress Mariner and Kraken further towards development decisions, as well as seek further resources from our exploration portfolio through successful drilling. Your board will make every effort to gain equity markets appreciation of our potential, resulting in a share price that fully reflects the Company's substantial net resources.

Steve Jenkins
Chief Executive Officer

Operational review

Our portfolio



Kraken: Block 9/2b

(Licence P1077 – 35% interest)

- » A successful appraisal well was drilled in 2007 on the Kraken discovery. A deeper oil-down-to (ODT) was encountered and the oil is of a higher API with less viscosity than predicted.
- » A further appraisal well drilled September/October 2008 was dry - the well was plugged and abandoned.
- » Controlled source Electro Magnetic survey (CSEM) acquired in June 2009.
- » Target to submit FDP before end 2010.
- » Contingent resources of 83mmbo (gross), 29mmbo (net).
- » Prospective resources of 114 mmbo (gross), 40 mmbo (net).

Mariner: Block 9/11a

(Licence P335 – 26.67% interest)

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

Hydra: Block 3/27a

(Licence P1203 – 35% interest)

- » Well spud aborted due to poor weather in November 2008.
- » Block will be relinquished.

Scylla: Blocks 8/5 and 9/1

(Licence P1277 – 100% interest)

- » Prospect considered too small and too high risk. Blocks to be relinquished.

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 and interpretation of Amplitude versus offset (AVO) volume is ongoing.
- » Engineering studies are underway on the 14/30a-2 discovery well to determine the case for further drilling.
- » Contingent resources of 49mmbo (gross), and 10mmbo (net).

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 2010.
- » Prospective resources of 21.8mmbo (gross), 3.3mmbo (net).

Merrow: Blocks 113/29c and 113/30

(Licence P1475 – 50% interest)

- » The blocks lie on the edge of the East Irish Sea basin.
- » Interpretation of reprocessed seismic has confirmed the large Merrow prospect adjacent to Walney Island.
- » Offshore prospect will be tested from onshore by a well in 2010/2011.

Mermaid: Block 9/11c

(Licence P979 – 80% interest)

- » Possible southern extension of Mariner accumulation in Heimdal Sandstone.
- » Remaining prospectivity will be determined by the work on the adjacent Mariner block, with a possible field extension into 9/11c.

Blocks 8/25a and 8/25b

(Licence P976 – 50% interest)

- » Contains Coelocanth and Kelpie prospects.
- » Evaluation of reprocessed seismic will establish future prospectivity.

Blocks 3/22 and 3/26

(Licences P1573 and P1574 – 40% interest)

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

Scylla south: Blocks 9/6 and 9/7

(Licences P1575 – 35% interest)

- » New award continuation of Scylla channel and possible Kraken analogue.
- » EM feasibility studies ongoing.

Spaniards: Block 15/21g

(Licences P1655 – 30% interest)

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

Blocks 15/7 and 15/12a

(Licences P1652 – 33% interest)

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

Keddington

(Licence PEDL005, 10% interest)

- » Acquired interest in this UK onshore producing field in January 2009.

St Laurent: France

(22% interest)

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

Pontenx: France

(20% interest)

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

Gex: France

(20% interest)

- » Located in eastern France near the Swiss border, the official award granted May 2009.
- » Previous drilling on the block encountered shallow oil.
- » Additional prospectivity on large basement involved anticlines at Triassic level.

Operational review

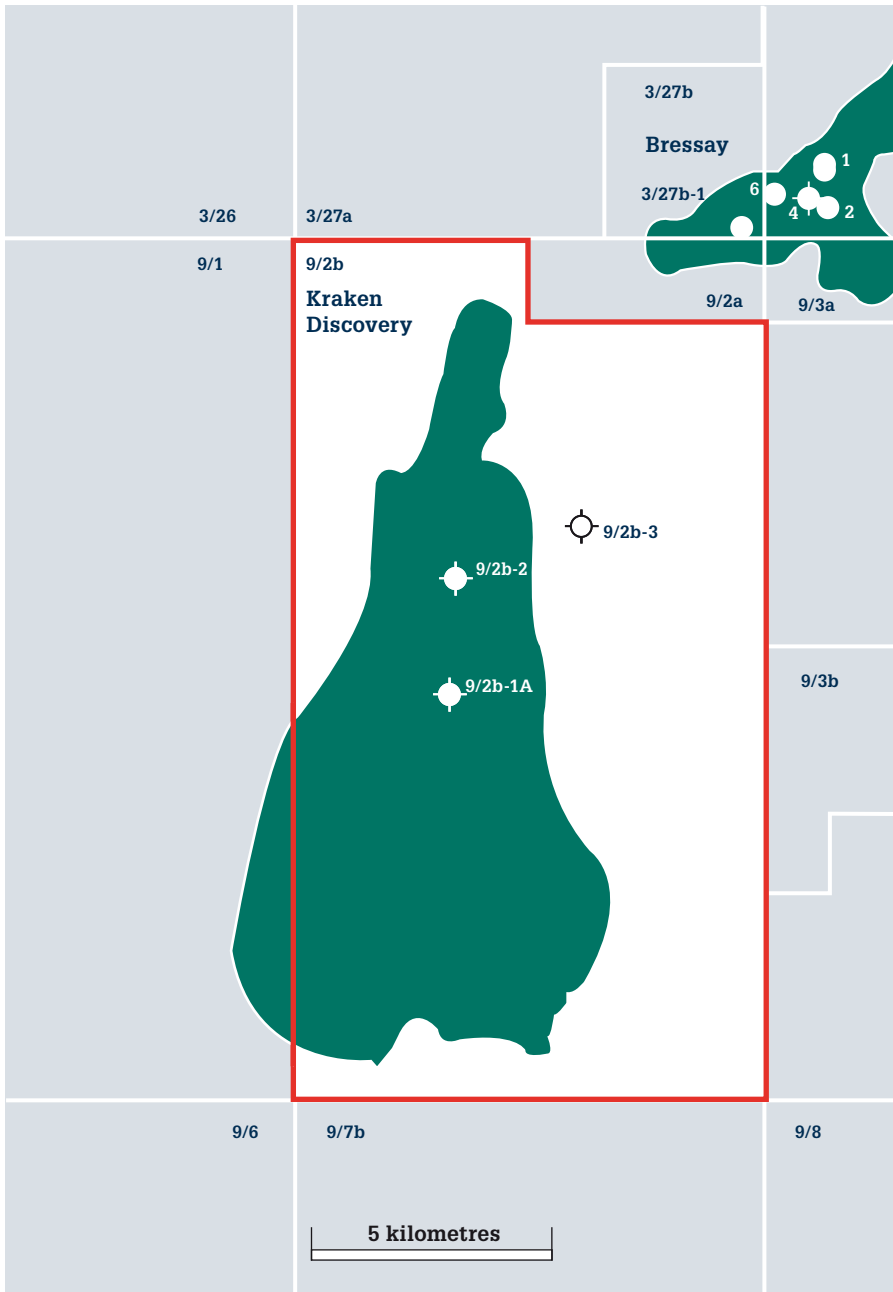
UK continental shelf



Kraken

Key stats

- » Contains Kraken oil discovery
- » Large 3 way dip closed structure
- » 15 API oil
- » 9/2b-2 confirmed substantial accumulation
- » FDP submission target end 2010



110cp

or less viscosity (similar to producing Captain field)

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. The Kraken structure is a large 3 way dip closed high on which oil was discovered in the Heimdal Sandstone Member of the Tertiary (Palaeocene) system by the 9/2-1A well drilled in 1985 and successfully appraised by the joint venture's 9/2b-2 commitment well in 2007. This appraisal well not only encountered oil bearing Heimdal Sandstone which correlates with the 9/2b-1A well (known as Unit III sands) but also penetrated an additional thin lower oil bearing Heimdal Unit I sandstone.

The results of 9/2b- 2 proved an oil column of at least 77 metres and an oil down to (ODT) 51 metres deeper than 9/2- 1A. A third appraisal well, drilled in September 2008, was located in a down dip area to the northeast of the discovery wells in order to substantiate the oil column by intersecting the oil water contact and to investigate the upside (P10) resources. However, in this outlying area, the Heimdal Sandstone Member proved to be absent, which limits the northeastern upside and curtails the best estimate contingent resources to 83mmbo (29mmbo net) in the core area and to the north and south of the two successful wells. There are additional best estimate prospective resources of 114mmbo (40mmbo net) to the west of the fault, above the ODT in the 9/2b-2 well.

The reservoir quality in all sands is excellent, exhibiting both high porosity and permeability. Gravity of the oil is 15° API and viscosity is around 110cp or less, being a higher API and much less viscous than both Bressay (1,000-1,500cp) and Bentley (>2,000cp) and more similar to the producing Captain Field which is expected to exceed a 50% recovery and continues to produce at around 25,000bopd.

The fact that an oil water contact (OWC) was not encountered in the 9/2-1A and 9/2b-2 wells enhances the probability that the

aquifer support will be through an edge water drive rather than a bottom water drive which allows improved control over water production and injection thus optimising oil production and ultimate recovery from the reservoir. 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.

During 2009, controlled source electromagnetic (CSEM) surveying, a relatively new geophysical technique to the North Sea designed to distinguish high resistivity oil zones from their surroundings, has been commissioned to further define the extent of the reservoir. A single test line acquired in January has confirmed a high resistivity anomaly which is indicative of oil filled sands both to the north, east and south of the discovery wells but not around the 9/2b-3 well which is consistent with the sands being absent. Given these encouraging results a broader CSEM coverage of six lines was acquired in June aimed at delineating the oil filled sands over the structure. Further encouragement is evolving from the preliminary processing of these data.

Enhanced seismic processing techniques such as special filtering and regional structural and sedimentological studies are in progress to more accurately predict sand distribution over Kraken. These studies along with detailed analysis of seismic amplitudes interpreted at shallower Heimdal levels will be combined with the CSEM results and integrated with previous models to define the reservoir distribution and to establish a target for a further appraisal well. Nautical intends to drill this in the first half of 2010 prior to submitting a field development plan (FDP) to the Department of Energy and Climate Change (DECC) by the end of 2010. The joint venture is currently favouring a phased development solution.

