



Resist drilling

Offshore Hydrocarbon Mapping plc  
Annual Report 2004



Resist drilling

**Offshore Hydrocarbon Mapping's** remote sensing technology can detect the presence and extent of hydrocarbon accumulations before they are drilled. This developing application could significantly reduce the risk of drilling dry holes and reduce the scope of appraisal drilling programmes.

- At OHM, we believe the opportunity exists to transform the way companies explore for oil and gas.
- Our vision is to create value for our clients by significantly lowering the risk of their exploration and appraisal drilling programmes.
- By working with clients closely we are able to identify the prospects most likely to deliver discoveries and then reduce the number of wells the client must drill to delineate them.

Offshore Hydrocarbon Mapping plc  
**Value proposition**

#### Contents

1 Highlights	19 Consolidated profit and loss account
2 Chairman's Statement	20 Consolidated balance sheet
4 Chief Executive's Review	21 Company balance sheet
9 Board of directors	22 Cash flow statement
11 Directors' Report	23 Notes to the accounts
13 Remuneration Report	32 Shareholder information
16 Corporate Governance Report	
18 Independent Auditors' Report	

Results for year ended 31 August 2004  
**Highlights**

- 
**£4.7m** turnover
- 
 Turnover up **191%** on last year
- 
**£404,021** pre-tax profit
- 
 New **HQ** established in Aberdeen
- 
 Increased adoption of **CSEMI**<sup>\*</sup> by industry
- 
 Successful placing and admission to **£9.9m** AiM<sup>†</sup> raising a net

\* Controlled Source ElectroMagnetic Imaging

† Alternative Investment Market



Dr Pierre Jungels  
Chairman

**This financial year has represented a watershed for your Company. Our financial performance was pleasing, with profit after tax of £365,879 compared to a loss of £367,220 the previous year.**

In March, we successfully completed the placing of shares and admission to the Alternative Investment Market in London and raised £9.9 million of new money, net of costs, to finance the expected growth in demand for our services and technology in what we see as a market with huge potential.

In June, we extended our contract with a major client, keeping our first crew active in many of the deep water basins of the Atlantic coasts. I am particularly pleased that last year's work for this crew was completed with an outstanding record for health and safety.

Following investment of funds raised in the placing, we mobilised our second crew in August. The vessel is equipped with our latest source and receivers and will initially test, on behalf of a consortium of oil companies, the validity of our concepts in shallow waters in the North Sea.

It is then expected to work for various clients in Norway and the West Coast of Africa.

We are also investing in additional capacity beyond this second crew.

We have made significant progress in our integrated 3D modelling and data processing, gaining several contracts to reprocess data acquired by others.

At a recent major conference in Paris the presentation of our technology and new processing techniques created a lot of interest amongst potential industry clients, giving us comfort that Controlled Source ElectroMagnetic Imaging (CSEMI) will gain industry acceptance at an accelerating pace.

A cornerstone of our strategy remains the defence of our existing intellectual property and pursuit of an active research and development programme designed to maintain our position as industry leader in CSEMI and data processing. As part of this effort we maintain strong links with the University of Southampton.

With new offices in Aberdeen, management, research, operations and marketing personnel are able to work together. That and the strengthening of all teams lay the foundation for progress in the future.

Over the past year, oil and gas prices have been very firm through a combination of high demand, refining capacity constraint especially in the US and lack of progress in the industry's ability to access the Middle East's hydrocarbon potential.

The lack of recent world class discoveries has led to growing concerns over potential future supply shortfalls. Coupled with many companies' failure to replace production, continuing reserve downgrades and accelerating depletion of old fields, the possibility of high energy prices for some time to come is very real.

Despite this, the oil and gas companies still appear to run their planning at prices which are significantly lower than five or even ten years averages, let alone futures prices. This may be due to the memory of several periods of low oil prices in the past and their impact on the industry or, possibly, to a lack of access to world class opportunities.

In this context, we believe that our company has the capacity to provide the industry with the technology and its application which could change the economic model of exploration and appraisal offshore by providing a powerful risk management tool as significant as 3D seismic was in the 1980s. This would allow an increase in activity levels even at prudent pricing models.

In line with good corporate governance for listed companies, we have recently appointed two independent non-executive directors to the Board: Keith Lough, formerly Finance Director of British Energy and Lasmo, and Gary Jones, previously President of Western Geco, Western Geophysical and Baker Atlas. Both bring to the Board key skills which will reinforce our deliberations. They will offer themselves for election at the coming Annual General Meeting.

Finally, I would like to thank our CEO, Dave Pratt, the teams, both onshore and offshore, and management of OHM for all their hard work over the past 12 months. Their efforts should place your Company at the centre of an exciting step change in exploration for oil and gas.

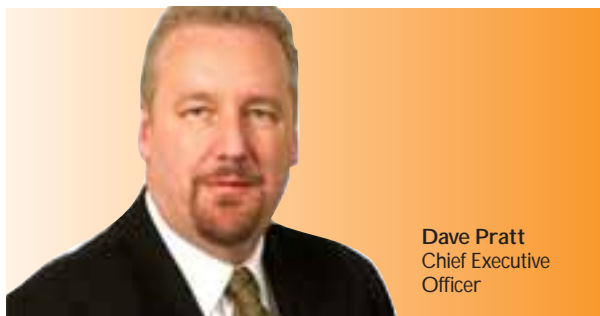
Dr Pierre Jungels CBE  
Chairman

# Planning

Pre-survey modelling is a vital part of the process, as it determines to a great extent just how valuable the work to be undertaken will ultimately be. As the electric dipole source provides a three-dimensional signal, the placement of the receivers for the survey is of absolute importance. OHM works closely with its clients to ensure optimisation of the survey.

> Below left: Electromagnetic inversion constrained by seismic data.  
Below right: Receiver deployment.  
Main image: Detail of survey geometry.





**Dave Pratt**  
Chief Executive  
Officer

**In fiscal year 2004, the Company made immense progress in attaining its strategic goals of establishing itself as the leading provider of the Controlled Source ElectroMagnetic Imaging (CSEMI) service to the oil industry and of promoting the use of the technique by industry. The Company made substantial advances in each area of its service offering, and recruited and trained key operational staff.**

The Company's new headquarters in Aberdeen were opened by Lewis Macdonald MSP, Deputy Minister for Enterprise and Life Long Learning, and provide us with excellent workshop facilities in the oil capital of Europe, together with flexible work areas which should be able to support the Company's likely expansion needs over the next few years.

OHM provides a range of services including:

- > survey design using our in-house software to model acquisition parameters from clients' geological scenarios,
- > data acquisition using our own proprietary sources and receivers,
- > data processing and interpretation using proprietary software.

The Company also focuses a large part of its efforts on research and development aimed at improving the capabilities of the technique. In co-operation with the University of Southampton short courses are offered to industry allowing oil company explorationists to fully understand the technique, its benefits, and how to incorporate it into their workflows.

Traditionally the oil industry has used the seismic technique, and especially 3D seismic, to assist in the search for oil and gas. The seismic technique uses acoustic energy to provide an image of structures in the earth, and interpreters use this to identify areas that could potentially trap oil and gas. However, the seismic technique gives relatively little information on the nature of the fluids within these structures, and the oil industry has to drill into these structures to test for the presence of oil and gas, with the large majority of exploration wells being commercially unsuccessful. As hydrocarbon saturated reservoirs are generally very resistive compared to water saturated sediments, the presence of resistive bodies within these structures can be compelling evidence of the presence of hydrocarbons and can significantly reduce the risk of drilling dry wells. As the CSEMI technique is significantly more cost effective than drilling, oil explorers can afford to test many more prospects and hence reduce the risk of relinquishing acreage that contains undiscovered hydrocarbons.

#### **CSEMI and the value created**

CSEMI is an offshore geophysical technique which uses electromagnetic measurements of the subsurface resistivity to reduce uncertainty in exploration, appraisal and production drilling programmes. A controlled electromagnetic source is towed at depth, generating a deep penetrating field which is measured by receivers placed on the seabed. The recorded data, after advanced processing and interpretation, produce images of the subsurface resistivity structure which, when integrated with all other available information, can significantly improve the understanding of the hydrocarbon producing potential of the prospect.

