Annual Report and Financial Statements

EUROPA OIL & GAS LIMITED

For the Year Ended 31 July 2012

Company registration number 3093716

Contents

Directors and advisors

Company registration number	3093716
Registered office	6 Porter Street London W1U 6DD
Directors	HGD Mackay P Greenhalgh
Secretary	P Greenhalgh
Banker	Royal Bank of Scotland plc 1 Albyn Place Aberdeen AB10 1BR
Solicitor	Charles Russell LLP 5 Fleet Place London EC4M 7RD
Auditor	BDO LLP 55 Baker Street London W1U 7EU

Europa Oil & Gas Limited

Directors' report

The directors present their report and the audited financial statements for the year ended 31 July 2012

Principal Activities

Europa's business comprises three core strands production, appraisal and exploration and these activities take place in three European jurisdictions UK, Ireland and France and one in the North African territory of SADR.

Licence Interests Table

Country	Area	Licence	Field/ Prospect	Operator	Equity	Status
UK	East Midlands	DL003	West Firsby	Europa	100%	Production
		DL001	Crosby Warren	Europa	100%	Production
		PL199/215	Whisby-4	BPEL	65%	Production
		PEDL150	Hykeham	Europa	75%	Exploration
		PEDL180	Wressle	Egdon	33%	Exploration
		PEDL181	Caister	Europa	50%	Exploration
		PEDL182	Broughton	Egdon	33%	Exploration
	Weald	PEDL143	Holmwood	Europa	40%	Exploration
	North Sea	Holderness	Offshore UCG	Europa	90%	Exploration
		Humber South	Offshore UCG	Europa	90%	Exploration
Ireland	Porcupine	LO 11/7	Mullen	Europa	100%	Exploration
		LO 11/8	Kiernan	Europa	100%	Exploration
France	Aquitaine	Béarn des Gaves	Berenx (deep and shallow)	Europa	100%	Exploration/Appraisal
		Tarbes V d'Adour	Osmets/Jacque	Europa	100%	Exploration/Appraisal
SADR	Tindouf	Bir Lehlou		Europa	100%	Exploration
	Aaiuun	Hagounia		Europa	100%	Exploration

Business review

United Kingdom

Highlights

- Achieved production target of 200 boepd
- Wressle or Broughton well expected early 2013

United Kingdom – Exploration NE Lincolnshire

PEDL180 33.3% (Wressle)

PEDL180 covers an area of 100 km² in the East Midlands Petroleum Province south of the Crosby Warren field Europa has an equal working interest share in the block with its partners Egdon Resources and Celtique Energie The Wressle prospect has estimated mean gross unrisked recoverable resources of 2 41 mmbo 49 km² of 3D seismic acquisition covering PEDL180 and PEDL182 has been processed Drilling at either Wressle or Broughton is targeted for early 2013

PEDL182 33.3% (Broughton)

To the north, PEDL182 is an area of 40 km² with the same equity structure as that of PEDL180 The Broughton prospect was previously drilled by BP and flowed oil Broughton has estimated mean gross unrisked recoverable resources of 1 85 mmbo

Directors' report (continued)

United Kingdom (continued)

PEDL150 75% (Hykeham)

To the south west of Lincoln, PEDL150 covers 110 km² Europa has a 75% interest, the balance being held by Valhalla The Hykeham well was drilled in 2010 Despite encountering potential oil pay, the well failed to flow oil on test The well results have been comprehensively reviewed and it is clear that failure to flow is due to extremely poor reservoir quality and the well will be plugged and abandoned The Board has further decided to write-down the carrying value of the PEDL150 block, resulting in an Income Statement charge of £2 1 million

Dorking area PEDL143 40% (Holmwood)

The PEDL143 licence covers an area of 92 km² of the Weald Basin, Surrey Europa has a 40% working interest in the licence with partners Egdon Resources 38 4%, Altwood Petroleum 1 6%, and Warwick Energy 20% The Holmwood prospect is a Jurassic sandstone project with a relatively low geological risk profile It has mean gross recoverable resources of 5 64 mmbo Europa considers Holmwood to be one of the best undrilled exploration prospects onshore UK

