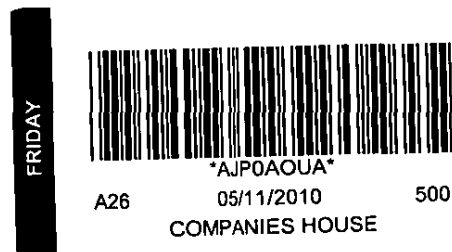


Nautical Petroleum plc

Annual report and accounts 2010

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2010

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

Contents

Overview

01

01	2010 highlights
02	Chairman's statement
04	Chief Executive's review
Operational review	
06	Our portfolio
08	UK continental shelf
17	France
18	Finance Director's review
20	Board of Directors

Governance

22

22	Directors' report
25	Remuneration report
27	Corporate governance
28	Directors' responsibilities for the financial statements
29	Independent auditors' report

Accounts

30

30	Consolidated statement of comprehensive income
31	Consolidated statement of financial position
32	Consolidated statement of changes in equity
33	Consolidated cash flow statement
34	Notes to the financial statements
47	Nautical Petroleum plc Company only accounts 2010
48	Independent auditors' report
49	Company balance sheet
50	Notes to the Company financial statements
ibc	Shareholder information
ibc	Glossary

2010 highlights

Catcher discoveries

June 2010

Catcher and Catcher East discoveries represent one of the largest exploration successes in the North Sea for a decade.

31° API light oil in excellent quality reservoir.

Autumn drilling of up to 4 exploration wells.

Kraken appraisal & exploration successes

August/September 2010

9/02b-4 appraisal well found much thicker sands than expected with excellent reservoir characteristics

9/02b-4z exploration sidetrack targeted new reserves west of the Kraken fault and encountered 2 oil bearing sands.

14–15° API oil and viscosity of around 110cp.

Development planning and concept selection studies are under way.

Mariner sale & future potential

September 2010

Sale of 20.6667% interest for £87.5m

Retention of 6.0% representing 26mmbo

Financial strength

August 2010

Share placing raised £28.8m.

£116 3m cash injection from placing and Mariner sale will contribute a significant part of the equity for the development of Kraken, Catcher and Mariner.

02

Chairman's statement

John Conlin
Chairman

The Catcher discoveries and the equally significant Kraken appraisal and exploration wells were stunning successes not least because they were driven by two of the smaller E&P companies operating in the North Sea

The accounting period covered by this Annual Report reflected a quiet operational period for Nautical but studies and preparatory work during that period set the foundation for the remarkable advance in the Company's profile in the market over the last three months. The Catcher discoveries and the equally significant Kraken appraisal and exploration wells were stunning successes not least because they were driven by two of the smaller E&P companies operating in the North Sea.

Core discoveries

The Catcher partners plan a drilling campaign for later this year to assess the further upside potential of Block 28/9 which contains a number of further prospects, while in parallel, initiating pre-development studies. Given the high quality reservoir characteristics in Catcher, we can expect commercialisation to move forward on a very aggressive schedule.

The commercial potential of Kraken has been significantly enhanced by the recent drilling results not only as regards increased resource volumes but the confirmation of the low end of the viscosity range (110cp) recognised in well 9/02b-2. However the timing of Field Development Plan (FDP) submission will be influenced by our assessment of the incomplete flow test on the highly porous, fine grained Heimdal sands, as well as the need to unwind the commercial consequences of the sole risking operations on Kraken 9/02b-4 and 9/02b-4z. 2011 remains our target for FDP submission.

On Mariner, Statoil has continued to deploy considerable resources towards the Mariner development and remains on course to drive the project through Decision Gate 2 in early 2011 leading to development sanction and FDP submission in late 2011/early 2012.

The successful transition of Nautical's core discovered assets into the development phase depends not only on continued

technical success, but also on the ability of the Group to fund its share of development capital. In that latter regard, the addition of a light oil Catcher development to our existing plans for Mariner and Kraken broadened the strategic options available to Nautical to balance value creation, technical risk and capital access/efficiency as we strive to maximise shareholder value from our assets. It was in this context that the Company considered that the opportunity to reduce our position in Mariner from 26.67% to 6% in exchange for a cash injection of £87.5m was considered an excellent piece of business. Statoil now have the controlling position they required to pursue the project to production.

Funding

In August 2010, capitalising on the positive market sentiment created by the Catcher discovery and the imminent Kraken appraisal, Nautical successfully completed a placing of 24,280,000 New Ordinary Shares at a price of 125 pence per share to raise gross proceeds of £30.35m (£28.8m net of expenses). Following the admission of the shares on 31 August 2010 there are 87,688,291 shares in issue. This funding, combined with the existing cash resources of £11.7m at 30 June 2010 ensures that Nautical can fund its planned exploration, appraisal and pre-development activity until the end of 2011. On completion of the Mariner transaction with Statoil our cash position will be significantly strengthened. In addition to the successful primary placing a secondary placing was completed which resulted in 13,000,000 shares being sold by International Energy Group AG (IEG), previously the Company's largest shareholder, bringing their shareholding in Nautical down to c 5%. This brings an end to Nautical's close relationship with the Masefield Group/IEG which underwrote the concept of Nautical as a heavy oil player in 2005. The placing has thus had the twin benefits of broadening our institutional support while significantly improving the liquidity of the share register.

The dramatic impact of discoveries such as Catcher on both value and sentiment are the *raison-d'être* of the exploration business, so it is encouraging to note that Nautical also has a select set of exploration opportunities ready to drill in 2011

New business

The dramatic impact of discoveries such as Catcher on both value and sentiment are the *raison-d'être* of the exploration business, so it is encouraging to note that Nautical also has a select set of exploration opportunities ready to drill in 2011. Near term exploration drilling is planned on the large Merrow gas prospect in the East Irish Sea Basin. The well is expected to spud in early 2011. This will be followed by an appraisal well on the Tudor Rose heavy oil discovery in block 14/30a

Looking forward

The coming 12–18 months will dictate the shape of Nautical for the medium term. Market sentiment is rightly very positive as the spectacular performance of our share price illustrates and we continue to receive positive signals that project financing will be available to us to allow us to participate in the development of our assets. That position has been significantly enhanced by the Manner transaction.

Nevertheless, the optimum shape of our development portfolio remains open and will receive focused consideration at a strategic level over the coming months as the scope, timing and costs of our three core assets crystallise.

It has been a fascinating challenge to steer Nautical through such a transformational period. However, for personal reasons I have advised the Board of my wish to step

down as Chairman and Board member. To align with the timing of the ongoing portfolio and strategy review, I will leave the Board following the AGM in November.

The future of the Company looks very promising – indeed, Nautical is getting very close to achieving the potential envisaged by the founders back in 2005.

John Conlin
Chairman



04

Chief Executive's review

Steve Jenkins
Chief Executive Officer

The progression of all areas of our portfolio combined with greater financial strength and outstanding success at the drill-bit has made 2009/2010 a transformational year for the Company

Increased activity leading to significant success on many fronts

The period saw a continued focus on the technical development of our cornerstone assets, and culminated in the successful Catcher and Catcher East discoveries. Beyond year end the successful Kraken appraisal and exploration wells were drilled and a capital placing was completed followed by the partial sale of Mariner. The progression of all areas of our portfolio combined with greater financial strength and outstanding success at the drill-bit has made 2009/2010 a transformational year for the Company.

There are now four legs to the Nautical chair namely Kraken, Catcher, Mariner and our Exploration and Appraisal portfolio ensuring a solid platform for organic growth and a more stable E&P company.

Catcher – largest discovery in the north sea for a decade

Although fewer wells have been drilled in the UKCS than last year significant discoveries have been made. Nautical participated in the largest, Catcher, illustrating that the UKCS can still yield significant discoveries and remains a worthy place to explore and produce hydrocarbons.

Nautical's share price received a three fold increase from the Catcher and Catcher East discoveries in June 2010, which had the added benefit of renewing interest from the investment community in the wider Nautical portfolio.

The 28/9-1 Catcher discovery well encountered a 73 metres gross oil column with 27 metres of net pay. Testing confirmed light oil of 31° API and excellent reservoir characteristics, with permeability in excess of 1.5 Darcies. The 28/9-1y side track successfully appraised the south west of the Catcher accumulation. The Catcher East 28/9-1z sidetrack also encountered excellent oil bearing sandstones very similar to the discovery well. Pressure data confirmed that Catcher and Catcher East are part of a single significant hydrocarbon accumulation.

The success of the Catcher and Catcher East discoveries has derisked the numerous remaining prospects in the block. A rig has been secured and drilling is expected to commence in mid-October 2010 with a campaign of up to four wells. Success will add substantially to the hydrocarbon volumes already discovered on the block and move Catcher further towards commercialisation.

Kraken – accelerating appraisal to confirm higher hydrocarbon volumes

Following the 9/02b-3 well on Kraken, extensive work was undertaken to improve our understanding of the areal distribution of the main Heimdal III reservoir. Our hypothesis was proven by the successful 9/02b-4 and 9/02b-4z wells which were both drilled within the Controlled Source Electro Magnetic anomaly and into an area of high seismic amplitudes. The 9/02b-04 appraisal well drilled in August/September 2010 found much thicker Heimdal III sands than expected with excellent porosity and very high oil saturations. Additionally the oil-down-to was extended, which we believe will significantly increase the proven oil in place to the east of the fault.

Testing of the well in such unconsolidated, highly porous sand proved challenging. However, our analysis of the well results suggests that the vertical well was capable of flowing approximately 1,000 barrels per day (bopd). In turn, this suggests that the planned horizontal development wells will be capable of producing at commercial rates.

Subsequent to the successful 9/02b-4 appraisal well, the 9/02b-4z exploration sidetrack was drilled to the west of the Kraken fault and proved the presence of both Heimdal III and Heimdal I reservoirs. Yet again the reservoir quality of both was extremely good. No oil water contact was encountered in either the Heimdal III or Heimdal I, promoting our view of an edge water drive.

We will now carry out a full evaluation of the well results to upgrade the resource volumes in Kraken. The success with the side track will promote the current prospective resources to the west of the fault to the contingent category.

Development planning and concept selection studies are underway. It is Nautical's intention to become a Production Operator and we will be recruiting further expertise to develop the Kraken accumulation. We plan to submit the Field Development Plan (FDP) to the Government in 2011 and see first oil in 2013.

