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Nautical Petroleum plc Annual Report and Accounts 2011

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Annual Report and Accounts
2011

Nautical Petroleum plc intends to become a significant producer of oil, initially in the United Kingdom Continental Shelf (UKCS) and in Europe.

Our aim is to secure further oil discoveries in the UKCS and EU through acquisitions, farmins and licensing rounds. We aim to achieve near term production on current assets and enhance crude value and mitigate risk through our relationships.

We will acquire oil exploration blocks with low to moderate commitments and farmout to mitigate portfolio risk, with the overall aim of enhancing shareholder value.

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Highlights for the year ended 30 June 2011

£50.6m

Profit for the year (2010: £2.3m loss)
Inclusive of gain on partial sale of Mariner of £55 1m

£137.9m

Net assets (2010: £57.7m)

£110.0m

Cash and deposits (2010: £11 7m)

- » Share placing raised £30 3m (£28 9m net of expenses)
- » Kraken 9/02b-4 appraisal well extended the oil accumulation to the south of the field
- » Kraken 9/02b-4z west exploration sidetrack encountered 2 oil bearing reservoirs
- » Sale of 20 6667% of Mariner completed for £87 5m, retaining a 6% interest
- » Catcher area – Varadero and Burgman oil discoveries
- » Nautical equity interest in Block 9/2b Kraken increased from 35% to 50%

Significant events post year end

- » Independent Resource Opinion confirms Kraken Heimdal III resources of 160 mmbo (gross), 83 mmbo net to Nautical
- » Kraken 9/02b-5z horizontal appraisal well tested at 4,550 bopd

Our portfolio

As at 14 October 2011

Core assets

Kraken Block 9/2b

(Licence P1077 – 50% operated interest)

- Successful 9/02b-4 appraisal well and 9/02b-4z exploration sidetrack drilled in Q3 2010
- 9/02b-4 Heimdal III reservoir of 83 feet thickness, average porosity of 39% and average oil saturation of 87% 9/02b-4z exploration sidetrack found excellent quality oil bearing Heimdal III and Heimdal II reservoirs west of the Kraken fault
- 9/02b-5 and 9/02b-5z appraisal wells drilled in Q3 2011
- The 9/02b-5z horizontal sidetrack encountered 1,598 feet of net pay with average porosity of 38% and average oil saturation of 90%
- 9/02b-5z tested and flowed at a maximum stabilised rate of 4,550 bopd
- A new 3D seismic survey over Kraken and the surrounding blocks was acquired in Q2 and Q3 2011
- Nautical purchased an additional 15% equity from Canamens in May 2011 to increase stake to 50%
- Target to submit Field Development Plan (FDP) in Q3 2012, with first oil in 2015
- Best estimate contingent resources of 160 mmbo (gross), 83 mmbo (net) – (pre-9/02b-5z) in Heimdal III

Catcher Blocks 28/9 and 28/10c

(Licence P1430 – 15% interest)

- June 2010 Catcher and Catcher East light oil discoveries (31° API)
- January 2011 successful exploration discovery at Varadero (26° API)
- March 2011 successful exploration discovery and sidetrack at Burgman (24° API)
- With previous Catcher and Catcher East discoveries, and a North Catcher appraisal well drilled in February 2011, there are 7 successful reservoir penetrations to date
- Target to submit FDP in Q4 2012, with first oil in 2015
- Current total best estimate contingent resources in Block 28/9 estimated at 155 mmbo (gross), 23 mmbo (net)
- An exploration well on the Carnaby prospect, west of Burgman, is planned for Q1 2012

Mariner Block 9/11a

(Licence P335 – 6% interest)

- A highly appraised field, with a successful extended well test (EWT) on the Maureen formation and commercial flow rates measured with well test on the shallower Heimdal reservoir
- Development concept of a PDUQ (Production, Drilling, Utilities and Quarters) platform with floating storage has been selected Front End Engineering Design (FEED) is scheduled to commence in Q4 2011
- Target to submit FDP in Q4 2012, with first oil in 2016
- Sale of interest in November 2010 to Statoil, reducing Nautical's share from 26 6667% to 6%
- Best estimate contingent resources (development pending) of 430 mmbo (gross), 26 mmbo (net)

Other assets

Ketos Block 9/1a (Licence P1759 – 100% operated interest) Probable extension of oil bearing Heimdal I reservoir encountered by the 9/02b 2 well Well planned for 2012 dependent on results of new 3D seismic Best estimate contingent resources of 5 5 mmbo (net across Block 9/1a and Block 9/2b) Best estimate prospective resources of 34 mmbo (net across Block 9/1a and Block 9/2b)

Tudor Rose Block 14/30a (Licence P1463 – 20% interest) Well to be drilled on Tudor Rose discovery in Q4 2011 to establish API gravity and viscosity, and to investigate the oil water contact (OWC) Best estimate contingent resources of 49 mmbo (gross) 10 mmbo (net) Exploration upside in Buffalo prospect (Cretaceous, Kopervik Sandstone)

Spaniards Block 15/21g (Licence P1655 – 21% interest) Reprocessed 3D seismic defines large Jurassic prospect downdip from 15/21a-38 oil discovery Significant oil column implied from pressure data in discovery well Well scheduled to be drilled in Q2 2012 Best estimate prospective resources 100 mmbo (gross), 21 mmbo (net)

Merrow Blocks 113/29c and 113/30 (Licence P1475 – 50% operated interest) Large near shore gas prospect adjacent to Walney Island Best estimate prospective resources 290 bcf (gross) 145 bcf (net) Onshore drill site identified for 2012 drilling

PL1/10 Northern Ireland (20% interest) Located in Central Larne – Lough Neagh basin Analogous to East Irish Sea basin Large leads at Permian and Triassic levels Up to 275km of seismic being acquired in Q4 2011

Kraken South Blocks 9/6 and 9/7 (Licence P1575 – 35% operated interest) Contains probable continuation of Scylla channel and possible Kraken analogue New 3D seismic acquired as part of larger Kraken area survey, and reprocessing of existing seismic is under way

Blocks 3/22 and 3/26 (Licences P1573 and P1574 – 40% operated interest) 2D high density, high resolution seismic data confirmed Lusca prospect High tech 3D seismic survey has been acquired over southern 3/26

Block 9/11c (Licence P979 – 80% operated interest) Possible southern extension of Mariner accumulation in Heimdal Sandstone

Blocks 8/15a and 9/11d (Licence P1758 – 6% interest) Possible western extension of Mariner accumulation in Heimdal Sandstone

Keddington (Licence PEDL005, 10% interest) UK onshore producing field in Lincolnshire Current production constrained to average 130 bopd and 500 mcf of gas by gas flaring limits Operator investigating options to generate electricity from the produced gas which will allow higher production rates

St Laurent France (22% interest) Located in Aquitaine basin, south-west France Contains large Audignon Ridge subsalt gas prospect Best estimate prospective resources of 3TCF (gross), 660 bcf (net) Farmout expected to be signed in Q4 2011

Pontenx France (20% interest) Located in the Parentis basin south-west France Reprocessing of existing seismic under way to be followed by acquisition of new seismic

Gex France (20% interest) Located in eastern France near the Swiss border Previous drilling on the block encountered shallow heavy oil Seismic being reprocessed and a gravity survey is being acquired

Baltimore Ireland (40% interest) Licensing option 10/1 in the North Celtic Sea basin containing the Baltimore heavy oil discovery Marlin gas prospect identified in the block

Nemo Ireland (25% interest) Licensing option 2/07 in the North Celtic Sea basin containing the Nemo heavy oil discovery

Significant progress

Patrick Kennedy
Chairman

I am pleased to report that your Company has continued to deliver achievements at a steady pace in a challenging environment.

This is my first report to you as Chairman and as I reflect over the last 12 months, I am pleased to report that your Company has continued to deliver achievements at a steady pace in a challenging environment The combination of strategic planning around our core discoveries Kraken, Catcher and Mariner, continuing work on our pipeline of exploration assets and a focus on development has enabled your Company to deliver excellent results

2010/11 has witnessed continued economic uncertainty and turbulent equity markets with Brent crude oil prices recovering from $80 a barrel a year ago to around $120 a barrel before falling back to current levels of around $110 a barrel In addition, the fiscal environment has posed challenges with the unexpected increase in March 2011 of the Supplementary Corporation Tax (SCT) negatively affecting sentiment These factors contributed to a downward pressure on the share price in H1 2011, but the Company's flexible business model, strategic management approach and significant operational success have helped mitigate this downside impact Overall, Nautical has performed well against its peers Having started 1 July 2010 with a market capitalisation of £106m, our current market capitalisation of over £250m represents a significant achievement

Nautical has delivered outstanding results – a profit for the year of £50 6m with shareholders' funds of £137 9m (2010 £57 7m) The successful private placing of 24 3m ordinary shares at 125 pence underlined shareholder confidence These proceeds, together with the proceeds from the sale of 20 6667% of Mariner, created healthy cash and deposit balances of £110 0m (2010 £11 7m) at 30 June 2011 The Company's strong liquidity is expected to be sufficient to fund our planned exploration and appraisal activities through 2012 and beyond and positions us well to take our key assets to development

Your Board is responsible for the performance of the business, safeguarding the Company's assets and delivering our goal of becoming a significant oil producer initially on the UK Continental Shelf (UKCS) We have taken steps to align the Company's capabilities with its plans We remain opportunistic yet cautious in our approach, recognising the importance of risk management when exploring and evaluating options

Reputation is a key intangible asset and Nautical is committed to managing its reputation by applying ethical business principles and ensuring that Health and Safety are high on the agenda Our strong reputation has helped strengthen our relationships with key stakeholders, attract long-term investors and also in our drive to attract the best talent needed to deliver our strategy

It remains for me to thank my fellow Directors and all our colleagues for their skill and dedication Your Board, working as a team, ably supported by our Company Secretary, has successfully navigated your Company through challenging conditions Finally, I thank our shareholders for their continuing support I am confident that Nautical is well positioned to continue to make significant progress

Patrick Kennedy
Chairman
14 October 2011

Patrick Kennedy

The Company's strong liquidity is expected to be sufficient to fund our planned exploration and appraisal activities through 2012 and beyond and positions us well to take our key assets to development.

Continued drilling success

Steve Jenkins
Chief Executive Officer

Nautical is pleased to report a continuation of the drilling success started in 2010, culminating in the outstanding Kraken test result.

Nautical is pleased to report a continuation of the drilling success started in 2010, culminating in the outstanding Kraken test result Significant resources were added to both Kraken and the Catcher area establishing the Company as a significant mid-cap enterprise focused on the North Sea and Europe This intense activity has been fuelled by the proceeds of the August 2010 private placing and the timely sale of a major part of the Company's interest in Mariner

Our augmented treasury enables us to withstand the macro-economic storms which have recently buffeted the markets Sentiment has been further dented by the Government's unexpected increase to Supplementary Corporation Tax (SCT) However I am pleased to report that the impact has been partially mitigated by the increase in Ring Fenced Expenditure Supplement (RFES)

In the wake of the tragedy in the Gulf of Mexico, Nautical is fully participating in industry initiatives to make drilling safer and to prevent any similar incident in the North Sea To this end, I am pleased to report that the industry has constructed a capping device to be used in the event of a well control incident, which we trust will never have to be deployed

Ever mindful to the risks of drilling in harsh weather, deep water conditions, Nautical will continue to explore/appraise in the more benign weather conditions prevailing to the East of Shetlands, Moray Firth and Central North Sea

The seismic, drilling and testing activity in the period has driven the Company's 3 core assets (Kraken, Catcher and Mariner) closer to development with all 3 expected to receive development sanction in 2012 Our expanding inventory of exploration and appraisal opportunities will generate near term drilling activity which should yield further development opportunities As ever, we will continue to manage our large portfolio to ensure that shareholders' funds are expended judiciously in growing the Company

Kraken – testing confirms significant commercial accumulation

Early in the period, the successful 9/02b-4 appraisal well and 9/02b-4z exploration sidetrack reinforced our confidence in our geological models by intersecting the thickest section of Tertiary, Heimdal III reservoir encountered to date Pleasingly, this was surpassed by the 9/02b-5 pilot well which penetrated 94 net feet of reservoir exhibiting an average porosity of 38% and core permeabilities of up to 5 Darcies Oil saturations had been very high in all wells, boosting confidence for the results of the horizontal sidetrack of this well A continuous reservoir interval of 1,598 feet of net oil pay was drilled exhibiting oil saturations of 90% and the same high porosities seen elsewhere in the Kraken reservoir Test results over the completed net pay of 1,287 feet, were outstanding with a maximum stabilised rate of 4,550 bopd, far exceeding the minimum commercial rate, even though restricted by the limited facilities on the rig Under normal production conditions, this relatively short horizontal well would be capable of producing 8,000 bopd Since horizontal development wells will be considerably longer, higher production rates will be achievable