Through judicious farmouts to both Canamens AS and Celtic Oil Limited, Nautical has retained a substantial interest and operatorship of this large oil discovery. The most recent farmdowns have resulted in Nautical's exposure to the 9/2b-3 well being reduced to zero and the securing of an additional cash bonus on FDP approval.

83mmbo

Gross best estimate
contingent resources

114mmbo

Gross best estimate
prospective resources

Operational review

UK continental shelf



Mariner

Key stats

- » 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



Mariner Block 9/11a (Licence P726)

(Nautical 26.67%)

Operated by Statoil Hydro ASA and located on the East Shetland Platform, west of the Viking Graben, the Mariner oil accumulation, discovered in 1981 and with 15 subsequent well penetrations, is the largest, most highly appraised undeveloped discovery in the UKCS. These wells have tested oil at 1,000 to 1,595bopd from both the Palaeocene Maureen Sandstone and the shallower Heimdal Sandstone. Both sands have excellent reservoir characteristics and during an extended well test (EWT) in 1997 a single horizontal well in the Maureen Sandstone produced 662,000 barrels of oil over 63 days at a maximum rate of 14,991bopd (14.5 API).

During the period the joint ventures' resources were focused on characterising and defining the areal distribution of the shallower Heimdal Sandstone reservoir and enhancing our already detailed knowledge of the deeper Maureen sandstone. Statoil have applied the proven geophysical techniques used in their successful Grane heavy oil field by acquiring two further seismic surveys. Firstly in June 2008, a high resolution 3D seismic survey was acquired to enhance the interpretation of the Maureen reservoir. In August 2008 Statoil added a 3D ocean bottom cable (OBC) survey over the core of the Heimdal reservoir to record shear wave seismic data which is beneficial to the interpretation of the low impedance contrasts typical of the oil filled sands. These mark the first operational activities over the discovery since the EWT.

The new 3D seismic has been successful in defining the top of the Maureen sand which now appears to be shallower than previously mapped in some areas which will increase the hydrocarbon column and volume. As anticipated, the OBC data has imaged the main Heimdal channels and other sand bodies higher in the sequence. Both the improved Maureen and Heimdal reservoir models will be input into reservoir simulations by end 2009. Production profiles for both reservoirs are expected to be generated in early 2010.

Mariner is a large, economically robust development which will pass through the next decision gate at the end of 2010 before commencing Front End Engineering and Design (FEED).

Since successfully passing through a major decision gate in October 2008 Statoil has been identifying development options and will shortlist and propose the preferred development concept before the next major decision gate at the end of 2010.

Following on from site surveys acquired in the summer of 2009 over three considered production platform locations, geotechnical and environmental studies will be conducted to aid platform design and development.

Considerable operator effort has been guided towards evaluation of polymer injection to improve oil recovery factor and simplifying well design to reduce costs. Furthermore the use of autonomous valves in the completion assemblies to control water influx has shown encouraging test results. In addition blending tests to both decrease viscosity and increase marketability is yielding positive outcomes. Prior to the performance of the above work programme the operator reported best estimate contingent resources of 369mmbo gross (90mmbo net) for both the Maureen and Heimdal reservoirs.

Mariner is a large, economically robust development which will pass through the next decision gate at the end of 2010 before commencing Front End Engineering and Design (FEED) and completing an Environmental Impact Assessment in 2011. This will lead to project sanction by the joint venture followed by FDP submission during 2011 and first oil in 2015 or earlier if Maureen wells are pre-drilled.

369mmbo

Gross best estimate contingent resources (development pending)

Operational review

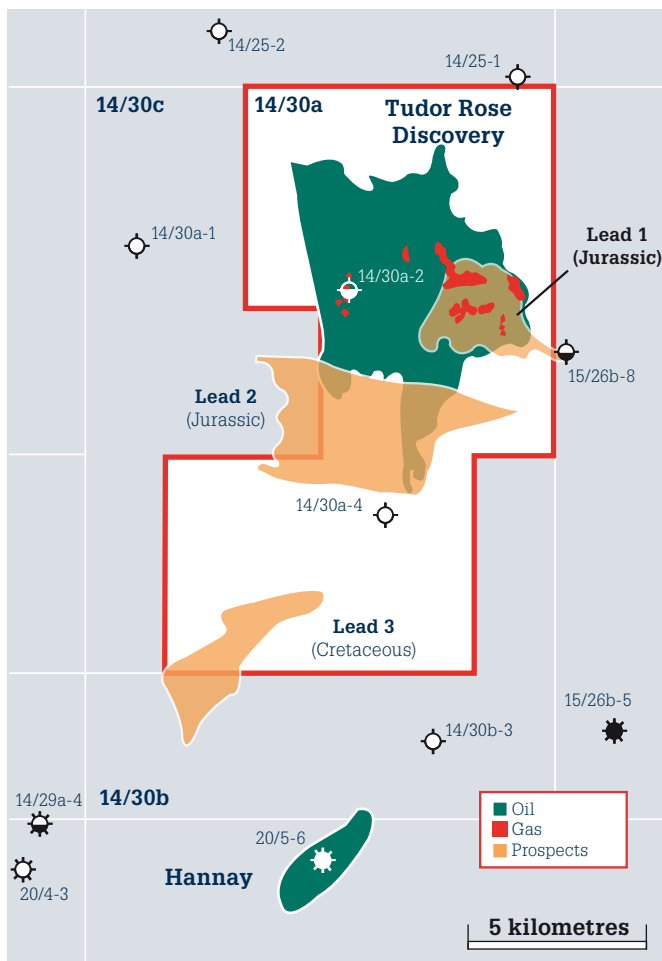
UK continental shelf



Tudor Rose

Key stats

- » Contains undeveloped Tudor Rose discovery
- » 208 kilometres of 3D seismic interpreted



Block 14/30a (Licence P1463)

(Nautical 20%)

Located in the Outer Moray Firth adjacent to Ivanhoe, Rob Roy and Goldeneye fields this Traditional Licence, 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.

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 two sand bodies (one 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 and the interpretation of recently acquired amplitude versus offset (AVO) seismic volume, the Joint Venture will then decide if a new well is merited by early 2011.

49mmbo

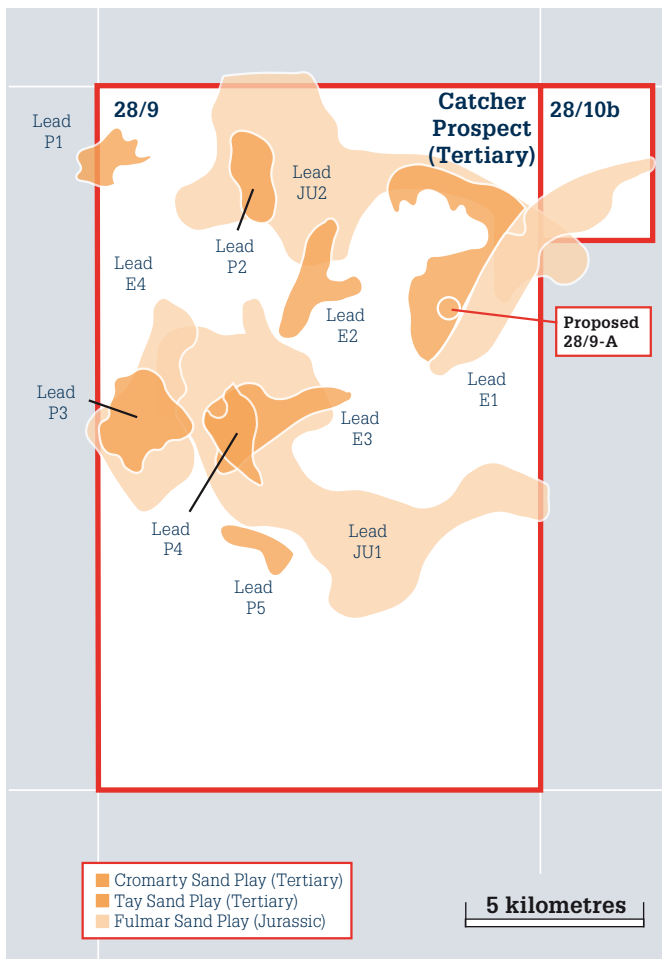
gross best estimate
contingent resources



Catcher

Key stats

- » Well planned to test the Catcher prospect in Q2, 2010
- » 3D seismic has defined traps
- » 2 large Jurassic leads



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

This Traditional 24th Seaward Licensing 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 two 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.

Encore Oil assumed operatorship due to the uncertainty created by Oilexco being placed into administration. Subsequently Premier purchased Oilexco's interest and have agreed to honour previous farmin arrangements which includes Nautical's 20% carry. The operator will drill the Catcher well in the first half of 2010, the site survey for the agreed well location having already been acquired.

21.8mmbo

gross best estimate
prospective resources

Operational review

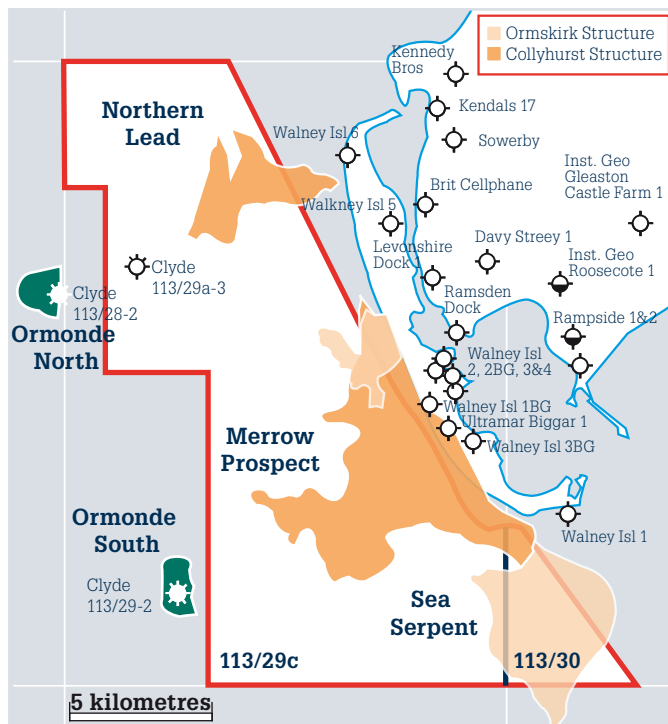
UK continental shelf



Merrow

Key stats

- » Located in east Irish Sea basin
- » 700 kilometres onshore transition zone and offshore seismic
- » Large Merrow prospect at Permian (Collyhurst) level



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

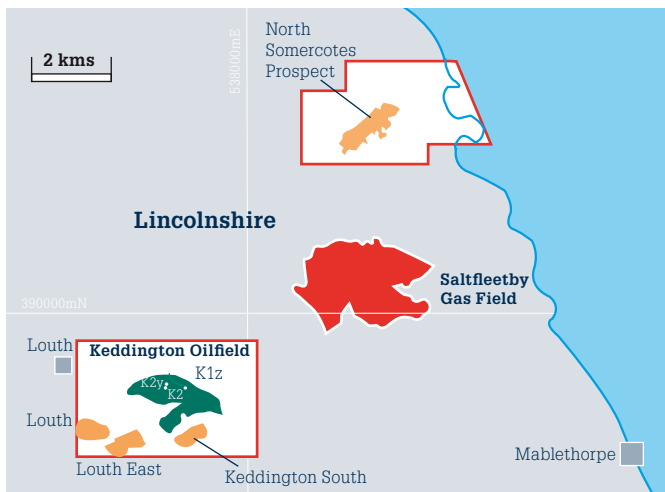
(Nautical 50% Operator)

Awarded as a Traditional Licence in the 24th Seaward Licensing 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 these prospective blocks is proven by heavy oil columns and hydrocarbon shows in the onshore wells to the east.