Mariner – Crystallising Significant Value Whilst Retaining Exposure to Upside

The operator, Statoil (UK) Ltd, assisted by the Joint Venture partners has made good progress in advancing the understanding of the subsurface, required facilities, oil processing and marketing required to pass through the Preliminary Project Sanction Decision Gate (DG2).

Robust geomodels and reservoir simulation models have been completed for both the Maureen and Heimdal Sandstones. These have been used to understand fluid flow, optimise the placement of producer wells and to size the facilities.

As an active Joint Venture partner, Nautical has been instrumental in modifying the sedimentological model by utilising its detailed regional knowledge to identify additional remobilised sands in the Lista Formation. This has been reflected in improved connectivity in the Heimdal simulation model and in combination with results from the Maureen model has justified an increase in contingent recoverable resources. During the period an exhaustive Concept Selection process concluded that the favoured development concept is a fixed platform with one or two drilling rigs enabling the rapid drilling of wells to prolong plateau production. The Maureen reservoir will be developed first with the Heimdal being drilled at such a pace as to maintain plateau production.

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 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. Following completion, Nautical's interest in the Licence will be 6%. The transaction is pending approval from the joint venture partners in the block and from the Department of Energy and Climate Change (DECC). The decision to partially sell our stake in Mariner has crystallised significant value for our shareholders, whilst retaining exposure, at an appropriate level for a company of our size, to the considerable upside we see in the project.

Statoil has deployed considerable resources towards the Mariner development and shares Nautical's enthusiasm to drive the project through Decision Gate 2 in early 2011 leading to development sanction and FDP submittal, most likely by the end of 2011/early 2012.

Development planning and concept selection studies are underway. It is Nautical's intention to become a Production Operator and we will be recruiting further expertise to develop the Kraken accumulation. We plan to submit the Field Development Plan (FDP) to the Government in 2011 and see first oil in 2013.

Exploration and appraisal opportunities – potential for another "Catcher"

Nautical's strategy is to manage and drill a portfolio of opportunities which, given success, can materially promote growth by adding to the existing Kraken, Catcher and Mariner discoveries. We will continue to acquire blocks, primarily through low cost licensing awards, with a strategy of adding value and farming out prior to drilling, whilst relinquishing blocks with diminished prospectivity, thus enabling resources to be directed towards the most promising areas.

Near term exploration drilling is planned on the large Merrow prospect in the East Irish Sea Basin. We are currently identifying an onshore site from which to drill offshore and the planning process is ongoing. The well is expected to spud in early 2011. This will be followed by an appraisal well on the Tudor Rose heavy oil discovery in block 14/30 to determine the oil gravity and viscosity of the crude and investigate a potential deeper oil water contact (OWC).

Elsewhere in the UKCS we continue to evaluate the operated blocks around Kraken assessing the implications of the successful appraisal well for hydrocarbon bearing sand distribution. Furthermore, applications have been made in the UKCS 26th Licensing Round for blocks adjacent to our existing discoveries and also for those containing selected, high impact prospects.

Nautical has established a new area of focus in the Celtic Sea, offshore Ireland. We have entered into agreements with Provident Resources to investigate the development potential of the Baltimore and Nemo heavy oil discoveries. It has been particularly gratifying that Providence approached Nautical, acknowledging our expertise in the evaluation and marketing of heavy crude.

In France the main activity during the year has been the marketing of the large Audignon Ridge gas prospect. We are confident that a farmout deal will result in carried activity which will de-risk the prospect prior to drilling in 2012.

Financial strength

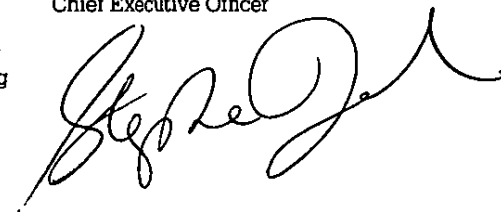
The Company carefully managed its cash resources during the year and remains debt free. Subsequent to the year end in August 2010 Nautical completed a placing raising net proceeds of £28.8m. This was followed by the partial sale of Mariner in September, which upon completion will inject a further £87.5m into the Company.

The combined cash resources arising from these events not only ensure that Nautical is fully funded to meet its planned exploration and appraisal programme until the end of 2011, but also provides funds to meet a substantial proportion of our equity funding requirements expected for the Kraken, Catcher and Mariner developments.

The future – moving towards development

We look forward to becoming a Production Operator in the next year allowing us to progress Kraken to development, as well as continuing as a supportive joint venture partner as FDPs are submitted for Catcher and Mariner. We will seek to add resources through the drilling of our exploration and appraisal portfolio. Your Board is pleased that the potential of Nautical has been recognised by the equity markets through an increased share price and by the success of the recent placing. We will seek to continue this trend in the coming years.

Steve Jenkins
Chief Executive Officer



06

Operational review

Our portfolio As at 8 October 2010

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

- » Successful 9/02b-4 appraisal well and 9/02b-4z exploration sidetrack drilled in Q3 2010
- » 9/02b-4 encountered better than expected Heimdal III reservoir of 25m thickness, average porosity of 39% and average oil saturation of 87%. The well tested with productivity index of 2bpd/psi confirming excellent multi-Darcy quality reservoir
- » 9/02b-4z exploration side track found excellent quality oil-bearing Heimdal III and Heimdal I reservoir west of the Kraken fault
- » Target to submit FDP in 2011 with first oil in 2013
- » Contingent resources of 83mmbo (gross), 29mmbo (net) east of fault (pre 9/02b-4)
- » The 9/02b-4z well discovered contingent resources west of the fault

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

- » June 2010 Catcher and Catcher East light oil discoveries (31° API)
- » Q4 2010 drilling of up to 4 wells on high graded prospects
- » Target FDP submission end 2011 and first oil 2013
- » Catcher and Catcher East best estimate contingent resources 74mmbo (gross), 11mmbo (net)

Mariner: Block 9/11a**(Licence P335 – 6.0% interest – subject to completion of sale of 20.6667%)**

- » This highly appraised field has produced 662,000 barrels of oil on extended test at a maximum rate of 14,991bopd (14.5 API) from the Maureen Formation sands and has flowed up to 1,133bopd from the shallower Heimdal reservoir
- » 3D seismic and an Ocean Bottom Cable (OBC) survey acquired mid 2008 have improved imaging of both Heimdal and Maureen reservoirs
- » Platform site survey acquired in summer 2009 and Geotechnical boreholes drilled
- » Development concept selection ongoing and expected to be completed early in 2011
- » No more drilling is required and FDP submission is planned for 2011/12 with first oil in 2015
- » SPA signed with Statoil on 22 September 2010 which will reduce Nautical's share from 26.67% to 6% upon completion
- » Best estimate contingent resources (development pending) of 430mmbo (gross), 26mmbo (net at 6% share)

Mermaid: Block 9/11c**(Licence P979 – 80% interest)**

- » Possible southern extension of Mariner accumulation in Heimdal Sandstone

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

- » The block contains the Tudor Rose discovery
- » Well planned for 2011 to establish API gravity and viscosity and investigate deeper oil water contact (OWC)
- » Contingent resources of 49mmbo (gross), 10mmbo (net), with prospective resources upside of 84mmbo (gross), 17mmbo (net)
- » Exploration upside especially in Buffalo Prospect (Cretaceous, Kopervik Sandstone)

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

- » The blocks lie on the edge of the East Irish Sea basin
- » Large gas prospect adjacent to Walney Island
- » Best estimate prospective resources 290bcf (gross) and 145bcf (net)
- » Onshore drill site being identified for 2011 drilling

Spaniards: Block 15/21g**(Licences P1655 – 30% interest)**

- » Reprocessed 3D seismic defines large Jurassic prospect downdip from 15/21a-38 oil discovery
- » Seismic indicates reservoir thickens downdip
- » Significant oil column implied from pressure data in discovery well

Blocks 3/22 and 3/26**(Licences P1573 and P1574 – 40% interest)**

- » New 2D high density, high resolution data confirms Lusca prospect
- » EM feasibility studies positive
- » Reviewing benefit of acquiring an EM survey

Scylla south: Blocks 9/6 and 9/7**(Licences P1575 – 35% interest)**

- » Contains probable continuation of Scylla channel and possible Kraken analogue
- » Seismic reprocessing under way

Blocks 15/7 and 15/12a**(Licences P1652 – 33% interest)**

- » Contains Funnel and Atco prospects
- » Orthogonal CSEM lines to be acquired in 2011

Keddington**(Licence PEDL005 – 10% interest)**

- » UK onshore producing field in Lincolnshire
- » K-3 and K-3z horizontal sidetracks drilled in 2010 encountered 235 m of hydrocarbon bearing Carboniferous Sand
- » Production averaging 193bopd and 737mcf of gas

Baltimore: Ireland**(40% interest)**

- » Licensing option 10/1 in the North Celtic Sea Basin containing the Baltimore heavy oil discovery with up to 300mmbo in place

Nemo: Ireland**(25% interest)**

- » Licensing option 2/07 in the North Celtic Sea Basin containing the Nemo heavy oil discovery with up to 230mmbo in place

St Laurent: France**(22% interest)**

- » Located in Aquitaine Basin, south-west France
- » Contains large Audignon Ridge subsalt gas prospect
- » Currently seeking farminee to de-risk prospect prior to drilling
- » Also contains the Grenade-Sur-Ardour well which produced 8,000 barrels in a series of tests

Pontenx: France**(20% interest)**

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

Gex: France**(20% interest)**

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

08**Operational review**

UK continental shelf

Kraken

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 49 metres. The well proved a substantially thicker and higher porosity main Heimdal Unit III reservoir than expected.

Key stats

- » Contains Kraken oil discovery
 - » Large 3 way dip closed structure
 - » 9/02b-4 appraisal well confirmed substantial accumulation in the core area
 - » 9/02b-4z exploration sidetrack confirmed resources to the west of the Kraken Fault
 - » Lowest viscosity heavy oil (15° API) being considered for development on East Shetland Platform
-

Block 9/2b (Licence P1077) (Nautical 35% 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 3 appraisal wells and an exploration sidetrack, successfully 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 77m and an oil-down-to (ODT) 51 metres 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 down dip area to the northeast of the discovery wells in order to substantiate the oil column by intersecting the oil water contact and to investigate the upside (P10) resources. However, in this outlying area, the Heimdal Sandstone Member proved to be absent.