An additional key success of the 9/02b-5z operations was the openhole gravel pack operation that was conducted to prevent sand production There was no sand production during the test and the well productivity was very high indicating little or no formation damage This gives us great confidence that similar completions can be successfully installed in the development wells to give assurance of sand-free production at high oil rates

There are 6 successful penetrations in the Kraken field and our confidence has grown in the prediction of the thickness of the reservoir away from the wells using advanced seismic techniques (colour inversion) The confirmation of the accuracy of these seismic techniques by drilling has been a major step forward in the understanding of the distribution of the Heimdal III reservoir and is a great tribute to the tenacity and skills of Nautical's growing technical team Further clarity on the distribution of the reservoir is expected from the recently acquired 3D seismic which will aid the placing of development wells

Before the 9/02b-5 and 5z wells were drilled, Nautical's view of the best estimate contingent resources was endorsed by our Competent Person Kraken is now one of the most significant, soon-to-be developed, accumulations in the UK Continental Shelf (UKCS) Reservoir simulation studies have estimated a recoverable resource of 160 mmbo (gross), with upside of up to 311 mmbo (gross) The results of the latest wells will be used to update the geological models and the subsequent simulations will be incorporated into a Competent Person's Report

Nautical's decision to increase its equity in Kraken to 50% sustained the momentum of the evaluation of the block and was justified by the excellent well outcomes and flow rates The Joint Venture has been strengthened by our new partner First Oil Expro Limited and is fully aligned in moving Kraken forward to project sanction The development team is being augmented by both new staff and contractors and is working towards Concept Selection in Q1 2012 and final project sanction (Field Development Plan approval) in Q3 2012, leading to first oil in 2015

Catcher – major commercial resource with low risk upside

100% success in the Catcher area drilling campaign has yielded 3 new accumulations – Greater Catcher, Varadero and Burgman The Greater Catcher discovery wells at Catcher and Catcher East were followed by a Catcher sidetrack and a Catcher North well Pressure and oil sample data proved that the Cromarty sand and the Tay sand are in communication throughout the accumulation

Varadero, the first well in the 2011 campaign, was a resounding success finding oil in thicker than prognosed high quality reservoirs in the Tay sands (same reservoir as Catcher East) Encouragingly 2 thick sands were encountered with additional pay in younger sands Most importantly, the success at Varadero confirms that bright seismic amplitudes are indicative of high porosity oil bearing sands, a phenomenon further proved by the successful Burgman well to the south The discovery well encountered gas and oil in thin sands in the Tay, however the subsequent sidetrack to the south-east found thick oil bearing Tay sands

Chief Executive's review continued

Throughout the 3 discoveries, in both the Cromarty and Tay reservoirs, quality is excellent, exhibiting porosities in the high thirties and multi-Darcy permeabilities Although the gravity of the oil decreases to the west (31° API in Catcher, 26° API in Varadero and 24° API in Burgman), viscosity remains under 10cp throughout, thus productivity from these shallow wells will be excellent

The volume of resources discovered to date offers an economically robust, stand alone development which is scheduled for project sanction in Q4 2012 An experienced development team has been tasked to deliver the project with expertise seconded to the operator, EnCore Oil plc, from the Joint Venture partners Nautical personnel are making a large contribution to both the geoscience and the engineering understanding of the block

There remain a number of well defined exploration targets in the block which will be further evaluated using the recently acquired high density 3D seismic data Drilling will recommence in Q1 2012 with the Carnaby exploration well targeting the Lower Tay and the Cromarty sands, both of which lie above the implied oil water contact (OWC) in the adjacent Burgman discovery The need for further appraisal drilling activity is currently being evaluated by the Joint Venture

Mariner – value realised, project re-energised
In November 2011, we sold to Statoil 20 6667% of our 26 6667% interest in the Mariner discovery for a total consideration of £87 5m In addition, Statoil will provide a maximum £3 0m carry of the Company's cost through to project sanction

The decision to sell the major portion of our stake in Mariner proved very timely since the increase in SCT in April stalled the project Nautical worked closely with our co-venturers (Statoil and ENI) and HM Treasury to secure a solution which would allow the project to progress I am pleased to report that an increase in RFES from 6 to 10% was sufficient to enable the operator to announce that the Mariner project will commence Front End Engineering and Design in the autumn, leading to project sanction before the end of 2012 On the critical path, the Joint Venture has recently announced that the development concept will be a fixed platform with additional drilling using a jack-up rig in the early years Nautical still retains a meaningful stake in the Mariner project (26 mmbo net resource) and shares the operator's commitment and enthusiasm

Exploration and appraisal – managing the portfolio for growth
Efficient and low cost growth can still be achieved through acquiring blocks in licensing rounds, farming down, and then drilling wells This strategy has served Nautical well, as evidenced by Kraken and Catcher, and we will continue to pursue new opportunities in the UKCS and Europe Your Company is very efficient at screening, identifying and securing low cost entry into opportunities and rigorously managing an exploration/ appraisal portfolio

A recent example is the award in the 26th UKCS licensing round of a 100% interest in Block 9/1a, immediately to the west of Kraken There is evidence on 2D seismic data that implies that the Ketos accumulation (the Heimdal I reservoir discovered by the 9/02b-2 well) extends into the newly awarded block Nautical has recently acquired over 1,000km² of 3D seismic over this and 3 other operated blocks to test this hypothesis and is planning to drill a well in 2012 This could prove a substantial oil accumulation (our Competent Person has already assigned best case contingent resources of 5 5 mmbo net to Nautical, with best case net prospective resources of 34 mmbo)

An appraisal well on the Tudor Rose heavy oil discovery in block 14/30a will be spudded soon with the objectives of measuring the oil gravity and viscosity and the depth of the Oil Water Contract Exploration and appraisal drilling elsewhere on the Company's portfolio will continue apace in 2012 when an appraisal well is forecast on the Spaniard's accumulation in blocks 15/21a and 15/21g

We are hopeful that we can secure an onshore licence in the much delayed and yet to be announced 14th Onshore Licensing Round to allow the drilling of the large Merrow gas prospect just offshore in the East Irish Sea basin Seismic acquisition has commenced over PL1/10 Central Larne-Lough Neagh to identify prospects analogous to gas/oil fields in the East Irish Sea basin

Nautical continues to evaluate licence and farmin opportunities throughout Europe and the Mediterranean and we hope that we will be able to announce new awards in the near future

Financial strength fuelling growth potential

I am delighted to report a profit for the year ended 30 June 2011 of £50 6m, thanks to the £55 1m profit on the sale of Mariner In August 2010, Nautical raised £28 9m, net of costs, through a placing of new shares with existing and new institutional investors As well as strengthening our balance sheet, this significantly broadened our institutional base

Our substantial cash and deposit balance, which was £110m at year end, ensures that we are fully funded to execute our aggressive exploration and appraisal programme throughout 2012 and beyond We will continue to apply vigour and discipline in the use of these funds to maximise value for shareholders

The future – moving towards development on 3 projects

Building on the major achievement of establishing commercial flow rates at Kraken, we look forward to sanctioning the project in 2012 whilst becoming a Government recognised Production Operator We will continue to be a supportive Joint Venture partner on both Catcher and Mariner, as both fields progress to project sanction in 2012

We will seek to keep the exploration/appraisal hopper filled with high quality opportunities to further augment the resource base and expose shareholders to success at the drillbit

Your Board is pleased that Nautical has successfully moved from a micro-cap to mid-cap company which is supported and respected by shareholders, its industry peers and financial institutions We aim to continue this upward trend in the future

Steve Jenkins
Chief Executive Officer
14 October 2011

Kraken

(Licence P1077 – 50% operated interest)

Kraken is a cornerstone asset that has been substantially de-risked by the successful production test of 9/02b-5z. Studies are under way to define the first phase of development with first oil expected in 2015.

Key stats

» Large 3-way dip closed structure containing heavy oil in excellent quality reservoir

» Best estimate contingent resources of 160 mmbo (gross), 83 mmbo (net)

» 9/02b-4 appraisal well confirmed substantial accumulation in the core area and 9/02b-4z exploration sidetrack confirmed resources to the west of the Kraken Fault

» 9/02b-5 appraisal well found thickest reservoir to date in the field 9/02b-5z horizontal sidetrack proved continuous reservoir and flowed at maximum stabilised rate of 4,550 bopd (constrained by surface test equipment)

» Concept selection studies under way leading to FDP in 2012 and first oil in 2015

Block 9/2b (Licence P1077)

(Nautical 50% Operator)

Block 9/2b was awarded as Nautical's first licence in the UKCS in September 2003 The Block is located on the East Shetland Platform, west of the North Viking Graben Well 9/02-1A, drilled in 1985, had previously tested oil from a reservoir belonging to the Heimdal Sandstone Member of the Tertiary (Palaeocene) system Since award of the licence, Nautical has drilled 5 appraisal wells and an exploration sidetrack, proving Kraken to be a substantial oil accumulation which can be now be progressed to development planning

The results of 9/02b-2, the licence commitment well drilled in 2007, proved an oil column of at least 252 feet and an oil-down-to (ODT) 168 feet deeper than 9/02-1A discovery This appraisal well not only encountered oil bearing Heimdal Sandstone which can be correlated with the 9/02-1A well (known as Unit III sands) but also penetrated an additional deeper oil bearing Heimdal Unit I Sandstone

A third appraisal well, 9/02b-3, drilled in September 2008, was located in a downdip area to the north-east of the discovery wells in order to substantiate the oil column by intersecting the Oil Water Contact (OWC) and to investigate the upside (P10) resources However, in this outlying area, the Heimdal Sandstone proved to be absent

Subsequent to the negative outcome of the 9/02b-3 well, significant work was undertaken to improve the understanding of the areal distribution of the reservoir and reduce the risk of further appraisal drilling, including a Controlled Source Electro Magnetic (CSEM) survey, depositional modelling, specialist seismic and sedimentology studies This work led to the selection of an optimised appraisal location Appraisal well 9/02b-4 was spudded in August 2010 and successfully encountered the target Heimdal Unit III Sandstone, with a gross oil column of 160 feet, substantially thicker and with a higher porosity than expected Log evaluation indicated that the Heimdal Unit III main sand contained 83 feet of net oil pay with an average porosity of 38 8% and an average oil saturation of 87 2% An oil water contact was not encountered in the Heimdal Unit III main sand in this well

A well test using a test string comprising sand screens and an Electric Submersible Pump (ESP) was conducted on 9/02b-4 in order to recover uncontaminated reservoir fluid samples and to confirm the productivity of the reservoir The well was initially pumped at a restricted rate of 300 barrels per day and samples obtained Subsequent to this flow period, the productivity declined markedly which was believed to be due to the plugging of the sand screens, rather than a reservoir or oil quality issue The test did not sustain production to surface but high quality fluid samples were collected

Following the 9/02b-4 production test, the lower section of the well was abandoned and the 9/02b-4z sidetrack was drilled to validate an exploration target to the west of the Kraken Fault The sidetrack successfully encountered oil bearing sands in both the Heimdal Unit III and Heimdal Unit II reservoirs with true net oil pays of 42 feet and 35 feet respectively The average porosities in both units are very high, around 40%, with average oil saturations of 85%

In July 2011, 9/02b-5 was spudded to further appraise the core area of the field Preliminary log evaluation indicates a calculated net oil pay of 94 feet True Vertical Thickness (TVT), with average porosity of 38% and average oil saturation of 78% As anticipated, an oil water contact was not encountered at this location and the Kraken discovery oil-down-to now extends to 3,947 feet True Vertical Depth subsea (TVDss) The well was plugged back and the 9/02b-5z sidetrack was drilled This was a 2,003 foot horizontal wellbore which had 1,598 feet of net pay with average porosity of 38% and average oil saturation of 90% An openhole gravel pack completion was installed and the well was tested using an Electric Submersible Pump The well flowed at a maximum stabilised rate of 4,550 bopd, an excellent result which exceeded the assumptions in the simulation model used in the development studies The production rate was constrained by the surface testing equipment Fluid samples were collected for characterization, flow assurance and oil marketing studies

The results of the 9/02b-5 and -5z wells have shown an excellent correlation between the reservoir, depth and thickness, and the coloured inversion seismic data This gives great confidence in the reservoir mapping and for the future placement of development wells

Oil samples have now been recovered from the Heimdal Unit III reservoir from all 3 successful appraisal wells Gravity of the oil is 14–15° API and viscosity is 110–150cp, being a higher API and much less viscous than both the adjacent Bressay (500cp) and Bentley (600–1,100cp) discoveries The oil is more similar to that in the producing Captain Field (19° API and viscosity of 90cp), which came on production in 1997, peaked at 79,000 bopd in 2002 and is expected to exceed a 35% recovery factor

Since an oil water contact has not been encountered in any of the wells, it is probable that the aquifer support will be through an edge water drive rather than a bottom water drive This is supported by geochemical analysis which indicates that, although the oil is biodegraded, it is not water washed, implying that the water leg is remote from the core of the structure These aspects enhance the opportunity to control water production and to design water injection to optimise both the oil production rate and the ultimate recovery from the reservoir

Development planning and concept selection studies are under way Nautical's current plan is for a phased development, initially targeting the resources in the core area of the field A Field Development Plan (FDP) is to be submitted in 2012 with first oil in 2015 As part of Nautical's oil marketing initiative, it is encouraging to note that an assay has been carried out by a refiner who has expressed a strong desire to purchase Kraken crude

Catcher

(Licence P1430 – 15% interest)

Block 28/9 is now proven to contain 4 oil fields in 2 discrete high quality reservoir sandstones. The substantial resources in this prolific block now form the basis for a robust and expeditious development.