Integration and interpretation of over 700 kilometres of reprocessed onshore, transition zone and offshore seismic combined with gravity, magnetics and outcrop data has confirmed the existence of the large Merrow prospect at the Permian Collyhurst Sandstone and a significant lead, named Sea Serpent, at the Triassic Ormskirk Sandstone. The Collyhurst Sandstone has tested gas elsewhere in the basin and is under production at the onshore Elswick Field. Merrow appears to be analogous to the basin margin Lennox oil and gas field, to the south. The joint venture is currently identifying an onshore location from which to drill a directional well offshore to test the Merrow prospect before 2011.

The joint venture is currently identifying an onshore location from which to drill a directional well offshore to test the Merrow prospect before 2011.

Keddington



Nautical Petroleum acquired a 10% interest in the producing Keddington oil field and North Somercotes gas prospect.

Licence PEDL005

(Nautical 10%)

Nautical Petroleum through its wholly owned subsidiary Alba Resources Limited, acquired a 10% interest in Onshore Licence PEDL005 (Remainder) which contains the producing Keddington oil field and North Somercotes gas prospect, both adjacent to the Saltfleetby gas field. Nautical anticipates considerable upside in the Keddington field and aims to boost production from the current 50bopd (5bopd net) by using the recently reprocessed 3D to spot a bottom hole location for a sidetrack off the Keddington 2 well from. In the event of a successful well, production could increase to 150-200bopd (15-20bopd net). The well is planned for end 2009.

Hydra

Block 3/27a (Licence P1203)

(Nautical 35% Operator)

Nautical started to drill a well on the Hydra prospect in November 2008. Unfortunately, very poor weather prevented the well from spudding. Due to high standing costs that would have been incurred if the rig had been held until drilling could commence, the Joint Venture demobilised the rig. Your Company has been unsuccessful in obtaining a further extension to the licence to drill the well and intends to relinquish the block.

Scylla

Blocks 8/5 and 9/1 (Licence P1277)

(Nautical 100% Operator)

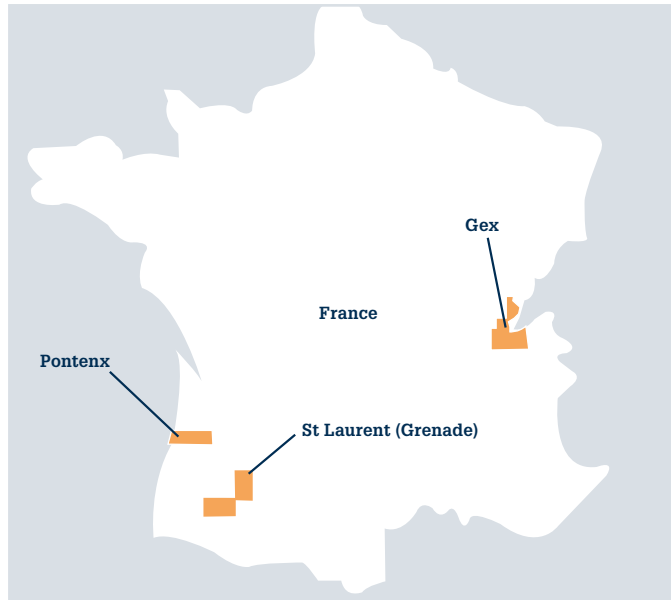
Over 700 kilometres of high resolution 2D seismic was acquired in September and October 2008. The results have been integrated with previous data to reveal a small, high risk prospect at Maureen sand level which does not merit the drilling of the contingent well. Nautical has been granted a waiver from the contingent well from DECC which will allow the licence to lapse at the end of the initial term.

Operational review

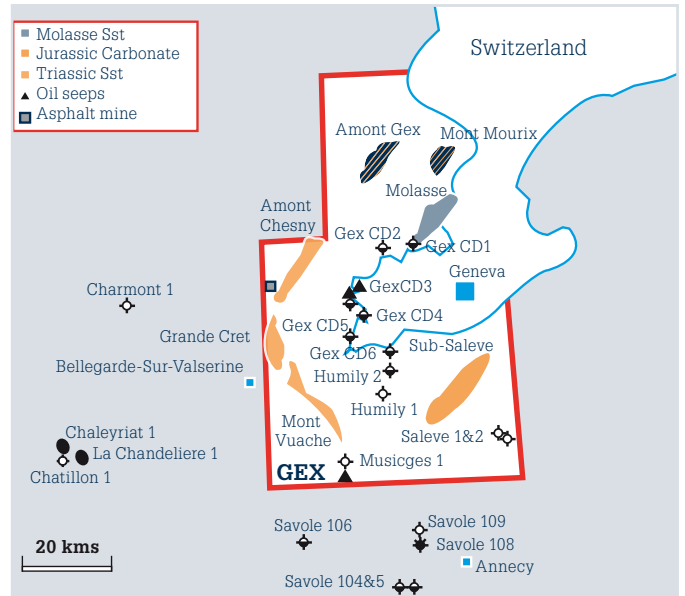
France

The St Laurent Permit contains several large hydrocarbon exploration plays and the undeveloped Grenade heavy oil accumulation.

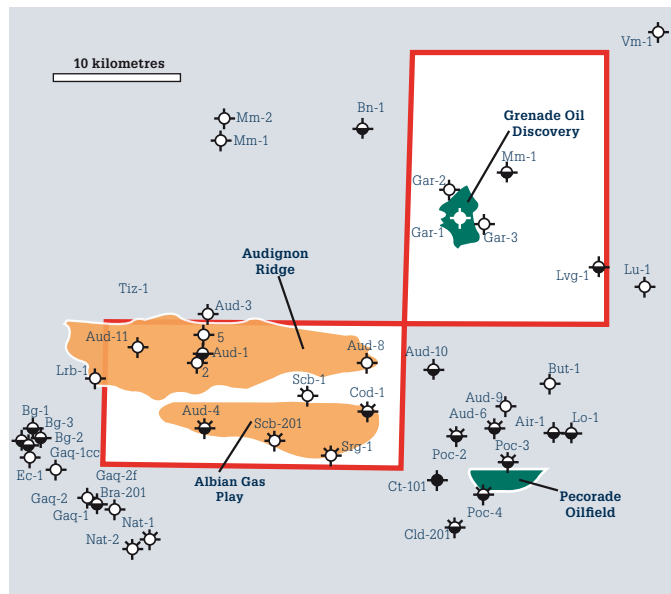
France



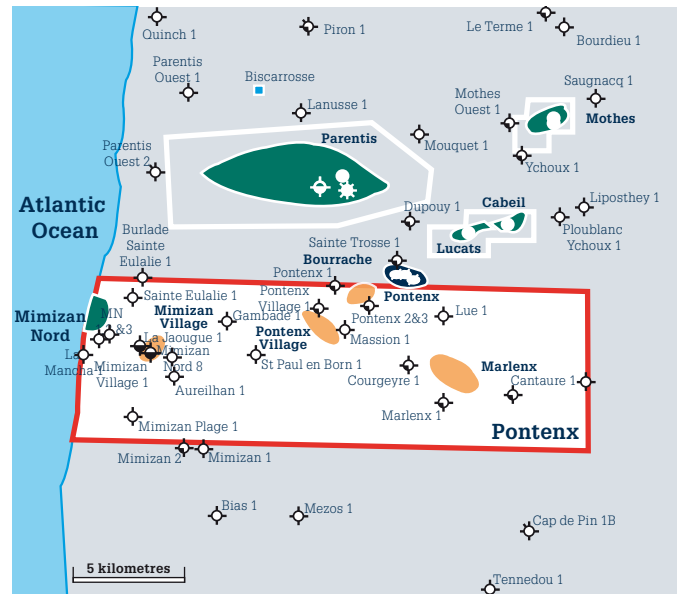
Gex



St Laurent Permit



Pontenx



St Laurent key stats

- » Grenade heavy oil accumulation with 4.2mmbo gross best estimate contingent resources
- » Large subsalt gas prospect in the Triassic Bunter Sandstone under the Audignon Ridge with 3TCF gross best estimate prospective resources

St Laurent Permit (Nautical 22%)

The Saint Laurent Permit in South West France contains several large hydrocarbon exploration plays and the undeveloped Grenade heavy oil accumulation. 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.

The Grenade 3 appraisal well drilled in 2008 did not encounter hydrocarbons. Studies are focused on determining the extent of this accumulation and whether to sidetrack or abandon the GAR-3 well. Best estimate gross oil in place is now estimated to be 88 million barrels (0.9 million net recoverable).

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. The operator estimates best net prospective resources of 3TCF (660BCF net to Nautical). A farmin partner is being sought prior to drilling this high potential prospect. The Conseil De Mines granted a renewal of the St Laurent permit up to August 2013.