Subsequent to the outcome of the 9/02b-3 well significant work has been 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 modeling and specialist seismic and sedimentology studies. The results of this work concluded that the Heimdal sands, sourced from the west, have been channelled southwards along the topographic low created by the basement Kraken Fault. The CSEM survey confirmed an anomaly over both 9/02-1A and 9/02b-2, extending to the west of the Kraken fault and to the south of well 9/02-1A. An optimized appraisal location was selected on the basis of seismic amplitudes and sand distribution models, de-risked by the presence of the CSEM anomaly.

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 49 metres. The well proved a substantially thicker and higher porosity main Heimdal Unit III reservoir than expected. Preliminary log evaluation indicates that the Heimdal Unit III main sand contains 25 metres 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 and thus the Kraken discovery oil-down-to now extends to 1,199 metres true vertical depth subsea (TVDss). The success of 9/02b-4 implies that high amplitude seismic anomalies may reflect high porosity oil bearing sands. Such anomalies can be mapped over the length of the Kraken structure and will be adopted to refine the net hydrocarbon bearing sand distribution maps and subsequently to calculate a new oil in place volume and best estimate contingent resources.

The 9/02-4 test programme was specifically designed to recover uncontaminated reservoir fluid samples and to confirm the productivity of the reservoir tested in the discovery well, 9/02-1A, using a test string comprising sand screens and an electric submersible pump. The well was initially pumped at a restricted rate of 300 barrels per day and samples obtained. A productivity index of 2 barrels per day/psi was indicated during this flow period, confirming the excellent multi-Darcy quality of the reservoir. Subsequent to this flow period, the productivity declined markedly.

An injectivity test was completed which showed an injectivity index of approximately 2bpd/psi, indicating that the productivity decline was due to the plugging of the sand screens, rather than a reservoir or oil quality issue. Thus the key objectives have been substantially met, although operational problems caused by the exceptional quality of the reservoir meant that it was not possible to flow the well at a stable production rate. However, our analysis of the well results indicate that the vertical well was capable of flowing at approximately 1,000 bopd. The development will consist of a number of horizontal wells and we are very encouraged that these will flow at commercial rates.

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 I reservoirs with true net oil pays of 12.8 metres and 10.7 metres respectively. Preliminary evaluation indicates that average porosities in both units are very high, around 40%, with average oil saturations of 85%. The Heimdal Unit I reservoir has significantly higher net to gross and porosity than previously encountered in any Kraken well.

Oil samples have now been recovered from the Heimdal Unit III reservoir from all three successful wells. Gravity of the oil is 14–15° API and viscosity is around 110cp or less, being a higher API and much less viscous than both the adjacent Bressay (400–500cp) and Bentley (600–1,100cp) discoveries and more similar to the producing Captain Field which came on production in 1997, peaked at 79,000bopd in 2002, currently averages around 45,000bopd and is expected to exceed a 50% 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 which implies that the water leg is remote from the core of the structure. These aspects enhance the opportunity to control water production and design water injection to optimise both oil production and 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 to the east of the Kraken Fault. A review of the market to identify the availability of development equipment is being undertaken to enable Kraken to be brought onstream in an accelerated time frame. As part of Nautical's 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. A Field Development Plan (FDP) is to be submitted in 2011 with first oil in 2013.

As a consequence of the decision by Nautical's joint venture partner, Canamens North Sea Energy Limited (Canamens), not to participate in the 9/02b-4 well, the equity for the 9/02b-4 well has been Nautical 70% and Celtic Oil Limited (Celtic) 30%. Both Canamens and Celtic decided not to participate in the 9/02b-4z sidetrack and Nautical sole risked the exploration well at 100% equity. Under the terms of the Joint Operating Agreement, Celtic are permitted to buy back into 9/02b-4z well and Canamens are permitted to buy back into the 9/02b-4 and 9/02b-4z wells. However, to do so, both partners will have to pay to Nautical two times their equity interest (Celtic 30%, Canamens 35%) of that part of the drilling campaign to which they did not contribute to be entitled to participate fully in the development.

10

Operational review

UK continental shelf

Catcher

To date Catcher and Catcher East have proved to be one of the largest discoveries in the UKCS in the last decade

Key stats

- » Catcher and Catcher East discoveries established a large resource and opened up a new low risk fairway
- » 4 exploration wells to be drilled in Autumn 2010
- » Light oil with API gravity of 31 degrees in excellent quality reservoir

Block 28/9 and 28/10c (Licence P1430) (Nautical 15%)

This Traditional Block 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 the operator prior to application and successful award in the 24th Seaward Licensing Round.

The blocks contain the large Catcher and Catcher East discoveries in the Palaeocene (Cromarty Sandstone) and Eocene (Middle Tay Sandstone) respectively. Mapping has demonstrated several similar and robust undrilled prospects at both stratigraphic levels plus two large Jurassic (Fulmar Sand) prospects.

The Catcher discovery well 28/09-1 was drilled in June 2010 to a total depth of 1,591 metres measured depth (MD) and encountered excellent quality oil bearing reservoir sandstones at the prognosed Cromarty Sandstone level. The discovery well encountered a 73 metre gross oil column with a net pay of 27.4 metres. An oil water contact was intersected at 1,475 metres (MD). Following the discovery a reservoir test was completed to establish key fluid characteristics resulting in an oil API gravity of 31 degrees, a gas-oil-ratio (GOR) of 280scf/bbl and oil viscosity (at reservoir conditions) of 4 centipoise. Well test interpretation showed the reservoir to have an average permeability in excess of 15 Darcies.

Subsequent to the reservoir test the co-venturers drilled the Catcher East side track (28/09-1z) which encountered excellent quality oil-bearing sandstones very similar to those seen in the Catcher

discovery well. Analysis of the wireline logs indicated 25 metres (MD) of net hydrocarbon pay over a gross interval of over 72 metres (MD), with 34% average porosity, 89% average hydrocarbon saturation and excellent permeability. Pressure data indicated a common pressure regime between Catcher East and Catcher confirming both discoveries to be part of a single significant oil accumulation with an oil column of 81.3 metres.

Following the East Catcher discovery, the south west of the Catcher accumulation was appraised. The 28/09-1y sidetrack was drilled to a total depth of 1,906 metres (MD) and successfully encountered excellent quality oil bearing reservoir sandstones at the target Cromarty Sandstone level. Initial analysis indicates net pay of 20.7 metres and an oil column of 52.7 metres. Fluid levels are consistent with the oil water contact seen in the Catcher discovery well.

To date Catcher and Catcher East have proved to be one of the largest discoveries in the UKCS in the last decade. Gross best estimate contingent resources are 74mmbo (11mmbo net) with a further 26mmbo prospective resources (4mmbo net) in Catcher North. An autumn drilling campaign of up to 4 wells will now be carried out prior to commencing field development work. Catcher North will be drilled along with a well to test the Varadero Middle Tay Sandstone prospect which is analogous to Catcher East. Two further contingent wells are planned at Burgman and Carnaby prospects, depending on success at Varadero. The planned exploration wells have been substantially derisked post the Catcher and Catcher East success opening up a new lower risk play fairway throughout the blocks.

12**Operational review**

UK continental shelf

Mariner

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 for total consideration of £87.5m

Key stats

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

Mariner Block 9/11a (Licence P335)

(Nautical 6.0% subject to completion of sale of 20.6667%)

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

Interpretation and integration of the subsurface seismic and geological data has enabled the operator to update the geological models for the Heimdal and Maureen reservoirs. The geological models have been upscaled and converted into reservoir simulation models to generate production profiles for a large number of development scenarios. 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 and 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 20,000bopd. 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 estimates being up to 430mmbo (26mmbo net) recoverable for both the Maureen and Heimdal reservoirs over the life of the field.

In parallel with the subsurface modelling, significant progress has been made on drilling and well design. The key issues that are being resolved are the method of sand control for each reservoir and the type of artificial lift to be used to boost the production rate of the viscous crude. The operator is also investigating the benefits of

pre-drilling some Maureen wells to boost production at start-up.

The operator has screened a number of different development concepts and the preferred concept of a steel PDQ jacket with floating storage and oil transportation by shuttle tanker has been agreed. The major remaining variables to be defined are the number of well slots and whether to have 1 or 2 drilling rigs on the platform. Contracts have been awarded for studies to define the preferred concept in sufficient detail to meet the requirements of Decision Gate 2 (Preliminary Project Sanction).

The base case development includes blending the crude with lighter hydrocarbons to increase the efficiency of the topside separation and reduce the size of the processing equipment. The blending will also have a positive impact on the sale value of the exported crude. Marketing studies are researching potential customers for Mariner production and the likely price differential for the resulting Mariner blend. Nautical is taking a very pro-active role in these discussions as it is considered that there is a strong demand amongst specialist refiners for Mariner-type crudes and that this should be reflected in the selling price assumed in the economics.

The screening work carried out so far indicates that the total Mariner development cost (capex + opex) could be as low as \$25/bbl which means the project has robust economics. The Operator is moving the project ahead with Decision Gate 2 planned for early in 2011. This will be followed by Front End Engineering and Design (FEED) and an Environmental Impact Assessment (EIA) which will be completed in 2011. Project sanction by the field partners and FDP submission is scheduled for 2011/12 with first oil expected in 2015.

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 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. Following completion Nautical's interest in the Licence will be 6%. The transaction is pending approval from the joint venture partners in the block and the Department of Energy and Climate Change (DECC).

14**Operational review****UK continental shelf****Tudor Rose****Block 14/30a
(Licence P1463)
(Nautical 20%)**

Located in the Outer Moray Firth adjacent to Ivanhoe, Rob Roy and Goldeneye Fields this Traditional Licence, contains one undeveloped discovery, 14/30a-2, named Tudor Rose. The discovery well encountered a 24 metre oil column beneath a 3 metre gas cap at around 1,000 metres 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 planned 2011

Tudor Rose appraisal well. A site survey has been completed with the main aim of the well being the determination of the API gravity and viscosity of the oil. Nautical attributes 49mmbo of gross best estimate contingent resources (10mmbo net) with a further 84mmbo of gross best estimate prospective resources in the east of the structure (17mmbo net). Further prospectivity is evidenced on the reprocessed seismic in the Lower Cretaceous, Kopervik Sandstone named Buffalo) which is along trend from the recently developed Rochelle Field in Block 15/27. Several other Jurassic leads at Sgiath formation level underlie the Tudor Rose discovery.