Key stats

- » 2 further discoveries, Varadero and Burgman, supplement the success of the Catcher and Catcher East fields
- » Proven oil bearing excellent quality sandstones in 2 formations now proven from 7 well penetrations – 100% drilling success
- » Light oil with API gravity varying from 31° in the east (Catcher) to 24° in the west (Burgman)
- » Carnaby prospect, west of Burgman, to be drilled in 2012
- » Current total best estimate contingent resources in Block 28/9 estimated at 155 mmbo (gross), 23 mmbo (net)

Blocks 28/9 and 28/10c (Licence P1430)
(Nautical 15%)
This Traditional Licence is located on the West Central Platform, west of the Central Graben and the nearby Bittern Field Regional and block specific evaluation was originally carried out with EnCore prior to application and successful award in the 24th Seaward Licensing Round

The blocks contain the Catcher discovery in the Palaeocene (Cromarty Sandstone) and the Catcher East, Varadero and Burgman discoveries in the Eocene (Tay Sandstone) Mapping has demonstrated several similar and robust undrilled prospects at both stratigraphic levels

The initial Catcher discovery by well 28/09-1 (and sidetrack 28/09-1Y) and the Catcher East discovery by well 28/09-1Z, during the summer of 2010, heralded one of the largest discoveries on the UKCS in the last decade 2 further exploration wells at Varadero and Burgman and an appraisal well at Catcher North followed and successfully encountered additional resources in late 2010 and early 2011

The Varadero exploration well, 28/09-2, some 4km west of the Catcher discovery was drilled in December 2010 to a total measured depth of 5,205 feet having successfully encountered high quality oil bearing reservoir within the target Tay Sandstone The formation had a gross thickness of 186 feet with a calculated net pay of 84 feet, significantly better than prognosed Analysis of the logs indicates the reservoir quality is excellent, with high permeability, average porosity of 35% and average oil saturation of 84% In addition to the primary interval there is a further 22 feet of net hydrocarbon pay in thinner sands Wireline logging and pressure testing has been carried out which indicate that the reservoir fluids are oil with an API of approximately 26° The well also encountered deeper sands of Cromarty age (the principal reservoir in Catcher) although, as expected, they were not hydrocarbon bearing at the Varadero location

During January 2011, the Catcher North appraisal well 28/09-3 was drilled c 2 5km north of the Catcher wells to a total measured depth of 5,265 feet The well encountered gas in the Tay Sandstone and oil in the Cromarty sandstone Pressure data suggests that the Catcher North oil discovery is part of the Catcher and Catcher East accumulation In support of this, the calculated oil-water contact within the Cromarty Sandstone section is consistent with that established with the Catcher discovery wells 28/09-1 and -1Y The reservoir development at this location was towards the lower end of expectations, encountering 20 feet net pay within the Tay Sandstone, and 14 feet net pay within the Cromarty Sandstone However reservoir quality was excellent with an average porosity of 31% in both reservoirs

The Burgman well, 28/09-4, was spudded on 1 March 2011 on a hanging wall structure situated 7km to the west and updip of Catcher and some 5km south of Varadero The near vertical well trajectory for the Burgman 28/9-4 well was designed to test 3 targets in the Tay, Cromarty and Jurassic Sandstones and the well reached a total depth of 5,990 feet The well encountered 2 sands in the Tay Formation, the Upper Tay Sandstone was 12 feet thick and gas bearing whilst the Lower Tay Sandstone was 10 feet thick and contained 24 3° API oil Analysis of pressure data indicates that the combined formations have a gas-oil contact at 3,560 feet true vertical depth subsea (TVDss) and an oil water contact at 3,980 feet TVDss giving a gas column of at least 78 feet and an oil column of 420 feet This indicates that the Lower Tay Sandstone, which is represented by high seismic amplitudes throughout the Burgman prospect, lies within the oil leg Whilst good quality Cromarty and Jurassic Sandstones where encountered, they were water bearing

The original 28/09-4 well path was not optimised to test the very high amplitudes within the Tay Formation and so the well was sidetracked some 1,641 feet to the southeast of 28/09-4Z to encounter a prognosed thicker section The well was drilled to a total measured depth of 5,237 feet The sidetrack successfully encountered a true vertical reservoir section of 64 feet net oil pay with an average porosity of 38% and an average oil saturation of 95%, significantly better than in the original Burgman well

The success of this recent drilling campaign underlines the great potential of Block 28/9, with sands of thicknesses and quality often surpassing the pre-drill estimates Oil bearing Cromarty Sandstones were not encountered at Burgman and appear to be limited to the Catcher area However, the seismic data can confidently predict the presence of high quality hydrocarbon bearing Tay Sandstones, proven by the Catcher East, Varadero and Burgman discoveries This augurs well for the numerous mapped anomalies on the block and a further exploration well is planned in Q1 2012 to test the Carnaby prospect located about 2km to the west of Burgman on the footwall of the major dividing fault

The four oil discoveries have proven Block 28/9 to be one of the most prolific on the UKCS in recent times Field development studies are well under way towards submitting a Field Development Plan to the Government in 2012 with a view to achieving first oil in 2015 Gross best estimate total contingent resources are estimated to be 155 mmbo (23 mmbo net) with significant exploration upside remaining on the block

Mariner

(Licence P335 – 6% interest)

In November 2010 the Company completed the sale to Statoil of a 20.6667% interest and associated rights in Mariner for total consideration of £87.5m.

Key stats

- Large oil accumulations in the Maureen and Heimdal reservoirs
- Highly appraised with 16 wells
- 63 day extended well test produced 662,000 barrels at 10,000+ bopd
- 14 5° API oil
- Best estimate contingent resources (development pending) of 430 mmbo (gross), 26 mmbo (net)

Block 9/11a (Licence P335)
(Nautical 6 0%)
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 appraised 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 1,595 bopd 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 14,991 bopd (14 5° API)

Interpretation and integration of the subsurface seismic and geological data have enabled the operator to construct geological models for the Heimdal and Maureen reservoirs The improved understanding of the field has allowed the subsurface development plan to be optimised, particularly with regard to well design and well placement The Maureen reservoir will be developed using single branch long horizontal wells whilst deviated multi-lateral wells will be used to develop the shallower Heimdal reservoir The Maureen wells will be drilled first as they are expected to produce at initial individual rates in excess of 20,000 bopd Drilling of the Heimdal reservoir will be scheduled to maintain the production profile and wells will be located on a close spacing to obtain a high recovery factor This optimised development has resulted in a substantial increase in resources with our latest estimate being up to 430 mmbo (26 mmbo net) recoverable for both the Maureen and Heimdal reservoirs

The operator has screened a number of different development concepts The preferred concept of a steel jacket (PDUQ) with a single drilling rig, floating storage and oil transportation by shuttle tanker has been agreed A contract for pre-Front End Engineering and Design (FEED) studies has been awarded This will be followed by FEED and an Environmental Impact Assessment (EIA) which will be completed in 2012 Project sanction by the field partners and FDP submission is scheduled for Q4 2012 with first oil expected in 2016

In November 2010, the Company completed the sale to Statoil of a 20 6667% interest in Mariner for total consideration of £87 5m Additionally Statoil will provide a maximum £3 0m carry of the Company's cost through to final investment decision

Ketos

(Licence P1759 – 100% operated interest)

Ketos offers a substantial upside to the proven Kraken discovery in a 100% Nautical block. The oil and the reservoir quality are proven by the 9/02b-2 well.

Key stats

- Probable extension of Heimdal I oil bearing reservoir encountered by well 9/02b-2
- Best estimate contingent resources of 5 5 mmbo (net)
- Best estimate prospective resources of 34 mmbo (net)
- High tech 3D seismic survey has been acquired over Block 9/1a as part of the Kraken survey (the first 3D over the area)
- Well planned for 2012 dependent on the results of new 3D seismic

Block 9/1a (Licence P1759)
(Nautical 100% Operator)
Block 9/1a is immediately to the west of the Kraken block 9/2b It was acquired by Nautical with a 100% interest in the 26th Seaward Licencing Round Ketos contains oil in the Heimdal I reservoir and is stratigraphically separate from the Heimdal III Kraken field The Ketos discovery well 9/02b-2 encountered 38 feet of net oil bearing sand in the Heimdal I reservoir Existing 2D seismic over Block 9/1a shows amplitudes similar to those seen in the 3D data over Block 9/2b This indicates that Heimdal I reservoir extends into Block 9/1a and thus Ketos could be a substantial accumulation New 3D seismic was acquired over the block as part of the Kraken area survey this summer and this will be processed and interpreted to further define Ketos Dependent on the results of the interpretation, a well will be drilled in 2012

Tudor Rose

(Licence P1463 – 20% interest)

Tudor Rose is an undeveloped oil discovery with an appraisal well to be drilled in Q4 2011.

Key stats

» Contains undeveloped Tudor Rose discovery and Buffalo prospect

» Well will be drilled in Q4 2011

» Best estimate contingent resources of 49 mmbo (gross), 10 mmbo (net), with prospective resources upside of 84 mmbo (gross), 17 mmbo (net)

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 one undeveloped discovery, 14/30a-2, named Tudor Rose The discovery well encountered a 79 foot oil column beneath a 10 foot gas cap at around 3,300 feet subsea within Tertiary, Dornoch Formation sands The western pinchout of the Dornoch sands was confirmed by the interpretation of 208 square kilometres of 3D seismic A deeper oil water contact (OWC) is indicated on this seismic which will be investigated by the appraisal well to be drilled in Q4 2011 The main aim of the well is to collect fluid samples to determine the API gravity and viscosity of the oil

Nautical attributes 49 mmbo of gross best estimate contingent resources (10 mmbo net) with a further 84 mmbo of gross best estimate prospective resources in the east of the structure (17 mmbo net) Further prospectivity is evidenced on the reprocessed seismic in the Lower Cretaceous, Kopervik Sandstone (named Buffalo) which is along trend from the recently discovered West Rochelle Field in Block 15/27

Spaniards

(Licences P1655 – 21% interest)

Large Jurassic prospect downdip from 15/21a-38 oil discovery to be drilled in 2012.

Key stats

- Reprocessed 3D seismic defines large Jurassic prospect downdip from 15/21a-38 oil discovery
- Seismic indicates reservoir thickens downdip and significant oil column implied from pressure data in discovery well
- Part of adjacent 15/21a block has been merged into P1655 and cost sharing agreement reached with enlarged Joint Venture grouping
- Best estimate prospective resources 100 mmbo (gross), 21 mmbo (net)

Block 15/21g (Licence P1655)
(Nautical 21%)
Situated in the Witch Ground Graben in the Outer Moray Firth, Block 15/21g is immediately west of the Scott Field and contains the large Spaniards Jurassic prospect downdip from the 15/21-38 well which tested 2,660 bopd of 25° API oil from the Galley Sandstone

Seismic amplitude mapping indicates the reservoir thickens downdip both to the north-east and north-west of the discovery well Further pressure analysis from the well suggests the potential for a long oil column Additional prospectivity has been mapped in the Dirk Sand (Ryazanian to Upper Volgian age) which is derived off the Halibut Horst and deposited as a sand apron to the north, pinching out to the east

A cost sharing agreement has been reached with the enlarged Joint Venture group Planning is under way to drill a well in Q2 2012

Merrow

(Licence P1475 – 50% operated interest)

The Joint Venture is progressing planning permission for an onshore location from which to drill a directional well offshore to test the Merrow prospect in 2012.