Pontenx key stats

- » Contains the abandoned Mimizan Nord heavy oil field which produced 3.5 mmbls of 12 API oil
- » Other high potential prospects
- » Existing seismic will be reprocessed and interpreted
- » Evaluate rejuvenation potential of Mimizan Nord field

Pontenx Permit (Nautical 20%)

Awarded in December 2008, 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 has 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 3.5mmbls 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 key stats

- » Proven extensive zone of shallow (<500 metres) oil in the Molasse sands
- » Drilling has also proved a deeper working hydrocarbon system with trapping potential

Gex Permit (Nautical 20%)

The Gex Permit covers an area of 932 square kilometres and is located in eastern France near the Swiss border.

The area is located in the Alpine Molasse/Jura Basin where active oil seeps, bitumen mines 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.

The initial focus on the deeper targets will be the large surface Grand Cret anticline which has closure at Triassic level. Analysis of recently collected oil samples, geological studies and the interpretation of the existing seismic should give increased definition of both the Grand Cret and the other illustrated anticlines.

Finance Director's review



Will Mathers
Finance Director

In challenging times Nautical has successfully maintained a strong cash position and remained debt free whilst continuing to progress our operational and pre-development activity.

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Results

The Group made a loss after taxation of £5.9m for the year (2008: £4.5m). This included exploration and evaluation expenses of £4.5m, a £2.4m charge relating to the extended well test equipment and administration expenses of £1.6m, offset by £0.5m in net foreign exchange gains, finance income of £1.3m and a net taxation credit of £0.7m.

Exploration and evaluation expenses were primarily related to unsuccessful exploration costs on 3/27a Hydra and 8/5 & 9/1 Scylla.

A concerted effort had been undertaken to utilise the extended well test equipment over the past two years, however this has not been successful. As a consequence, the decision was made in December 2008 to impair the asset, resulting in a £2.4m non-cash charge to the income statement.

Administration costs of £1.6m (2008: £1.5m) continued to be managed tightly and included a non-cash charge of £0.2m (2008: £0.4m) relating to share option charges.

Farmouts were completed on 9/2b Kraken, 3/27a Hydra and 8/25 Selkie during the year with receipts in excess of the carrying value of assets disposed of, resulting in a net gain of £0.5m. The completion of the farmout of 9/2b Kraken resulted in a partial write back of the provision for deferred taxation, resulting in a deferred tax credit of £1.1m, which was offset by a deferred tax charge of £0.4m.

Balance sheet

As at 30 June 2009, the Group has net assets of £59.8 (2008: £65.5m), dominated by capitalised exploration and evaluation assets of £48.9m (2008: £56.4m) and cash and deposits of £19.1m (2008: £20.1m). The Group continues to be debt free.

Cash flow

Our cash management continued to be very strong during the year, with £19.1m cash and deposits at year end. £11.9m of cash and past cost contribution was received during the year from farmouts, sufficient to fund the £11.5m that was spent during the year on the continued exploration and evaluation of our assets.

Our £7.5m secured debt facility with the Bank of Scotland, was extended during the year to May 2012 and remains undrawn and available for working capital purposes.

Against a background of low interest rates, interest received on cash and deposits was £0.8m (2008: £1.0m), equivalent to half of our overall administration spend.

At year end our cash and deposits were primarily deposited with the Bank of Scotland, however subsequent to year end funds have also been placed with Abbey, Scottish Widows Bank and Anglo Irish Bank.

New Field Allowances

Nautical welcomed the Chancellor's 2009 Budget announcement of the introduction of new Field Allowances applying to small fields, heavy oil fields and high temperature/high pressure fields.

Under the existing North Sea Fiscal Regime, a conventional UKCS oil field is subject to taxation of 30%, plus a Supplementary Charge of 20%, equating to a 50% charge on taxable income. As a consequence of the new Field Allowances announced, heavy oil fields have been given a per field allowance of £800m, which licence holders are able to utilise to offset the Supplementary Charge, providing a tax benefit of up to £160m per field. Both Kraken and Mariner qualify for the heavy oil field allowance and we see this as a highly positive development to ensure continued investment in the North Sea.

Outlook

Nautical's share price performance over the period reflects the reality that the Company hasn't been immune to recent economic conditions. We will continue to manage our cash resources wisely and reserve spending only for those activities which we believe will lead to a material increase in shareholder value.

The development of the Group's assets going forward will depend not only on technical success, but also on the continued ability of the Group to obtain financing through the availability of debt and equity funding and other means. Based on the year end cash position of £19.1m and the full availability of the £7.5m secured facility, the Group currently believes it has sufficient financial resources to meet the immediate needs of the business as we progress Kraken and Mariner towards development decisions.

Whilst the overall economy is fragile and the farmout market remains soft, we are encouraged by the recent capital raising transactions in the E&P sector, which suggest both an improvement of the capital markets and a refocusing on the North Sea sector. This, combined with the tax incentives for heavy oil, a more competitive cost environment and a steadier oil price, gives Nautical significant cause for optimism.

Will Mathers
Finance Director

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Board of Directors



John Conlin

Non-Executive Director and Chairman

John Conlin was appointed as Non-Executive Director and Chairman of Nautical Petroleum plc in June 2009. John has over 34 years experience in the Oil and Gas industry, including 28 years with Royal Dutch Shell. He has held senior technical and management positions with Shell in the UK, Denmark, Oman, Australia, Russia and Saudi Arabia, in addition to Corporate roles in the Netherlands.

His Executive experience includes the roles of President, Sakhalin Energy Investment Company and General Manager, Woodside Petroleum. He has also previously served as a Non-Executive Director of Hardman Resources Limited and Delphian Technology Limited, and as Chairman of Fuelture Limited.

A petroleum engineer by profession, John holds a BSc (Hons.) in Chemical Engineering from Edinburgh University and has completed the Harvard Business School, Advanced Management Programme.



Stephen Jenkins

Chief Executive Officer

As part of a 27 year career in oil and gas, Steve spent the 11 years prior to Nautical at Nimir Petroleum as Business Development and HSE Manager, where he was responsible for acquisition strategy and technical dimensions of strategic planning. He successfully led multidisciplinary teams to evaluate opportunities in the Americas, the Middle East, North Africa, and other OECD countries, which led to the acquisition and subsequent turnaround of a Venezuelan oil producing field.

Steve also managed a drilling programme that resulted in the quadrupling of production in a field on Sakhalin Island in the Russian Federation and identified and secured a farm-out with a major oil company for a substantial carry on a large oilfield in Kazakhstan.

Steve has an MSc in Petroleum Geology and DIC from Imperial College of Science and Technology, the University of London, a BSc Hons in Geology from the Queen's University Belfast and is a Fellow of the Geological Society of London. He is currently Chairman of the Oil & Gas Independents Association (OGIA), and a director of Oil & Gas UK.



Paul Jennings

Commercial Director

Paul's experience in the oil and gas sector exceeds 30 years and spans the roles of accountant, economist and commercial and business development director.

Paul worked with BP for 17 years, with responsibility for projects in China, Russia, Mongolia, Mozambique and West Africa. After leaving BP Paul established exploration and production companies in both Russia and Nigeria, before jointly founding Nautical Petroleum with Steve Jenkins



Will Mathers

Finance Director

Will is a Chartered Accountant, qualifying with Deloitte Touche Tohmatsu in Australia and holding a Bachelors degree from the University of Western Australia. Following 6 years in professional practice, where he specialised in the energy and mining sectors, Will held financial roles with Woodside Petroleum Limited, working in both the USA and Australia.

On relocation to the UK, he worked for the Royal Dutch/Shell Group in the position of Global Office Controller for Shell Gas (LPG) in London. Will was appointed as the Finance Director of Nautical in October 2008.



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 high net worth individuals and corporate leaders in the UK and overseas. He is CEO of the PK Group, the London based services group and serves on the Boards of both private and public companies.

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



Philip Dimmock

Non-Executive Director

Philip has 30 years experience in the upstream oil and gas, both in the UK and internationally and is currently chief operating officer of Equator Exploration Ltd.

Phillip 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.

Philip is Chairman of Nautical's Remuneration Committee.

Directors' report

The Directors present their report together with the Group and Company financial statements for the year ended 30 June 2009.

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 (company number 4362104) and is listed in London on AIM under the designation NPE. The Company is required by the Companies Act to set out in this report a review of the business of the Group during the year end 30 June 2009 and the position of the Group at the end of year and uncertainties facing the Group. The information that fulfils these requirements, including 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 £5.89m (2008: £4.52m), including exploration write offs of £4.06m (2008: £3.24m) primarily for Hydra and Scylla, an impairment charge of £2.38m (2008: £0m) for the extended well test equipment, interest income of £0.78m (2008: £0.99m) a foreign exchange gain of £0.49m (2008: loss of £0.17m) and a tax credit of £0.75million (2008: £0m). The Directors do not recommend the payment of a dividend.

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 2009 were:

Number of ordinary shares and options held:

	At 30 June 2009		At 30 June 2008	
	Ordinary shares Number	Share options Number	Ordinary shares Number	Share options Number
S Jenkins (Chief Executive)	876,096	975,000	876,096	825,000
P Jennings (Commercial Director)	876,096	700,000	876,096	575,000
W Mathers (Finance Director)	Nil	100,000	Nil	Nil
J Conlin (Non-Executive Chairman)	Nil	30,000	Nil	Nil
P Dimmock (Non-Executive Director)	Nil	225,000	Nil	200,000
P Kennedy (Non-Executive Director)	75,000	225,000	75,000	200,000

On 17 October 2008, I Williams (Chairman) and H Thanawala (Finance Director) resigned and W Mathers was appointed Finance Director. On 24 June 2009 J Conlin was appointed Non-Executive Chairman. The other Directors have been Directors throughout the year.

S Jenkins and P Jennings hold part of their shareholding with OMX Securities Nominees Limited.

Retirement of Directors

P Jennings retires in accordance with section 99(2) of the Company's Articles of Association and offers himself for re-election. J Conlin retires in accordance with section 103(1) of the Company's Articles of Association and offers himself for election.

Directors' third party indemnity provisions

The Company maintains indemnity insurance for its Directors and officers against liability in respect of proceedings brought by third parties, subject to the terms and conditions of the Companies Act 2006.

Share Capital

At the date of this report 63,408,291 ordinary shares are issued and fully paid. On 25 September 2008 a 1 for 20 share consolidation took place.