The prospect lies south of Dorking within the Surrey Hills Area of Outstanding Natural Beauty and an unsuccessful application to construct a temporary exploration well on the site was made in 2011 An appeal to overturn the decision was heard at a public inquiry in July 2012 The appeal was dismissed on 26 September 2012 The partnership is in the process of contesting that decision in the High Court

United Kingdom – Production - West Firsby (WF) 100%; Crosby Warren (CW) 100%; Whisby W-4 well 65%

The three UK fields produced an average of 200 boepd in the period The 19% increase in full year oil volumes to 72,360 barrels compared to the previous year is partly a result of the WF-9 well at West Firsby coming on stream In addition, our operations team has implemented a series of initiatives aimed at improving operational efficiency that have contributed to a reduction in downtime and in turn, a significant increase in the number of barrels recovered during the year

This strong performance was achieved despite unscheduled downtime in December 2011 caused by a hole in a section of the WF-7 tubing The workover programme was completed on schedule, keeping the effect of the shut-in on overall production to a minimum

In connection with our review of assets, the Company considered the potential value in fracking the CW-1 well A technical review of pressure data recovered from the well in early 2012 indicated that the risks clearly outweighed possible increases in production and it was therefore decided not to frack the well The Board further decided to record a £785,000 impairment charge against the Crosby Warren assets

Current 2P producing reserves are estimated at 0 65 mmbo

United Kingdom – Unconventional recources
Underground Coal Gasification (UCG) 90%

In August 2010, Europa was awarded two licences by the UK Coal Authority to investigate the potential for underground coal gasification ('UCG') of virgin coals located near offshore, along the eastern coast of England Europa has a 90% interest in the licence with Oxford Energy Consulting Limited holding the remaining 10%

PEDL181 50% NE Lincolnshire

Europa holds licences covering an area of over 600 km² in the Humber Basin that have the potential for both conventional oil and gas resources at Caister and possibly also for shale gas resources held in Carboniferous basinal black marine shales known to be 120m thick in the region

Directors' report (continued)

France

Highlights

• CPR assesses Berenx Deep prospect at 277 bcf mean contingent resource
• Berenx shallow gas prospect identified with 75 bcf gas in place

Europa holds 100% interests in two permits with both appraisal and exploration potential in the Aquitaine Basin, adjacent to the producing Lacq-Meillon gas fields The permit renewal process started during the financial year and the Company is actively engaged with the relevant French authorities We did not fully meet our expenditure commitments in the first phase of either permit, and as a result there is a risk that they will not be renewed But, based on correspondence received to date from the authorities, we have a reasonable expectation that both permits will be renewed

Béarn des Gaves 100%

The Berenx appraisal project, located in the heartland of the French oil industry in the Aquitaine Basin, has previously been explored and drilled by EssoRep Two wells, Berenx-1 (1969) and Berenx-2 (1972), both encountered strong gas shows over a 500m thick gas bearing zone In 1975 Berenx-2 was re-entered, drill stem tested and flowed gas to surface The carbonate reservoir is similar to the nearby 9 tcf Lacq Field and 2 tcf Meillon Field.

Europa possesses all available data for both wells Good quality 2D seismic exists for the licence as well as a reprocessed 3D seismic dataset covering the area between Berenx and Lacq Europa's technical work indicates that the original Berenx wells were drilled on the western edge of a sizeable structure which could hold in excess of 500 bcf of recoverable gas resources In the recent Competent Person's Report, ERC Equipoise estimated gross mean unrisked resources of 277 bcf for the deep Berenx gas play The difference between Europa's and ERC's assessment of resources reflects the confidence of each party in mapping in a geologically complex terrain, Europa was able to map a larger area of closure and as a consequence larger resources

The project also benefits from being located only 20 km from the Lacq Field, which potentially provides a straightforward export route, allowing gas to be processed in an existing facility with spare capacity

Re-evaluation and interpretation of existing seismic and well data on the permit has resulted in the identification of a previously unknown shallow gas play Previous exploration on the concession had focused only on deep lying gas prospects