Key stats

- » Large gas prospect in East Irish Sea basin
- » Planned 2012 well to be drilled from onshore location
- » Best estimate prospective resources 290 bcf (gross), 145 bcf (net)

Blocks 113/29c and 113/30 (Licence P1475)
(Nautical 50% Operator)
Blocks 113/19c and 113/30, Traditional Licence awarded in the 24th Seaward Licensing Round in 2007, are located in the East Irish Sea basin adjacent to Walney Island on the Cumbrian coast Offshore the basin is essentially gas prospective although oil shows have been encountered in early onshore wells and commercial oil is discovered further south, for instance at the Lennox Field, offshore Southport Immediately to the west are the Ormonde North and South discoveries in the Triassic Ormskirk Sandstone and further to the west at the 113/27-2 well, the deeper Permian Collyhurst Sandstone has tested gas at productive rates Onshore the Collyhurst Sandstone is the productive reservoir at the Elswick Field some 35km to the south-east near Blackpool

The primary prospect in Block 113/29c, which has resulted from the interpretation of over 700km of reprocessed offshore, transition zone and onshore seismic, comprises a dual prospect target, a large Collyhurst Sandstone structure overlain by a smaller Ormskirk Sandstone structure Regional geological studies combined with gravity, magnetics and outcrop data indicates that the deeper Collyhurst reservoir lies in an optimal area for the deposition of aeolian sands which would exhibit better reservoir qualities than seen elsewhere in the basin Gross best estimate prospective resources for Merrow with an aeolian reservoir are estimated at 290 bcf (145 bcf net)

To take advantage of much cheaper onshore drilling costs, a coastal site has been identified from which to drill a deviated well to target the Collyhurst prospect and planning is in progress An onshore licence is required to drill the well and delays in the Licensing Round mean that drilling has been delayed until 2012 DECC have granted an extension of Licence P1475 to enable the well to be drilled For well design reasons, an onshore well does not allow the testing of the shallower Merrow Ormskirk structure at an optimum location, but subject to its findings there are a number of other Ormskirk leads on the blocks to be reviewed, such as Sea Serpent, a prospect in Block 113/30

Northern Ireland

Northern Ireland, Onshore

(Licence PL1/10 – 20% interest)

The Larne/Lough Neagh licence, PL1/10, contains a largely unexplored Triassic basin analogous to the East Irish Sea.

Key stats

- » Licence PL1/10 covers an area of over 660 sq km northwest of Belfast
- » Regional onshore 2D Vibroseis survey of up to 275km being acquired

PL1/10 Larne/Lough Neagh
(Nautical 20%)
The Larne/Lough Neagh basin is underexplored in onshore terms but it appears to contain all the prospective elements to warrant further exploration of this large Permo-Triassic basin Gravity and magnetic studies have given credence to the possibility of encountering structural complexes which are similar to the prolific East Irish Sea basin

As an initial step in the exploration campaign a 275km regional 2D Vibroseis survey, the first ever acquired in the area, commenced in September 2011 and this will form the basis for understanding of the hydrocarbon potential of the basin

Keddington

(Licence PEDL005 – 10% interest)

Keddington is a small producing field with the potential to increase revenue by gas utilisation.

Key stats

- » K-4z horizontal sidetrack drilled in 2011 encountered 607 feet of hydrocarbon bearing reservoir
- » Currently producing approximately 130 bopd (gross), constrained by gas flaring
- » Operator investigating options to generate electricity from the produced gas which will allow higher production rates

Licence PEDL005
(Nautical 10%)
Nautical 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

The Keddington-4z well was drilled as a re-entry and horizontal sidetrack from the Keddington-1z "donor" well, during April 2011 and encountered a total of 394 feet of the primary reservoir Unit 1 Sandstone and 213 feet of Unit 2 The well is now on production alongside the Keddington-3z well with an average total field production of around 130 bopd

The field is also producing significant quantities of gas with the average daily rate of approximately 500,000 cubic feet The high gas rates are constraining the oil production and the operator is investigating options to generate electricity which will utilise the produced gas and allow higher oil production

France

(22% interest)

The St Laurent Permit contains a large gas prospect with 3TCF gross best estimate prospective resources.

St Laurent key stats

- Large subsalt gas prospect in the Triassic Bunter Sandstone under the Audignon Ridge
- Best estimate prospective resources of 3TCF (gross), 660 bcf (net)
- Grenade heavy oil accumulation with 4 2 mmbo gross best estimate contingent 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 318 foot 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 have focused on determining the extent of this accumulation and whether to sidetrack or abandon the GAR-3 well However, the current focus of work is on the larger Audignon Ridge gas prospect

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 (660 bcf net to Nautical) A farmin agreement is currently being negotiated, prior to acquiring further seismic to de-risk the prospect

Financial strength

Will Mathers
Finance Director

Nautical's financial position has strengthened significantly during the year ended 30 June 2011.

Nautical's financial position has strengthened significantly during the year ended 30 June 2011 Operational success at Catcher in June 2010 laid the foundation for a private placing in August 2010, which raised net proceeds of £28 9m and significantly improved the Company's shareholder register This was followed by the partial sale of Mariner, completed in November 2010, which resulted in proceeds of £87 5m Against the backdrop of a turbulent year in the capital markets, these transactions have ensured that the Group is well funded and remains debt free

We completed the year with £110 0m in cash and deposits Our strong cash position ensures that Nautical is sufficiently funded to execute its planned exploration and appraisal programme beyond 2012 and provides a solid financial foundation as we progress Kraken, Catcher and Mariner towards Field Development Plan (FDP) approvals

Results
The Group made a profit after taxation for the year of £50 6m (2010 £2 3m loss), including a £55 1m gain on the partial sale of Mariner, partially offset by exploration write-offs of £0 4m (2010 £0 2m), pre-licence expenditure of £0 4m (2010 £0 4m) and an impairment charge of £0 9m, related to the Grenade field (located on the St Laurent permit in France)

Revenue of £177k received during the year was attributable to the onshore Keddington field, which remains Nautical's only production Interest income increased from the prior year to £0 9m (2010 £0 3m), reflecting the enhanced cash resources of the Group

Administration expenses of £4 4m (2010 £1 6m) included £3 7m of staff costs (2010 £1 1m) Of this non-cash charges of £1 3m (2010 £0 1m) related to share options issued to Directors and employees The taxation gain of £0 6m (2010 £0 2m gain) has arisen from movements on the deferred tax liability, primarily due to changes in tax rates

Statement of financial position
As at 30 June 2011, the Group had net assets of £137 9m (2010 £57 7m), dominated by capitalised exploration and evaluation assets of £48 0m (2010 £55 3m) and cash and deposits of £110 0m (2010 £11 7m), of which £17 2m was restricted for Kraken drilling operations

The exploration and evaluation assets of £48 0m included capitalised costs of £29 4m for Kraken (2010 £20 3m) and £8 6m for Catcher (2010 £2 2m)

Cash flow
In addition to £3 4m net operating expenses, the Group incurred expenditure of £11 3m (2010 £6 6m) on its exploration and evaluation assets during the year, including £0 9m on Kraken, £6 4m on Catcher, £2 1m on Mariner and £1 9m on the remaining portfolio An additional £7 0m was incurred in May 2011 acquiring a further 15% interest in Kraken from Canamens Energy North Sea Limited, taking Nautical's equity interest in Block 9/2b from 35% to 50%

In addition to normal operating and investing activity, two transactions significantly strengthened the cash position of the Group

In August 2010, Nautical completed a placing of 24,280,000 new ordinary shares at a price of 125 pence per share to raise gross proceeds of £30 3m (£28 9m net of expenses) The price of 125 pence represented a 12 6% discount to the closing price of the shares upon the announcement of the placing

In September 2010, the Company signed a Sale and Purchase Agreement with Statoil for the sale of a 20 6667% interest and associated rights in Mariner, reducing Nautical's equity interest in Mariner to 6 0% Upon completion in November 2010, proceeds of £87 5m were received As a result, the book value of Mariner was reduced to £0 7m at 30 June 2011 (2010 £31 1m)

Taxation
The gain on the partial sale of Mariner is not expected to be subject to tax as it qualifies for reinvestment relief The relief applies provided that the proceeds are either expended on qualifying UK Oil & Gas assets or spent acquiring UK Oil & Gas assets in the period between one year before the disposal and three years after

In March 2011, the Government announced an increase in the Supplementary Corporation Tax (SCT) from 20% to 32% This unexpected increase means that production from Nautical's UKCS fields will be subject to a taxation rate of 62%

A consequence of Nautical's commercial success to date is that we do not have tax losses to indefinitely shelter us from this increase We are, however, pleased that the Government is showing a willingness to engage with the industry regarding these matters, as evidenced by the recent increase in the Ring Fenced Expenditure Supplement (RFES) from 6% to 10%

One positive aspect of the increase in the SCT is that it improves the value of the Heavy Oil Field Allowance of £800m per field, for which both Kraken and Mariner qualify Upon production, both fields will now receive gross tax relief of up to £256m (previously £160m)

Funding and outlook
The transition of the Group's assets into the development phase depends not only on continued technical success, but also on the ability of the Group to obtain financing prior to Field Development Plan approvals

Consequently, the strength of capital markets and the continued availability of reserve based lending finance for development projects remains critical to Nautical's ability to successfully execute its plans The availability of such funding will continue to be influenced by macro-economic events, including oil price fluctuations, the overall state of the economy and the strength of the banking sector, all of which remain outside the control of Nautical

Whilst the current global economic and banking environment is fragile, our key projects are economically robust and we remain confident of our ability to take our key projects to FDP approval With our strong cash position and sound asset base Nautical is well placed to meet the challenges ahead

Will Mathers
Finance Director
14 October 2011

1 Patrick Kennedy
Non-Executive Director and Chairman
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 financial 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

2. Steve Jenkins
Chief Executive Officer
As part of a 29 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 multi-disciplinary 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 farmout 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

3 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 with Steve Jenkins

4 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 CFO of Nautical in October 2008

5 Philip Dimmock
Non-Executive Director
Philip has over 30 years' experience in 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 a 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 2011

Business review and future activities

The principal activity of the Company is oil and gas exploration and evaluation in the UK and Europe, with the principal assets of the Company moving towards field development plan submissions 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 2011 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, is 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 profit for the year was £50 61m (2010 loss of £2 28m), including a gain on the partial sale of Mariner of £55 12m The Directors do not recommend the payment of a dividend

Directors and their interests

The beneficial and other interests of the Directors holding office during the year and their families in the shares of the Company at 30 June 2011 were

Number of ordinary shares and options held

	At 30 June 2011		At 30 June 2010	
	Ordinary shares Number	**Share options Number**	Ordinary shares Number	Share options Number
S Jenkins (Chief Executive)	**908,096**	**1,275,000**	876,096	1,125,000
P Jennings (Commercial Director)	**896,096**	**925,000**	876,096	800,000
W Mathers (Finance Director)	**20,000**	**300,000**	Nil	200,000
J Conlin (Non-Executive Director – resigned 11 November 2010)	**n/a**	**n/a**	Nil	60,000
P Dimmock (Non-Executive Director)	**8,000**	**285,000**	Nil	250,000
P Kennedy (Non-Executive Chairman)	**83,000**	**285,000**	75,000	250,000

On 31 August 2010 the Company completed a share placing with the Directors participating as follows S Jenkins 32,000 shares, P Jennings 20,000 shares, W Mathers 20,000 shares, J Conlin 8,000 shares, P Dimmock 8,000 shares, P Kennedy 8,000 shares

The Directors have been Directors throughout the year, with the exception of J Conlin, who resigned on 11 November 2010 Patrick Kennedy was appointed Chairman on 15 September 2011

S Jenkins and P Jennings hold part of their shareholding with TD Waterhouse Nominees (Europe)

Retirement and resignation of Directors

P Kennedy retires in accordance with section 99(1) of the Company's Articles of Association and offers himself for re-election W Mathers retires in accordance with section 99(2) of the Company's Articles of Association and offers himself for re-election J Conlin resigned from the Board on 11 November 2010

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 30 June 2011 87,745,179 ordinary shares of 20p each are issued and fully paid Each ordinary share carries 1 vote On 31 August 2010 the Company completed a placing of 24,280,000 shares Details of ordinary shares issued during the financial year can be found in note 21 of the financial statements

Substantial shareholders

At 14 October 2011 notification had been received by the Company of the following who had a disclosable interest in 3% or more of the nominal value of the ordinary share capital of the Company

	Number of shares	Percentage
Blackrock Investment Management (UK) Limited	8,882,528	10 12%
Blue Gold Capital Management LLP	8,681,780	9 90%
MHR Advisors LLC	7,096,085	8 09%
J P Morgan Asset Management Holdings Inc	5,244,265	5 98%

The Company has not been notified of any other person who has an interest in 3% or more in the Company's 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 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 Limited 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 2011 amount to 74 days of purchases made in the year (2010 13 days)

Donations
During the year the Group made charitable donations of £50 (2010 £nil) and no political contributions (2010 £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 of the financial statements The financial risk management objectives and policies are discussed in note 20 of the financial statements

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 KPIs include items such as the financial position of the business, the performance of the Company against its peers, health and safety incidents, operational results, resources and other commercial measurements which are aimed at achieving the Group's strategic objectives

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
- Adverse foreign exchange movements

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
- Failure of third party services