Substantial shareholders

At 28 October 2009 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	3,697,072	5.83%

The Company has not been notified of any other person who has an interest in 3% or more in the Companies share capital.

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 has joint brokers, Evolution Securities Limited and Ambrian Partners. Evolution Securities are also the Company's Nominated Adviser.

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 2009 amount to 14 days of purchases made in the year (2008: 69 days).

Donations

During the year the Group made charitable donations of £1,050 (2008: £250) and no political contributions (2008: £nil).

Financial instruments

The Group's principal financial instruments comprise cash balances, short term and long term deposits and debtors or creditors that arise through the normal course of business as set out in note 20. The financial risk management objectives and policies are discussed in note 20.

Key performance indicators

The board reviews the key performance indicators of the business and the company's progress towards achieving its objectives on a quarterly basis. These KPI's include items such as the cash position, net assets, reportable incidents, drilling results and reserves.

Principal business risks

The Directors are responsible for the effectiveness of the Group's risk management activities and internal control processes. As a participant in the upstream oil & gas industry, Nautical is exposed to a wide range of risks in the conduct of its operations. These risks include:

Financial risks:

- » Cost inflation
- » Oil price movements and fluctuation in discounts for heavy oil
- » Adverse taxation legislative changes
- » Co-venturer and third party counterparty credit risk

Operational risks:

- » Loss of key employees
- » Delay and cost overrun on projects, including weather related delay
- » HSE incidents
- » Poor reservoir performance
- » Exploration and appraisal well failures

Strategic and external risks:

- » Weak capital markets, inhibiting efficient capital raising
- » Commercial misalignment with co-venturers
- » Oil price volatility

Directors' report *continued*

The risks set out are not exhaustive and additional risks and uncertainties may arise or become material in the future. Any of the risks, as well as other risks and uncertainties discussed in this document, could have a material adverse effect on our business. There is no absolute assurance that the Group's exploration and development activities will be successful. The Group seeks to manage these risks through its portfolio management, balancing risk across a range of prospects and leads, carrying varying technical and commercial risks, and carefully managing the financial exposure to each through the arrangements set out with joint venture partners.

Going concern

Following the Board's review of the Group's financial position and forward cash forecasts, the Directors are of the view that the Group has adequate financial resources to continue its operational activities and meet its liabilities as and when they fall due for the foreseeable future and for a period of at least 12 months from the date of authorisation of these financial statements. For this reason the financial statements are prepared on a going concern basis.

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.

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. This confirmation is given, and should be interpreted, in accordance with the provisions of s418 of the Companies Act 2006.

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 16 December 2009 as stated in the Notice of Meeting, which accompanies this Annual Report.

On behalf of the Board.

Stephen Jenkins

Director

6 November 2009

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 2009 £'000	Total 2008 £'000
S Jenkins	191	–	140	13	344	330
P Jennings	81	33	76	6	196	181
W Mathers	81	–	19	6	106	–
I Williams	–	46	–	–	46	151
H Thanawala	–	16	–	–	16	111
J Conlin	–	1	–	–	1	–
P Dimmock	–	28	–	–	28	29
P Kennedy	–	41	–	–	41	35
Total	353	165	235	25	778	837

I Williams, H Thanawala and P Jennings provided services to the Company through a service agreement with International Energy Services Limited, which is a related party. In November 2008, P Jennings became an employee of Nautical. The fees for Ian Williams include a payment of £30k which is subject to approval at the AGM in accordance with resolution 8.

S Jenkins has entered into a loan agreement with the Company for £3,948 with an outstanding balance due to the Company at 30 June 2009 of £1,645 (2008: £1,570).

The pension is a defined contribution scheme.

Share options granted to Directors

	Year to June 2009			Year to June 2008 Issued 18 January 2008	
	Date issued	Number of shares	Exercise price per share	Number of shares	Exercise price per share
S Jenkins	12 January 2009	150,000	26.75p	125,000	211p
P Jennings	12 January 2009	125,000	26.75p	75,000	211p
W Mathers (appointed 17 October 2008)	13 November 2008	100,000	36.17p	Nil	–
I Williams (retired 17 October 2008)	–	–	–	75,000	211p
H Thanawala (retired 17 October 2008)	–	–	–	50,000	211p
J Conlin (appointed 24 June 2009)	24 June 2009	30,000	57.10p	Nil	–
P Dimmock	12 January 2009	25,000	26.75p	25,000	211p
P Kennedy	12 January 2009	25,000	26.75p	25,000	211p

The options were all granted under the Nautical share option scheme rules, whereby from the date of issue 25% are exercisable after 6 months, 25% after 12 months, 25% after 18 months and 25% after 24 months. The options must be exercised within 8 years of issue. None of the Directors exercised options during the year. I Williams and H Thanawala resigned on 17 October 2008 and therefore had until 17 October 2009 to exercise any exercisable options. None were exercised.

Philip Dimmock

Chairman of the Remuneration Committee
6 November 2009

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. Following changes in the year the Board now comprises 3 Executive and 3 Non-Executive Directors, one of which is the Chairman, who are independent of management and do not participate in the Group's bonus or pension schemes although the Non-Executive Directors have share options and Mr P Kennedy is a shareholder.

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

The current Executive Directors are all employed under service contracts with the Company. The services of I Williams and H Thanawala until 17 October 2008 and P Jennings until 31 October 2008 were 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. There was full attendance at all meetings throughout the year.

Audit Committee

The Audit Committee is chaired by P Kennedy and its other member is J Conlin. Executive Directors may attend by invitation. The minutes of every meeting are taken by the Company Secretary 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 J Conlin. The minutes of every meeting are taken by the Company Secretary 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.

Nominations Committee

A Nominations Committee was established prior to the appointment of Mr J Conlin as Non-Executive Chairman and currently comprises S Jenkins, P Dimmock and P Kennedy. It reviews and recommends to the Board the appointment of Directors and is charged with ensuring the necessary balance of skills, knowledge and experience is maintained and represented on the Board. The Nominations Committee considers that the current composition of the Board is satisfactory to provide the appropriate governance, administration and business counsel in respect of the Company's affairs.

Relations with Shareholders

Communication with shareholders is given high priority. Extensive information about the Group's activities is provided in the Annual Reports and Accounts and the Interim Report, which is sent to all shareholders. There is regular dialogue with institutional investors as well as presentations to analysts to the time of the release of the annual and interim results. The Company maintains a website (www.nauticalpetroleum.com) for the purpose of improving information flow to shareholders as well as potential investors. The website contains all press announcements and financial reports as well as extensive operational information about the Group's activities and enquiries from individual shareholders on matters relating to their shareholdings and the business of the Group are welcomed. The Board encourages shareholders to attend the Annual General Meeting, at which members of the Board, are available to answer questions.

Internal controls

The Board is responsible for the effectiveness of the Group's internal controls 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. The internal controls cover financial, operational and compliance matters and are reviewed on an ongoing basis. The Group's internal controls can only provide reasonable and not absolute assurance against material misstatement or loss or the risk of failure to meet business objectives.

Directors' responsibilities for the financial statements

Group financial statements

The Directors are responsible for preparing the Directors 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.

Under company law the Directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing these 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 the 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 IFRSs, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 2009 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 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement set out of page 30 the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the group financial statements:

- » give a true and fair view of the state of the group's affairs as at 30 June 2009 and of its loss for the year then ended;
- » have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- » have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- » certain disclosures of directors' remuneration specified by law are not made; or
- » we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of Nautical Petroleum Plc for the year ended 30 June 2009.

Kevin Weston (Senior statutory auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen
6 November 2009

Consolidated income statement

For the year ended 30 June 2009

	Notes	2009 £'000	2008 £'000
Revenue	3	25	–
Cost of sales		(28)	–
Impairment & operating costs of extended well test equipment		(2,472)	(157)
Gross loss		(2,475)	(157)
Exploration & evaluation: gain on farmout		491	–
Exploration & evaluation: expense		(4,526)	(3,294)
Administrative expenses		(1,577)	(1,490)
Foreign exchange gain/(loss)		486	(171)
Operating loss	4	(7,601)	(5,112)
Finance income	9	1,314	1,130
Finance costs	9	(349)	(538)
Loss before tax		(6,636)	(4,520)
Tax	10/17	749	–
Loss for the year		(5,887)	(4,520)
Attributable to:			
Equity holders of the Company		(5,887)	(4,505)
Minority interests		–	(15)
		(5,887)	(4,520)
Basic and diluted loss per share	11	(9.28)	(7.44)

The results above were entirely derived from continuing operations.

Consolidated balance sheet

As at 30 June 2009

	Notes	At 30 June 2009 £'000	At 30 June 2008 £'000
Non-current assets			
Intangible assets	12	48,857	56,400
Property, plant and equipment	12	277	2,446
Long-term deposits	12	1,000	–
		50,134	58,846
Current assets			
Trade and other receivables	14	573	604
Short-term deposits	15	16,000	15,000
Cash and cash equivalents	15	3,061	5,118
		19,634	20,722
Total assets		69,768	79,568
Current liabilities			
Trade and other payables	16	(809)	(4,658)
Non-current liabilities			
Deferred tax	17	(5,682)	(6,431)
Provisions	18	(3,466)	(3,024)
		(9,148)	(9,455)
Total liabilities		(9,957)	(14,113)
Net assets		59,811	65,455
Equity attributable to equity holders			
Called up share capital	21	11,588	11,588
Share premium		37,748	37,748
Other reserves	22	29,169	29,169
Cumulative translation reserve		(1,659)	(1,659)
Accumulated losses		(17,035)	(11,391)
Total equity		59,811	65,455

The financial statements were approved by the Board on 6 November 2009 and were signed on its behalf by:

S Jenkins
Chief Executive

W Mathers
Finance Director

Consolidated statement of changes in equity

For the year ended 30 June 2009

	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 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
Loss for the year	–	–	–	–	(5,887)	–	(5,887)
Total recognised income and expense for the year	–	–	–	–	(5,887)	–	(5,887)
Share-based payments	–	–	–	–	243	–	243
At 30 June 2009	11,588	37,748	29,169	(1,659)	(17,035)	–	59,811

Consolidated cash flow statement

For the year ended 30 June 2009

	Notes	2009 £'000	2008 £'000
Net cash outflow from operating activities	23	(367)	(1,684)
Cash flows from investing activities			
Finance income		840	988
Expenditure on development and production assets		(285)	–
Expenditure on intangible assets		(11,519)	(7,222)
Increase in cash placed on short-term deposit	15	(1,000)	(15,000)
Increase in cash placed on long-term deposit	13	(1,000)	–
Proceeds from asset disposals		11,938	–
Net cash flow from investing activities		(1,026)	(21,234)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		–	19,162
Increase in amounts due to JV Partners		–	562
Finance expense		(156)	(366)
Repayment of balances due to related undertakings		(508)	(265)
Net cash flow from financing activities		(664)	19,093
Decrease in cash and cash equivalents		(2,057)	(3,825)
Cash and cash equivalents at beginning of year		5,118	8,943
Cash and cash equivalents at end of year	15	3,061	5,118

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 2009 were authorised for issue by the Board of Directors on 6 November 2009 and the balance sheet was signed on the Board's behalf by Stephen Jenkins and William Mathers. 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

These consolidated financial statements have been prepared in accordance with the requirements of IFRSs (International Financial Reporting Standards) as adopted by the European Union (EU) as they apply to the consolidated financial statements of the Group for the year ended 30 June 2009, and applied in accordance with the provisions of the Companies Act 2006.