Key stats

- » Contains undeveloped Tudor Rose discovery & Buffalo prospect
- » Well planned for 2011

Tudor Rose is an undeveloped oil discovery which is scheduled to be drilled and tested in 2011.

Marrow

Blocks 113/29c and 113/30 (Licence P1475) (Nautical 50% Operator)

Blocks 113/19c and 113/30. Traditional Licences 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 700 kilometres 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 Marrow with an aeolian reservoir are estimated at 290bcf (145bcf 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 with a view to drilling in 2011. For well design reasons, an onshore well does not allow the testing of the shallower Marrow 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.

Key stats

- » Large gas prospect in East Irish Sea Basin
- » Planned 2011 well to be drilled from onshore location

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

16**Operational review**

UK continental shelf**Spaniards****Block 15/21g****(Licence P1655)****(Nautical 30%)**

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 2,660bopd 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.

Since the prospect was partially within Block 15/21 the Spaniards Joint Venture has proposed to drill a joint well in the near future with the Nexen operated group.

Keddington**Licence PEDL005****(Nautical 10%)**

Onshore Licence PEDL005 (Remainder) contains the producing Keddington oil field and North Somercotes gas prospect, both adjacent to the Saltfleetby gas field.

Production of around 50bopd was initially from Keddington-1 and -2y wells. In order to access further reserves the Keddington-3 sidetrack was drilled as a re-entry and horizontal sidetrack from the Keddington-2 "donor well" in April 2010. A total of 235 metres of sand, including 226 metres in the Main Unit 1 reservoir interval was encountered by the Keddington-3 and 3z wells.

The well has been free flowing oil and gas since June 2010 at an average rate of 193 barrels of oil per day. Nautical estimates that the gross remaining reserves in the field are 0.3mmbbl.

The well is also producing significant quantities of gas with the average daily rates of 737,000 cubic feet of gas per day. The productivity of the well is better than expected while the provenance of the gas and the opportunities it represents are under study by the operator, Egdon Resources plc.

France

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

St Laurent

St Laurent Permit (Nautical 22%)

The Saint Laurent Permit in South West France contains several large hydrocarbon exploration plays and the undeveloped Grenade heavy oil accumulation. The discovery well, Grenade-Sur-Adour-1 was drilled by SNEAP (Elf) in 1975 and encountered a 97 metre oil column of 10° API oil in Cretaceous Albian carbonates. Between 1976 and 1985 around 8,000 barrels of oil were recovered from intermittent tests, the well being finally plugged and abandoned during a period of low oil prices in 1985.

The Grenade 3 appraisal well drilled in 2008 did not encounter hydrocarbons. Studies are

focused on determining the extent of this accumulation and whether to sidetrack or abandon the GAR-3 well. Best estimate gross oil in place is now estimated to be 88 million barrels (0.9 million net recoverable).

Deeper in the geological section to the south-west the joint venture has reprocessed 2D seismic data and successfully delineated a large subsalt gas prospect in the Triassic Bunter Sandstone under the Audignon Ridge. The operator estimates best net prospective resources of 3TCF (660BCF net to Nautical). A farmin partner is being sought prior to drilling this high potential prospect. The Conseil De Mines granted a renewal of the St Laurent permit up to August 2013.

St Laurent key stats

- » Large subsalt gas prospect in the Triassic Bunter Sandstone under the Audignon Ridge with 3TCF gross best estimate prospective resources

18

Finance Director's review

Will Mathers
Finance Director

Subsequent to year end in August 2010 we completed a private placing raising a net £28.8m. Upon completion the partial sale of Mariner will provide additional funding of £87.5m. These events, combined with the improved share price, have significantly strengthened the financial position of the Group.

The year ended 30 June 2010 was a pivotal period for Nautical. We continued to manage our portfolio and cash resources wisely during the year and remained debt free. Subsequent to year end in August 2010 we completed a private placing raising a net £28.8m. Upon completion the partial sale of Mariner will provide additional funding of £87.5m. These events, combined with the improved share price, have significantly strengthened the financial position of the Group.

Results

The Group made a loss after taxation of £2.3m for the year (2009: £5.9m). This included exploration write-offs of £0.2m (2009: £4.1m), pre-licence expenditure of £0.4m (2009: £0.5m) and administrative expenses of £1.6m (2009: £1.6m).

Revenue of £68K received during the year was attributable to the onshore Keddington field. Interest income of £0.3m (2009: £0.8m) was down significantly from the prior year due to continuing low interest rates and the reduced cash resources of the Group in comparison to the prior year. The result included a £0.1m foreign exchange loss (2009: £0.5m gain), comprising of a £0.3m loss on the revaluation of the conditional liabilities denominated in US dollars and a gain of £0.2m on US dollar cash balances.

Administration costs of £1.6m included £1.0m (2009: £1.0m) related to staff costs and a non-cash charge of £0.1m (2009: £0.2m) arising from new share options issued to Directors and employees in January 2010. The taxation gain of £0.2m (2009: £0.7m gain) has arisen from movements on the deferred tax liability relating to an increase in tax losses of £1.8m offset by an increase in capital allowances of £1.6m.

Statement of Financial Position

As at 30 June 2010, the Group had net

assets of £57.7m (2009: £59.8m), dominated by capitalised exploration and evaluation assets of £55.3m (2009: £48.9m) and cash and deposits of £11.7m (2009: £19.1m).

Exploration and evaluation assets of £55.3m include capitalised costs of £31.1m for Mariner (Block 9/11a), £20.3m for Kraken (Block 9/2b) and £2.2m for Catcher (Block 28/9).

The Group remains debt free and Nautical's £7.5m secured debt facility with the Bank of Scotland (Lloyds Banking Group) remains undrawn and available for working capital purposes.

Cash flow

Our net cash spend for the year was £8.3m, resulting in cash and deposits at year end of £11.7m.

In addition to net expenditure on operating expenses of £1.7m the Group incurred expenditure of £6.6m (2009: £11.5m) on its exploration and evaluation assets during the year, which included £3.0m spent on Mariner, £0.9m on Kraken, £2.1m on Catcher and £0.6m on the remaining portfolio.

Post Balance Sheet Events

Subsequent to the year end, Nautical successfully completed a placing of 24,280,000 New Ordinary Shares at a price of 125 pence per share to raise gross proceeds of £30.35m (£28.8m 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. Following the admission of the shares on 31 August 2010 there are 87,688,291 shares in issue.

In addition to the primary placing a secondary placing was completed which

Proceeds from the sale will contribute a significant part of the equity funding for the development of Kraken, Catcher and Mariner. The timely restructuring of the portfolio to better match our size puts us in an excellent position to realise the full potential of our assets as development decisions approach.

resulted in 13,000,000 shares being sold by International Energy Group AG, previously the Company's largest shareholder. The successful placing was a significant event for Nautical as it provided the opportunity to materially improve the liquidity of the share register and gain further quality institutional support.

On 22 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 for total consideration of £87.5m. Following completion the Company's interest in the Licence will be 6%. The transaction is pending approval from the joint venture partners in the block and the Department of Energy and Climate Change (DECC). The book value of the assets sold was £31.1m as at 30 June 2010. The transaction should benefit from re-investment relief thereby minimising any tax consequences.

Proceeds from the sale will contribute a significant part of the equity funding for the development of Kraken, Catcher and Mariner. The timely restructuring of the portfolio to better match our size puts us in an excellent position to realise the full potential of our assets as development decisions approach.

Outlook

The successful transition of the Group's assets into the development phase will depend not only on continued technical success, but also on the ability of the Group to obtain appropriate financing prior to Field Development Plan approvals being granted.

As a consequence the strength of capital markets and the continued availability of debt and equity funding remain critical to Nautical's ability to successfully execute its plans going forward. The availability of such funding will continue to be influenced by macro-economic events, including oil price fluctuations and the overall state of the economy, all of which remain outside the control of Nautical. Despite this reality we remain confident about our ability to develop our three key assets, Kraken, Catcher and Mariner. Based on current oil prices, we believe that the economics are robust.

Nautical is well placed to meet its financial obligations and execute its upcoming exploration, appraisal and development programme over the next 12 months. We look forward to a very busy and exciting 2011.

Will Mathers
Finance Director



20

Board of Directors

John Conlin**Non-Executive Director and Chairman**

John Conlin joined the Board of Nautical Petroleum in June 2009. John has over 35 years' experience in the Oil and Gas industry, including 28 years with Royal Dutch Shell. He has held senior technical and management positions with Shell in the UK, Netherlands, Denmark, Oman, Australia, Russia and Saudi Arabia. Past executive roles include General Manager, Woodside Petroleum, and President, Sakhalin Energy Investment Company. His previous non-executive Board positions include Hardman Resources and Delphian Technology. John is currently non-executive chairman of Aurelian Oil and Gas. A petroleum engineer by profession, John holds a BSc (Hons) in Chemical Engineering from Edinburgh University and has completed the Harvard Business School's Advanced Management Programme.

Stephen Jenkins**Chief Executive Officer**

As part of a 28 year career in oil and gas, Steve spent the 11 years prior to Nautical at Nimir Petroleum as Business Development and HSE Manager, where he was responsible for acquisition strategy and technical dimensions of strategic planning. He successfully led multidisciplinary teams to evaluate opportunities in the Americas, the Middle East, North Africa, and other OECD countries, which led to the acquisition and subsequent turnaround of a Venezuelan oil producing field.

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

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

Paul Jennings**Commercial Director**

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

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

**Will Mathers
Finance Director**

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

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

**Patrick Kennedy
Non-Executive Director**

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

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

**Philip Dimmock
Non-Executive Director**

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

Phillip spent a significant part of his career at BP in a wide variety of senior positions, and at Ranger oil where he held the post of Vice President of the International Division, and served as Chairman. He has also been an Executive Officer of the UK Offshore Operators Association.