Strategic and external risks
- Future deterioration of capital markets, inhibiting efficient equity and/or debt raising for developments
- Commercial misalignment with co-venturers
- Material fall in oil price

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's activities may also be curtailed, delayed or cancelled not only as a result of adverse weather conditions but also as a result of shortage or delays in the delivery of drilling rigs and other equipment which, at times, are in short supply The Group seeks to manage these risks through portfolio management, balancing risk across a range of prospects and leads, which carry varying technical and commercial risks, and carefully managing the financial exposure to each asset in the portfolio through the arrangements set out with joint venture partners

The Group competes with other E&P companies, some of whom have much greater financial resources, for the identification and acquisition of oil and gas licences and properties and also for the recruitment and retention of skilled personnel

Directors' report continued

The market price of hydrocarbon products is volatile and is not within the control of the Group If significant declines occur in the price of oil, or detrimental changes occur to the UK fiscal regime, the economic commerciality of the Group's projects can be significantly reduced or rendered uneconomic

The successful progression of the Group's oil and gas assets depends not only on technical success, but also on the ability of the Group to obtain appropriate financing through equity financing, debt financing, farm downs or other means The availability of such funding will continue to be influenced by macroeconomic events, including oil price fluctuations and the overall state of the economy, both of which remain outside the control of the Group There is no assurance that the Group will be successful in obtaining required financing going forward If the Group is unable to obtain additional financing needed to fulfil its planned work programmes some interests may be relinquished and/or the scope of the operations reduced

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

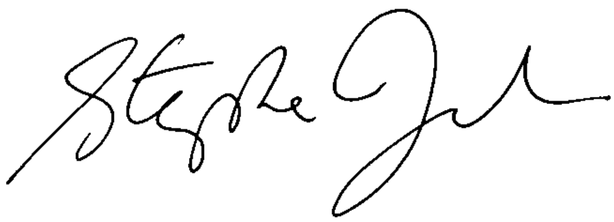
Disclosure of information to the auditors
Having made enquiries of fellow Directors and of the Company's auditors, each of the Directors confirms that, to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors 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 18 November 2011 as stated in the Notice of Meeting, which accompanies this Annual Report

On behalf of the Board

Stephen Jenkins
Director
14 October 2011



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 achieve these objectives, the Remuneration Committee links the nature and amount of Executive Directors' and officers' emoluments to the Company's financial and operational performance Every year, an Industry survey of remuneration levels is used, firstly, to benchmark job content and, secondly, to set a base salary at the median level The remaining remuneration is dependent on the performance of the Company and the individual The performance of both the Company and the individual is measured against Key Performance Indicators which are set at the beginning of the financial year The score against KPI's is used to award a cash bonus as a percentage of base salary A perfect performance would generate a bonus of 100% A long-term benefit, highly geared to share price performance and hence shareholder value, is awarded each year in the form of stock options Nautical has adopted a policy of awarding the options at the same time each year so that any vagaries in the share price will even out in the long run

Executive Directors emoluments consist of salary, pension, annual bonus, a discretionary bonus and discretionary share options 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	Annual Bonus £'000	Special Bonus £'000	Pension £'000	**Total 2011 £'000**	Total 2010 £'000
S Jenkins	245	–	193	180	31	**649**	300
P Jennings	192	–	134	180	6	**512**	175
W Mathers	142	–	110	85	18	**355**	194
J Conlin – resigned on 11 November 2010	–	28	50	–	–	**78**	45
P Dimmock	–	43	–	–	–	**43**	30
P Kennedy	–	49	–	–	–	**49**	30
Total	579	120	487	445	55	**1,686**	774

On 3 November 2010, the Company completed the sale of a 20 6667% interest in Licence P335, Block 9/11a which contains the Mariner discovery and associated rights to Statoil (UK) Limited for sale proceeds of £87 5 million, resulting in a profit to the Company of £55 13 million In addition, operational success was achieved with the discoveries at Catcher and with the successful appraisal wells in Kraken This combination created a step change for the Company, transforming it from a microcap to a midcap In recognition of the contribution to the step change made by the Executive Directors and other employees, the Remuneration Committee awarded a special bonus of £547k to employees of which £445k was paid to the Executive Directors

S Jenkins has entered into a loan agreement with the Company for £4,180 with an outstanding balance due to the Company at 30 June 2011 of £1,742 (2010 £1,750)

The pension is a defined contribution scheme

Remuneration report continued

Share options granted to Directors

Name	Options held at June 2010	Options granted in year	Options exercised in year	Options lapsed in year	Options held at June 2011	Exercise price (p)	Issue date	Expiry date
S Jenkins	250,000	–	–	–	250,000	80 00	07/03/05	07/03/13
	300,000	–	–	–	300,000	220 00	26/09/05	26/09/13
	125,000	–	–	–	125,000	177 00	18/01/07	18/01/15
	150,000	–	–	–	150,000	211 00	18/01/08	18/01/16
	150,000	–	–	–	150,000	26 75	12/01/09	12/01/17
	150,000	–	–	–	150,000	57 50	13/01/10	13/01/18
	–	150,000	–	–	150,000	433 00	10/01/11	10/01/19
	1,125,000	150,000	–	–	1,275,000			
P Jennings	200,000	–	–	–	200,000	80 00	07/03/05	07/03/13
	200,000	–	–	–	200,000	220 00	26/09/05	26/09/13
	75,000	–	–	–	75,000	177 00	18/01/07	18/01/15
	100,000	–	–	–	100,000	211 00	18/01/08	18/01/16
	125,000	–	–	–	125,000	26 75	12/01/09	12/01/17
	100,000	–	–	–	100,000	57 50	13/01/10	13/01/18
	–	125,000	–	–	125,000	433 00	10/01/11	10/01/19
	800,000	125,000	–	–	925,000			
W Mathers	100,000	–	–	–	100,000	36 17	13/11/08	13/11/16
	100,000	–	–	–	100,000	57 50	13/01/10	13/01/18
	–	100,000	–	–	100,000	433 00	10/01/11	10/01/19
	200,000	100,000	–	–	300,000			
J Conlin – resigned 11 November 2010	30,000	–	(22,500)	(7,500)	–	57 10	24/06/09	n/a
	30,000	–	(15,000)	(15,000)	–	57 50	13/01/10	n/a
	60,000	–	(37,500)	(22,500)	–			
P Dimmock	75,000	–	–	–	75,000	80 00	07/03/05	07/03/13
	75,000	–	–	–	75,000	220 00	26/09/05	26/09/13
	25,000	–	–	–	25,000	177 00	18/01/07	18/01/15
	25,000	–	–	–	25,000	211 00	18/01/08	18/01/16
	25,000	–	–	–	25,000	26 75	12/01/09	12/01/17
	25,000	–	–	–	25,000	57 50	13/01/10	13/01/18
	–	35,000	–	–	35,000	433 00	10/01/11	10/01/19
	250,000	35,000	–	–	285,000			
P Kennedy	75,000	–	–	–	75,000	80 00	07/03/05	07/03/13
	75,000	–	–	–	75,000	220 00	26/09/05	26/09/13
	25,000	–	–	–	25,000	177 00	18/01/07	18/01/15
	25,000	–	–	–	25,000	211 00	18/01/08	18/01/16
	25,000	–	–	–	25,000	26 75	12/01/09	12/01/17
	25,000	–	–	–	25,000	57 50	13/01/10	13/01/18
	–	35,000	–	–	35,000	433 00	10/01/11	10/01/19
	250,000	35,000	–	–	285,000			
Total	2,685,000	445,000	(37,500)	(22,500)	3,070,000			

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 Following resignation no further options can vest and there is a period of up to one year to exercise options which have already vested after which they lapse 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

Philip Dimmock
Chairman of the Remuneration Committee
14 October 2011

Corporate governance

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

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

The Code recommends that smaller companies should have at least 2 Non-Executive Directors The Board comprises 3 Executive and 2 Non-Executive Directors, one of whom 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 are shareholders

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

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

All members of the Board are expected to attend Board Meetings which are scheduled in advance There was 95% attendance at all meetings throughout the year

Audit Committee
The Audit Committee is chaired by P Kennedy and its other member is P Dimmock 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 P Kennedy 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 the Executive Directors including bonus and share options None of the Committee has any day-to-day involvement in running the Company

Nominations Committee
The Nominations Committee 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

Corporate governance continued

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 at 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,
- state that the Group has complied with IFRSs', subject to any material departures disclosed and explained in the financial statements, and
- make judgements and estimates that are reasonable and prudent

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 2011 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity and the Statement of Cash Flows and the related notes 1 to 29 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 chapter 3 of part 16 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 on page 33, 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 and express an opinion on 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 In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 2011 and of its profit 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 2011

Kevin Weston (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen
14 October 2011

Consolidated statement of comprehensive income
For the year ended 30 June 2011

	Notes	2011 £'000	2010 £ 000
Revenue	3	**177**	68
Cost of sales		**(99)**	(84)
Gross profit/(loss)		**78**	(16)
Exploration and evaluation expense	4	**(761)**	(663)
Impairment	4	**(902)**	–
Administrative expenses		**(4,405)**	(1,602)
Foreign exchange gain/(loss)		**155**	(132)
Operating loss	4	**(5,835)**	(2,413)
Gain on sale of intangible exploration and evaluation assets	5	**55,125**	–
Finance income	10	**947**	309
Finance costs	10	**(247)**	(371)
Profit/(loss) before tax		**49,990**	(2,475)
Tax	11/17	**615**	194
Profit/(loss) and total comprehensive income for the year		**50,605**	(2,281)
Attributable to			
Equity holders of the Company		**50,605**	(2,281)
Earnings/(loss) per ordinary share (pence)			
Basic	12	**60.55**	(3 60)
Diluted	12	**59.47**	(3 60)

The results above were entirely derived from continuing operations

Consolidated statement of financial position
As at 30 June 2011

	Notes	At 30 June 2011 £'000	At 30 June 2010 £'000
Non-current assets			
Intangible assets	13	**47,958**	55,258
Property, plant and equipment	13	**764**	353
		48,722	55,611
Current assets			
Trade and other receivables	14	**1,351**	808
Cash and cash equivalents	15	**52,859**	8,730
Short-term deposits	15	**57,115**	3,000
		111,325	12,538
Total assets		**160,047**	68,149
Current liabilities			
Trade and other payables	16	**(13,254)**	(883)
Non-current liabilities			
Deferred tax	17	**(4,895)**	(5,488)
Provisions	18	**(4,008)**	(4,103)
		(8,903)	(9,591)
Total liabilities		**(22,157)**	(10,474)
Net assets		**137,890**	57,675
Equity attributable to equity holders			
Called up share capital	21	**16,455**	11,588
Share premium		**61,785**	37,748
Other reserves	22	**29,169**	29,169
Cumulative translation reserve		**(1,659)**	(1,659)
Retained earnings		**32,140**	(19,171)
Total equity		**137,890**	57,675

The financial statements were approved by the Board on 14 October 2011 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 2011

	Share capital £'000	Share premium £'000	Other reserves £'000	Cumulative translation reserve £'000	Retained earnings £'000	Total equity £'000
At 1 July 2009	11,588	37,748	29,169	(1,659)	(17,035)	59,811
Loss for the year	–	–	–	–	(2,281)	(2,281)
Total comprehensive income for the year	–	–	–	–	(2,281)	(2,281)
Share-based payments	–	–	–	–	145	145
At 30 June 2010	11,588	37,748	29,169	(1,659)	(19,171)	57,675
Profit for the year	–	–	–	–	50,605	50,605
Total comprehensive income for the year	–	–	–	–	50,605	50,605
Share-based payments	–	–	–	–	706	706
New shares issued	4,867	25,583	–	–	–	30,450
Costs associated with issuance of new shares	–	(1,546)	–	–	–	(1,546)
At 30 June 2011	**16,455**	**61,785**	**29,169**	**(1,659)**	**32,140**	**137,890**

Consolidated statement of cash flows
For the year ended 30 June 2011

	Notes	2011 £'000	2010 £'000
Net cash outflow from operating activities	23	**(3,448)**	(1,720)
Cash flows from investing activities			
Finance income		**986**	209
Proceeds on sale of intangible exploration and evaluation assets	5	**87,500**	–
Expenditure on office assets		**(399)**	–
Expenditure on development and production assets		**(108)**	(93)
Expenditure on intangible assets		**(11,293)**	(6,624)
Acquisition of intangible assets		**(7,000)**	–
Increase in amounts due to JV partners		**3,174**	–
(Increase)/decrease in cash placed on short-term deposit	24	**(54,115)**	13,000
Decrease in cash placed on long-term deposit		**–**	1,000
Net cash flow from investing activities		**18,745**	7,492
Cash flows from financing activities			
Finance expense		**(72)**	(103)
Proceeds from issue of ordinary shares	21	**28,904**	–
Net cash flow from financing activities		**28,832**	(103)
Increase in cash and cash equivalents		**44,129**	5,669
Cash and cash equivalents at beginning of year		**8,730**	3,061
Cash and cash equivalents at end of year	15	**52,859**	8,730