The Board has reviewed the accounting policies set out below and considers them to be 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 2009, 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 2.7.
- » The estimates determining the unwinding of the discount on long-term conditional payments, 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 2.8.

(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.

(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 in the year to June 2007 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) 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.

Acquisitions and Disposals

Farm-in and farm-out transactions of E&E assets are accounted for at cost. Costs are capitalised according to the Group's interest, net of premium received or paid, as costs are incurred. Proceeds from the disposal of an E&E asset, or part of an E&E asset, are deducted from the capitalised costs and the difference recognised in the income statement as a gain or loss.

(2.7) Development and Production assets

Capitalisation

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.

Depletion

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.

(2.8) 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.

Notes to the financial statements *continued*

2. Accounting policies for the Consolidated Financial Statements *continued*

(2.8) Plant and equipment *continued*

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 period 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.

(2.9) 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.

(2.10) Provisions

Provision for Decommissioning

Provision for decommissioning is recognised in full as an asset and liability when the obligation arises. The asset is included within development and productions assets. The liability is included within provisions. The amount recognised is the estimated cost of decommissioning, discounted where appropriate to its net present value, and is reassessed each year in accordance with local conditions and requirements. Revisions to estimated costs of commissioning which alter the level of provisions required are also reflected in adjustments to decommissioning asset.

Conditional payments

Non-current conditional payments 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.

(2.11) Financial assets

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.

Short-term deposits

Short-term deposits comprise deposits held with banks which mature in between 3 and 12 months at the balance sheet date.

Long-term deposits

Long-term deposits comprise deposits held with banks which mature in more than 12 months at the balance sheet date.

Trade and other receivables

Trade and other receivables are initially recognised at fair value. Fair value is considered to be the original invoice amount, discounted where material. Appropriate allowances for estimated irrecoverable amounts are recognised in the Income Statement if there is objective evidence that the receivable is impaired.

(2.12) Financial liabilities***Trade and Other Payables***

Current trade and other payables are initially recognised at fair value. Fair value is considered to be the original invoice amount, discounted where material.

(2.13) Taxation***Current tax***

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- » where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- » in respect of taxable temporary differences associated with investment in subsidiaries, associates and joint ventures, 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; and
- » deferred income assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Group to make a single net payment.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised 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

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) 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.

Notes to the financial statements *continued*

2. Accounting policies for the Consolidated Financial Statements *continued*

(2.18) New standards and interpretations not applied

The IASB and IFRIC have issued the following standards and interpretations with an effective date after the commencement date of these financial statements:

New standards and interpretations not applied:

International Accounting Standards (IAS/IFRS)	Effective date
IFRS 8 Operating Segments	1 January 2009
IAS 23 (Revised) Borrowing Costs	1 January 2009
IFRS 2 (Amendment) Share Based Payment – vesting conditions and cancellations	1 January 2009
IFRS 3 (Revised) Business Combinations	1 July 2009
IAS 1 (Revised) Presentation of Financial Statements	1 January 2009
Amendment to IAS 32 and IAS 1 “Puttable financial instruments and obligations arising on liquidations”	1 January 2009
Amendment to IFRS 1 and IAS 27 “Amendments for determining the cost of an investment in separate financial statements”	1 January 2009
Amendment to IAS 39 ‘eligible hedged items’	1 January 2009
Improvements to IFRSs (April 2009)	1 July 2009
Improvements to IFRSs (May 2008)	1 January 2009
Amendments to IFRS 2 ‘Group cash settled share-based payment arrangements’	1 January 2010
International Financial Reporting Interpretations Committee (IFRIC)	
IFRIC 17 Distribution of non-cash assets to owners	1 July 2009
IFRIC 18 Transfer of assets from customers	1 July 2009
IFRIC 15 Agreements for the construction of real estate	1 January 2009
IFRIC 16 Hedges of a Net Investment in a 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.

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 Groups’ current business activities, the identification, aggregation and measurement of reportable segments under IFRS 8, would not result in any differences from the Groups’ 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

Revenue disclosed in the income statement is analysed as follows:

	2009 £'000	2008 £'000
Oil sales	25	–
Revenue	25	–
Finance income	1,314	1,130
Total revenue	1,339	1,130

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.

	2009 £'000	2008 £'000
Segment revenue		
United Kingdom	25	–
Segment assets		
United Kingdom	48,781	58,563
Europe	926	887
Assets held centrally	20,061	20,118
	69,768	79,568
Capital expenditure		
United Kingdom	8,206	9,898
Europe	40	668
	8,246	10,566

4. Operating loss

	2009 £'000	2008 £'000
Operating loss is stated after charging:		
Exploration and evaluation: gain*	(491)	–
Exploration and evaluation: expense		
– Exploration costs written off (see note 12)	4,057	3,244
– Pre licence expenditure	469	50
Impairment of extended well test equipment	2,376	–
Depreciation of property, plant and equipment	78	142
Foreign exchange losses on conditional payments	660	24
Other foreign exchange (gains)/losses	(1,146)	147

* Gains from farmout of 8/25a Selkie well.

5. Auditors' remuneration

	2009 £'000	2008 £'000
Audit of the Group accounts	52	52
Audit of the Company's accounts	6	6
	58	58
Other fees to auditors:		
Audit of the Company's subsidiaries pursuant to legislation	15	15
Other services pursuant to legislation	29	16
Taxation services	49	51
	93	82

6. Information regarding Directors' emoluments

Aggregate Directors' emoluments, which exclude pensions, are £753k (2008: £827k). The emoluments of the highest paid Director were £331k (2008: £320k). In addition he received contributions to a defined contribution pension scheme of £13k (2008: £10k). Further information is included in the Remuneration report.

7. Employees

Headcount

	2009 Number	2008 Number
Average number of employees of the Group (including Executive Directors) during the year was:		
Management	3	4
Technical staff/support/other	2	2

Notes to the financial statements *continued*

7. Employees *continued*

Staff costs

	2009 £'000	2008 £'000
Wage and salaries	575	672
Bonuses	255	191
Social security costs	92	55
Other pension costs	34	16
	956	934
Equity settled share-based payments	243	450
	1,199	1,384

Wages and salaries include fees for three executive directors through a service agreement with International Energy Services Limited for part of the year. Two directors resigned on 17 October 2008 and the third became an employee of Nautical on 1 November 2008.

8. Pension commitments

For direct employees of Nautical Petroleum plc, the Company contributes 7% of salary to a defined contribution pension scheme. £34k has been charged to the income statement for the year (2008: £16k).

9. Interest and similar items

	2009 £'000	2008 £'000
Finance income		
Bank interest	775	988
Other financial income	426	142
Gain on settlement of amounts due to related undertakings	113	–
	1,314	1,130
Finance costs		
Costs of borrowing facility	161	366
Unwinding of discounts on long-term payables	188	172
	349	538

10. Tax on loss on ordinary activities

The major components of the tax credit are:

	2009 £'000	2008 £'000
Deferred income tax:		
Relating to origination and reversal of temporary differences	1,151	–
Benefit of previously unrecognised tax losses	(1,900)	–
	(749)	–

A reconciliation between the tax credit and the product of the accounting profit multiplied by the standard income tax rate is as follows:

	2009 £'000	2009 £'000
Loss before tax	(6,636)	(4,520)
Loss before tax at the standard UK corporation tax of 28% (2008: 28%)	(1,858)	(1,266)
Effects of:		
Expenses and (income) not deductible for tax purposes	(179)	(106)
Deferred tax assets not recognised	3,008	1,211
Utilisation of deferred tax assets not recognised	(1,900)	–
Effect of supplementary charge	180	–
Unrelieved tax losses and other deductions arising	–	161
Total tax credit on loss on ordinary activities	(749)	–

11. Loss per share

	2009	2008
Loss for the year attributable to equity holders (£'000)	(5,887)	(4,505)
Basic weighted average number of shares in issue in the year (thousands)	63,408	60,590
Basic and diluted loss per ordinary share (pence)	(9.28)	(7.44)

In addition at 30 June 2009 there were a total of 3.48 million options (2008: 2.95 million) and 1.32 million warrants (2008: 1.32 million) in issue, which have not been included in the above calculations. All numbers have been adjusted for the 1 for 20 share consolidation, which took place on 25 September 2008. Potential ordinary shares resulting from the exercise of share options and warrants are not dilutive.

12. Development & production assets; intangible assets; 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	Property, plant and equipment Development and production assets £'000	Other £'000	Total £'000
At 1 July 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
Additions	7,961	–	285	–	8,246
Disposals	(11,447)	(2,796)	–	(7)	(14,250)
Written off	(4,057)	–	–	–	(4,057)
At 30 June 2009	48,857	–	285	–	49,142
Depletion and depreciation					
At 1 July 2007	–	210	–	5	215
Provided in year	–	140	–	2	142
At 30 June 2008	–	350	–	7	357
Provided in year	–	70	8	–	78
Impairment	–	2,376	–	–	2,376
Disposals	–	(2,796)	–	(7)	(2,803)
At 30 June 2009	–	–	8	–	8
Net book value					
At 30 June 2009	48,857	–	277	–	49,134
At 30 June 2008	56,400	2,446	–	–	58,846

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 due to licences being relinquished or in the process of being relinquished, principally the 3/27a Hydra and 8/5 and 9/1 Scylla licences. The disposals of exploration and evaluation assets relate to the farmouts of 9/2b Kraken, 3/27a Hydra and 8/25a Selkie, which were completed during 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 £9.5m as at June 2009 (2008: £9.0m). If the party declines to take up its option, the Company retains the 6.67% interest upon payment of £1.