Philip is Chairman of Nautical's Remuneration Committee.

22 Directors' report

The Directors present their report together with the Group and Company financial statements for the year ended 30 June 2010

Business review and future activities

The principal activity of the Company is oil and gas exploration and appraisal in the UK and Europe. The Company is a public limited company incorporated in England and Wales (company number 4362104) and is listed in London on AIM under the designation NPE. The Company is required by the Companies Act to set out in this report a review of the business of the Group during the year end 30 June 2010 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 loss for the year was £2.28m (2009: £5.89m), including exploration write offs of £0.23m (2009: £4.06m), pre-licence expenditure of £0.43m (2009: £0.47m) and administrative expenses of £1.60m (2009: £1.58m). The Directors do not recommend the payment of a dividend.

Directors and their interests

The beneficial and other interests of the Directors and their families in the shares of the Company for the Directors holding office at 30 June 2010 were:

Number of ordinary shares and options held

	At 30 June 2010		At 30 June 2009	
	Ordinary shares Number	Share options Number	Ordinary shares Number	Share options Number
S Jenkins (Chief Executive)	876,096	1,125,000	876,096	975,000
P Jennings (Commercial Director)	876,096	800,000	876,096	700,000
W Mathers (Finance Director)	Nil	200,000	Nil	100,000
J Conlin (Non-Executive Chairman)	Nil	60,000	Nil	30,000
P Dimmock (Non-Executive Director)	Nil	250,000	Nil	225,000
P Kennedy (Non-Executive Director)	75,000	250,000	75,000	225,000

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.

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

Retirement and resignation of Directors

S Jenkins retires in accordance with section 99(2) of the Company's Articles of Association and offers himself for re-election. P Dimmock retires in accordance with section 99(2) of the Company's Articles of Association and offers himself for re-election. J Conlin has informed the board of his intention to resign following the Annual General Meeting 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 2010 63,408,291 ordinary shares of 20p each are issued and fully paid. On 31 August 2010 the Company completed a placing of 24,280,000 shares, following which there are 87,688,291 shares in issue.

Substantial shareholders

At 8 October 2010 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
MHR Advisors LLC	6,952,685	7.93%
BlueGold Capital Management LLP	4,510,164	5.14%
International Energy Group AG	4,409,425	5.03%
Shin Cheon Co. Limited	3,814,971	4.35%

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 2010 amount to 13 days of purchases made in the year (2009: 14 days).

Donations

During the year the Group made charitable donations of £nil (2009: £1,050) and no political contributions (2009: £nil).

Financial instruments

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

Key performance indicators

The Board reviews the key performance indicators of the business and the Company's progress towards achieving its objectives on a quarterly basis. These KPI's include items such as the financial position of the business, reportable incidents, operational results and resources.

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 than the Group, for the identification and acquisition of oil and gas licences and properties and also for the recruitment and retention of skilled personnel.

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 macro-economic 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.

24**Directors' report** continued**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.

Post balance sheet events

On 31 August 2010 the Company completed a placing of 24,280,000 new ordinary shares of 20 pence each, at a price per share of 125 pence. The placing raised £30.35m (£28.8m net of expenses). Following the admission of the shares there are 87,688,291 shares in issue.

As part of the placing International Energy Group AG (IEG), the Company's largest shareholder at 30 June 2010 holding 18,309,425 shares (28.9% of the issued capital), sold 13,000,000 shares. Following the sale of the shares IEG holds 4,409,425 ordinary shares representing 5.03% of the enlarged issued capital of the Company.

On 22 September 2010 the Company signed a Sale and Purchase Agreement with Statoil (UK) Limited (Statoil) for the sale of a 20.6667% interest in Licence P355, Block 9/11a (the 'Licence'), which contains the Mariner discovery. Statoil will pay total consideration of £87.5m for a 20.6667% interest in the Licence and associated rights, plus a maximum £3.0m carry of the Company's cost through to final investment decision. Following completion the Company's interest in the Licence will be 6%. The transaction is pending approval from the joint venture partners in the block and the Department of Energy and Climate Change (DECC). As at 30 June 2010, the book value of the assets being sold was £31.1m.

Board committees

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

Disclosure of information to the auditors

Having made enquiries of fellow Directors and of the Company's auditors, each of the Directors confirms that, to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware, and each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of the relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given, and should be interpreted, in accordance with the provisions of s418 of the Companies Act 2006.

Auditors

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

Annual General Meeting

The Annual General Meeting will be held on 16 Tuesday November 2010 as stated in the Notice of Meeting, which accompanies this Annual Report.

On behalf of the Board

Stephen Jenkins

Director

8 October 2010



Remuneration report

Directors' emoluments

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

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

Details of the nature and amount of each element of the emoluments of each Director of the Company for the previous 12 months are as follows:

Name	Salary £ 000	Fees £'000	Bonus £ 000	Pension £ 000	Total 2010 £'000	Total 2009 £ 000
S Jenkins	216	–	63	21	300	344
P Jennings	125	–	36	14	175	196
W Mathers	129	–	51	14	194	106
J Conlin	–	45	–	–	45	1
P Dimmock	–	30	–	–	30	28
P Kennedy	–	30	–	–	30	41
I Williams – resigned 17 October 2008	–	–	–	–	–	46
H Thanawala – resigned 17 October 2008	–	–	–	–	–	16
Total	470	105	150	49	774	778

S Jenkins has entered into a loan agreement with the Company for £4,200 with an outstanding balance due to the Company at 30 June 2010 of £1,750 (2009 £1,645).

The pension is a defined contribution scheme.

Share options granted to Directors

Name	Options held at June 2009	Options granted in year	Options held at June 2010	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
	975,000	150,000	1,125,000			
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
	700,000	100,000	800,000			
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	200,000			
J Conlin	30,000	–	30,000	57.10	24/06/09	24/06/17
	–	30,000	30,000	57.50	13/01/10	13/01/18
	30,000	30,000	60,000			
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
	225,000	25,000	250,000			

26**Remuneration report** continued**Share options granted to Directors** continued

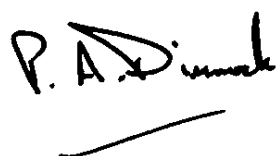
Name	Options held at June 2009	Options granted in year	Options held at June 2010	Exercise price (p)	Issue date	Expiry date
P Kennedy	75,000	–	75,000	80 00	07/03/05	07/03/13
	75,000	–	75,000	220 00	26/09/05	26/09/13
	25,000	–	25,000	177 00	18/01/07	18/01/15
	25,000	–	25,000	211 00	18/01/08	18/01/16
	25,000	–	25,000	26 75	12/01/09	12/01/17
	–	25,000	25,000	57 50	13/01/10	13/01/18
	225,000	25,000	250,000			
Total	2,255,000	430,000	2,685,000			

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. None of the Directors exercised options during the year.

Philip Dimmock

Chairman of the Remuneration Committee

8 October 2010



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 3 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 Mr P Kennedy is a shareholder.

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

The current Executive Directors are all employed under service contracts with the Company.

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 99% attendance at all meetings throughout the year.

Audit Committee

The Audit Committee is chaired by P Kennedy and its other member is J Conlin. Executive Directors may attend by invitation. The minutes of every meeting are taken by the Company Secretary and circulated to the Board at the next Board Meeting at which the Chairman provides a verbal report of meetings of the Committee.

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

Remuneration Committee

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

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

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

None of the Committee has any day-to-day involvement in running the Company.

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.

Relations with Shareholders

Communication with shareholders is given high priority. Extensive information about the Group's activities is provided in the Annual Report 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.

28**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 2010 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity and the Consolidated Cash Flow Statement 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 13 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 28, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the group financial statements

- » give a true and fair view of the state of the group's affairs as at 30 June 2010 and of its loss for the year then ended,
- » have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- » have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matter

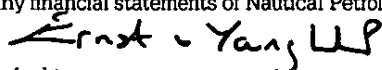
We have reported separately on the parent company financial statements of Nautical Petroleum plc for the year ended 30 June 2010.

Kevin Weston (Senior statutory auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

Aberdeen

8 October 2010



30**Consolidated statement of comprehensive income**

For the year ended 30 June 2010

	Notes	2010 £'000	2009 £'000
Revenue	3	68	25
Cost of sales		(84)	(28)
Impairment & operating costs of extended well test equipment		-	(2,472)
Gross loss		(16)	(2,475)
Exploration & evaluation gain on farmout		-	491
Exploration & evaluation expense	4	(663)	(4,526)
Administrative expenses		(1,602)	(1,577)
Foreign exchange (loss)/gain		(132)	486
Operating loss	4	(2,413)	(7,601)
Finance income	9	309	1,314
Finance costs	9	(371)	(349)
Loss before tax		(2,475)	(6,636)
Tax	10/17	194	749
Loss and total comprehensive income for the year		(2,281)	(5,887)
Attributable to			
Equity holders of the Company		(2,281)	(5,887)
Basic and diluted loss per share (pence)	11	(3 60)	(9 28)

The results above were entirely derived from continuing operations

Consolidated statement of financial position

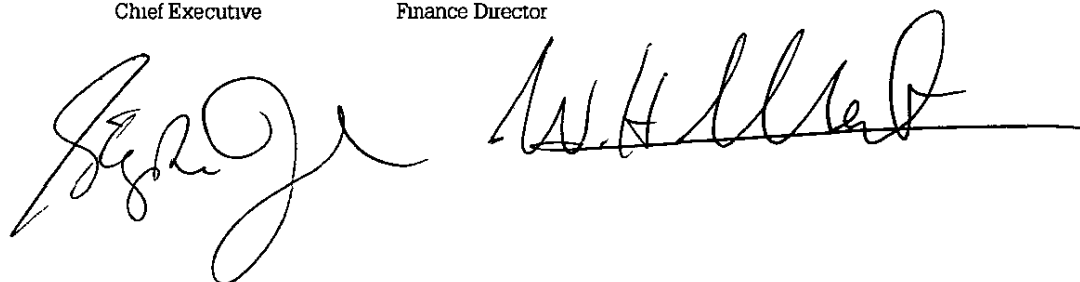
As at 30 June 2010

	Notes	At 30 June 2010 £'000	At 30 June 2009 £'000
Non-current assets			
Intangible assets	12	55,258	48,857
Property, plant and equipment	12	353	277
Long-term deposits	13	–	1,000
		55,611	50,134
Current assets			
Trade and other receivables	14	808	573
Short-term deposits	15	3,000	16,000
Cash and cash equivalents	15	8,730	3,061
		12,538	19,634
Total assets		68,149	69,768
Current liabilities			
Trade and other payables	16	(883)	(809)
Non-current liabilities			
Deferred tax	17	(5,488)	(5,682)
Provisions	18	(4,103)	(3,466)
		(9,591)	(9,148)
Total liabilities		(10,474)	(9,957)
Net assets		57,675	59,811
Equity attributable to equity holders			
Called up share capital	21	11,588	11,588
Share premium		37,748	37,748
Other reserves	22	29,169	29,169
Cumulative translation reserve		(1,659)	(1,659)
Accumulated losses		(19,171)	(17,035)
Total equity		57,675	59,811