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 2011 were authorised for issue by the Board of Directors on 14 October 2011 and the statement of financial position was signed on the Board's behalf by Stephen Jenkins and William Mathers Nautical Petroleum plc is a public limited company incorporated and domiciled 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 2011, and applied in accordance with the provisions of the Companies Act 2006 The Group's financial statements are presented in sterling and all values rounded to the nearest thousand pounds (£000) except where otherwise indicated

The Board has reviewed the accounting policies set out below and considers them to be appropriate to the Group's business activities

(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 2011, 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

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from Parent Company's shareholders' equity

Where a non-controlling 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 statement of financial position 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

The Group was formed by a reverse acquisition As such the share capital and share premium of the Group differ to that of the Parent Company The Group share capital and share premium at the time of the reverse acquisition are those of the Company carrying out the reverse acquisition adjusted for the value of the acquired Company Subsequent movements are those of the acquired Company, being the new legal Parent

(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 date of the statement of financial position, 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 makes judgements whether the exploration and evaluation assets and the development and production assets are impaired in accordance with policies 2 7 and 2 8
- The Group makes estimates to determine 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 in accordance with policy 2 10
- The Group makes estimates for the inputs into the binomial model used to estimate the fair value and charge to income of share options granted in accordance with policy 2 16

(2 4) Revenue recognition
Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes 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 As at 30 June 2011 all entities within the Group had a UK sterling 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 retranslated at the functional currency rate of exchange ruling at the date of the statement of financial position All differences are taken to the statement of comprehensive income

Notes to the financial statements continued

2. Accounting policies for the consolidated financial statements continued

(2 6) Derivative income

Derivative income arises from Dual Currency Deposits (DCDs) which provide an enhanced yield but also exposure to currency movements and as such contain an embedded derivative The income earned is separated into that which could be earned on a cash deposit of similar maturity which is classified as interest income and the enhanced yield element which is classified as derivative income

(2 7) Intangible assets – exploration and evaluation assets

The Group accounts for oil and gas expenditure under the successful efforts method of accounting

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 statement of comprehensive income 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 and appraisal (drilling, trenching, sampling and technical feasibility and commercial viability activities) are accumulated and capitalised in cost centres by well, field or exploration area as appropriate and classified 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 statement of comprehensive income 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 and if an impairment is established a charge is made to the statement of comprehensive income A key factor to consider is the presence of an active work programme The quality of information available to make assessments on E&E assets varies from limited geological data to multiple well and seismic data To progress with the evaluation of an asset the Company seeks information that will indicate the possibility of the existence of commercial reserves This could range from promising geological trends in the very early stages of evaluation to well tests in the latter stages Where possible the Company devises estimates of potential future cash flows to give an indication of the present value This is compared to the carrying value of the asset to establish if an indication of impairment exists

Acquisitions and disposals

Farmin and farmout 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 statement of comprehensive income as a gain or loss

(2 8) Property, plant and equipment

(i) 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 Changes in reserve quantities and cost estimates are recognised prospectively from the last reporting date

Impairment

If and when facts and circumstances indicate that the carrying value of a development or production asset may exceed its recoverable amount, the carrying value is compared against the expected recoverable amount of the asset, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves Any impairment identified is charged to the statement of comprehensive income as additional depreciation Where conditions giving rise to the impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the statement of comprehensive income, net of any depreciation that would have been charged since the impairment

(ii) Office assets

Office assets are stated at cost less accumulated depreciation Depreciation is provided on a straight-line basis to write off the costs less estimated residual value over the expected useful life of the assets, which has been determined to be three years The carrying values are reviewed for impairment when events or circumstances indicate the carrying value may not be recoverable

2 Accounting policies for the consolidated financial statements continued

(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 statement of financial position

(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 production 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 though statement of comprehensive income as a finance cost At each date of the statement of financial position, 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

Deposits held at the date of the statement of financial position with original maturities of between 3 and 12 months are classified as short-term deposits

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 statement of comprehensive income if there is objective evidence that the receivable is impaired

Under IAS 39 all financial assets are classified as "loans and borrowings"

(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

All financial liabilities as defined under IAS 39 are held at amortised cost

(2 13) Leases

Where the lessor retains substantially all the risks and benefits of ownership the lease is classified as an operating lease and amounts due are charged to the statement of comprehensive income over the lease term on a straight-line basis The Company's office is held under an operating lease

(2 14) 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 date of the statement of financial position

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

Notes to the financial statements continued

2 Accounting policies for the consolidated financial statements continued
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 date of the statement of financial position

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position Deferred income tax assets and liabilities are offset, only if a legally enforcement 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 statement of comprehensive income

(2 15) Employee benefits
The Group operates a defined contribution pension scheme Contributions payable for the year are charged to the statement of comprehensive income

(2 16) Share-based payments
The cost of equity-settled transactions (share options) with employees is measured by reference to the fair value at the date at which they are granted and is recognised over the vesting period as an expense to the statement of comprehensive income, with a corresponding credit to equity Fair value is determined using an appropriate pricing model

The Company is liable for Employer's National Insurance on the difference between the market value at date of exercise and the exercise price The expense is accrued by reference to the share price of the Company at the date of the statement of financial position

(2 17) Separately disclosable items
Items that are both material in size and unusual and infrequent in nature are presented as separately disclosable items in the statement of comprehensive income 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 18) Commitments and contingencies
Commitments and contingent liabilities are not recognised in the financial statements They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable

(2 19) Changes in accounting policy
The accounting policies adopted are consistent with those of the previous financial year except as described below The following new and amended IFRS and IFRIC Interpretations are mandatory for periods beginning on or after 1 July 2010 unless otherwise stated For each of the new or amended IFRS and IFRIC interpretations adopted in the period the impact on the financial statements or performance of the Group is described below

IFRS 2 Amendments to IFRS 2 – Group Cash-settled Share-based Payment Transactions
The amendment clarifies the accounting for Group cash-settled share-based payment transactions, where a subsidiary receives goods or services from employees or suppliers but the Parent or another entity in the Group pays for those goods or services This amendment did not have any impact on the financial position or performance of the Group

IAS 32 Amendments to IAS 32 Classification of Rights Issues
In October 2009, the IASB issued an amendment to IAS 32 on the classification of rights issues For rights issues offered for a fixed amount of foreign currency current practice appears to require such issues to be accounted for as derivative liabilities The amendment states that if such rights are issued pro rata to an entity's all existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated This amendment did not have any impact on the financial position or performance of the Group

Improvements to IFRSs (issued May 2010)
In May 2010 the IASB issued further amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording There are separate transitional provisions for each amendment The adoption of amendments did not have any impact on the financial position or performance of the Group

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 July 2010 but they are not relevant to the Company's operations
- IFRS 1 Amendments to IFRS1 – Additional Exemptions for First-Time Adopters
- IFRS 1 Amendments to IFRS1 – Limited Exemption from comparatives IFRS 7 disclosures
- IAS 32 Amendments to IAS 32 Classification of Rights Issues
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

2 Accounting policies for the consolidated financial statements continued
(2 20) 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
IAS 24 Related Party Disclosures (revised)	1 January 2011
IFRS 7 Amendment Disclosures – Transfer of Financial Assets	1 July 2011
IAS 12 Amendment Recovery of underlying Assets	1 January 2012
IAS 1 Presentation of Items of Other Comprehensive Income	1 July 2012
IFRS 9 Financial Instruments Classification & Measurement	1 January 2013
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
IAS 19 Revised	1 January 2013

International Financial Reporting Interpretations Committee (IFRIC)	Effective date
IFRIC 14 Amendments Prepayments of a Minimum Funding Requirement	1 January 2011

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements

3. Turnover and segmental information
Revenue disclosed in the statement of comprehensive income is analysed as follows

	2011 £'000	2010 £ 000
Oil sales	**177**	68
Revenue	**177**	68
Finance income	**947**	309
Total revenue	**1,124**	377

For the purposes of segmental information the reportable operating segment is determined to be the business segment The Group has only 1 class of business segment, the exploration for and production of hydrocarbon liquids, which is monitored by management

Geographical information
The Group's geographical areas are the United Kingdom and Europe The following tables present certain asset information regarding the Group's geographical areas

Revenue from external customers	**2011 £'000**	2010 £ 000
United Kingdom	**177**	68

Non-current assets	**2011 £'000**	2010 £'000
United Kingdom	**48,653**	54,617
Europe	**69**	994
	48,722	55,611

Non-current assets for this purpose consist of intangible assets and property, plant and equipment

Information about major customers
Revenue from oil sales is generated from only 1 customer

Notes to the financial statements continued

4 Operating loss

Operating loss is stated after charging	2011 £'000	2010 £'000
Exploration and evaluation expense		
– Exploration costs written off (see note 13)	**381**	232
– Pre licence expenditure	**380**	431
Impairment of Grenade licence	**902**	–
Depreciation and depletion of property, plant and equipment	**97**	17
Foreign exchange (gains)/losses on conditional payments	**(270)**	369
Other foreign exchange losses/(gains)	**115**	(237)

5 Gain on sale of intangible exploration and evaluation assets

Partial sale of Mariner	2011 £'000
Proceeds	**87,500**
Net book value of assets	**(32,375)**
	55,125

On 3 November 2010, the Company completed the sale of a 20 6667% interest in Licence P335, Block 9/11a which contains the Mariner discovery and associated rights to Statoil (UK) Limited for sale proceeds of £87 5m The Company retains a 6% interest in the field, with Statoil carrying 3% of costs until Field Development Plan submission up to a limit of £3 0m

6 Auditors' remuneration

	2011 £'000	2010 £'000
Audit of the Group accounts	**62**	60
Audit of the Company's accounts	**8**	7
	70	67
Other fees to auditors		
Audit of the Company's subsidiaries pursuant to legislation	**20**	17
Other services pursuant to legislation	**32**	27
Taxation services	**119**	60
	171	104

7. Information regarding Directors' emoluments

Aggregate Directors' emoluments, which exclude pensions, are £1,631k (2010 £725k) The emoluments of the highest paid Director were £618k (2010 £279k) In addition he received contributions to a defined contribution pension scheme of £31k (2010 £21k) Further information is included in the Remuneration Report

8 Employees

Headcount

	2011 Number	2010 Number
Average number of employees of the Group (including Executive Directors) during the year was		
Management	**3**	3
Technical staff/support/other	**5**	3

Staff costs

	2011 £'000	2010 £'000
Wage and salaries	**908**	654
Bonuses	**1,040**	168
Social security costs	**276**	103
Other pension costs	**113**	70
	2,337	995
Equity-settled share-based payments	**706**	145
NI on share options	**615**	–
	3,658	1,140

The Company is liable for Employer's National Insurance on the difference between the market value at date of exercise and the exercise price The expense is accrued by reference to the share price of the Company at the date of the statement of financial position

9 Pension commitments

For direct employees of Nautical Petroleum plc, the Company contributes 10% of salary to a defined contribution pension scheme and up to 2 5% to match employee contributions £113k has been charged to the statement of comprehensive income for the year (2010 £70k)

10. Interest and similar items

Finance income	2011 £'000	2010 £ 000
Bank interest	**693**	309
Derivative income	**254**	-
	947	309

Finance costs	2011 £'000	2010 £ 000
Costs of borrowing facility	**72**	103
Other financial costs	**-**	77
Unwinding of discounts on long-term payables	**142**	191
Effect of change in estimates discounting of long-term payables	**33**	-
	247	371

11. Tax on loss on ordinary activities

The major components of the tax credit are

	2011 £'000	2010 £ 000
Income tax – prior year adjustment	**(22)**	–
Deferred tax		
Relating to ongoing and reversal of temporary differences – current year	**(3,895)**	1,570
Relating to ongoing and reversal of temporary differences – prior year	**956**	–
Effect on opening balance of rate change	**(95)**	–
Change in recoverable amounts of deferred tax assets	**2,441**	(1,764)
	(615)	(194)

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

	2011 £'000	2010 £'000
Profit/(loss) before tax	**49,990**	(2,475)
Profit/(loss) before tax at the standard UK corporation tax of 27 5% (2010 28%)	**13,747**	(693)
Effects of		
Non-taxable gain on partial sale of Mariner	**(16,971)**	–
Expenses and (income) not deductible for tax purposes	**(682)**	(49)
Prior year adjustment – deferred tax	**956**	66
Change in recoverable amounts of deferred tax assets	**2,441**	–
Deferred tax assets not recognised	**2,092**	568
Effect of change in tax rates	**(95)**	–
Effect of supplementary charge	**(2,103)**	(86)
Total tax credit on loss on ordinary activities	**(615)**	(194)