In December 2008 management carried out an impairment review on the extended well test equipment in accordance with the policy set out in note 2.9 and considered the following:

- » Due to the specialist nature of the equipment there had 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.
- » Although there had been some interest over a number of years in the equipment none of the enquiries had led to tangible results. Therefore in the current difficult financial markets and the general slow down in industry activity during the past year, management have impaired the asset in full.
- » The equipment was disposed of in June 2009 for zero consideration, although there is a possibility of future consideration if the purchaser finds a buyer. Management do not think the probability of this to be sufficient to attribute any value to it.

Notes to the financial statements *continued***13. Long-term deposits**

	30 June 2009 £'000	30 June 2008 £'000
	1,000	–

Long-term deposits represent a fixed deposit with Abbey National of £1.0m earning interest at 3.2% which matures on 2 July 2010.

14. Trade and other receivables

	30 June 2009 £'000	30 June 2008 £'000
Other debtors	494	481
Prepayments and accrued interest	79	123
	573	604

None of the above are impaired.

15. Cash and short-term deposits

	30 June 2009 £'000	30 June 2008 £'000
Cash at bank and in hand	1,286	3,649
Deposits of 3 months or less	1,775	1,469
	3,061	5,118
Short-term deposits	16,000	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.

In addition the Company has £1.0m on deposit for more than one year, details of which are in note 13.

16. Trade and other payables

	30 June 2009 £'000	30 June 2008 £'000
Current liabilities		
Trade creditors	504	1,806
Amounts owed to related companies	13	509
Accruals	292	2,343
	809	4,658

17. Deferred taxation

	30 June 2009 £'000	30 June 2008 £'000
Balance sheet movements: deferred tax asset		
Tax losses	3,918	–
Balance sheet movements: deferred tax liability		
Accelerated capital allowances	4,328	–
Acquisition fair value adjustments	5,272	6,431
	9,600	6,431
Net Deferred tax liability	5,682	6,431

	30 June 2009 £'000	30 June 2008 £'000
Income statement movements		
Accelerated capital allowances	4,328	–
Acquisition fair value adjustments	(1,159)	–
Tax losses	(3,918)	–
	(749)	–

In addition to the above balances for tax losses and accelerated capital allowances, which were recognised at a tax rate of 50%, the group has a deferred tax asset not yet recognised at a tax rate of 28% of £3.5m (2008: £2.4m), which has not been recognised as a result of existing uncertainties of their realisation. These arise from tax losses of £3.4m (2008: £5.3m), depreciation in excess of capital allowances of £6.3m (2008: £3.2m) and deferred consideration of £2.8m (2008: fnil). The tax losses are available indefinitely against future taxable profits.

18. Provisions

	Provision for Decommissioning £'000	Conditional payments £'000
At 1 July 2008	–	3,024
Additions	20	–
Exchange adjustments	–	660
Effect of change in estimates	–	(426)
Unwinding of discount	–	188
At 30 June 2009	20	3,446

At 30 June 2009 a £20k provision has been made for decommissioning costs related to the Keddington field.

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 Energy and Climate Change (DECC) which is not expected before 2011; and (2) \$2.8m due on first oil which is not expected before 2014. 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. The change in estimates applies to a revision of the estimated trigger dates.

19. 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. On 30 March 2009 this facility was extended to 31 May 2012 with any amounts drawn repayable in full by that date. 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 3 or 6 months LIBOR, as chosen by the Company, plus a margin of 2.75%.

20. Financial instruments

	30 June 2009 Book value £'000	30 June 2008 Book value £'000
Financial assets		
Cash and cash equivalents	3,061	5,118
Short-term deposits	16,000	15,000
Long-term deposits	1,000	–
Other debtors (note 14)	573	481
Financial liabilities		
Trade and other payables – current	809	4,658

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 rate risks.

(1) Commodity price risk

The Group has only a small amount of revenue, so is not exposed to any material commodity price risk on its financial instruments.

Notes to the financial statements *continued*

20. Financial instruments *continued*

(2) Foreign currency risk

The Group has transactional currency exposure whereby expenditure is incurred in currencies which are not the functional currency of the relevant Group company (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 18, which are in US dollars. The impact of a 10% change in the UK sterling/USD exchange rate would have caused \pm £344k (2008: £320k) 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 LIBOR rates as described in note 19.

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 currently has 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, short-term deposits and deposits maturing in greater than one year. At June 2009 the Company had a £1.0 million deposit which matures on 2 July 2010 with Abbey National (part of the Santander group). Substantially all other cash was with Bank of Scotland, except for small balances with BNP Paribas and UBS. Subsequent to the year end, further funds were placed with Abbey, Scottish Widows and Anglo Irish Bank.

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, which has been extended to May 2012. 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 18. 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. A credit facility has been arranged with Bank of Scotland in order to provide added flexibility (see note 19). As the Group begins to develop its fields, debt will be become more significant.

21. Share capital

	At 30 June 2009		At 30 June 2008	
	Number	£'000	Number	£'000
Authorised				
Ordinary shares of 20p each	100,000,000	20,000	100,000,000	20,000
Allotted, called up and fully paid				
Ordinary shares of 20p each	3,875,000	100	3,875,000	100
Reverse acquisition capital adjustment	34,875,000	6,556	34,875,000	6,556
Ordinary shares of 20p each	24,658,291	4,932	24,658,291	4,932
	63,408,291	11,588	63,408,291	11,588

All numbers have been adjusted for the 1 for 20 share consolidation, which took place on 25 September 2008.

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 20p shares as adjusted for the 1 for 20 share consolidation, which took place on 25 September 2008.

	Date issued	Issue price	Number of shares issued
At 1 July 2007			53,884,481
Private equity placing	17 October 2007	210p	9,523,810
At 30 June 2008			63,408,291
Movement in year			–
At 30 June 2009			63,408,291

All movements in the following notes have been adjusted for the 1 for 20 share consolidation, which took place on 25 September 2008.

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 19,388 new ordinary shares of 20p each. The seller has not yet requested the issue of these shares.

On 4 July 2005 the Group announced the issuance of 583,334 warrants to subscribe for new ordinary shares at 400p 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 800p per share for 90 consecutive trading days in the year to 3 July 2009. These warrants expired post year end without being exercised.

On 3 January 2006 the Group announced the issuance of 731,890 warrants to subscribe for new ordinary shares at 400p 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 800p 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:

Date Issued	Exercisable by	Exercise Price	Total Issued	Held by current Directors	Exercisable at 30 June 2009	Exercisable at 9 November 2009
7 March 2005	7 March 2013	80.00p	1,000,000	600,000	1,000,000	600,000
23 September 2005	23 September 2010	250.75p	50,000	–	50,000	50,000
26 September 2005	26 September 2013	220.00p	1,025,000	650,000	1,025,000	675,000
18 January 2007	18 January 2015	177.00p	412,500	250,000	412,500	287,500
18 January 2008	18 January 2016	211.00p	447,500	300,000	223,750	337,500
15 April 2008	15 April 2016	185.00p	15,000	–	7,500	11,250
13 November 2008	13 November 2016	36.17p	100,000	100,000	25,000	25,000
12 January 2009	12 January 2017	26.75p	395,000	325,000	–	98,750
24 June 2009	24 June 2017	57.10p	30,000	30,000	–	–
Balance at 30 June 2009			3,475,000	2,255,000	2,743,750	2,085,000
Balance at 6 November 2009			3,475,000	2,255,000	2,743,750	2,085,000

The options were all granted under the Nautical share option scheme rules (with the exception of the 50,000 options granted on 23 September 2005 in association with the acquisition of the Alba Resources (Holdings) Group), whereby from the date of issue 25% are exercisable after 6 months, 25% after 12 months, 25% after 18 months and 25% after 24 months. The options must be exercised within 8 years of issue. The exercise price is the highest of either: the nominal value of the shares (20p), the average price for the 30 days preceding grant date or the price on grant date. None of the Directors exercised options during the year. I Williams and H Thanawala resigned on 17 October 2008 and therefore had until 17 October 2009 to exercise any exercisable options. None were exercised.

The weighted average share price in the year was 55.7p (2008: 194.2p). The weighted average remaining contract life at 30 June 2009 was 4.90 years (2008: 5.55 years). The weighted average fair value of options granted in the year was 13.96p (2008: 84.8p). The expense recognised for share-based payments in the year to 30 June 2009 was £243k (2008: £450k).

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

	2009 Number	2009 WAEP	2008 Number	2008 WAEP
Outstanding at beginning of year	2,952,500	165.6	2,487,500	157.2
Granted during the year	525,000	30.3	465,000	210.2
At 30 June	3,477,500	145.1	2,952,500	165.6

At 30 June 2009, 2.75 million options are exercisable (2008: 2.28 million).

Notes to the financial statements *continued*

21. Share capital *continued*

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.

	13 November 2009	12 January 2009	24 June 2009	2008
Dividend yield	–	–	–	–
Expected share price volatility	67.4%	73.7%	74.0%	54.0%
Risk free interest rate	3.00%	3.00%	3.45%	4.50%
Leaver rate	5%	5%	5%	5%

Volatility has been based on a weighted average of Nautical's and its peer group's share prices.

22. 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 21.

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 changed its functional currency from US dollars to UK sterling in October 2007, following which no further movements have been recorded.

Other reserves

Other reserves comprise the following:

	30 June 2009 £'000	30 June 2008 £'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 21 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.