The financial statements were approved by the Board on 8 October 2010 and were signed on its behalf by

S Jenkins
Chief Executive

W Mathers
Finance Director



32**Consolidated statement of changes in equity**

For the year ended 30 June 2010

	Share capital £ 000	Share premium £ 000	Other reserves £ 000	Cumulative translation reserve £ 000	Retained earnings £ 000	Total equity £'000
At 1 July 2008	11,588	37,748	29,169	(1,659)	(11,391)	65,455
Loss for the year	-	-	-	-	(5,887)	(5,887)
Total comprehensive income for the year	-	-	-	-	(5,887)	(5,887)
Share-based payments	-	-	-	-	243	243
At 30 June 2009	11,588	37,748	29,169	(1,659)	(17,035)	59,811
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

Consolidated cash flow statement

For the year ended 30 June 2010

	Notes	2010 £'000	2009 £'000
Net cash outflow from operating activities	23	(1,720)	(367)
Cash flows from investing activities			
Finance income		209	840
Expenditure on development and production assets		(93)	(285)
Expenditure on intangible assets		(6,624)	(11,519)
Decrease/(increase) in cash placed on short-term deposit	15	13,000	(1,000)
Decrease/(increase) in cash placed on long-term deposit	13	1,000	(1,000)
Proceeds from asset disposals		-	11,938
Net cash flow from investing activities		7,492	(1,026)
Cash flows from financing activities			
Finance expense		(103)	(156)
Repayment of balances due to related undertakings		-	(508)
Net cash flow from financing activities		(103)	(664)
Increase/(decrease) in cash and cash equivalents		5,669	(2,057)
Cash and cash equivalents at beginning of year		3,061	5,118
Cash and cash equivalents at end of year	15	8,730	3,061

34

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 2010 were authorised for issue by the Board of Directors on 8 October 2010 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 2010, 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 2010, including the results of the subsidiaries, which are prepared for the same reporting year as the Parent Company using consistent accounting policies.

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

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

Where a minority interest is acquired, the difference between the cost of the additional interest in the subsidiary and the minority interest's share of the assets and liabilities reflected in the consolidated 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.

(2.3) Significant accounting judgements and estimates

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

- » The Group makes judgements whether the exploration and evaluation assets are impaired in accordance with policy 2.6
- » The estimates determining the unwinding of the discount on long-term conditional payments, being the expected timings of field development approval and first oil on the Mariner field
- » The inputs into the binomial model used to estimate the fair value and charge to income of share options granted

(2.4) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenues can be reliably measured.

(2.5) Foreign currency translation

The consolidated financial statements are presented in UK sterling, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. As at 30 June 2010 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 re-translated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

(2.6) Intangible assets – exploration and evaluation assets

Capitalisation

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

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

Impairment

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

Acquisitions and Disposals

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

(2.7) Property, Plant and Equipment – Development and production assets**Capitalisation**

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

Depletion

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

Impairment

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

(2.8) Joint ventures

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

(2.9) 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 decommissioning which alter the level of provisions required are also reflected in adjustments to decommissioning asset.

Conditional payments

Non-current conditional payments are measured at amortised cost using the effective interest rate method, with the unwinding of the discount passing through income statement as a finance cost. At each balance sheet, the estimates used to determine the discount period are assessed and changes made as appropriate, with the effect of the change being recorded in the current year.

(2.10) Financial assets**Cash and cash equivalents**

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

Short-term deposits

Short-term deposits comprise deposits held with original maturities of between 3 and 12 months at the balance sheet date.

Long-term deposits

Long-term deposits comprise deposits held with banks with original maturities of more than 12 months at the balance sheet date.

Trade and other receivables

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

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

36

Notes to the financial statements continued**2 Accounting policies for the consolidated financial statements** continued**(2 11) 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 12) Taxation**Current tax**

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

Deferred tax

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

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

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

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

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

(2 13) Employee benefits

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

(2 14) Share-based payments

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

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

The fair value is determined by use of a binomial model.

(2 15) Separately disclosable items

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

(2 16) 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 17) 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 2009 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.

Amendment to IFRS 2 Share-based Payment: Vesting Conditions and Cancellations

The amendment to IFRS 2 clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. This amendment did not have an impact on the financial position or performance of the Group.

Amendment to IFRS 7 Improving Disclosures about Financial Instruments

This standard requires enhanced disclosure relating to the fair value measurements and liquidity risk of financial instruments. The adoption of the revised standard has not had any impact on the Group's reported income or net assets and the required disclosure is detailed throughout the financial statements and more specifically in note 20.

IFRS 8 Operating Segments

IFRS 8 replaces IAS 14 Segment reporting (IAS 14). The Group concluded that its operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in note 3, including the related comparative information.

IAS 1 (Revised) Presentation of Financial Statements

The revised standard has required the reconciliation of movements in equity, previously disclosed in the notes, to be presented as a primary statement entitled "Consolidated Statement of Changes in Equity". In addition the Consolidated Statement of Recognised Income and Expense has been replaced with the Consolidated Statement of Comprehensive Income. The revised standard requires this statement to present all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

Improvements to IFRSs (issued May 2008 and April 2009)

In May 2008 the IASB issued its first omnibus of 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 2009 but they are not relevant to the company's operations:

IFRS 3 Business Combinations
 IAS 23 Borrowing Costs
 IAS 27 Amendment Consolidated and Separate Financial Statements
 IAS 32 and IAS 1 Amendments Puttable Financial Instruments and Obligations Arising on Liquidation
 IAS 39 Amendment Eligible Hedged Items
 IFRIC 15 Agreements for the Construction of Real Estate
 IFRIC 16 Hedges of a Net Investment in a Foreign Operation
 IFRIC 17 Distribution of Non-cash Assets to Owners
 IFRIC 18 Transfer of Assets from customers

(2.18) New standards and interpretations not applied

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

New standards and interpretations not applied

International Accounting Standards (IAS/IFRS)	Effective date
IFRS 1 Amendments to IFRS1 – Additional Exemptions for First-Time Adopters	1 January 2010
IFRS 1 Amendments to IFRS1 – Limited Exemption from comparatives IFRS 7 disclosures	1 July 2010
IFRS 2 Amendments to IFRS 2 – Group Cash-settled Share-based Payment Transactions	1 January 2010
IFRS 9 Financial Instruments Classification & Measurement	1 January 2013
IAS 24 Related Party Disclosures (revised)	1 January 2011
IAS 32 Amendments to IAS 32 Classification of Rights Issues	1 February 2010
International Financial Reporting Interpretations Committee (IFRIC)	
IFRIC 14 Amendments Prepayments of a Minimum Funding Requirement	1 January 2011
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

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 income statement is analysed as follows:

	2010 £'000	2009 £'000
Oil sales	68	25
Revenue	68	25
Finance income	309	1,314
Total revenue	377	1,339

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

38**Notes to the financial statements** continued**3 Turnover and segmental information** continued**Geographical information**

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

	2010 £'000	2009 £'000
Revenue from external customers		
United Kingdom	68	25
	2010 £'000	2009 £'000
Non-current assets		
United Kingdom	54,617	49,208
Europe	994	926
	55,611	50,134

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 one customer.

4 Operating loss

	2010 £'000	2009 £'000
Operating loss is stated after charging		
Exploration and evaluation gain*	-	(491)
Exploration and evaluation expense		
- Exploration costs written off (see note 12)	232	4,057
- Pre licence expenditure	431	469
Impairment of extended well test equipment	-	2,376
Depreciation and depletion of property, plant and equipment	17	78
Foreign exchange losses on conditional payments	369	660
Other foreign exchange gains	(237)	(1,146)

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

5 Auditors' remuneration

	2010 £'000	2009 £'000
Audit of the Group accounts	60	52
Audit of the Company's accounts	7	6
	67	58
Other fees to auditors		
Audit of the Company's subsidiaries pursuant to legislation	17	15
Other services pursuant to legislation	27	29
Taxation services	60	49
	104	93

6. Information regarding Directors' emoluments

Aggregate Directors' emoluments, which exclude pensions, are £725K (2009 £753K). The emoluments of the highest paid Director were £279K (2009 £331K). In addition he received contributions to a defined contribution pension scheme of £21K (2009 £13K). Further information is included in the Remuneration report.