In the CPR, ERC Equipoise suggested gas in place at Berenx shallow of 75 bcf Europa estimates gross mean unrisked gas resources of 59 bcf We have identified new shallow prospectivity in the permit area and information about these additional prospects will be released in due course

Current activity on the licence is focused on undertaking a detailed structural analysis and geological modelling which will provide a predictive model for the orientation and density of fracture systems in the carbonate reservoirs

Our strategy for the Béarn des Gaves permit is to target the shallow gas play and drill a well to deliver a commercial flowrate and on the back of success to further explore shallow prospectivity and undertake work to de-risk the Berenx deep appraisal project

Tarbes Val d'Adour 100%

The Tarbes Val d'Adour permit contains several oil accumulations that were previously licensed by Elf but were abandoned in 1985 due to low oil prices Two fields, Jacque and Osmets, were drilled using vertical wells which generated modest production At its peak in 1982, Osmets produced up to 50 bopd while peak production at Jacque reached almost 30bopd in 1981 Europa commissioned the French Geological Survey to map the potential re-development area of the Osmets and Jacque fields from a reprocessed 2D data set This work is now complete

Europa intends to farm-out this and, with a partner, drill a re-development well on one of these fields in 2013

Directors' report (continued)

Ireland

Exploration - Porcupine Basin LO 11/7 and LO 11/8 (Mullen and Kiernan) 100%

In October 2011, Europa was awarded two exploration Licensing Options 11/7 and 11/8 in the Irish Atlantic Margin licensing round These cover two four-block parcels in the South Porcupine Basin situated off the west coast of Ireland with a total area of approximately 2,000 km² Previous drilling in the North Porcupine Basin led to the discovery of Connemara, Spanish Point and Burren, providing evidence for the existence of a viable petroleum system Burren in particular flowed ~700 bopd from a Lower Cretaceous sandstone reservoir We have identified two large stratigraphic traps at prospects Mullen and Kiernan in Lower Cretaceous submarine fan systems similar to those that have been proved to be successful elsewhere along the Atlantic Margins

The areas are situated on the flanks of the South Porcupine Basin in water depths of between 700 metres and 2,000 metres There are modest work programmes attached to the licences over a two year period requiring reprocessing and interpretation of seismic data, and, subject to approval of the Irish Government, an option to convert into a 15 year Frontier Exploration Licence with associated obligations to undertake seismic and drilling operations

Since acquiring the licences, the Company's in house technical team has been working to map the prospectivity of the Licencing Options with a view to securing a farm-out

Sahrawi Arab Democratic Republic (SADR)

Exploration - Bir Lehlou and Hagounia 100%

Europa holds interests in the Bir Lehlou and Hagounia blocks of the Sahrawi Arab Democratic Republic The 100% interest in the licences covers almost 80,000 km² of exploration acreage and crosses the Tindouf and Aaiun Basins The concession has significant potential for both conventional and unconventional gas resources, specifically shale gas The Tindouf Basin is geologically similar to the prolific Algerian Palaeozoic Basins Meanwhile, the Aaiun Basin is an Atlantic margin basin similar to that developed along the West African margin

Conclusion

In the last twelve months Europa has conducted a detailed technical review of its entire exploration, appraisal and production portfolio As a consequence of this work we have identified an exciting new shallow gas play in our Béarn des Gaves permit in France and confirmed Berenx Deep as a gas appraisal project with mean gross contingent resources of at least 277 bcf In May we delivered a CPR to the market providing clarity on the risk and value in our UK and French assets We have identified two new and potentially very large prospects in the South Porcupine Basin offshore Ireland Whilst at the high risk and high reward end of the exploration spectrum they are part of the Lower Cretaceous clastic play that has proved very successful elsewhere in the Atlantic Margin and further work will be undertaken to de-risk the prospects

In July we mounted a very strong planning appeal for the Holmwood exploration well, a prospect that we regard as the best undrilled exploration prospect in onshore UK Though the appeal was dismissed by the planning inspector, we continue to believe our case is strong and we have applied to the High Court in order to contest the decision Our UK production had an excellent year generating £2 1 million cash to the Company and I am delighted to report that we delivered on our production promise of 200 boepd