23. Net cash flows from operating activities

	2009 £'000	2008 £'000
Loss for the year	(5,887)	(4,521)
Finance income	(1,314)	(1,130)
Finance costs	349	538
Taxation	(749)	–
Impairment of equipment	2,376	–
Exploration gain	(491)	–
Exploration costs written off	4,057	3,244
Share-based payment charges	243	450
Depreciation	79	142
Unrealised foreign exchange movements	804	171
Operating cash flow before working capital movements	(533)	(1,106)
Decrease/(increase) in trade and other receivables	38	(432)
Increase/(decrease) in trade and other payables	128	(146)
Net cash outflow from operating activities	(367)	(1,684)

24. Analysis of net cash

	At 1 July 2007 £'000	Cash flow £'000	At 1 July 2008 £'000	Cash flow £'000	At 30 June 2009 £'000
Cash at bank and in hand	8,943	(3,825)	5,118	(2,057)	3,061
Short-term deposits	–	15,000	15,000	1,000	16,000
Net cash	8,943	11,175	20,118	(1,057)	19,061

25. Commitments

The Group has capital commitments of £1.7 million (2008: £nil).

26. Related party transactions**(a) Key management personnel**

The Group defines key management personnel as the Directors of the Company. S Jenkins has entered into a loan agreement with the Company for £3,948 with an outstanding balance due to the Company at 30 June 2009 of £1,645 (2008: £1,570). 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 provided services under a service agreement with International Energy Services Limited (IESL) for part of the year. I Williams and H Thanawala resigned on 17 October 2008 and P Jennings became an employee of Nautical on 1 November 2008. The charges in the year were £66k (2008: £443k).

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 £301k (2008: £273k), which was in addition to the services of the Directors. At the year end an amount of £30k (2008: £157k) was due to IESL. In addition, at the year end there was £11k (2008: £451k) due to IEG.

27. Ultimate parent undertaking and controlling party

Details of substantial shareholders are set out in the Directors report with the largest shareholder being International Energy Group AG (IEG), a company registered in Switzerland. At 30 June 2009 IEG had a holding of 30.93%. The Directors consider that no company has a controlling interest in Nautical.

Notes to the financial statements *continued***28. Subsidiary undertakings**

Subsidiary	Country of incorporation/ registration	Proportion of voting rights Holding & shares held	Activity
Nautical Holdings Limited	England	Ordinary shares 100%	Investment and oil equipment
UAH Limited*	England	Ordinary shares 100%	Investment
Nautical Petroleum AG*	Switzerland	Ordinary shares 100%	Exploration, development and production
Alba Resources (Holdings) Limited	Scotland	Ordinary shares 100%	Investment
Alba Resources Limited*	Scotland	Ordinary shares 100%	Exploration, development and production
Mountwest 560 Limited*	Scotland	Ordinary shares 100%	Exploration, development and production
Mountwest 561 Limited*	Scotland	Ordinary shares 100%	Exploration, development and production
Mountwest 562 Limited*	Scotland	Ordinary shares 100%	Dormant
First Mariner Limited	England	Ordinary shares 100%	Exploration, development and production

* Held by subsidiary undertakings

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

Nautical Petroleum plc Company only accounts 2009

Directors' responsibilities for the Parent Company financial statements

The Directors are responsible for preparing the Directors 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). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- » select suitable accounting policies and then apply them consistently;
- » make judgements and accounting 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;
- » 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 2009 which comprise the Company Balance Sheet and the related notes 29 to 38. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. 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 auditor's 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

As explained more fully in the Directors' Responsibilities Statement set out on page 30, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- » give a true and fair view of the state of the company's affairs as at 30 June 2009;
- » have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- » have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- » adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- » the parent company financial statements are not in agreement with the accounting records and returns; or
- » certain disclosures of directors' remuneration specified by law are not made; or
- » we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the group financial statements of Nautical Petroleum plc for the year ended 30 June 2009.

Kevin Weston (Senior statutory auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen
6 November 2009

Company balance sheet

As at 30 June 2009

	Notes	2009 £'000	2008 £'000
Fixed assets			
Intangible assets	32	1,365	1,289
Tangible assets	33	–	–
Investments	34	11,884	11,884
Total fixed assets		13,249	13,173
Current assets			
Trade debtors and other receivables	35	11,542	12,491
Cash at bank and in hand		20,022	20,096
Total current assets		31,564	32,587
Creditors: amounts falling due within 1 year	36	(1,893)	(2,207)
Net current assets		29,671	30,380
Net assets		42,920	43,553
Capital and reserves	37		
Called up share capital		12,682	12,682
Share premium		37,015	37,015
Warrant reserve		263	263
Profit and loss reserve		(7,040)	(6,407)
Total shareholders' funds		42,920	43,553

The financial statements were approved by the Board on 6 November 2009 and were signed on its behalf by:

S Jenkins
Chief Executive

W Mathers
Finance Director

Notes to the Company financial statements

29. 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
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As of June 2009 the Company no longer has any equipment capitalised.

(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.

(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 merger relief provisions of the Companies Act 2006 have been applied. The share element of the transaction is recorded at the nominal value of the shares issued.

30. Losses attributable to Nautical Petroleum plc

The loss for the year dealt with in the accounts of Nautical Petroleum plc was £876k (2008: £2,222k). As provided by s408 of the Companies Act 2006, no profit and loss account is presented in respect of Nautical Petroleum plc.

31. Employees**Headcount**

	2009 Number	2008 Number
Average number of employees of the Company (including Executive Directors) during the year was:		
Management	3	4
Technical staff/support/other	2	2

Three directors provided services to the Company through a service agreement with International Energy Services Limited, which is a related party, for part of the year. Two directors resigned on 17 October 2008 and the third became an employee of Nautical on 1 November 2008.

Staff costs

	2009 £'000	2008 £'000
Wage and salaries	575	672
Bonuses	255	191
Social Security costs	92	55
Other Pension costs	34	16
	956	934

Wages and salaries include fees for three directors provided services to the Company through a service agreement with International Energy Services Limited for part of the year. Two directors resigned on 17 October 2008 and the third became an employee of Nautical on 1 November 2008. Further Information regarding the remuneration awarded to Directors is provided in the Remuneration Report on page 27.

	2009 £'000	2008 £'000
Equity settled share-based payments	243	450

32. Intangible assets

	Total £'000
Exploration and evaluation assets	
At 1 July 2008	1,289
Additions	825
Exploration costs written off	(749)
At 30 June 2009	1,365

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.

33. Tangible assets

	Total £'000
Computer equipment	
Cost:	
At 1 July 2008	5
Disposals	(5)
At 30 June 2009	-
Depreciation:	
At 1 July 2008	5
Disposals	(5)
At 30 June 2009	-
Net book value	
At 30 June 2009	-
At 30 June 2008	-

Notes to the Company financial statements *continued***34. Investments**

Investments in subsidiary companies	Total £'000
Cost At 1 July 2008 and at 30 June 2009	11,884

Details of subsidiary companies are shown in note 29.

In accounting for the acquisitions of Nautical Holdings Limited, the Alba Resources (Holdings) Group and First Mariner Limited the Company has applied the merger relief provisions of the Companies Act 2006.

35. Trade debtors and other receivables

	2009 £'000	2008 £'000
Amounts owed by subsidiaries	10,994	11,888
Other debtors	469	480
Prepayments and accrued interest	79	123
	11,542	12,491

36. Creditors: amounts falling due to within 1 year

	2009 £'000	2008 £'000
Amounts owed to subsidiaries	1,130	–
Trade creditors	430	1,651
Amounts owed to related companies	41	213
Accruals	292	343
	1,893	2,207

37. Share capital and reserves

	Share capital £'000	Share premium £'000	Warrant reserve £'000	Profit and loss reserve £'000	Total equity £'000
At 1 July 2008	12,682	37,015	263	(6,407)	43,553
Share option charges added back	–	–	–	243	243
Loss for the year	–	–	–	(876)	(876)
At 30 June 2009	12,682	37,015	263	(7,040)	42,920

Details of share capital and share-based payments are set out in note 21.

38. Related party transactions

Executive Directors, I Williams, H Thanawala and P Jennings provided services under a service agreement with International Energy Services Limited (IESL) for part of the year. I Williams and H Thanawala resigned on 17 October 2008 and P Jennings became an employee of Nautical on 1 November 2008. The charges in the year were £66k (2008: £443k). S Jenkins has entered into a loan agreement with the Company for £3,948 with an outstanding balance due to the Company at 30 June 2009 of £1,645 (2008: £1,570).

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 £301k (2008: £273k), which was in addition to the services of the Directors. At the year end an amount of £30k (2008: £157k) was due to IESL.

At the year end there was £11k (2008: £113k) 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 two 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** (License P.335, UKCS Block 9/11a): the new Operator, Statoil (UK) Ltd, has continued studies and data acquisition to better understand the reservoirs. The net result of the new data and studies has been to increase its estimate of the recoverable volumes in the Mariner and Heimdal formations. 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 and the rigour of its methods, RPS has no reason to assume that these estimates are invalid.
- » **Kraken** (License P.1077, UKCS Block 9/2b): a third well has been drilled in Kraken, which was dry and resulted in a reduction in estimated Contingent Resources. RPS has reviewed the Best Estimate Contingent Resources quoted in the Annual Report and concurs with this estimate.

On this basis, we can repeat our opinion that the Company's estimates of 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 al .

We draw your attention to the following points:

- » The recoverable volumes in the Mariner field have this year been classified as Best Estimate Contingent Resources (development pending) in line with the Operator's revised classification, with which we concur.
- » 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. As a result there is a large range between low and high volume estimates. 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.

5 November 2009

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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 Joint Broker

Evolution Securities Limited
100 Wood Street
London EC2V 7AN
Tel: +44 (0) 20 7071 4317

Joint Broker

Ambrian Partners Limited
Old Change House
128 Queen Victoria Street
London EC4V 4BJ
Tel: +44 (0)20 7634 4700

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

Company Secretary

Audrey Clarke, FCIS
Parnell House
25 Wilton Road
London
SW1V 1YD

Glossary

API	American Petroleum Institute®	FDP	field development plan
bb1	barrels	km	kilometres
bcf	billion cubic feet	K	thousand
bn	billion	m	million
bopd	barrels of oil per day	mmbo	million barrels of oil
cp	centipoises	MWD	measurement while drilling
D	Darcy	OWC	oil-water contact
DECC	Department of Energy and Climate Change	UKCS	United Kingdom Continental Shelf
DST	drill stem test	FPSO	Floating, Production, Storage and Offtake
EWT	extended well test	FEED	Front End Engineering and Design

www.nauticalpetroleum.com



Nautical Petroleum plc

Parnell House
25 Wilton Road
London
SW1V 1YD

T: 020 7550 4890
F: 020 7550 4946