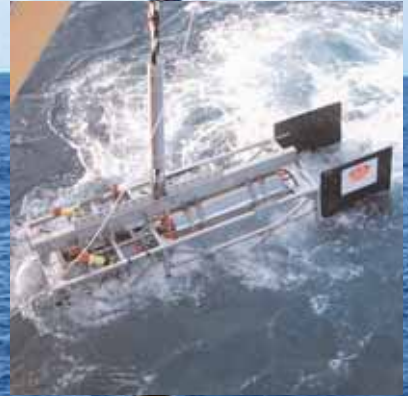
With deep water wells costing many tens of millions of dollars, the value created in avoiding unsuccessful wells is high. However, even this value may be small compared to the value of a discovery made on a prospect that would not otherwise have been tested.

#### **Industry adoption**

OHM's largest client during the year employed one of the Company's field crews for most of the year, and have used the technique in a number of deepwater basins around the world. Through early adoption of the technique, OHM believe that their client, an international oil company who cannot be named for contractual reasons, are enjoying significant competitive advantage over their peers and have gained a significant lead in their understanding of the benefits that the technique can deliver.



> DASI (Deep towed Active Source Instrument) during deployment and recovery.



# Execution

The technique uses a dipole source towed just above (typically 30 metres) the seafloor. OHM's source (DASI) emits complex low frequency electromagnetic signals that diffuse outwards through the water column, and into the underlying sediments. The resulting electric fields are measured by OHM's receivers on the seafloor.

OHM are now experiencing strong interest from most other oil majors and many of the leading independent oil companies, and believe that mass industry adoption of the method will follow in the foreseeable future.

OHM have recently commissioned a second field crew, using the latest generation of OHM's equipment to address the early part of this anticipated demand, and the Company stands ready to make further expansions as is warranted by industry demand.

#### Health, safety and the environment

The Company believes that it best serves its stakeholders by ensuring that its activities are carried out in a safe and environmentally sensitive manner.

The Company has invested significantly in the development of a comprehensive safety management system which has given our staff the tools to perform complex operations in difficult environments while assessing and controlling the risks involved. In the last year, our crews operated in offshore environments ranging from tropical to arctic climes. We recruited new staff and trained them to operate new equipment. It is a testament to the diligence of our staff, and the effectiveness of our safety management systems that this was all achieved without serious injury or lost time incidents.

The Company also retained the services of third party specialists to undertake a comprehensive analysis of the potential environmental impact of our activities. Their findings show that our activities have no significant environmental impact and are considerably more benign than other remote sensing techniques used in industry. In fact, by preventing the drilling of unnecessary oil and gas wells, it is likely that we will have a positive environmental impact.

#### Research and development

Our strategic aim is to use focused research and development to improve the utility of our product for our oil company clients and to cement our place as the technological leader in the CSEMI field. In 2004, our research and development effort focused on three main fronts:

**1** Improving signal to noise ratios in our data enabling us to image ever more subtle and deeper targets. The introduction of our third generation transmitter system (DASI III) early in 2004 has led to more than a 25-fold improvement in signal to noise ratios and our latest generation of receivers (EFMALS II) exhibit noise floors significantly below anything we have had available in the past. Both these systems are proprietary to OHM and are part of an ongoing development process which we expect to bear more fruit in 2005.

**2** Improving our ability to produce images of the resistive nature of the subsurface. In fiscal year 2004 we developed the ability to create three dimensional inversions of our field data enabling complex images to be produced of the resistivity structure of the subsurface. At a major industry convention in June, we announced a significant breakthrough in how CSEMI data can be imaged using non invertive techniques and this has led to high levels of industry interest and to a number of data reprocessing contracts. Our aim is to deliver images of the resistivity of the earth to our clients, which they can co-render with their existing seismic data and geological models to allow them to achieve a fuller understanding of their exploration objectives.

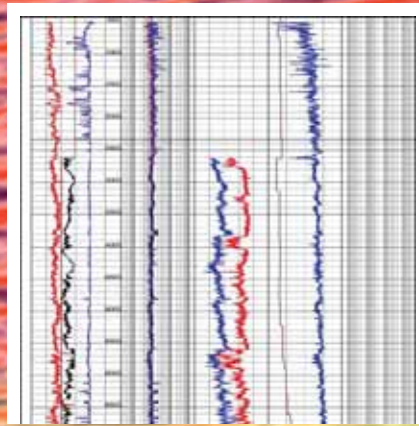
**3** Extending our ability to operate in shallower water environments. We completed a project, sponsored by a consortium of oil companies, to investigate fully the nature of the 'airwave' problem in which energy trapped at the seawater/air interface overwhelms the useful information contained in signals coming from subsurface targets in areas where targets are particularly deep, or where the water depths are shallow. Armed with this improved understanding, we have opened up a number of research avenues which show great promise in overcoming these problems and which should lead to a significant increase in potential market for our technique. We anticipate that this research will lead to further progress in 2005 and to a number of proof of concept surveys to show the effectiveness of these advances.

In addition to this research, which is conducted in house, we sponsor ongoing research at the University of Southampton and at Scripps Institution of Oceanography in California.

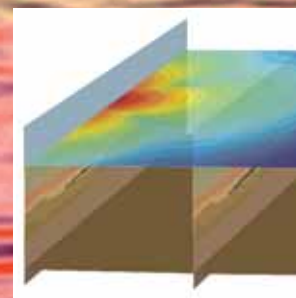
Through our research and development efforts we have proprietary electromagnetic transmitters, electromagnetic receivers and data processing suites that are specifically designed for CSEMI operations and we believe that this creates significant security both in our supply chain and in our technical edge. Our research team have clear views on how future improvements will be made in each of these areas, and we expect to deliver incremental improvements in capability over the years to come.

# Interpretation

OHM's people have developed their interpretative skills over many years, and this part of the process is key to creating real value for the client. OHM's advanced forward and inverse techniques combined with high speed imaging methods make up some of the tools designed to deliver results to directly influence decision making.



> Above: A priori data.  
Right: Detail of swath receiver simulations over a 3D earth.  
Main image: Co-rendered electromagnetic inversion/surface seismic data.



### Financial performance

In this, our second year of trading, we are delighted to report that the Company has achieved pre-tax profits of £404,021 on revenues of £4,678,597. A significant contribution towards this result has been our performance on a long term contract with one major client. However, material contributions have also come from data processing and interpretation carried out on surveys gathered by our competitors, and from feasibility modelling studies conducted on exploration prospects of potential new customers. We believe that the data processing and interpretation element of our business will continue to grow as clients become more aware of the possibilities of the CSEMI technique, and of our technical lead in this area. Feasibility study work should lead to future data acquisition and processing projects.

Our gross margins before depreciation of capital equipment show that industry recognises the value of our method. Our net profit before tax of £404,021 is due largely to significant expenditure in research and development, and to aggressive amortisation and write off of early generations of our equipment, which have often been rapidly overtaken by improvements coming out of our research and development. We expect that our current generation of sources and receivers are likely to be the workhorses of our business for years to come, and while we anticipate no slowing down in research and development effort, we will be applying longer depreciation periods to reflect these anticipated longer working lives.

Operating activities generated positive cash flows during the year and funded significant portions of our capital expenditure for equipment for our second crew. We end the year in a strong cash position, with reserves which will allow us to rapidly react to industry demand growth, and to maintain business stability through any periods of sporadic demand that may occur during this phase of early client adoption of our technology.

### Current trading outlook

We believe that we are making tremendous progress in solving the issues that prevent the CSEMI method being used in shallow water areas. As we need to gather data over known oil fields to prove this concept, we are dedicating blocks of time on our second field crew to accelerate research and development efforts in this area in 2005. We expect this not only to maintain our lead in this area, but to bring to early fruition the added value from offering our services in this new market, assuming a successful outcome.

Since completing the 2004 fiscal year end, we have had an incident resulting in the loss of the DASI III transmitter on our long term contract crew, with a resulting requirement to send our first DASI IV to that crew. A second DASI IV is in production and will be delivered within a matter of weeks to replace that unit.

These issues are likely to impact on profitability in fiscal 2005.

We continue to see strong evidence from the oil companies that they have significant increases in their planned work in calendar year 2005 and we are actively involved in discussions and negotiations with potential clients for work in 2005.

### In summary

The last year has been one of significant progress for the Company. We have developed the capability to offer industry the full range of services surrounding our technique and have made significant progress in encouraging industry adoption. We have operated for demanding clients in demanding locations and we have delivered results in line with our financial performance expectations. We have made immense progress in building the infrastructure necessary to grow the Company to meet anticipated demand.

