

Company Registration Number SC210359

ALBA RESOURCES LIMITED

DIRECTORS REPORT AND ACCOUNTS

**YEAR ENDED
30 JUNE 2010**

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ALBA RESOURCES LIMITED (SC210359)

DIRECTORS REPORT

The directors present their report and the financial statements for the year to 30 June 2010.

Business review and principal activities

The company is a wholly owned subsidiary of Alba Resources (Holdings) Limited, which is a wholly owned subsidiary of Nautical Petroleum plc an AIM listed company engaged in oil exploration, development and production.

The company holds a 26.67% interest in the UK North Sea block 9/11a, the Mariner field and a 10% interest in the Keddington UK onshore field which is in Lincolnshire. The Mariner field is at the pre-development phase and the activity in the period was to continue to evaluate the field. The Keddington field was acquired in January 2009. In June 2010 a well was drilled which successfully targeted new reserves and will significantly increase production from around 5 bopd to 20 to 25 bopd net to Alba.

Results and dividends

The company made a loss of £462k in the year to June 2010 (2009 loss of £843k), including a deferred tax credit of £194k (2009 charge of £410k). The directors do not recommend the payment of a dividend.

Future developments

The company will continue to evaluate the Mariner field and development options with a view to developing the field. Further work is planned on the Keddington field to optimise production.

Principal risks and uncertainties.

In accordance with all pre-development fields, the principal risk, both upside and downside, is the level of commerciality, with the most influential factors being oil prices and the ultimate size of recoverable reserves and the cost of the development. The effects of the serious deterioration in the financial markets in mid 2008 have diminished, but are still posing risks to the future stability of the global financial system and as a consequence there are additional risks associated with financing developments.

The company is financed by loans from Nautical Petroleum plc, which is adequately funded to take Mariner to development submission. Nautical will remain flexible on equity interests in development assets depending on the availability of development funding. Nautical's website (www.nauticalpetroleum.com) contains further information about the group including the most recently published accounts, in which the Directors Report has a more comprehensive discussion about risks and uncertainties.

The company currently has small production with the underlying price in US dollars. Also when production commences from Mariner revenue will most likely be in US dollars. The company is therefore exposed to currency movements, which it will seek to manage with a range of measures, including consideration of appropriate financing and hedging.

Directors and their interests

The directors of the company in the year were:

Mr S Jenkins
Mr P Jennings
Mr W Mathers

None of the directors have any interest in the shares of the company. The interests of the directors in its parent, Alba Resources (Holdings) Limited, and its ultimate parent, Nautical Petroleum plc, are set out in the reports and accounts of those companies, which do not form part of this report.

ALBA RESOURCES LIMITED (SC210359)

Significant events

In June 2010 a well was drilled which successfully targeted new reserves and will significantly increase production from around 5 bopd to around 20 bopd net to Alba.

Post balance sheet events

On 22 September 2010 the Company signed a Sale and Purchase Agreement with Statoil (U.K.) Limited (Statoil) for the sale of a 20.6667% interest in Licence P355, Block 9/11a (the "Licence"), which contains the Mariner discovery. The sale completed on 3 November 2010 with Statoil paying 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 is 6%. As at 30 June 2010, the book value of the assets being sold was £16.6m.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditors

In accordance with s.485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the company.

The Directors' Report has been prepared in accordance with the special provisions of s.415a of the Companies Act 2006 relating to small entities.

By order of the Board



I Smith
Secretary

Date: 24 November 2010

ALBA RESOURCES LIMITED

Statement of Directors' Responsibilities

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 judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and 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.

ALBA RESOURCES LIMITED

Independent auditors' report to the members of Alba Resources Limited

We have audited the financial statements of Alba Resources Limited for the year to 30 June 2010 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 17. 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 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the 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 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 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 matter 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 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Ernst & Young LLP

Kevin Weston (Senior statutory auditor)

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

Date: 26/11/2010

ALBA RESOURCES LIMITED
PROFIT AND LOSS ACCOUNT
for the year to 30 June 2010

	Note	2010 £'000	2009 £000
Revenue	2	68	25
Cost of sales		(84)	(28)
Gross loss		(16)	(3)
Administrative expenses		(373)	(668)
Operating loss	3	(389)	(671)
Finance income	5	62	427
Finance costs	5	(329)	(189)
Loss on ordinary activities before taxation		(656)	(433)
Tax on ordinary activities	6	194	(410)
Loss on ordinary activities after taxation		(462)	(843)


All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the period as set out above.