7 Employees**Headcount**

	2010 Number	2009 Number
Average number of employees of the Group (including Executive Directors) during the year was		
Management	3	3
Technical staff/support/other	3	2

Staff costs

	2010 £'000	2009 £'000
Wage and salaries	654	575
Bonuses	168	255
Social security costs	103	92
Other pension costs	70	34
	995	956
Equity settled share-based payments	145	243
	1,140	1,199

8 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. £70K has been charged to the income statement for the year (2009 £34K)

9 Interest and similar items

	2010 £'000	2009 £'000
Finance income		
Bank interest	309	775
Other financial income	-	426
Gain on settlement of amounts due to related undertakings	-	113
	309	1,314

	2010 £'000	2009 £'000
Finance costs		
Costs of borrowing facility	103	161
Other financial costs	77	-
Unwinding of discounts on long-term payables	191	188
	371	349

10. Tax on loss on ordinary activities

The major components of the tax credit are

	2010 £'000	2009 £'000
Deferred income tax		
Relating to origination and reversal of temporary differences	1,570	1,151
Benefit of previously unrecognised tax losses	(1,764)	(1,900)
	(194)	(749)

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

	2010 £'000	2009 £'000
Loss before tax	(2,475)	(6,636)
Loss before tax at the standard UK corporation tax of 28% (2009 28%)	(693)	(1,858)
Effects of		
Expenses and (income) not deductible for tax purposes	(49)	(179)
Prior year adjustment – deferred tax	66	-
Deferred tax assets not recognised	568	3,008
Utilisation of deferred tax assets not recognised	-	(1,900)
Effect of supplementary charge	(86)	180
Total tax credit on loss on ordinary activities	(194)	(749)

11 Loss per share

	2010	2009
Loss for the year attributable to equity holders (£'000)	(2,281)	(5,887)
Basic weighted average number of shares in issue in the year (thousands)	63,408	63,408
Basic and diluted loss per ordinary share (pence)	(3.60)	(9.28)

In addition at 30 June 2010 there were a total of 3.03m options (2009 3.48m) and Nil warrants (2009 1.32m) in issue, which have not been included in the above calculations. Due to a loss made from continuing operations during the year potential ordinary shares resulting from the exercise of share options and warrants are not dilutive. On 31 August 2010 the Company issued a further 24,280,000 shares.

40

Notes to the financial statements continued

12. Intangible assets; property, plant and equipment

Movements during the year were as follows

Cost	Intangible assets Exploration and evaluation assets £ 000	Property plant and equipment Extended well test equipment £'000	Property plant and equipment Development and production assets £ 000	Other £ 000	Total £'000
At 30 June 2008	56,400	2,796	–	7	59,203
Additions	7,961	–	285	–	8,246
Disposals	(11,447)	(2,796)	–	(7)	(14,250)
Written off	(4,057)	–	–	–	(4,057)
At 30 June 2009	48,857	–	285	–	49,142
Additions	6,633	–	93	–	6,726
Disposals	–	–	–	–	–
Written off	(232)	–	–	–	(232)
At 30 June 2010	55,258	–	378	–	55,636
Depletion and depreciation					
At 30 June 2008	–	350	–	7	357
Provided in year	–	70	8	–	78
Impairment	–	2,376	–	–	2,376
Disposals	–	(2,796)	–	(7)	(2,803)
At 30 June 2009	–	–	8	–	8
Provided in year	–	–	17	–	17
At 30 June 2010	–	–	25	–	25
Net book value					
At 30 June 2010	55,258	–	353	–	55,611
At 30 June 2009	48,857	–	277	–	49,134

The exploration and evaluation balance represents the costs related to the fields currently being evaluated and appraised, including £31.1m for the Mariner field (2009 £28.1m) and £20.3m for the Kraken field (2009 £19.4m). Amounts written off in the prior year relate to unsuccessful exploration costs primarily due to licences being relinquished or in the process of being relinquished, principally the 3/27a Hydra and 9/1 Scylla licences.

The above balances include amounts relating to a 6.67% interest in the Mariner Field, being carried by the Company. Upon field development approval, the party to the carry agreement has the option to earn back its 6.67% interest by reimbursement of costs during the development phase. These costs amount to approximately £10.2m as at June 2010 (2009 £9.5m). If the party declines to take up its option, the Company retains the 6.67% interest upon payment of £1.

13 Long-term deposits

	30 June 2010 £'000	30 June 2009 £ 000
	–	1,000

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

14. Trade and other receivables

	30 June 2010 £'000	30 June 2009 £ 000
Other debtors	474	494
Prepayments and accrued interest	334	79
	808	573

None of the above are impaired.

15. Cash and short-term deposits

	30 June 2010 £'000	30 June 2009 £'000
Cash at bank and in hand	625	1,286
Deposits of 3 months or less	8,105	1,775
	8,730	3,061
Short-term deposits	3,000	16,000

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

16 Trade and other payables

	30 June 2010 £'000	30 June 2009 £'000
Current liabilities		
Trade creditors	312	504
Amounts owed to related companies	56	13
Accruals	515	292
	883	809

17 Deferred taxation

	30 June 2010 £'000	30 June 2009 £'000
Balance sheet movements: deferred tax asset		
Tax losses	5,682	3,918
	5,682	3,918
Balance sheet movements: deferred tax liability		
Accelerated capital allowances	5,898	4,328
Acquisition fair value adjustments	5,272	5,272
	11,170	9,600
Net Deferred tax liability	5,488	5,682
Income statement movements		
Accelerated capital allowances	1,570	4,328
Acquisition fair value adjustments	–	(1,159)
Tax losses	(1,764)	(3,918)
	(194)	(749)

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 50%, the group has a deferred tax asset not yet recognised at a tax rate of 28% of £4.3m (2009: £3.5m), which has not been recognised as a result of existing uncertainties of their realisation. These arise from tax losses of £5.6m (2009: £3.4m), depreciation in excess of capital allowances of £6.5m (2009: £6.3m) and deferred consideration of £3.3m (2009: £2.8m). The tax losses are available indefinitely against future taxable profits.

18. Provisions

	Decommissioning £'000	Provision for conditional payments £'000	Total £'000
At 1 July 2009	20	3,446	3,466
Exchange adjustments	–	369	369
Effect of changes in estimates	–	77	77
Unwinding of discount	–	191	191
At 30 June 2010	20	4,083	4,103

The £20K provision for decommissioning costs relate to the Keddington field.

42

Notes to the financial statements continued

18 Provisions continued

Conditional payments comprise 2 amounts relating to the Manner 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 2011, and (2) \$2.8m due on first oil which is anticipated in 2014. The Company believes these events to be sufficiently probable as to provide for their payment. The liabilities were acquired as part of the acquisition of the Alba Resources (Holdings) Group in August 2005. 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 2 November 2007, the Group entered into an 18 month £7.5m borrowing facility with the Bank of Scotland for general working capital purposes. On 30 March 2009 this facility was extended to 31 May 2012 with any amounts drawn repayable in full by that date. No amounts had been drawn at the balance sheet date. The facility is secured by a first ranking debenture over the assets of the Company and the assets of certain subsidiaries, principally Alba Resources Limited which has a 26.67% interest in the Manner field. Interest is chargeable at 3 or 6 months LIBOR, as chosen by the Company, plus a margin of 2.75%.

20 Financial instruments

	30 June 2010 Book value £'000	30 June 2009 Book value £'000
Financial assets		
Cash and cash equivalents	8,730	3,061
Short-term deposits	3,000	16,000
Long-term deposits	–	1,000
Other debtors (note 14)	474	494
Financial liabilities		
Trade and other payables – current	883	809
Conditional payments	4,083	3,446

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 23 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.

(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 impact of a 10% change in the UK Sterling/USD exchange rate would have been a +/-£177K (2009 +/-£344K) effect on the profit before tax.

(3) Financial assets and liabilities – interest rate risk

The Group has not drawn on its bank facility. If it were to do so, it would be exposed to interest movements, as the rate is linked to LIBOR rates as described in note 19.

There is an insignificant risk of change in the value of cash and deposits as a result of interest rate movements.

(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. Maximum exposure would be the amounts shown in the balance sheet.

The Group is exposed to credit risk on the financial institutions with which it holds cash, short-term deposits and deposits maturing in greater than one year. At June 2010 the Company had £5.0 million cash and deposits with Abbey National (part of the Santander group), £3.7m with Scottish Widows and £2.0 million with Anglo Irish Bank, with substantially all of the remaining £1.0m with Bank of Scotland.

(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 to 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 to fund work programmes on a number of occasions. In addition to these activities a credit facility has been arranged with Bank of Scotland (Lloyds Banking Group) in order to provide added flexibility (see note 19).

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

	At 30 June 2010		At 30 June 2009	
	Number	£'000	Number	£'000
Authorised				
Ordinary shares of 20p each	100,000,000	20,000	100,000,000	20,000
Allotted, called up and fully paid				
Ordinary shares of 20p each	3,875,000	100	3,875,000	100
Reverse acquisition capital adjustment	34,875,000	6,556	34,875,000	6,556
Ordinary shares of 20p each	24,658,291	4,932	24,658,291	4,932
	63,408,291	11,588	63,408,291	11,588

On 31 August 2010 the Company completed a placing of 24,280,000 20p new ordinary shares, at a price per share of 125 pence. The placing raised £30.35m (£28.8m net of expenses). Following the admission of the shares there are 87,688,291 shares in issue.

The Group announced on 24 November 2005 the acquisition of 22% of the St Laurent Permit onshore France field with the consideration to be satisfied by the issuance of 19,388 new ordinary shares of 20p each. The seller has not yet requested the issue of these shares.

On 4 July 2005 the Group announced the issuance of 583,334 warrants to subscribe for new ordinary shares at 400p per share exercisable up to 3 July 2009. The Company has the right to require warrant holders to exercise their warrants should the closing price of the Company's ordinary shares remain above 800p per share for 90 consecutive trading days in the year to 3 July 2009. These warrants expired on 3 July 2009 without being exercised.

On 3 January 2006 the Group announced the issuance of 731,890 warrants to subscribe for new ordinary shares at 400p per share exercisable up to 3 January 2010. The Company has the right to require warrant holders to exercise their warrants should the closing price of the Company's ordinary shares remain above 800p per share for 90 consecutive trading days in the year to 3 January 2010. These warrants expired on 3 January 2010 without being exercised.

44

Notes to the financial statements continued

21 Share capital continued

Equity settled share options

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

Date issued	Exercisable by	Exercise price	Total issued	Held by current Directors	Exercisable at 30 June 2010	Exercisable at 30 June 2009	Exercisable at 1 October 2010
7 March 2005	7 March 2013	80 00p	600,000	600,000	600,000	600,000	600,000
23 September 2005	23 September 2010	250 75p	50,000	–	50,000	50,000	50,000
26 September 2005	26 September 2013	220 00p	675,000	650,000	675,000	675,000	675,000
18 January 2007	18 January 2015	177 00p	287,500	250,000	287,500	287,500	287,500
18 January 2008	18 January 2016	211 00p	322,500	300,000	322,500	161,250	322,500
15 April 2008	15 April 2016	185 00p	15,000	–	15,000	7,500	15,000
13 November 2008	13 November 2016	36 17p	100,000	100,000	75,000	25,000	75,000
12 January 2009	12 January 2017	26 75p	395,000	325,000	197,500	–	296,250
24 June 2009	24 June 2017	57 10p	30,000	30,000	15,000	–	15,000
13 January 2010	13 January 2018	57 50p	550,000	430,000	–	–	137,500
Balance at 30 June 2010			3,025,000	2,685,000	2,237,500	1,806,250	2,473,750
Balance at 8 October 2010			3,025,000	2,685,000	2,237,500	1,806,250	2,473,750

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

The weighted average share price in the year was 66 7p (2009 55 7p). The weighted average remaining contractual life at 30 June 2010 was 4 82 years (2009 4 90 years). The weighted average fair value of options granted in the year was 26 74p (2009 13 96p). The expense recognised for share-based payments in the year to 30 June 2010 was £145K (2009 £243K).