I am also very pleased to observe that the Company has generated profits at such an early stage in its development, and should acknowledge the hard work and dedication of all the Company's staff who have contributed greatly to this achievement.

Our successful flotation on AiM in London has given us the resources to support future expansion and our research and development efforts continue to improve the effectiveness of our technique. Our focus in 2005 will be to build on our achievements of 2004 by continuing to invest in research and development, promoting industry adoption, and growing capacity to meet demand as it arises. The difficulty in forecasting exact demand levels through this period of industry adoption requires us to be vigilant and flexible in planning and managing our growth but we are confident that our technique delivers game changing value to our clients and that widespread adoption is inevitable.

**Dave Pratt**  
Chief Executive Officer

# Board of directors

## Dr Pierre Jean Marie Henri Jungels CBE 60

Non-executive Chairman

Pierre, a certified engineer, has a PhD in geophysics and hydraulics from the California Institute of Technology. He has over 30 years' experience in the oil industry, 12 of which have been served at main board level, including appointments as Chief Executive of Enterprise Oil plc and Managing Director roles at PetroFina and British Gas. He currently holds non-executive directorships at Woodside Petroleum Ltd, Offshore Logistics, Inc and Imperial Tobacco plc. He was twice President of the Institute of Petroleum.

## David Charles Newall Pratt 45

Chief Executive Officer

Dave has more than 20 years' experience in the oilfield service industry, and was formerly President of Veritas Geophysical Services (a division of Veritas DGC Inc, a NYSE quoted company) based in Houston. At Veritas, Dave reshaped key product lines within that company, increasing turnover in these areas to over US\$100 million and making a major contribution to the corporation's profitability. Prior to this role, Dave was VP of marine operations and technology for Digicon Geophysical Corporation (later merged with Veritas). Previously, Dave spent over ten years at Racal Survey Group working in a variety of onshore and offshore roles in numerous countries. Dave is a geophysicist by training and has an MBA with distinction from the University of Strathclyde, Graduate School of Business.

## Garry Allan 46

Finance Director

Garry is a chartered accountant, having qualified in 1983 with Deloitte Haskins and Sells, and has a Masters degree in finance from the University of Aberdeen. He has 20 years' experience in financial management in the oil exploration industry having held posts at KCA Drilling, Nabors, Wilrig, and Hamilton Brothers Oil and Gas. His last position was as Finance Director of OIS International Inspection plc.

## Dr Lucy Margaret MacGregor 31

Chief Scientific Officer

Lucy has over ten years' experience as a leading researcher in CSEMI and is an inventor of key patents. Lucy has significant experience in data processing and modelling techniques and has been responsible for survey design and data interpretation on a number of commercial surveys. Lucy has a PhD from the University of Cambridge for research in the field of CSEMI.

## Landon Thomas Clay 78

Non-executive director

Landon is a managing member of East Hill Management Company, LLC which manages investments in early stage companies focusing on physical and life sciences. Landon has over 50 years of investing experience in both private and public companies. He is the current Chairman of Nasdaq listed ADE Corporation, a worldwide leader in automated metrology and inspection systems for the wafer manufacturing and computer disk drive industries. For over 20 years, Landon was the Chairman and Chief Executive Officer of Eaton Vance Corporation, a New York Stock Exchange listed investment firm that currently manages in excess of US\$76 billion.

## Gary Jones 50

Non-executive director

Gary has a BSc in geological engineering from the University of Arizona and an MSc in geophysics also from the University of Arizona. He has over 20 years' experience in the oil and gas industry including recent appointments as President of WesternGeco, President of Western Geophysical, Vice President of Baker Hughes, President of Baker Atlas and Vice President, Corporate Business Development, WAIL. He is currently the owner of Earthworks, Inc, a consulting company.

**Keith Lough** 45

Non-executive director

Keith has an MA in economics from Edinburgh University, a Masters in finance from London Business School and is a Fellow of the Association of Chartered Certified Accountants. He has over 20 years' experience in the oil and gas and energy industries including recent appointments as Finance Director, British Energy plc, Chief Financial Officer, Hurricane Hydrocarbons (now PetroKazakhstan, Inc) and MD Europe & North Africa for LASMO plc. He is currently Chief Executive of Composite Energy Ltd, a private-equity funded energy company.

**David Robert Norwood** 35

Non-executive director

David is the Chief Executive of IP2IPO, the AiM quoted technology commercialisation specialist which was instrumental in the formation of OHM. Dave has significant experience of working with quoted and unquoted technology companies and in July 1999, he founded IndexIT Partnership Ltd, a technology advisory boutique, which, in March 2000, was acquired by Beeson Gregory Group plc ('Beeson Gregory'). David was a director of Beeson Gregory and became an executive director of The Evolution Group plc ('Evolution') following its merger with Beeson Gregory in July 2002 and became a non-executive director of Evolution in September 2003.

**Dr Anthony Raven** 49

Non-executive director

Tony graduated with a First in physics from Manchester University and obtained his MSc and DPhil from Oxford University. He worked at Rutherford Appleton Laboratories and Osaka University before joining PA Consulting in 1983. In 1985 he was closely involved with the formation of Summit Technology, the Boston MA based market leader in laser refractive surgery, which was acquired by Nestle Alcon in 2000. In 1987 he co-founded the Generics Group plc, a London Stock Exchange listed technical and management consultancy. In 1991 he founded Diomed Inc, the AMEX listed pioneer and world leader in therapeutic medical diode lasers. He is currently Director of the University of Southampton's Centre for Enterprise & Innovation and is responsible for commercial exploitation of the University's knowledge base through licensing and spin out company formation.

**Professor Martin Clarebrough Sinha** 51

Non-executive director

Martin is Professor of Earth Sciences at the University of Southampton's Oceanography Centre. He has played a leading role in CSEMI research for 18 years, and has been the leader of many of the most significant CSEMI studies carried out worldwide since the early 1990s. He has extensive experience in geophysical instrument development, survey design, data analysis and geological interpretation, and in formulating and leading strategic research and development programmes. Martin received his PhD in marine geophysics from the University of Cambridge, and is Chairman of the Company's Technical Steering Committee.

**Directors' Report**

The directors present their report together with the audited financial statements for the year ended 31 August 2004. The Remuneration Report and Corporate Governance Report on pages 13 to 17 have not been subject to audit, as these have been prepared voluntarily.

**Principle activities and business review**

The Company's principal activity was that of the provision of electromagnetic remote sensing services to the oil and gas exploration and production industry.

In August 2003 the Company began operations on a long term international contract for a major oil company, and also has a number of smaller contracts with other leading oil and gas explorers. As a result of better than forecast utilisation and lower than expected operating and maintenance expenses the profit, offset by an increased expenditure on field testing of new equipment for the year, was in line with expectation.

The Company continues to place the highest priority on investing in research and development and has a number of key projects under way. Its current focus is on extending the use of its surveying method to shallower water environments and to improving the image of the subsurface created by its techniques.

On 11 March 2004 the group successfully raised £9.9 million net of expenses when it floated on the Alternative Investment Market (AIM) of the London Stock Exchange. The proceeds from the flotation are being used to build additional capital equipment to provide the company with additional field crews and expanded data processing capacity.

**Results and dividends**

The Group made a profit after taxation for the year ended 31 August 2004 of £365,879 (2003: loss for the year £367,220). The directors do not recommend the payment of a dividend (2003: £Nil).

**Directors**

The names of the directors who held office during the year ended 31 August 2004 are as follows:

**Executive directors**

David Charles Newall Pratt  
Garry Robert Allan (appointed 26 February 2004)  
Dr Lucy Margaret MacGregor

**Non-executive directors**

Dr Pierre Jean Marie Henri Jungels CBE (appointed 22 December 2003)  
Landon Thomas Clay  
David Robert Norwood (appointed 26 February 2004)  
Dr Anthony Raven  
Professor Martin Clarebrough Sinha  
John Davies (resigned 26 February 2004)  
Keith Lough (appointed in August 2004)  
Gary Jones (appointed in August 2004)

Details of the interests of directors in the share capital of the Company, together with details of share options granted to them, are set out in the Remuneration Report on pages 13 to 15.