12. Earnings per share

	2011	2010
Earnings/(loss) for the year attributable to equity holders (£'000)	**50,605**	(2,281)
Basic weighted average number of shares in issue in the year (thousands)	**83,575**	63,408
Basic earnings/(loss) per ordinary share (pence)	**60 55**	(3 60)
Weighted average number of shares for diluted earnings (thousands)	**85,100**	63,408
Diluted earnings/(loss) per ordinary share (pence)	**59 47**	(3 60)

The weighted average number of shares for diluted earnings includes the effect of 1,525 thousand dilutive share options Share options are considered dilutive if they could be exercised during the year at less than the average share price during the year (334p)

Due to a loss made from continuing operations during 2010 potential ordinary shares resulting from the exercise of share options were not dilutive

Notes to the financial statements continued

13 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 Development and production assets £'000	Office assets £'000	Total £'000
At 30 June 2009	48,857	285	–	49,142
Additions	6,633	93	–	6,726
Written off	(232)	–	–	(232)
At 30 June 2010	55,258	378	–	55,636
Additions	19,358	109	399	19,866
Acquisitions	7,000	–	–	7,000
Disposals	(32,375)	–	–	(32,375)
Impairments	(902)	–	–	(902)
Written off	(381)	–	–	(381)
At 30 June 2011	**47,958**	**487**	**399**	**48,844**
Depletion and depreciation				
At 30 June 2009	–	8	–	8
Provided in year	–	17	–	17
At 30 June 2010	–	25	–	25
Provided in year	–	37	60	97
At 30 June 2011	**–**	**62**	**60**	**122**
Net book value				
At 30 June 2011	**47,958**	**425**	**339**	**48,722**
At 30 June 2010	55,258	353	–	55,611

The £7 0m acquisition relates to Nautical increasing its share of the Kraken field from 35% to 50% The exploration and evaluation balance represents the costs related to the fields currently being evaluated and appraised, including £29 4m for the Kraken field (2010 £20 3m) and £8 6m for Catcher (2010 £2 2m) Amounts written off relate to unsuccessful exploration costs primarily due to licences being relinquished or in the process of being relinquished The impairment of £0 9m relates to the Grenade heavy oil field in France There has been little recent activity and forward plans are uncertain, so the asset has been impaired In the event that further activity takes place this will be reassessed and the balance could be reinstated

Upon field development plan (FDP) approval of Kraken certain amounts become due from Joint Venture partners £3 1m in cash on FDP approval and an £8 0m carry on development spend

14. Trade and other receivables

	30 June 2011 £'000	30 June 2010 £'000
Amounts due from joint venture partners	**251**	253
Other debtors	**702**	221
Prepayments and accrued interest	**398**	334
	1,351	808

None of the above are impaired

15. Cash and short-term deposits

	30 June 2011 £'000	30 June 2010 £'000
Cash at bank and in hand	**25,680**	625
Deposits of 3 months or less	**10,000**	8,105
Restricted cash	**17,179**	–
Cash and cash equivalents	**52,859**	8,730
Short-term deposits	**57,115**	3,000
Total cash and short-term deposits	**109,974**	11,730

Restricted cash relates to balances held in Escrow and third party accounts, primarily for the drilling of the Kraken 9/02b-5 well which commenced in July 2011

Interest rate and currency exposure

At 30 June 2011	Sterling £'000	US dollars £'000	Euros £'000	CHF £'000	Total £'000
Balances at fixed interest rates	**55,025**	**2,090**	**–**	**–**	**57,115**
Balances at floating interest rates	**30,214**	**–**	**–**	**–**	**30,214**
Balances on which no interest is earned	**11,171**	**11,226**	**191**	**57**	**22,645**
	96,410	**13,316**	**191**	**57**	**109,974**

At 30 June 2010	Sterling £'000	US dollars £ 000	Euros £'000	CHF £'000	Total £ 000
Balances at fixed interest rates	3,000	–	–	–	3,000
Balances at floating interest rates	6,334	2,233	–	–	8,567
Balances on which no interest is earned	35	–	60	68	163
	9,369	2,233	60	58	11,730

Balances on which no interest is earned is primarily balances held in Escrow and USD balances

Exposure to financial institutions
Balances were held with the following banks

	30 June 2011 £'000	30 June 2010 £'000
Lloyds/Bank of Scotland	**50,147**	771
Scottish Widows	**10,092**	3,746
Credit Agricole	**12,116**	–
Royal Bank of Scotland	**26,073**	34
Santander/Abbey	**191**	5,000
JP Morgan	**11,016**	–
Anglo Irish Bank	**–**	2,035
Other	**339**	144
	109,974	11,730

Notes to the financial statements continued

16 Trade and other payables

Current liabilities	30 June 2011 £'000	30 June 2010 £ 000
Trade creditors	3,022	312
Amounts owed to joint venture partners	3,174	–
Employer's National Insurance on unrealised gains on unexercised share options	615	–
Amounts owed to related companies	–	56
Accruals	6,443	515
	13,254	883

Amounts owed to joint venture partners relates to balances due where Nautical is operator and typically arises when funds are called in advance for operations

The Company is liable for Employer's National Insurance on the difference between the market value at date of exercise and the exercise price The expense is accrued by reference to the share price of the Company at the date of the statement of financial position

17. Deferred taxation

Movements in the statement of financial position deferred tax asset	30 June 2011 £'000	30 June 2010 £'000
Tax losses	725	5,682

Movements in the statement of financial position deferred tax liability	30 June 2011 £'000	30 June 2010 £ 000
Accelerated capital allowances	725	5,898
Acquisition fair value adjustments	4,895	5,272
	5,620	11,170
Net deferred tax liability	4,895	5,488

Movements in the statement of comprehensive income	30 June 2011 £'000	30 June 2010 £ 000
Accelerated capital allowances	(5,173)	1,570
Acquisition fair value adjustments	(377)	–
Tax losses	4,957	(1,764)
	(593)	(194)

The acquisition fair value adjustment relates to Nautical Holdings Limited's acquisition in 2004 of Nautical Petroleum AG

In addition to the above balances for tax losses and accelerated capital allowances, which were recognised at a tax rate of 62% (2010 50%), the Group has a deferred tax asset not yet recognised at a tax rate of 26% of £5 9m (2010 £4 3m at 28%), which has not been recognised as a result of existing uncertainties of their realisation These arise from tax losses of £11 9m (2010 £5 6m), depreciation in excess of capital allowances of £7 8m (2010 £6 5m) and deferred consideration of £3 1m (2010 £3 3m) The tax losses are available indefinitely against future taxable profits

18 Provisions

	Provision for decommissioning £'000	Conditional payments £'000	Total £'000
At 1 July 2010	20	4,083	4,103
Exchange adjustments	–	(270)	(270)
Effect of changes in estimates	–	33	33
Unwinding of discount	–	142	142
At 30 June 2011	**20**	**3,988**	**4,008**

The £20k provision for decommissioning costs relate 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 anticipated in 2012, and (2) $2 8m due on first oil which is anticipated in 2016 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 The movement in the year includes both exchange movements and unwinding of the discount, which are shown in the statement of comprehensive income The change in estimates applies to a revision of the estimated trigger dates

19 Borrowing facility

On 20 April the Group cancelled its £7 5m borrowing facility with the Bank of Scotland This had been in place since November 2007 and was available for general working capital purposes Consequently, the associated first ranking debentures over the assets of the Company and certain subsidiaries were released

20 Financial instruments

	30 June 2011 Book value £'000	30 June 2010 Book value £'000
Financial assets		
Cash and cash equivalents (Including restricted cash)	**52,859**	8,730
Short-term deposits	**57,115**	3,000
Other debtors (note 14)	**953**	474
Financial liabilities		
Trade and other payables – current	**13,254**	883
Conditional payments	**3,988**	4,083

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

Market risk

As an upstream oil and gas entity, the Company is subject to many risks arising in the normal course of the Group's business The principal business risks are outlined in more detail in the Directors' Report on page 27 of this report The Group is exposed to macroeconomic risks including, but not limited to, the strength of capital markets, the oil price and the risk of co-venturer or supplier default, all of which could adversely affect the ability of the Company to finance and execute its planned work programmes

The Company has a diversified portfolio of assets which remain unhedged with respect to commodity price, interest rates and currency fluctuations Specific financial instruments risks associated with the Group's financial assets and financial liabilities are therefore unlikely to have the quantum of impact that broader macro risks, such as those outlined above, could pose

The Board reviews and establishes appropriate policies for the management of risks and monitors them on a regular basis

(1) Financial assets and liabilities – **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) Financial assets and liabilities – 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 conditional payments are liabilities which are triggered on future events as set out in note 18, which are in US dollars

The Group has significant capital programmes with some of the spend likely to be in USD Although the exact amount and timing of these USD requirements cannot be determined, it is appropriate to hold a certain portion of Group funds in USD to mitigate against unfavourable exchange rate movements Due to the uncertainty of the amounts needed a range is set within which the Group would be indifferent as to whether it holds USD or GBP These conditions lend themselves to Dual Currency Deposits (DCDs) where deposits are taken out to earn a premium yield, but expose the holder to currency rate movements In the event that the exchange rate moves beyond a pre-determined level the deposit is returned in the alternative currency but regardless of currency returned on maturity, the enhanced yield is earned These instruments are classified as embedded derivatives None were held at the year end

The impact of a 10% change in the UK sterling/USD exchange rate would have been a +/–£958k (2010 +/–£177k) effect on the profit before tax Further details of the Group's currency exposure on cash and short-term deposits held are set out in note 15 of the financial statements

(3) Financial assets and liabilities – interest rate risk

The Group had a bank facility until April 2011 which was then cancelled It had not been drawn upon If it had done so, it would have been exposed to interest movements, as the rate was linked to LIBOR rates

There is an insignificant risk of change in the value of cash and deposits as a result of interest rate movements Further details of the Group interest rate exposure on cash and short-term deposits are set out in note 15 of the financial statements

(4) Financial assets and liabilities – credit risk

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 The maximum exposure would be the amounts shown in the statement of financial position

The Group is exposed to credit risk on the financial institutions with which it holds cash and short-term deposits The Group seeks to hold cash and deposits with secure institutions To assist in this evaluation the Group refers to credit ratings and would typically seek a rating of A+ or better In addition, cash and deposits are held with several institutions to spread risk Details of the balances held in banking institutions are set out in note 15 of the financial statements

The Group has accounts receivable with joint venture partners in the oil and gas industry and are subject to normal industry credit risks The maximum exposure at the date of the statement of financial position is £204k (2010 £253k)

(5) Financial assets and liabilities – liquidity risk

Liquidity risk is the risk that sources of funding for the Group's business activities are not available Liquidity management is a core activity and is regularly reviewed by the Board, in conjunction with the Group's cash forecast information The Board always ensures that there is sufficient funding available before committing to any significant expenditure

As the Group's primary focus is on exploration and appraisal, to date the Group's funding needs have been met through a combination of equity and portfolio management The Group has successfully raised equity and engaged in farmout activity and asset divestment to fund work programmes on a number of occasions

The maturity profile of the Group's non-current financial liabilities is dependent upon certain events as explained in note 18 The current liabilities fall due within 1 year The Group's payment policy is to settle amounts in accordance with agreed terms which is typically 30 days

(6) Financial assets and liabilities – 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 maximum use of its capital to support its business operations and maximise shareholder value There are no constraints on the Group's capital

As the Group begins to develop its fields, debt funding, such as reserve based lending, will become more significant and its availability will be key to the successful transition of projects from the appraisal to the development phase As outlined above the Group is exposed to macroeconomic risks including, but not limited to, the strength of capital markets, the oil price and the risk of co-venturer or supplier default, all of which could adversely affect the availability of future debt and equity funding

21 Share capital

Allotted called up and fully paid	At 30 June 2011 Number	At 30 June 2011 £'000	At 30 June 2010 Number	At 30 June 2010 £ 000
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	**48,995,179**	**9,799**	24,658,291	4,932
	87,745,179	**16,455**	63,408,291	11,588

The shares issued in the year are summarised as follows

	Number
Shares at 30 June 2010	63,408,291
New ordinary shares of 20p each – 31 August share placement	24,280,000
Exercise of options	37,500
Settlement of amounts due regarding the St Laurent Permit	19,388
Shares at 30 June 2011	**87,745,179**

Share placing on 31 August 2010 raised £30 35m (£28 9m net of expenses) at a price of 125 pence per share

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 requested the issue of these shares in March 2011

Due to changes in legislation the Company's Articles of Association were revised during the year A special resolution was passed on 11 November 2010 to revoke the authorised share capital At June 2010 this was £20 0 million, being 100 0 million shares of 20p each

Equity-settled share options
The details of share options outstanding at 30 June 2011 are as follows