The next twelve months will see at least one exploration well drilled in PEDL180 or PEDL182 in the UK with the possibility of a follow up exploration well contingent on success We are seeking to joint venture our Irish and French assets In particular we wish to test the shallow gas play in the Béarn des Gaves permit as a matter of priority as we believe the Aquitaine Basin has the potential to provide rapid commercialisation of any gas discovery Offshore Ireland is beginning to receive renewed interest from the upstream oil industry and we have identified two prospects in Europa's acreage in the Porcupine basin The size of these structures is tremendously exciting and warrants further priority investigation, taking them to drillable status It is also our intent to add new opportunities to our portfolio Europa is in the deal flow and additional projects will be added in due course We will work our UK producing assets hard and continue with initiatives to reduce opex, augment production and hit our production targets

Directors' report (continued)

Results for the year and dividends
The Company loss for the year after taxation was £7,236,000(2011 loss £382,000) The directors do not recommend the payment of a dividend (2011 £nil)

Directors
The directors who served during the year were as follows

P Greenhalgh	
HGD Mackay	(appointed 21 October 2011)
PA Barrett	(resigned 21 October 2011)

No director had, during the year or at the end of the year, a material interest in any contract in relation to the Company's activities

Post reporting date events
Details of post reporting date events are included in Note 24 to the financial statements

Capital structure and going concern
After making enquiries, the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Company can continue in operational existence for the foreseeable future This judgement is based on, the performance of its existing oil production and correspondence with other Group companies and its bankers

Further information can be found in Note 1

Accounting policies
A full list of accounting policies is set out in the notes to the accounts

Disclosure of information to the auditors
In the case of each person who was a director at the time this report was approved

- So far as that director was aware there was no relevant available information of which the Company's auditors were unaware
- That director had taken all necessary steps to make themselves aware of any relevant audit information, and to establish that the Company's auditors were aware of that information

Auditors
In accordance with the Companies Act 2006, a resolution for the re-appointment of BDO LLP as auditors of the Company will be proposed at the Annual General Meeting on 11 December 2012

Approved by the Board of directors and signed on behalf of the Board on 11 December 2012

P Greenhalgh
Finance Director

Statement of directors' responsibilities

The directors are responsible for preparing the annual 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 chosen to prepare the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 year

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of 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

Report of the independent auditors

Independent auditor's report to the members of Europa Oil & Gas Limited

We have audited the financial statements of Europa Oil & Gas Limited for the year ended 31 July 2012 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows, and the related notes The financial reporting framework that has been applied in the preparation of the Company statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006

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 auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities, 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 (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

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 31 July 2012 and of the loss for the year then ended,
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Emphasis of matter – renewal of French Permits

In forming our opinion on the financial statements which is not modified we draw your attention to the disclosures made in Note 10 of the financial statements concerning the renewal of the French exploration permits

As disclosed in Note 10, the Group's French exploration permits are currently in the renewal phase with the French authorities The Group did not meet its expenditure commitments on those permits and therefore there is a risk that the permits will not be renewed by the French authorities Although the directors are confident that the permits will be renewed, there can be no guarantee Should the permits not be renewed, the impact on the financial statements will be the impairment of the French intangible assets disclosed in Note 10 These financial statements do not include the adjustments that would result if the permits are not renewed

Opinion on other matters prescribed by the Companies Act 2006

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

Report of the independent auditors (continued)

Matters on which we are required to report by exception

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

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

BDO LLP

Anne Sayers, Senior Statutory Auditor
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
11 December 2012

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Statement of comprehensive income for the year ended 31 July 2012

	Note	2012 £000	2011 £000
Revenue	2	5,080	3,766
Other cost of sales		*(2,728)*	*(2,242)*
Exploration write-off - intangibles	10	*(2,377)*	-
Write-off – loans to group companies	14	*(5,454)*	-
Impairment of producing fields	11	*(785)*	*(425)*
Total cost of sales		**(11,344)**	(2,667)
Gross (loss)/ profit		**(6,264)**	1,099
Administrative expenses		**(351)**	(384)
Finance income	7	-	114
Finance costs	8	**(1,351)**	(397)
(Loss)/profit before taxation	3	**(7,966)**	432
Taxation	9	**730**	(814)
Total comprehensive loss for the year		(7,236)	(382)