**Substantial shareholders**

In addition to the directors' beneficial interests shown on page 14, as at 31 August 2004 the Company had been advised of the following shareholders with interests of 3 per cent or more in its ordinary share capital.

East Hill University Spinouts Funds LP	7,164,767	24.71%
Southampton Asset Management Ltd	3,891,580	13.42%
Bank of New York Nominees Ltd	1,717,359	5.92%
IP2IPO Management Ltd	1,577,765	5.44%
IP2IPO Ltd	1,444,000	4.98%
State Street Nominees Ltd	1,003,440	3.46%

**Change of name**

The Company was re-registered as a public limited company on 26 February 2004 and its name changed to Offshore Hydrocarbon Mapping plc.

**Share capital**

The following movements in the share capital of the Company occurred during the year:

- > On 6 February 2004, 464 Ordinary Shares were issued at £107.61 per Ordinary Share
- > On 10 February 2004, 3,700 Ordinary Shares were issued for cash at par to Southampton Asset Management Ltd pursuant to the exercise of an option
- > On 26 February 2004 the authorised share capital was increased from £1,000 to £227,116 by the creation of an additional 22,611,600 Ordinary Shares and 22,611,600 Ordinary Shares were issued pursuant to a 360 for 1 bonus issue
- > The company issued a further 6,323,529 Ordinary Shares with a par value of £0.01 at an issue price of £1.70 for cash on 11 March 2004 through a Placing. The company was admitted to AiM on 11 March 2004.

**Post balance sheet events**

The second offshore crew mobilised in August 2004 utilising the newly developed source and receivers and completed its first commercial survey in September 2004.

**Payment of creditors**

It is the Group's current policy to establish payment terms with suppliers when agreeing terms of supply, to ensure that suppliers are made aware of the terms of payment, and to adhere to those terms. The Group's average creditor payment period at 31 August 2004 was 63 days.

The Company had no creditors during the year.

**Charitable and political donations**

The Group made charitable donations of £355 during the year (2003: £Nil). No political donations were made (2003: £Nil).

**Cash**

It is the Group's current policy to place cash surplus to working capital requirements with reputable banks offering the most competitive rate of interest.

**Directors' responsibilities**

The directors are required by UK company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the results of the Group for the year.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 August 2004. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records and for taking reasonable steps to safeguard the assets of the Company and the Group. They should use reasonable endeavours to prevent and detect fraud and other irregularities.

The maintenance and integrity of the website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the website.

**Auditors**

On 31 December 2003, BDO Stoy Hayward, the group's auditors, transferred its business to BDO Stoy Hayward LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. Accordingly BDO Stoy Hayward resigned as auditors on that date and the directors appointed BDO Stoy Hayward LLP as its successor. A resolution to re-appoint BDO Stoy Hayward LLP as auditors will be proposed at the next annual general meeting.

By order of the Board



**Garry R Allan**  
Company Secretary

14 October 2004

### Remuneration Report

This report which has not been audited has been voluntarily prepared so as to comply with the Listing Rules, the Combined Code and the Companies Act 1985 (as amended by the Directors' Remuneration Report Regulations 2002). The Company's remuneration policy is the responsibility of the Remuneration Committee. This Committee is chaired by Gary Jones and also comprises Keith Lough. The Committee is authorised if it wishes to seek independent specialist services to provide information and advice on remuneration at the Company's expense.

The Committee has specific responsibility for determining the remuneration and other benefits of executive directors, an overall policy in respect of remuneration of other employees of the Group, and establishing the Group's policy with respect to employee share option schemes. In determining executive remuneration packages of individual directors the Remuneration Committee takes account of the levels of experience, performance and responsibility of each director, and the remuneration packages for similar executive positions in companies it considers are comparable. It also considers the remuneration packages offered within the Group as a whole.

#### Remuneration policy

##### a) Executive remuneration

The Committee aims to ensure that the remuneration of executive directors is competitive, takes into account individual performance and provides a package which is sufficiently dependent on achievement to motivate and incentivise the individual executive directors. Executive remuneration currently comprises a base salary which is not performance related, and an executive bonus scheme. Certain directors also have an entitlement to private medical insurance and pension contributions to individual personal pension schemes. The Board believes that the interests of directors and shareholders are best aligned with a remuneration policy that provides a modest base salary that is not dependent on performance together with a discretionary bonus arrangement. Further details relating to bonus arrangements and pension contributions are detailed below:

##### Bonuses

Executive directors are eligible to receive specific bonuses at the discretion of the Remuneration Committee. Such payments do not form part of pensionable earnings.

##### Pensions

David Pratt and Garry Allan are entitled to a contribution of annual salary which is paid directly into personal money purchase pension plans. This contribution is £9,600 for David Pratt and £7,200 for Garry Allan.

##### Share options

The directors believe that the success of the Company depends to a high degree on the future performance of the management team. Accordingly the Company has entered into option agreements with its executive directors and certain employees through the Company's approved Management Incentive Scheme and unapproved share option scheme. Executive options are granted at the middle market price of the Company's shares on the date of grant, or in respect of options granted before the Company's shares were publicly traded, at the directors' best estimate of fair value at the date of grant.

##### b) Non-executive remuneration

Dr Pierre Jungels, Dave Norwood, Landon Clay, Keith Lough and Gary Jones each receive a fixed fee for services, which covers preparation for and attendance at meetings of the full Board and all committees thereof. Professor Martin Sinha and Dr Anthony Raven are not currently entitled to a fee for services as directors, however Professor Sinha has a separate consultancy agreement with the company. The non-executive directors are also reimbursed for all reasonable expenses incurred in the performance of their duties. Non-executive directors are not entitled to participate in any of the Group's incentive schemes, including the share option scheme and bonus schemes. The executive directors are responsible for setting the level of non-executive remuneration.

##### c) Service contracts

David Pratt has a service contract which commenced on 8 July 2002, and contains a contractual notice period of one year by either party. Dr Lucy MacGregor has a service contract which commenced on 18 December 2002, and contains a contractual notice period of one year by either party. Garry Allan has a service contract which commenced on 19 January 2004, and contains a contractual notice period of six months by either party. The contracts for executive directors do not provide any predetermined amounts of compensation in the event of early termination. In the event of early termination, payments for loss of office would be determined by the Remuneration Committee who would take account of the particular circumstances of each case, including the unexpired term of the service contract.

Executive directors may accept other outside non-executive appointments.

**Directors' emoluments (un-audited)**

The following information has not been subject to audit.

The aggregate remuneration received by directors who served during the year was as follows:

	Base Salary £	Bonus £	Fees £	Benefits £	Total (excl. pension) £	Pension £	Total (incl. pension) 2004 £	Total (excl. pension) 2003 £	Pension 2003 £	Total (incl. pension) 2003 £
<b>Executive</b>										
David Pratt <sup>(1)</sup>	132,851	41,250	–	502	174,603	7,200	181,803	87,385	–	87,385
Dr Lucy MacGregor	78,333	10,000	–	142	88,475	–	88,475	40,833	–	40,833
Garry Allan <sup>(2)</sup>	39,693	–	–	–	39,693	2,400	42,093	–	–	–
<b>Non-executive</b>										
Dr Pierre Jungels <sup>(3)</sup>	–	–	32,865	–	32,865	–	32,865	–	–	–
Landon Clay	–	–	7,912	–	7,912	–	7,912	–	–	–
David Norwood <sup>(4)</sup>	–	–	2,084	–	2,084	–	2,084	–	–	–
Professor Martin Sinha	–	–	–	–	–	–	–	–	–	–
Dr Anthony Raven	–	–	–	–	–	–	–	–	–	–
John Davies <sup>(5)</sup>	–	–	5,000	–	5,000	–	5,000	19,300	–	19,300
Keith Lough <sup>(6)</sup>	–	–	1,603	–	1,603	–	1,603	–	–	–
Gary Jones <sup>(7)</sup>	–	–	–	–	–	–	–	–	–	–
<b>Total</b>	<b>250,877</b>	<b>51,250</b>	<b>49,464</b>	<b>644</b>	<b>352,235</b>	<b>9,600</b>	<b>361,835</b>	<b>147,518</b>	<b>–</b>	<b>147,518</b>

(1) David Pratt was the highest paid director during the year ended 31 August 2004.

(2) Garry Allan was appointed to the Board on 26 February 2004.

(3) Dr Pierre Jungels was appointed to the Board on 22 December 2003.