ALBA RESOURCES LIMITED
BALANCE SHEET – at 30 June 2010

	Note	2010 £'000	2009 £'000
Fixed Assets			
Intangible assets	7	16,603	13,405
Oil & gas assets	8	<u>354</u>	<u>277</u>
		16,957	13,682
Current Assets			
Debtors	9	515	487
Cash at bank and in hand		<u>2,651</u>	<u>5</u>
		3,166	492
Creditors: Amounts falling due within one year	10	<u>(15,549)</u>	<u>(9,581)</u>
Net Current Liabilities		<u>(12,383)</u>	<u>(9,089)</u>
Total Assets Less Current Liabilities		4,574	4,593
Deferred tax	11	(216)	(410)
Provision for liabilities	12	<u>(4,103)</u>	<u>(3,466)</u>
		<u>(4,319)</u>	<u>(3,876)</u>
Net Assets		<u>255</u>	<u>717</u>
Capital and Reserves			
Called-up share capital	14,15	197	197
Share premium	14,15	2,908	2,908
Profit and loss account	15	<u>(2,850)</u>	<u>(2,388)</u>
Shareholders' Funds		<u>255</u>	<u>717</u>

Signed on behalf of the board of directors


 Director – William Mathers

24/11/2010
 Date

ALBA RESOURCES LIMITED

NOTES TO THE ACCOUNTS – 30 June 2010

1. 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.

The parent company has agreed to provide the company with funds as required. The directors believe that it is therefore appropriate to prepare the financial statements on a going concern basis.

(b) *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.

(c) *Exploration, Evaluation and development and production assets*

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

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

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

If facts and circumstances indicate that the carrying value of the D&P asset may exceed its recoverable amount an impairment review is performed.

(d) *Foreign Currencies*

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

(e) *Related Party Transactions*

The company is part of the Nautical Petroleum Plc group, the consolidated accounts of which are publicly available. Accordingly the company has taken advantage of the exemption in Financial Reporting Standard no. 8 from disclosing transaction with members of the Nautical Petroleum group where the group controls 90% of the voting rights.

(f) *Provisions*

Provision for decommissioning

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

ALBA RESOURCES LIMITED

NOTES TO THE ACCOUNTS – 30 June 2010

of commissioning which alter the level of provisions required are also reflected in adjustments to decommissioning.

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 date, 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

(g) *Taxation*

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 income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax 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.

(h) *Cash flow statement*

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement.

2. Revenue

	2010 £'000	2009 £'000
Oil sales	<u>68</u>	<u>25</u>

3. Operating loss

	2010 £'000	2009 £'000
Operating loss is stated after charging:		
Depletion of oil & gas properties	17	8
Foreign exchange loss	369	660
Auditors remuneration (see note 4)	<u>4</u>	<u>4</u>

4. Auditors remuneration

	2010 £'000	2009 £'000
Auditors remuneration:		
Audit services – Ernst & Young	<u>4</u>	<u>4</u>
Auditors remuneration:	<u>4</u>	<u>4</u>

The current year's audit fees of £4k were absorbed by the parent company.

ALBA RESOURCES LIMITED**NOTES TO THE ACCOUNTS – 30 June 2010****5. Interest income and similar items**

	2010 £'000	2009 £'000
<i>Finance income</i>		
Bank interest	62	-
Effects of changes in estimates to discounts on long term payables	-	427
	<u>62</u>	<u>427</u>
<i>Finance costs</i>		
Interest on inter group loans	62	-
Unwinding of discount on long term payable	190	189
Effects of changes in estimates to discounts on long term payables	77	-
	<u>329</u>	<u>189</u>

6. Tax

The major component of the tax credit is:

	2010 £'000	2009 £'000
<i>Deferred income tax</i>		
Benefit of previously unrecognised tax losses	<u>194</u>	<u>(410)</u>

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

	2010 £'000	2009 £'000
Loss on ordinary activities before tax	<u>(656)</u>	<u>(433)</u>
UK corporation tax @50% (2009 50%)	(328)	(216)
Expenses and (income) not deductible for tax purposes	16	(40)
Prior year adjustment – deferred tax	118	-
Utilisation of deferred tax asset not recognised	-	(1,331)
Capital gains	-	1,997
Total current tax	<u>(194)</u>	<u>410</u>

7. Intangible Assets

	Exploration and Evaluation £'000
At 1 July 2008	10,739
Additions	<u>2,666</u>
At 1 July 2009	13,405
Additions	<u>3,198</u>
Net book value at 30 June 2010	<u>16,603</u>

ALBA RESOURCES LIMITED**NOTES TO THE ACCOUNTS – 30 June 2010**

Intangible fixed assets relate to a 26.67% interest in UKCS block 9/11a (the Mariner field), plus costs relating to a 6.67% carried interest. As described in note 16, in September 2010 the Company signed a Sale and Purchase Agreement for the partial sale of block 9/11a.