The accompanying accounting policies and Notes form part of these financial statements

Statement of financial position as at 31 July 2012

	Note	2012 £000	2011 £000
Assets			
Non-current assets			
Intangible assets	10	**2,145**	2,936
Property, plant and equipment	11	**4,807**	6,225
Loans to group companies	14	**4**	6,438
Deferred tax asset	17	**14**	930
Total non-current assets		**6,970**	16,529
Current assets			
Inventories	13	**57**	43
Trade and other receivables	14	**1,160**	557
Cash and cash equivalents		**202**	297
Total current assets		**1,419**	897
Total assets		**8,389**	17,426
Liabilities			
Current liabilities			
Trade and other payables	15	**(1,052)**	(928)
Current tax liabilities		**(87)**	-
Total current liabilities		**(1,139)**	(928)
Non-current liabilities			
Long-term borrowings	16	**(8,456)**	(9,116)
Deferred tax liabilities	17	**(2,873)**	(4,606)
Long-term provisions	18	**(1,950)**	(1,570)
Total non-current liabilities		**(13,279)**	(15,292)
Total liabilities		**(14,418)**	(16,220)
Net (liabilities)/assets		**(6,029)**	1,206
Capital and reserves attributable to equity holders of the company			
Share capital	19	**2**	2
Share premium	19	**3,266**	3,266
Retained deficit	19	**(9,297)**	(2,062)
Total equity		**(6,029)**	1,206

These financial statements were approved by the Board of directors on 11 December 2012 signed on its behalf by:

P Greenhalgh
Finance Director
Company registration number 3093716

The accompanying accounting policies and Notes form part of these financial statements.

Europa Oil & Gas Limited

Statement of changes in equity for the year ended 31 July 2012

	Share capital £000	Share premium £000	Retained deficit £000	Total Equity £000
Balance at 1 August 2010	2	3,266	(1,683)	1,585
Total comprehensive loss for the year	-	-	(382)	(382)
Share based payments	-	-	3	3
Balance at 31 July 2011	**2**	**3,266**	**(2,062)**	**1,206**

	Share capital £000	Share premium £000	Retained deficit £000	Total Equity £000
Balance at 1 August 2011	2	3,266	(2,062)	1,206
Total comprehensive loss for the year	-	-	(7,236)	(7,236)
Share based payment	-	-	1	1
Balance at 31 July 2012	**2**	**3,266**	**(9,297)**	**(6,029)**

The accompanying accounting policies and Notes form part of these financial statements.

Statement of cashflows for the year ended 31 July 2012

	Note	2012 £000	2011 £000
Cash flows from operating activities			
Loss from operations		**(7,236)**	(382)
Adjustments for			
Share based payments	20	**1**	3
Depreciation	11	**633**	317
Exploration write-off - intangibles	10	**2,377**	-
Exploration write-off – loans to Group companies	14	**5,454**	-
Impairment of property, plant & equipment	11	**785**	425
Finance income	7	**-**	(114)
Finance expense	8	**1,351**	397
Taxation (credit)/expense	9	**(730)**	814
Increase in inventories		**(14)**	(5)
Increase in trade and other receivables		**(606)**	(238)
Decrease in trade and other payables		**(111)**	(198)
Cash generated from operations		**1,904**	1,019
Income tax refund received		**-**	330
Net cash from operating activities		**1,904**	1,349
Cash flows used in investing activities			
Purchase of property, plant and equipment		**(16)**	**(3,090)**
Purchase of intangible assets		**(1,095)**	**(311)**
Loans to subsidiary companies		**(7)**	**(29)**
Net cash used in investing activities		**(1,118)**	**(3,430)**
Cash flows from financing activities			
Proceeds from long-term borrowings		**-**	3,446
Repayment of borrowings		**(927)**	(500)
Interest paid		**(11)**	(34)
Net cash from financing activities		**(938)**	2,912
Net increase in cash and cash equivalents		**(152)**	831
Exchange gain/ (loss) on cash		**57**	(34)
Cash and cash equivalents at beginning of year		**297**	(500)
Cash and cash equivalents at end of year		**202**	297

The accompanying accounting policies and Notes form part of these financial statements.