(4) David Norwood was appointed to the Board on 26 February 2004.

(5) John Davies resigned as a director on 26 February 2004.

(6) Keith Lough was appointed to the Board in August 2004.

(7) Gary Jones was appointed to the Board in August 2004.

**Directors' interests in ordinary shares**

The directors who held office at 31 August 2004 had the following interests in the ordinary shares of the Company:

Directors' interests in ordinary shares	2004 Number of shares	2003 Number of shares
David Pratt	26,714	26,714
Dr Lucy MacGregor	1,552,300	1,552,300
Garry Allan	–	–
Dr Pierre Jungels	167,504	–
Landon Clay	–	–
David Norwood	–	–
Professor Martin Sinha	1,552,300	1,552,300
Dr Anthony Raven	–	–
Keith Lough	–	–
Gary Jones	–	–

The 2003 comparatives have been adjusted to reflect the 360 for 1 bonus issue which took place in February 2004.

There has been no change in the interests set out above between 31 August 2004 and 15 October 2004.

**Directors' options (unaudited)**

The following information has not been subject to audit.

The executive directors have the following interests in options over the shares of the Company under the Group share option scheme. No options have been exercised during the year by any directors.

Date of grant	At 1 September 2003	Granted during the year	Adjustment for Bonus Issue	Adjusted Granted during the year	At 31 August 2004	Exercise price (p)	Earliest exercise date	Expiry date
David Pratt								
28/11/2002	1,900	–	684,000	–	685,900	7.10	28/11/03	27/11/12
01/03/2004	–	940,008	–	–	940,008	170.00	01/03/05	28/02/14
Dr Lucy Macgregor								
01/12/2003	–	586	210,960	211,546	211,546	29.81	01/12/04	30/11/13
Garry Allan								
01/03/2004	–	216,600	–	–	216,600	170.00	01/03/05	28/02/14

These options have been granted under OHM's Enterprise Management Incentive option scheme (EMI) and unapproved share option scheme.

The option granted to David Pratt on 28 November 2002 vested or will vest in three equal tranches on the first, second and third anniversaries of the date of grant.

Of the options granted to David Pratt on 1 March 2004 (representing 3 per cent of the fully diluted issued share capital at Admission), 313,336 vest in three tranches upon the satisfaction of performance criteria agreed between Mr Pratt and the Remuneration Committee.

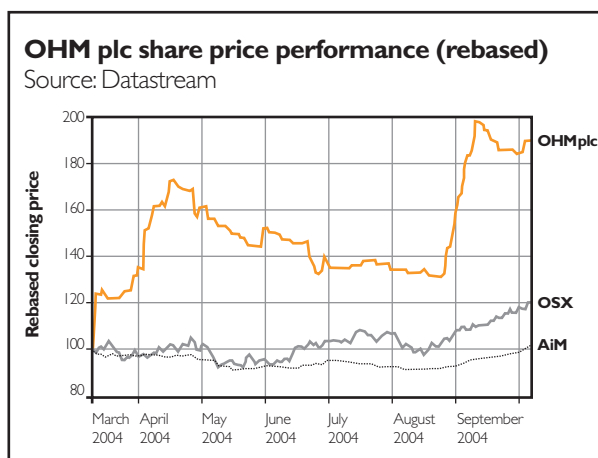
The options granted to Garry Allan vest in three equal tranches upon the satisfaction of performance criteria agreed between Mr Allan and the Remuneration Committee.

The options granted to Dr Lucy MacGregor also vest in three equal tranches upon the satisfaction of performance criteria agreed between Dr MacGregor and the Remuneration Committee.

Options will lapse after ten years from the date of grant and option holders who cease to be employed by the Group are required to exercise the vested part of their option within six months of cessation.

The middle market price of the ordinary shares on 31 August 2004 was 252 pence. The high and low market prices during the year were 292.5 pence and 207.5 pence respectively. The subscription price of the shares offered at the placing was 170 pence.

Apart from the interests disclosed above, none of the directors had any interest at any time during the year ended 31 August 2004 in the share capital of the Company or its subsidiaries.

**Performance graph**

The chart, left, shows the shareholder return performance over the period from 11 March 2004 when the Company's shares were first publicly traded on the Alternative Investment Market (AiM) to date, alongside the performance of the FTSE AiM all-share index and the Oil Service Sector (OSX) index of the Philadelphia Stock Exchange as, in our opinion, these comprise the most relevant equity indices against which the total shareholder return of Offshore Hydrocarbon Mapping plc should be measured.

By order of the Board

**Gary Jones**

Chairman of the Remuneration Committee

### Corporate Governance Report

The Board supports the principles of corporate governance advocated by The Principles of Good Governance and Code of Best Practice (the 'Combined Code') issued by the Financial Services Authority. The Company is moving towards voluntarily applying the principles of the Combined Code as indicated below.

#### The Board

The Group's business is managed by the Board of Directors. The full Board meets regularly, and met a total of 11 times during the year ended 31 August 2004. A discussion of current and future performance and strategy is included on the agenda for each meeting. In addition, terms of reference for full Board approval are in place, which includes, inter alia, the approval of annual and interim results, significant transactions, major capital expenditures, the yearly business plan and budget, the Group's long term commercial strategy, establishing financial authority limits, litigation, and executive remuneration and appointments.

Each Board member receives monthly management accounts including a review and analysis of performance against budget and other forecasts. Directors are sent an agenda and a full set of Board papers for each agenda item to be discussed at the meeting. Additional information is provided as appropriate.

The Board currently consists of ten directors, seven of whom are non-executive. Their names are set out on pages 9 and 10. The Company has a separate Chief Executive Officer and Chairman. Gary Jones and Keith Lough are considered by the Board to be free from any business or other relationship that could materially impact their independent judgement. The non-executive directors with the exception of Professor Martin Sinha and Dr Anthony Raven receive a fixed fee for their services and all non-executive directors receive the reimbursement of reasonable expenses incurred in attending meetings.

There is an agreed procedure for directors to take independent professional advice at the Company's expense. In addition, every director has direct access to the impartial advice of the Company Secretary. The Company Secretary is responsible for ensuring that Board procedures and applicable rules and regulations are followed.

While the Board retains overall responsibility for the Company, the day to day management of the business is conducted by the executive directors. In addition, in accordance with best practice, the Board has established Audit, Nomination and Remuneration Committees with written terms of reference for each that set out their duties and authority.

### Committees of the Board

#### Audit Committee

The Audit Committee was established in March 2004 and has met twice since then. It will meet at least three times a year going forward. The Committee originally comprised Dr Pierre Jungels, Professor Martin Sinha and David Norwood. The members of the committee now comprise Keith Lough (Chairman), Gary Jones and Dr Pierre Jungels and as noted above both Keith Lough and Gary Jones are considered to be independent non-executive directors. The Committee's terms of reference are principally concerned with accounting matters, financial reporting and internal controls. The Committee will meet not less than three times a year (two meetings have been held to date which had a 100 per cent attendance) to review all significant judgements made in the preparation of the half-yearly and annual accounts, before they are submitted to the Board. It agrees with the auditors the nature and scope of their work and discusses with them the results thereof. The Committee has the power to seek external advice as and when required. In addition the Audit Committee makes recommendations to the Board regarding the appointment of the external auditors, reviews their independence and objectivity and is also responsible for agreeing the level of audit fees and monitoring the provision of non audit services provided by the Group's auditors.

#### Remuneration Committee

The Remuneration Committee was established in March 2004 and meets as and when required. It originally comprised Dr Anthony Raven, Landon Clay and Professor Martin Sinha and now comprises Gary Jones (Chairman) and Keith Lough and, as noted above, both Keith Lough and Gary Jones are considered to be independent non-executive directors. The Committee's objective is to develop remuneration packages for executive directors that enable the Group to attract, retain and motivate executives of the appropriate calibre without paying more than is necessary. No director is involved in deciding his or her remuneration. The Board's policy on executive remuneration and the details of executive director's individual remuneration packages are fixed by the Committee or the Board. Full details of the directors' remuneration are set out in the Remuneration Report on pages 13 to 15.