Date Issued	Exercisable by	Exercise price	Outstanding at 30 June 2011	Outstanding at 30 June 2010	Exercisable at 30 June 2011	Exercisable at 30 June 2010
7 March 2005	7 March 2013	80 00p	600,000	600,000	600,000	600,000
23 September 2005	23 September 2015	250 75p	50,000	50,000	50,000	50,000
26 September 2005	26 September 2013	220 00p	675,000	675,000	675,000	675,000
18 January 2007	18 January 2015	177 00p	287,500	287,500	287,500	287,500
18 January 2008	18 January 2016	211 00p	322,500	322,500	322,500	322,500
15 April 2008	15 April 2016	185 00p	15,000	15,000	15,000	15,000
13 November 2008	13 November 2016	36 17p	100,000	100,000	100,000	75,000
12 January 2009	12 January 2017	26 75p	395,000	395,000	395,000	197,500
24 June 2009	24 June 2017	57 10p	–	30,000	–	15,000
13 January 2010	13 January 2018	57 50p	520,000	550,000	260,000	–
1 December 2010	1 December 2018	355 93p	65,000	–	16,250	–
10 January 2011	10 January 2019	433 00p	585,000	–	–	–
7 April 2011	7 April 2019	416 21p	12,500	–	–	–
Balances			**3,627,500**	**3,025,000**	**2,721,250**	**2,237,500**

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 Upon cessation of employment no further options can vest and the employee has up to one year to exercise options which have already vested after which they lapse 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

Notes to the financial statements continued

21 Share capital continued
The following tables summarises some information regarding shares and share options

	2011 Number	2011 Weighted average	2010 Number	2010 Weighted average
Weighted average number of ordinary shares in issue/share price (pence)	**83,575,367**	**343 63**	63,408,291	66 7
Granted in year/fair value of options (pence)	**662,500**	**206 37**	550,000	26 74
Outstanding options/remaining contractual life (years)	**3,627,500**	**4 53**	3,025,000	4 82

	2011 £'000	2010 £ 000
Expense recognised in statement of comprehensive income in year	**706**	145

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

	2011 Number	2011 WAEP	2010 Number	2010 WAEP
Outstanding at beginning of year	**3,025,000**	**125.05**	3,475,000	145 10
Exercised during the year	**(37,500)**	**(57 26)**	–	–
Lapsed in the year	**(22,500)**	**(57.37)**	(1,000,000)	(157 50)
Granted during the year	**662,500**	**425.12**	550,000	57 50
At 30 June	**3,627,500**	**180.97**	3,025,000	125 05

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 The weighted average share price for the shares exercised was 444 25p

	7 April 2011	10 January 2011	1 December 2010	13 January 2010	24 June 2009
Dividend yield	–	–	–	–	–
Expected share price volatility	74 5%	74 5%	75 1%	69 0%	73 7%
Risk free interest rate	4 10%	4 10%	4 16%	4 61%	3 45%
Leaver rate	20 0%	20 0%	20 0%	22 2%	12 5%

Volatility has been based on a weighted average of Nautical's and its peer group's share prices, the composition of which was revised during the year following corporate activity in the sector and to maintain the appropriateness of the comparable group of companies Risk free interest rates reflect the interest rate at the time of issue which could be obtained on government securities of similar maturity to the options being issued The leaver rate and charge is adjusted to reflect the actual number of employees who left the Company during the period of vesting of the options

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 As at 30 June 2011 all entities within the Group had a UK sterling functional currency

22 Reconciliation of movements in equity continued
Other reserves
Other reserves comprise the following

	30 June 2011 £'000	30 June 2010 £'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 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

In 2005 and 2006 the Company issued a number of warrants to supplement share issues An element of the proceeds raised from the share issues was allocated to the warrants and classified as warrant reserve The warrants subsequently expired without being exercised

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

23. Net cash flows from operating activities

	2011 £'000	2010 £'000
Profit/(loss) for the year	**50,605**	(2,281)
Finance income	**(947)**	(309)
Finance costs	**247**	371
Gain on partial sale of Mariner	**(55,125)**	–
Taxation	**(615)**	(194)
Impairment	**902**	–
Exploration costs written off	**381**	232
Share-based payment charges	**706**	145
Movement in NI on share options	**615**	–
Depreciation	**97**	17
Unrealised foreign exchange movements	**(270)**	369
Operating cash flow before working capital movements	**(3,404)**	(1,650)
(Increase) in trade and other receivables	**(584)**	(45)
Increase/(decrease) in trade and other payables	**518**	(25)
Net cash used by operations	**(3,470)**	(1,720)
Income tax refund	**22**	–
Net cash outflow from operating activities	**(3,448)**	(1,720)

24 Analysis of net cash

	At 1 July 2009 £ 000	Cash flow £ 000	At 1 July 2010 £'000	Cash flow £'000	At 30 June 2011 £'000
Cash at bank and in hand	3,061	5,669	8,730	26,950	**35,680**
Restricted cash	–	–	–	17,179	**17,179**
Short-term deposits	16,000	(13,000)	3,000	54,115	**57,115**
Net cash	19,061	(7,331)	11,730	98,244	**109,974**

Notes to the financial statements continued

25 Commitments
As at 30 June 2011 the Group had capital commitments of £17 5m (2010 £2 6m), which were for Kraken drilling (£13 9m), 3D seismic surveys (£2 5m), and Tudor Rose drilling (£1 1m)

26 Obligations under leases
Future minimum rentals payable under non-cancellable operating leases

	30 June 2011 £'000	30 June 2010 £ 000
Not more than one year	**88**	–
After one year but not more than five years	**236**	–
	324	–

The payments are for the office

27 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 £4,180 with an outstanding balance due to the Company at 30 June 2011 of £1,742 (2010 £1,750) There are no transactions with Directors, other than their remuneration as disclosed in the Remuneration Report

(b) Other related parties
Following the share placement in August 2010 which was accompanied by a placement of IEG shares, International Energy Services ceased to be a related party However, arrangements existed for provision of services for part of the year which amounted to £130k (2010 £218k)

28 Ultimate Parent undertaking and controlling party
Details of substantial shareholders are set out in the Directors' Report The Directors consider that no company has a controlling interest in Nautical

29 Subsidiary undertakings

Subsidiary	Country of incorporation/ registration	Holding	Proportion of voting rights & 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%	Dormant
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%	Dormant
Mountwest 562 Limited*	Scotland	Ordinary shares	100%	Dormant
First Mariner Limited	England	Ordinary shares	100%	Dormant

* Held by subsidiary undertakings

Nautical Petroleum AG carries out its activities through a UK Branch

Nautical Petroleum plc Company only accounts 2011

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, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping 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 2011 which comprise the Company Balance Sheet and the related notes 30 to 41 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 chapter 3 of part 16 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 on page 55, 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 and express an opinion on 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 In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 2011 and of its loss for the year then ended,
- 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 2011

Kevin Weston (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen
14 October 2011

Company balance sheet
As at 30 June 2011

	Notes	2011 £'000	2010 £ 000
Fixed assets			
Intangible assets	33	**18,499**	3,749
Property, plant and equipment	34	**339**	-
Investments	35	**11,884**	11,884
Total fixed assets		**30,722**	15,633
Current assets			
Trade debtors and other receivables	36	**12,533**	17,898
Cash and cash equivalents		**47,591**	6,028
Short-term deposits		**57,115**	3,000
Total current assets		**117,239**	26,926
Creditors amounts falling due within 1 year	37	**(82,552)**	(1,074)
Net current assets		**34,687**	25,852
Net assets		**65,409**	41,485
Capital and reserves	38		
Called up share capital		**17,549**	12,682
Share premium		**61,052**	37,015
Warrant reserve		**263**	263
Profit and loss reserve		**(13,455)**	(8,475)
Total shareholders' funds		**65,409**	41,485

The financial statements were approved by the Board on 14 October 2011 and were signed on its behalf by

S Jenkins
Chief Executive

W Mathers
Finance Director

Notes to the Company financial statements

30 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

(c) Office assets

Office assets are stated at cost less accumulated depreciation Depreciation is provided on a straight-line basis to write off the costs less estimated residual value over the expected useful life of the assets, which has been determined to be three years The carrying values are reviewed for impairment when events or circumstances indicate the carrying value may not be recoverable

(d) Leases

Where the lessor retains substantially all the risks and benefits of ownership the lease is classified as an operating lease and amounts due are charged to the statement of comprehensive income over the lease term on a straight-line basis The Company's office is held under an operating lease

(e) 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

(f) 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 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 profit and loss account 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

(g) 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

31 Losses attributable to Nautical Petroleum plc

The loss for the year dealt with in the accounts of Nautical Petroleum plc was £5,686k (2010 £1,580k) As provided by s408 of the Companies Act 2006, no profit and loss account is presented in respect of Nautical Petroleum plc

32 Employees
Headcount

	2011 Number	2010 Number
Average number of employees of the Company (including Executive Directors) during the year was		
Management	**3**	3
Technical staff/support/other	**5**	3

Staff costs

	2011 £'000	2010 £'000
Wage and salaries	**908**	654
Bonuses	**1,040**	168
Social Security costs	**276**	103
Other pension costs	**113**	70
	2,337	995
Equity-settled share-based payments	**706**	145
NI on share options	**615**	–
	3,658	1,140

Further Information regarding the remuneration awarded to Directors is provided in the Remuneration Report on page 29

33 Intangible assets

Exploration and evaluation assets	Total £ 000
At 1 July 2010	3,749
Acquisition	7,000
Additions	9,040
Impairments	(902)
Exploration costs written off	(388)
At 30 June 2011	**18,499**

Amounts written off relate to unsuccessful exploration costs primarily due to licences being relinquished or in the process of being relinquished The impairment of £0 9m relates to the Grenade heavy oil field in France There has been little recent activity and forward plans are uncertain, so the asset has been impaired In the event that further activity takes place this will be reassessed and the balance could be reinstated

34. Property, plant and equipment. Office assets

Cost	£ 000
At 1 July 2010	–
Additions	399
At 30 June 2011	**399**

Depreciation	£ 000
At 1 July 2010	–
Additions	60
At 30 June 2011	**60**

Net book value	
At 30 June 2011	**339**

Notes to the Company financial statements continued

35 Investments

Investments in subsidiary companies	Total £'000
Cost	
At 1 July 2010 and at 30 June 2011	**11,884**

Details of subsidiary companies are shown in note 28 of the consolidated financial statements

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

36 Trade debtors and other receivables

	2011 £'000	2010 £ 000
Amounts owed by subsidiaries	**11,254**	17,144
Amounts due from joint venture partners	**251**	253
Other debtors	**637**	171
Prepayments and accrued interest	**391**	330
	12,533	17,898

37 Creditors amounts falling due to within 1 year

	2011 £'000	2010 £ 000
Amounts owed to subsidiaries	**69,527**	668
Trade creditors	**2,909**	69
Amounts owed to joint ventures partners	**3,174**	–
Amounts owed to related companies	**–**	56
Employer's National Insurance on unrealised gains on unexercised share options	**615**	–
Accruals	**6,327**	281
	82,552	1,074

The Company is liable for Employer's National Insurance on the difference between the market value at date of exercise and the exercise price The expense is accrued by reference to the share price of the Company at the date of the statement of financial position

38. Share capital and reserves

	Share capital £ 000	Share premium £ 000	Warrant reserve £ 000	Profit and loss reserve £ 000	Total equity £'000
At 1 July 2010	12,682	37,015	263	(8,475)	41,485
Share-based payments	–	–	–	706	706
New shares issued	4,867	25,583	–	–	30,450
Costs associated with issuance of new shares	–	(1,546)	–	–	(1,546)
Loss for the year	–	–	–	(5,686)	(5,686)
At 30 June 2011	**17,549**	**61,052**	**263**	**(13,455)**	**65,409**

Details of share capital and share-based payments are set out in note 21 of the consolidated financial statements

39 Commitments

As at 30 June 2011 the Company had capital commitments of £10 3m (2010 £0 4m), which were for Kraken drilling (£6 9m), 3D seismic surveys (£2 3m), and Tudor Rose drilling (£1 1m)

40. Obligations under leases

Future minimum rentals payable under non-cancellable operating leases

	30 June 2011 £'000	30 June 2010 £'000
Not more than one year	**88**	–
After one year but not more than five years	**236**	–
	324	–

The payments are for the office

41 Related party transactions

The Company has taken advantage of the exemption in FRS8, not to disclose transactions with its wholly owned subsidiaries
The following sets out the related party transactions for key management and other related parties

(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 £4,180 with an outstanding balance due to the Company at 30 June 2011 of £1,742 (2010 £1,750) There are no transactions with Directors, other than their remuneration as disclosed in the Remuneration Report

(b) Other related parties

Following the share placement in August 2010 which was accompanied by a placement of IEG shares, International Energy Services ceased to be a related party However, arrangements existed for provision of services for part of the year which amounted to £130k (2010 £218k)

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Glossary

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

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