Notes to the financial statements

1 Accounting Policies

General information

Europa Oil & Gas Limited is a company incorporated and domiciled in England and Wales with registered number 3093716 The address of the registered office is 6 Porter Street, London, W1U 6DD The company's administrative office is at the same address

The nature of the company's operations and its principal activities are set out in the Directors' report

The functional and presentational currency of the company is Sterling (UK£)

Basis of accounting

The financial statements have been prepared in accordance with applicable International Financial Reporting Standards (IFRS) as adopted by the EU The policies have not changed from the previous year

The accounting policies that have been applied in the opening statement of financial position have also been applied throughout all periods presented in these financial statements These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 July 2012

Future changes in accounting standards

The IFRS financial information has been drawn up on the basis of accounting standards, interpretations and amendments effective at the beginning of the accounting period

There were various amendments to published standards and interpretations to existing standards effective in the year adopted by the Company

The following are amendments to existing standards and new standards which may apply to the Company in future accounting periods

		Effective date (periods beginning on or after)
IAS 12 *	Deferred Tax Recovery of Underlying Assets	1 Jan 2012
IFRS 9 *	Financial instruments	1 Jan 2013

Items marked * had not yet been endorsed by the European Union at the date that these financial statements were approved and authorised for issue by the Board

Basis of preparation

The Company is exempt from the obligation to prepare and deliver consolidated group accounts as it has been included in the consolidated group accounts of its immediate parent company, Europa Oil & Gas (Holdings) plc which are publicly available The Company is engaged in oil and gas exploration, development and production through unincorporated joint arrangements The Company accounts for its share of the results and net assets of these joint arrangements In addition, where the Company acts as operator to the joint arrangement, the gross liabilities and receivables (including amounts due to or from non-operating partners) of the joint arrangement are included in the statement of finance position

Going concern

After making enquiries, the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation, based on the Company's cash flow forecasts that the Company can continue in operational existence for the foreseeable future, which is deemed to be at least 12 months from the date of signing these financial statements This judgement is based on the performance of existing oil production and correspondence with other Group companies and bankers

Revenue Recognition

Revenue, excluding value added tax and similar taxes, represents net invoiced sales of the Company's share of oil and gas revenues in the year Revenue is recognised at the end of each month based upon the quantity and price of oil and gas delivered to the customer

Notes to the financial statements (continued)

1 Accounting Policies (continued)

Non-current assets

Oil and gas interests

The financial statements with regard to oil and gas exploration and appraisal expenditure have been prepared under the full cost basis This accords with IFRS 6 which permits the continued application of a previously adopted accounting policy

Pre-production assets

Pre-licence expenditure is expensed as directed by IFRS 6 Expenditure on licence acquisition costs, geological and geophysical costs, costs of drilling exploration, appraisal and development wells, and an appropriate share of overheads (including directors' costs) are capitalised and accumulated in cost pools on a geographical basis These costs which relate to the exploration, appraisal and development of oil and gas interests are initially held as intangible non-current assets pending determination of commercial viability On commencement of production these costs are transferred to Production assets

Production assets

Production assets are categorized within property, plant and equipment on the statement of financial position With the determination of commercial viability and approval of an oil and gas project the related pre-production assets are transferred from intangible non-current assets to property, plant and equipment and depreciated upon commencement of production within the appropriate cash generating unit

Impairment tests

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units) As a result, some assets are tested individually for impairment and some are tested at cash generating unit level

An impairment loss is recognised for the amount by which the asset's or cash generating unit's carrying amount exceeds its recoverable amount The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items The corresponding liability is recognised within provisions

Depreciation

All expenditure within each geographical cost pool is depreciated from the commencement of production, on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of proven plus probable commercial reserves at the end of the period, plus the production in the period Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs within each geographical cost pool Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively

Computer equipment, software, and furniture are depreciated on a 25% per annum straight line basis