### Nomination Committee

The Nomination Committee was established in March 2004 and meets as and when required. There were no meetings in the 2003/4 financial year. It considers the appointment of both executive and non-executive directors and makes recommendations to the Board. It originally comprised Dr Pierre Jungels (Chairman), David Pratt and Landon Clay and now comprises Dr Pierre Jungels (Chairman), Keith Lough and Gary Jones and, as noted above, both Keith Lough and Gary Jones are considered to be independent non-executive directors. All directors are required to submit themselves for re-election by the shareholders at the Company's Annual General Meeting following their first appointment and thereafter at least every three years. Notwithstanding this, at least one third of all the directors must submit themselves for re-election each year. At the forthcoming Annual General Meeting Dr Pierre Jungels, David Pratt, Garry Allan, Dr Lucy MacGregor, Landon Clay, Gary Jones, Keith Lough and Professor Martin Sinha will submit themselves for re-election, having either retired by rotation or having been appointed since the last Annual General Meeting.

### Internal control

The Board is responsible for establishing and monitoring internal control systems, and for reviewing the effectiveness of these systems. The Board views the effective operation of a rigorous system of internal control as critical to the success of the Group, however it recognises that such systems can provide only reasonable and not absolute assurance against material misstatement or loss. The key elements of the Group's internal control system are as follows:

#### Control environment

The Group has a clear organisational structure with defined responsibilities and accountabilities. It adopts the highest values surrounding quality, integrity and ethics, and these values are documented and communicated clearly throughout the whole organisation.

#### Identification and evaluation of risks

The Board actively identifies and evaluates the risks inherent in the business, and ensures that appropriate controls and procedures are in place to manage these risks.

### Control procedures

Detailed written policies and procedures have been established covering key financial operating and compliance risk areas. These will be reviewed and updated at least annually by the Board. Due to the nature of the Group's operations and its size, the Board considers that there is no current requirement for an internal audit function, although it will continue to review the requirement for such a function on a periodic basis.

### Performance evaluation

The performance of the Chairman and each director will be formally evaluated on an annual basis. The non-executives will meet annually, and whenever deemed necessary, to appraise the Chairman's performance in the absence of the Chairman. The performance of non-executive directors, other than the Chairman, will be reviewed by the Chairman and executive directors on an annual basis. The performance of executive directors will be reviewed by the Board, as deemed necessary, in the absence of the executive director under review.

### Relations with shareholders

The Company is committed to constructive dialogue with its shareholders. The Company uses the Annual General Meeting as an opportunity to communicate with its shareholders. Notice of the Annual General Meeting, which will be held at 2pm on 10 November 2004 at the office of KPC Peel Hunt Ltd, 111 Old Broad Street, London EC2N 1PH, is enclosed with this report. Details of the resolutions and explanatory notes thereon are included with the Notice along with a proxy form for members of the Company unable to attend.

The Group's website [www.OHMsurveys.com](http://www.OHMsurveys.com) is the primary source of information on the Group. This includes an overview of the activities of the Group, and details of all recent Group announcements.

### Statement of compliance

The directors are satisfied that the Company is now voluntarily complying with the Code provisions set out in section 1 of the Combined Code.

By order of the Board



**Garry R Allan**  
Company Secretary

**To the shareholders of Offshore Hydrocarbon Mapping plc**

We have audited the financial statements of Offshore Hydrocarbon Mapping plc for the year ended 31 August 2004 on pages 19 to 31 which have been prepared under the accounting policies set out on pages 23 to 24.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the statement of Directors' Responsibilities on page 12.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the Directors' Report, Chairman's Statement, Chief Executive Officer's Review, Remuneration Report and Corporate Governance Report and consider the implications for our report if we become aware of any apparent misstatements within them.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

**Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the group and the company as at 31 August 2004 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**BDO Stoy Hayward LLP**

Chartered Accountants and Registered Auditors  
Glasgow

14 October 2004

	Note	2004 £	2003 £
<b>Turnover</b>	2	<b>4,678,597</b>	1,608,589
Cost of sales		1,922,192	1,023,937
<b>Gross profit</b>		<b>2,756,405</b>	584,652
Administrative expenses		2,483,462	993,474
		272,943	(408,822)
Other operating income		810	–
<b>Group operating profit/(loss)</b>	3	<b>273,753</b>	(408,822)
Loss on disposal of fixed assets		(93,643)	–
<b>Profit/(loss) on ordinary activities before interest and other income</b>		<b>180,110</b>	(408,822)
Interest receivable and similar income		225,928	46,602
Interest payable and similar charges	6	(2,017)	–
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>404,021</b>	(362,220)
Taxation on profit/(loss) on ordinary activities	7	38,142	5,000
<b>Profit/(loss) on ordinary activities after taxation</b>	18	<b>365,879</b>	(367,220)
<b>Earnings per share</b>			
Basic	8	1.46p	(2.20)p
Diluted	8	1.39p	(2.20)p

All amounts relate to continuing activities.

All recognised gains and losses in the current and prior year are included in the profit and loss account.

for the year ended 31 August 2004

# Consolidated profit and loss account

The notes on pages 23 to 31 form part of these financial statements.

	Note	2004 £	2004 £	2003 £	2003 £
<b>Fixed assets</b>					
Intangible assets	10		68,758		28,328
Tangible assets	11		2,520,191		780,838
			2,588,949		809,166
<b>Current assets</b>					
Debtors	13	1,219,203		369,522	
Cash at bank and in hand		9,944,483		1,112,435	
		11,163,686		1,481,957	
<b>Creditors: amounts falling due within one year</b>	14	1,443,521		298,550	
<b>Net current assets</b>			9,720,165		1,183,407
<b>Total assets less current liabilities</b>			12,309,114		1,992,573
<b>Capital and reserves</b>					
Called up share capital	17		289,979		586
Share premium account	18		12,102,992		2,441,723
Profit and loss account	18		(83,857)		(449,736)
<b>Equity shareholders' funds</b>	19		12,309,114		1,992,573

The financial statements were approved by the Board on 14 October 2004.



**D C N Pratt**  
Chief Executive Officer



**Garry R Allan**  
Finance Director

	Note	2004 £	2004 £	2003 £	2003 £
<b>Fixed assets</b>					
Fixed asset investments	12		2		2
<b>Current assets</b>					
Debtors	13	12,488,718		1,586,923	
Cash at bank and in hand		3,504		992,043	
		12,492,222		2,578,966	
<b>Creditors: amounts falling due within one year</b>	14	–		42,079	
<b>Net current assets</b>			12,492,222		2,536,887
<b>Total assets less current liabilities</b>			12,492,224		2,536,889
<b>Capital and reserves</b>					
Called up share capital	17		289,979		586
Share premium account	18		12,102,992		2,441,723
Profit and loss account	18		99,253		94,580
<b>Equity shareholders' funds</b>	19		12,492,224		2,536,889

The financial statements were approved by the Board on 14 October 2004.



**D C N Pratt**  
Chief Executive Officer



**Garry R Allan**  
Finance Director

at 31 August 2004  
**Company balance sheet**

The notes on pages 23 to 31 form part of these financial statements.

	Note	2004 £	2004 £	2003 £	2003 £
<b>Net cash inflow/(outflow) from operating activities</b>	22		1,409,653		(491,006)
<b>Returns on investments and servicing of finance</b>					
Interest received		103,438		46,602	
Interest paid		(2,017)		–	
<b>Net cash inflow from returns on investments and servicing of finance</b>			101,421		46,602
<b>Taxation</b>					
Corporation tax paid			(43,142)		–
<b>Capital expenditure and financial investment</b>					
Payments to acquire intangible fixed assets		(54,414)		(25,178)	
Payments to acquire tangible fixed assets		(2,532,132)		(868,320)	
<b>Net cash outflow from capital expenditure and financial investment</b>			(2,586,546)		(893,498)
<b>Cash outflow before financing</b>			(1,118,614)		(1,337,902)
<b>Financing</b>					
Share capital issued		10,799,967		2,342,096	
Share issue expenses		(849,305)		–	
<b>Net cash inflow from financing</b>			9,950,662		2,342,096
<b>Increase in cash</b>	23		8,832,048		1,004,194

for the year ended 31 August 2004  
**Cash flow statement**

The notes on pages 23 to 31 form part of these financial statements.

## 1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

The following principal accounting policies have been applied:

### Basis of consolidation

The consolidated financial statements incorporate the results of Offshore Hydrocarbon Mapping plc and its subsidiary undertaking as at 31 August 2004 using the acquisition method of accounting. The results of the subsidiary undertaking are included from the date of acquisition.