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

	2010 Number	2010 WAEF	2009 Number	2009 WAEF
Outstanding at beginning of year	3,475,000	145 1	2,950,000	165 6
Lapsed in the year	(1,000,000)	(157 5)	–	–
Granted during the year	550,000	57 5	525,000	30 3
At 30 June	3,025,000	125 05	3,475,000	145 1

At 30 June 2010, 2 24m options are exercisable (2009 2 74m).

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

	13 January 2010	24 June 2009	12 January 2009	13 November 2008
Dividend yield	–	–	–	–
Expected share price volatility	69 0%	73 7%	73 7%	67 4%
Risk free interest rate	4 61%	3 45%	3 00%	3 00%
Leaver rate	0%	5%	5%	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 was adjusted to 0% due to the small number of people in the scheme. Adjustments to the expense recognised will be made if anyone actually leaves.

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 2010 all entities within the Group had a UK sterling functional currency.

Other reserves

Other reserves comprise the following

	30 June 2010 £'000	30 June 2009 £ 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.

The warrant reserve shows the value of share warrants issued.

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

23 Net cash flows from operating activities

	2010 £'000	2009 £ 000
Loss for the year	(2,281)	(5,887)
Finance income	(309)	(1,314)
Finance costs	371	349
Taxation	(194)	(749)
Impairment of equipment	-	2,376
Exploration gain	-	(491)
Exploration costs written off	232	4,057
Share-based payment charges	145	243
Depreciation	17	79
Unrealised foreign exchange movements	369	804
Operating cash flow before working capital movements	(1,650)	(533)
(Increase)/decrease in trade and other receivables	(45)	38
(Decrease)/increase in trade and other payables	(25)	128
Net cash outflow from operating activities	(1,720)	(367)

24. Analysis of net cash

	At 1 July 2008 £'000	Cash flow £ 000	At 1 July 2009 £ 000	Cash flow £ 000	At 30 June 2010 £'000
Cash at bank and in hand	5,118	(2,057)	3,061	5,669	8,730
Short-term deposits	15,000	1,000	16,000	(13,000)	3,000
Net cash	20,118	(1,057)	19,061	(7,331)	11,730

25 Commitments

The Group has capital commitments of £2.6m (2009: £1.7m).

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

The Group defines key management personnel as the Directors of the Company. S. Jenkins has entered into a loan agreement with the Company for £4,200 with an outstanding balance due to the Company at 30 June 2010 of £1,750 (2009: £1,645). There are no transactions with Directors, other than their remuneration as disclosed in the Remuneration Report.

(b) Other related parties

International Energy Services Limited (IESL) is a 100% subsidiary of International Energy Group AG (IEG). Nautical Petroleum plc was an associate of IEG and as such IESL was a related party at the year end. IESL provides services to companies within the IEG Group and associates. Such shared services include the occupation of shared office space and facilities and some administrative functions and amounted to £218K (2009: £301K). At the year end an amount of £24K (2009: £30K) was due to IESL. In addition, at the year end there was £32K (2009: £11K) due to IEG.

46

Notes to the financial statements continued

27 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.

28. 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%	Investment
Alba Resources Limited*	Scotland	Ordinary shares	100%	Exploration, development and production
Mountwest 560 Limited*	Scotland	Ordinary shares	100%	Exploration, development and production
Mountwest 561 Limited*	Scotland	Ordinary shares	100%	Exploration, development and production
Mountwest 562 Limited*	Scotland	Ordinary shares	100%	Dormant
First Mariner Limited	England	Ordinary shares	100%	Exploration, development and production

* Held by subsidiary undertakings

Nautical Petroleum AG carries out its activities through a UK Branch

29 Post balance sheet events

On 31 August 2010 the Company completed a placing of 24,280,000 20 pence new ordinary shares, at a price per share of 125 pence. The placing raised £30.35m (£28.8m net of expenses). Following the admission of the shares there are 87,688,291 shares in issue.

As part of the placing International Energy Group AG (IEG), the Company's largest shareholder at 30 June 2010 holding 18,309,425 shares (28.9% of the issued capital), sold 13,000,000 shares. Following the sale of the shares IEG holds 4,409,425 ordinary shares representing 5.03% of the enlarged issued capital of the Company.

On 22 September 2010 the Company signed a Sale and Purchase Agreement with Statoil (UK) Limited (Statoil) for the sale of a 20.6667% interest in Licence P355, Block 9/11a (the "Licence"), which contains the Mariner discovery. Statoil will pay total consideration of £87.5m for a 20.6667% interest in the Licence and associated rights, plus a maximum £3.0m carry of the Company's cost through to final investment decision. Following completion the Company's interest in the Licence will be 6%. The transaction is pending approval from the joint venture partners in the block and the Department of Energy and Climate Change (DECC). As at 30 June 2010, the book value of the assets being sold was £31.1m.

Nautical Petroleum plc Company only accounts 2010

Directors' responsibilities for the Parent Company financial statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

48**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 2010 which comprise the Company Balance Sheet and the related notes 30 to 39. 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 47, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent company financial statements

- » give a true and fair view of the state of the company's affairs as at 30 June 2010 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 2010.

Kevin Weston (Senior statutory auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

Aberdeen

8 October 2010

Ernst & Young LLP

Company balance sheet

As at 30 June 2010

	Notes	2010 £'000	2009 £'000
Fixed assets			
Intangible assets	33	3,749	1,365
Investments	34	11,884	11,884
Long-term deposits		-	1,000
Total fixed assets		15,633	14,249
Current assets			
Trade debtors and other receivables	35	17,898	11,542
Short-term deposits		3,000	16,000
Cash at bank and in hand		6,028	3,022
Total current assets		26,926	30,564
Creditors amounts falling due within 1 year	36	(1,074)	(1,893)
Net current assets		25,852	28,671
Net assets		41,485	42,920
Capital and reserves	37		
Called up share capital		12,682	12,682
Share premium		37,015	37,015
Warrant reserve		263	263
Profit and loss reserve		(8,475)	(7,040)
Total shareholders' funds		41,485	42,920

The financial statements were approved by the Board on 8 October 2010 and were signed on its behalf by

S Jenkins
Chief Executive

W Mathers
Finance Director




50

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) 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.

(d) Share-based payments

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

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

The fair value of share-based remuneration is determined at the date of grant and recognised as an expense in the 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.

(e) 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 £1,580K (2009 £876K). 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**

	2010 Number	2009 Number
Average number of employees of the Company (including Executive Directors) during the year was		
Management	3	3
Technical staff/support/other	3	2

Staff costs

	2010 £'000	2009 £'000
Wage and salaries	654	575
Bonuses	168	255
Social Security costs	103	92
Other Pension costs	70	34
	995	956

Further Information regarding the remuneration awarded to Directors is provided in the Remuneration Report on pages 25 to 26.

	2010 £'000	2009 £'000
Equity settled share-based payments	145	243

33 Intangible assets

	Total £ 000
Exploration and evaluation assets	
At 1 July 2009	1,365
Additions	2,407
Exploration costs written off	(23)
At 30 June 2010	3,749

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

34 Investments

	Total £ 000
Investments in subsidiary companies	
Cost	
At 1 July 2009 and at 30 June 2010	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.

35 Trade debtors and other receivables

	2010 £'000	2009 £ 000
Amounts owed by subsidiaries	17,144	10,994
Other debtors	424	469
Prepayments and accrued interest	330	79
	17,898	11,542

36. Creditors: amounts falling due to within 1 year

	2010 £'000	2009 £ 000
Amounts owed to subsidiaries	668	1,130
Trade creditors	69	430
Amounts owed to related companies	56	41
Accruals	281	292
	1,074	1,893

37 Share capital and reserves

	Share capital £ 000	Share premium £ 000	Warrant reserve £ 000	Profit and loss reserve £ 000	Total equity £ 000
At 1 July 2009	12,682	37,015	263	(7,040)	42,920
Share option charges added back	-	-	-	145	145
Loss for the year	-	-	-	(1,580)	(1,580)
At 30 June 2010	12,682	37,015	263	(8,475)	41,485

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

38. Related party transactions

International Energy Services Limited (IESL) is a 100% subsidiary of International Energy Group AG (IEG), who held 28.9% of the issued capital of Nautical Petroleum plc as at 30 June 2010. During the year ended 30 June 2010 Nautical was an associate of IEG and as such IESL was a related party at year end. IESL provides services to companies within the IEG Group and associates. Such shared services include the occupation of shared office space and facilities and some administrative functions and amounted to £218K (2009: £301K). At the year end an amount of £24K (2009: £30K) was due to IESL.

At the year end there was £32K (2009: £11K) due to IEG.

The Company has taken advantage of the exemption in FRS8, not to disclose transactions with its wholly owned subsidiaries.

52**Notes to the Company financial statements** continued**39 Post balance sheet events**

On 31 August 2010 the Company completed a placing of 24,280,000 new ordinary shares of 20 pence each, at a price per share of 125 pence. The placing raised £30.35m (£28.8m net of expenses). Following the admission of the shares there are 87,688,291 shares in issue.

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Shareholder information

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Company Secretary

Audrey Clarke, FCIS
Parnell House
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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
EWT	extended well test

FDP	field development plan
km	kilometres
K	thousand
m	million
mmbo	million barrels of oil
MWD	measurement while drilling
OWC	oil-water contact
UKCS	United Kingdom Continental Shelf
FPSO	Floating, Production, Storage and Offtake
FEED	Front End Engineering and Design

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