The directors have considered the carrying amounts for the intangible assets and following the principles explained in Note 1(b) consider that there has been no impairment of these amounts.

8. Oil and gas assets

Cost	£'000
At 1 July 2008	-
Additions	285
At 1 July 2009	285
Additions	94
At 30 June 2010	379
 Depletion	 £'000
At 1 July 2008	-
Additions	8
At 1 July 2009	8
Additions	17
At 30 June 2010	25
 Net book value	 £'000
At 30 June 2010	354
At 30 June 2009	277

Oil and gas assets relate to a 10% interest in the Keddington UK onshore oil field. The directors have considered the carrying amounts for the oil & gas assets and following the principles explained in Note 1(b) consider that there has been no impairment of these amounts.

9. Debtors: amounts falling due within one year

	2010	2009
	£'000	£'000
Other debtors	49	21
Amounts owed by group undertakings	466	466
	<u>515</u>	<u>487</u>

10. Creditors: amounts falling due within one year

	2010	2009
	£'000	£'000
Trade creditors	233	67
Accruals	234	-
Amounts owed to group undertakings	15,082	9,514
	<u>15,549</u>	<u>9,581</u>

ALBA RESOURCES LIMITED
NOTES TO THE ACCOUNTS – 30 June 2010

11. Deferred tax

	2010	2009
	£'000	£'000
<i>Balance sheet movements:</i>		
<i>Deferred tax asset</i>		
Tax losses	5,682	3,918
<i>Deferred tax liability</i>		
Accelerated capital allowances	5,898	4,328
Net Deferred tax liability	216	410
<i>P&L movements:</i>		
Accelerated capital allowances	1,570	4,328
Tax losses	(1,764)	(3,918)
	(194)	410

12. Provision for liabilities

	Provision for decommissioning £'000	Conditional payments £'000	Total Provisions £'000
At 1 July 2009	20	3,446	3,466
Effect of changes in estimates	-	77	77
Unwinding of discount	-	190	190
Exchange adjustments	-	370	370
At 30 June 2010	20	4,083	4,103

The conditional payments relate to the Mariner Field and comprise of 2 elements: (1) \$4.0m due on field development plan (FDP) approval by the Department of Trade and Industry; and (2) \$2.8m due on first oil.

13. Borrowings

On 2 November 2007 Nautical Petroleum plc, the ultimate parent of the company, entered into an 18 month £7.5 million borrowing facility with the Bank of Scotland. Security for the facility includes a first ranking debenture over the assets of the company. On 30 March 2009 this facility was extended to 31 May 2012.

14. Share capital

Called up Share capital

	2010	2009
	£'000	£'000
Authorised:		
Ordinary shares of £1 each	30,000	30,000
Allotted, called up and fully paid:		
Ordinary shares of £1 each	197	197
Share Premium	2,908	2,908

ALBA RESOURCES LIMITED**NOTES TO THE ACCOUNTS – 30 June 2010****15. Reserves**

	Share capital £'000	Share premium £'000	Profit and loss reserve £'000
At 1 July 2008	197	2,908	(1,545)
Loss for the year	-	-	(843)
At 1 July 2009	197	2,908	(2,388)
Loss for the year	-	-	(462)
At 30 June 2010	197	2,908	(2,850)

16. Post balance sheet events

On 22 September 2010 the Company signed a Sale and Purchase Agreement with Statoil (U.K.) Limited (Statoil) for the sale of a 20.6667% interest in Licence P355, Block 9/11a (the "Licence"), which contains the Mariner discovery. The sale completed on 3 November 2010 with Statoil paying 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 is 6%. As at 30 June 2010, the book value of the assets sold was £16.6m.

17. Parent Undertakings

The immediate parent undertaking is Alba Resources (Holdings) Limited, whose ultimate parent undertaking and controlling party is Nautical Petroleum Plc. It has included the company in its group financial statements, copies of which are available from its registered office, Parnell House, 25 Wilton Road, London SW1V 1YD.