### Turnover

Turnover represents sales in respect of the provision of oil exploration services to external customers at invoiced amounts less value added tax or local taxes on sales. Turnover is recognised in line with the performance of these services, to the extent that the performance entitles the Group to receive consideration in line with the terms of the service contracts under which the Group operates.

Included within turnover are amounts in respect of data modelling and data interpretation services provided to external customers. Turnover is recognised on these contracts in accordance with SSAP 9 'Stocks and long term contracts'. The accounting policy is described in more detail below.

Reimbursable expenses billed to customers are included in turnover.

### Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, except for assets in the course of construction, over their expected useful lives. It is calculated at the following rates:

Plant and machinery	–	1 to 3 years straight line
Computer equipment	–	33.3% to 50% straight line
Office equipment	–	33.3% to 100% straight line

### Stocks and long term contracts

Due to the nature of the principal activity of the Group, no stocks are held. Any spare parts for oil exploration devices owned by the Group are expensed as purchased.

Long term contracts are assessed on a contract by contract basis and are reflected in the profit and loss account by recording turnover and related costs as contract activity progresses. Where the outcome of each long term contract can be assessed with reasonable certainty before its conclusion, the attributable profit is recognised in the profit and loss account as the difference between the reported turnover and related costs for that contract. As soon as a contract is expected to be loss making overall, all future contract losses are provided for in the period.

### Foreign currency

Foreign currency transactions are translated into sterling at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

### Research

Expenditure on pure and applied research is charged to the profit and loss account in the year in which it is incurred.

### Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date with the exception that the recognition of deferred tax assets is limited to the extent that the group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

### Pension costs

Contributions made by the Group to the personal pension plans of certain directors are charged to the profit and loss account in the period in which they are payable.

### Impairment of fixed assets

The need for any fixed asset impairment write-down is assessed by comparison of the carrying value of the asset against the higher of realisable value and value in use.

### 1 Accounting policies continued

#### Patent development costs

Patent development costs are amortised over the period prior to the patents being granted, estimated by the directors to be a period of four years.

#### Financial instruments

The Group's principal financial instruments comprise short term debtors, short term creditors and short term deposits used to finance the Group's operations and future growth. The Group has no borrowings and transacts only in its functional currency.

The Group has taken advantage of the exemption available under FRS 13 to specifically exclude short term debtors and creditors from disclosure except in relation to currency risk, should this risk ever arise.

The Group does not hold or issue derivative financial instruments for trading purposes.

### 2 Turnover, profit and net assets

The information in respect of turnover, profit before tax and net assets required to be disclosed by Statement of Standard Accounting Practice 25 'Segmental reporting' has not been provided as, in the opinion of the directors, such disclosure would be seriously prejudicial to the interests of the Group.

Turnover is wholly attributable to the principal activity of the group.

### 3 Operating profit/(loss)

	2004 £	2003 £
This is arrived at after charging/(crediting):		
Depreciation of tangible fixed assets	699,136	90,320
Amortisation of intangible fixed assets	13,984	5,034
Auditors' remuneration:		
Group – audit services	26,300	8,000
Group – non-audit services	7,800	–
Exchange differences	(810)	–

Included in the Group audit fee is an amount of £6,000 (2003: £4,000) in respect of the Company.

In addition, the auditors were paid £80,152 for services in connection with the flotation on AiM. These costs have been offset against the Company's share premium account.

### 4 Employees

Staff costs (including directors) consist of:

	2004 £	2003 £
Wages and salaries	1,149,365	442,271
Social security costs	132,119	91,687
Other pension costs	12,000	–
	1,293,484	533,958

The average number of employees (including directors) during the year was as follows:

	2004 Number	2003 Number
Management	7	3
Scientists	6	5
Operations	14	9
	27	17

**5 Directors' remuneration**

	2004 £	2003 £
Directors' emoluments	345,151	128,218
Company contributions to directors' personal pension schemes	9,600	–
Amounts paid to third parties in respect of directors' services	7,084	19,300

The total amount payable to the highest paid director in respect of emoluments was £174,603 (2003: £87,385). Group pension contributions of £7,200 (2003: £Nil) were made to his personal pension plan during the year.

More detail of directors' emoluments can be found in the remuneration report on pages 13 to 15. Note that this information has been presented voluntarily by the directors and is, accordingly, unaudited.

**6 Interest payable and similar charges**

	2004 £	2003 £
Bank overdrafts	2,017	–

**7 Taxation on profit/(loss) on ordinary activities**

	2004 £	2003 £
<b>UK Corporation tax</b>		
Current tax on profits of the year	–	5,000
Adjustment in respect of previous periods	(4,673)	–
<b>Foreign tax</b>		
Current tax on foreign income for the year	42,815	–
<b>Total current tax</b>	<b>38,142</b>	<b>5,000</b>

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2004 £	2003 £
Profit/(loss) on ordinary activities before tax	404,021	(362,220)
Profit/(loss) on ordinary activities at the standard rate of corporation tax in the UK of 30% (2003: 30%)	121,206	(108,666)
Effect of:		
Expenses not deductible for tax purposes	3,912	10,974
Fixed asset timing differences	(128,812)	(75,732)
Small companies relief	–	(2,895)
R&D enhancement	(73,885)	(52,787)
Utilisation of tax losses brought forward	–	(30,817)
Tax losses carried forward	90,423	264,923
Foreign tax charge	42,815	–
Adjustment in respect of prior year	(4,673)	–
Double tax expense relief claimed	(12,844)	–
<b>Current tax charge for period</b>	<b>38,142</b>	<b>5,000</b>

At 31 August 2004, the Group had corporation tax losses carried forward amounting to £1,187,752 (2003: £883,076). The full utilisation of these losses in the foreseeable future is uncertain and consequently no deferred tax asset has been recognised in the financial statements.

## 8 Earnings per share

Earnings per ordinary share have been calculated using the weighted average number of shares in issue during the relevant financial periods.

The weighted average number of ordinary shares in issue is 25,085,696 (2003:16,703,373). The comparative weighted average number of ordinary shares in issue has been adjusted for the bonus issue that took place during the current year.

Earnings, being profits after tax, are £365,879 (2003: loss of £367,220).

	2004 Number	2003 Number
<b>Reconciliation of denominator for diluted EPS calculation</b>		
Number of shares used in calculation of basic EPS	25,085,696	16,703,373
Dilutive potential ordinary shares held under share option schemes	1,242,884	–
<b>Number of shares used in calculation of diluted EPS</b>	<b>26,328,580</b>	<b>16,703,373</b>

In 2003, the loss for the year resulted in any potential ordinary shares held under share option schemes being anti-dilutive, and, in accordance with FRS 14 have been excluded from the calculation of diluted EPS in that year.

## 9 Profit for the financial year

The company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The group profit for the year includes a profit after tax and before dividends of £4,673 (2003: £177,096) which is dealt with in the financial statements of the parent company.

## 10 Intangible assets

Group	Patent development costs £
<b>Cost</b>	
At 1 September 2003	33,362
Additions	54,414
<b>At 31 August 2004</b>	<b>87,776</b>
<b>Amortisation</b>	
At 1 September 2003	5,034
Provided for the year	13,984
<b>At 31 August 2004</b>	<b>19,018</b>
<b>Net book value</b>	
<b>At 31 August 2004</b>	<b>68,758</b>
At 31 August 2003	28,328

**11 Tangible fixed assets**

Group	Plant and machinery £	Computer equipment £	Office equipment £	Assets in the course of construction £	Total £
<b>Cost</b>					
At 1 September 2003	720,538	37,376	19,537	93,819	871,270
Additions	327,601	203,434	64,757	1,936,340	2,532,132
Disposals	(204,076)	–	–	–	(204,076)
Transfers	93,819	–	–	(93,819)	–
<b>At 31 August 2004</b>	<b>937,882</b>	<b>240,810</b>	<b>84,294</b>	<b>1,936,340</b>	<b>3,199,326</b>
<b>Depreciation</b>					
At 1 September 2003	77,288	8,855	4,289	–	90,432
Provided for the year	624,772	53,929	20,435	–	699,136
Disposals	(110,433)	–	–	–	(110,433)
<b>At 31 August 2004</b>	<b>591,627</b>	<b>62,784</b>	<b>24,724</b>	<b>–</b>	<b>679,135</b>
<b>Net book value</b>					
<b>At 31 August 2004</b>	<b>346,255</b>	<b>178,026</b>	<b>59,570</b>	<b>1,936,340</b>	<b>2,520,191</b>
At 31 August 2003	643,250	28,521	15,248	93,819	780,838

**12 Fixed asset investments**

Company	Group undertakings £
<b>Cost</b>	
At 1 September 2003 and 31 August 2004	<b>2</b>

Company investments represents a holding of 100 per cent of the ordinary share capital of OHM Ltd, a company incorporated in England and Wales whose principal activity is the provision of services to the oil exploration and production industry.

**13 Debtors: amounts falling due within one year**

	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
Trade debtors	669,382	124,590	–	–
Amounts owed by group undertakings	–	–	12,488,718	1,584,200
Other debtors	280,238	98,278	–	2,723
Prepayments and accrued income	210,583	42,068	–	–
Amounts recoverable on contracts	59,000	104,586	–	–
	<b>1,219,203</b>	<b>369,522</b>	<b>12,488,718</b>	<b>1,586,923</b>

**14 Creditors: amounts falling due within one year**

	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
Trade creditors	593,001	240,930	–	17,622
Corporation tax	–	5,000	–	5,000
Other taxation and social security	42,785	23,835	–	–
Accruals and deferred income	807,735	28,785	–	19,457
	<b>1,443,521</b>	<b>298,550</b>	<b>–</b>	<b>42,079</b>

## 15 Financial instruments

The Group had no material financial instruments other than short term debtors and creditors during both this and the prior year.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

### Financial assets

The Group's financial assets comprise cash at bank. Fixed rate financial assets are Sterling deposits held in a fixed term deposit bank account with a six month notice period. Prior to flotation on 11 March 2004, and also during the prior year, Sterling deposits were held in a seven day rollover account. The weighted average fixed rate of interest was 4.04 per cent (2003: 3.11 per cent). The weighted average period for which the rate is fixed was 61 days (2003: seven days).

As the financial assets disclosed below are cash, the fair value is the same as the book value.

Currency as at 31 August 2004	Total £	Floating rate financial assets £	Fixed rate financial assets £
Sterling	9,944,483	4,944,483	5,000,000

Currency as at 31 August 2003	Total £	Floating rate financial assets £	Fixed rate financial assets £
Sterling	1,112,435	112,435	1,000,000

### Financial liabilities

The Group has no financial liabilities other than short term creditors.

## 16 Provision for liabilities and charges

	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
<b>Deferred taxation</b>				
Accelerated capital allowances	205,396	76,584	–	–
Unutilised tax losses	(356,326)	(264,923)	–	–
	(150,930)	(188,339)	–	–

In line with the Group's accounting policy on deferred taxation, the potential deferred tax asset has not been recognised in these financial statements.

## 17 Share capital

	2004 £	Authorised 2003 £	2004 £	Allotted, called up and fully paid 2003 £
<b>Equity share capital</b>				
43,000,000 (2003:100,000) Ordinary Shares of 1p each	<b>430,000</b>	1,000	<b>289,979</b>	586

	Ordinary shares of 1p each Number	£
In issue at 1 September 2003	58,646	586
Issued on 6 February 2004	464	5
Share options exercised on 10 February 2004	3,700	37
Bonus issue of 360 1p Ordinary Shares for every 1p Ordinary Share held at 26 February 2004	22,611,600	226,116
Shares issued on 11 March 2004 pursuant to flotation on AiM	6,323,529	63,235
In issue at 31 August 2004	28,997,939	289,979

On 6 February 2004 Dr Pierre Jungels, a non-executive director, purchased 464 1p Ordinary Shares for a consideration of £49,931.

Southampton Asset Management Ltd exercised 3,700 options held over 1p Ordinary Shares on 10 February 2004 at an exercise price of 1p.

The bonus issue on 26 February 2004 was funded from the company's share premium account.

The flotation on AiM took place on 11 March 2004 at a price of £1.70 per 1p ordinary share. The consideration received in respect of this issue was £10,749,999.

### Share Option Scheme

At 31 August 2004 the following share options were outstanding in respect of the ordinary shares:

Date of grant	Number of 1p Ordinary Shares	Period of option	Exercise price per share
2 September 2002	823,080	September 2002 – September 2012	7.10p
2 September 2002	137,180	September 2002 – September 2012	7.10p
28 November 2002	685,900	November 2002 – November 2012	7.10p
1 December 2003	211,546	December 2003 – December 2013	29.81p
1 December 2003	261,364	December 2003 – December 2013	29.81p
1 March 2004	940,008	March 2004 – March 2014	170.00p
4 March 2004	216,600	March 2004 – March 2014	170.00p

**18 Reserves**

Group	Share premium account £	Profit and loss account £
At 1 September 2003	2,441,723	(449,736)
Premium on shares issued during the year	10,736,690	–
Share issue costs	(849,305)	–
Profit for the year	–	365,879
Transferred to share capital on bonus issue	(226,116)	–
<b>At 31 August 2004</b>	<b>12,102,992</b>	<b>(83,857)</b>

Company	Share premium account £	Profit and loss account £
At 1 September 2003	2,441,723	94,580
Premium on shares issued during the year	10,736,690	–
Share issue costs	(849,305)	–
Profit for the year	–	4,673
Transferred to share capital on bonus issue	(226,116)	–
<b>At 31 August 2004</b>	<b>12,102,992</b>	<b>99,253</b>

**19 Reconciliation of movements in shareholder's funds**

	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
Profit/(loss) for the year	365,879	(367,220)	4,673	177,096
Issue of shares	63,277	333	63,277	333
Premium on shares issued during the year	10,736,690	2,341,763	10,736,690	2,341,763
Share issue costs	(849,305)	–	(849,305)	–
Net additions to shareholder's funds	10,316,541	1,974,876	9,955,335	2,519,192
Opening shareholder's funds	1,992,573	17,697	2,536,889	17,697
<b>Closing shareholder's funds</b>	<b>12,309,114</b>	<b>1,992,573</b>	<b>12,492,224</b>	<b>2,536,889</b>

**20 Commitments under operating leases**

The Group had annual commitments under non-cancellable operating leases as set out below:

	2004 Property £	2003 Property £	2004 Other £	2003 Other £
Operating leases which expire:				
Within one year	–	–	33,000	–
In two to five years	51,650	–	1,318	1,318
	<b>51,650</b>	<b>–</b>	<b>34,318</b>	<b>1,318</b>

## 21 Related party disclosures

### Related party transactions and balances

During the year, the Group paid consultancy fees to Professor Martin Sinha, a non-executive director of the Company, amounting to £15,000 (2003: £15,000).

### Loans and transactions concerning directors and officers of the company

During the year, the Group paid £5,000 (2003: £19,300) to IP2IPO plc (formerly IP2IPO Ltd), in which John Davies is a director, in respect of directors' services.

The Group also paid £2,084 (2003: £Nil) in the year to IP2IPO plc, in which David Norwood is a director, in respect of directors' services.

## 22 Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities

	2004 £	2003 £
Operating profit/(loss)	180,110	(408,822)
Amortisation of intangible fixed assets	13,984	5,034
Depreciation of tangible fixed assets	699,136	90,320
Loss on sale of tangible fixed assets	93,643	–
(Increase)/decrease in debtors	(727,191)	293,036
Increase/(decrease) in creditors	1,149,971	(470,574)
Net cash inflow/(outflow) from operating activities	1,409,653	(491,006)

## 23 Reconciliation of net cash flow to movement in net funds

	2004 £	2003 £
Increase in cash	8,832,048	1,004,194
Movement in net funds	8,832,048	1,004,194
Opening net funds	1,112,435	108,241
Closing net funds	9,944,483	1,112,435

## 24 Analysis of net funds

	At 1 September 2003 £	Cash flow £	At 31 August 2004 £
Cash at bank and in hand	1,112,435	8,832,048	9,944,483

## 25 Contingent liability

There is presently a third-party action against the Group alleging patent infringement. It is not currently possible to assess the likelihood of success or scale of this third-party action with any degree of certainty.

The directors are of the opinion that no provision is required.

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Garry Robert Allan (Finance Director)  
Dr Lucy Margaret MacGregor (Chief Scientific Officer)  
Landon Thomas Clay (Non-executive director)  
Gary Jones (Non-executive director)  
Keith Lough (Non-executive director)  
David Robert Norwood (Non-executive director)  
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