Reserves

Proven and probable oil and gas reserves are estimated quantities of commercially producible hydrocarbons which the existing geological, geophysical and engineering data shows to be recoverable in future years The proven reserves included herein conform to the definition approved by the Society of Petroleum Engineers (SPE) and the World Petroleum Congress (WPC) The probable and possible reserves conform to definitions of probable and possible approved by the SPE/WPC using the deterministic methodology Reserves used in accounting estimates for depreciation are updated periodically to reflect management's view of reserves in conjunction with third party formal reports Reserves are reviewed at the time of formal updates or as a consequence of operational performance, plans and the business environment at that time

Notes to the financial statements (continued)

1 **Accounting Policies (continued)**

Non-current assets (continued)

Reserves (continued)

Reserves are adjusted, in the year that formal updates are undertaken or as a consequence of operational performance and plans, and the business environment at that time, with andy resulting changes not applied retrospectively

Future decommissioning costs

A provision for decommissioning is recognised in full at the point that the Company has an obligation to decommission an appraisal, development or producing well A corresponding non-current asset (included within producing fields in Note 11) of an amount equivalent to the provision is also created. The amount recognised is the estimated cost of decommissioning, discounted to its net present value and is reassessed each year in accordance with local conditions and requirements For producing wells, the asset is subsequently depreciated as part of the capital costs of production facilities within tangible noncurrent assets, on a unit of production basis Any decommissioning obligation in respect of a pre-production asset is carried forward as part of its cost and tested annually for impairment in accordance with the above policy

Changes in the estimates of commercial reserves or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to the decommissioning asset The unwinding of the discount on the decommissioning provision is included within interest expense

Taxation

Current tax is the tax payable based on taxable profit for the year

Deferred income taxes are calculated using the balance sheet liability method on temporary differences Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future Tax losses available to be carried forward as well as other income tax credits to the Company are assessed for recognition as deferred tax assets

Deferred tax liabilities are provided in full, with no discounting Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary difference will be able to be offset against future taxable income Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the reporting date

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity

Foreign currency

The Company prepares its financial statements in Sterling

Transactions denominated in foreign currencies are translated at the rates of exchange ruling at the date of the transaction Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the reporting date Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of transaction Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value was determined

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the Income Statement in the period in which they arise

1 Accounting Policies (continued)

Foreign currency (continued)

Exchange differences on non-monetary items are recognised in the Statement of Changes in Equity to the extent that they relate to a gain or loss on that non-monetary item taken to the Statement of Changes in Equity, otherwise such gains and losses are recognised in the Income Statement

The monetary assets and liabilities in the financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the reporting date Income and expenses are translated at monthly average rates providing there is no significant change in the month The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to the foreign exchange reserve in equity On disposal of a foreign operation the cumulative translation differences are transferred to the income statement as part of the gain or loss on disposal

Europa Oil and Gas Limited is domiciled in the UK, which is its primary economic environment and the Company's functional currency is UK Pounds Sterling The Company's current operations are based in the UK, France and SADR and the functional currencies of the Company's subsidiaries are the prevailing local currencies in each jurisdiction Given that the functional currency of the Company is Sterling, management has elected to continue to present the consolidated financial statements of the Company in Sterling

The Company has taken advantage of the exemption in IFRS 1 and has deemed cumulative translation differences for all foreign operations to be nil at the date of transition to IFRS The gain or loss on disposal of these operations excludes translation differences that arose before the date of transition to IFRS and includes later translation differences

Investments

Investments, which are only investments in subsidiaries, are carried at cost less any impairment

Financial instruments

Financial assets and liabilities are recognised on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument The Company classifies financial assets into loans and receivables, which comprise trade and other receivables and cash and cash equivalents The Company has not classified any of its financial assets as held to maturity or available for sale or fair value through profit or loss

Trade and other receivables are measured initially at fair value plus directly attributable transaction costs, and subsequently at amortised cost using the effective interest rate method, less provision for impairment A provision is established when there is objective evidence that the Company will not be able to collect all amounts due The amount of any provision is recognised in the Statement of comprehensive income

Cash and cash equivalents comprise cash held by the Company, short-term bank deposits with an original maturity of three months or less and bank overdrafts Within the consolidated statement of cash flows, cash and cash equivalents includes the overdraft drawn against the multi-currency facility described in Note 16

The Company classifies financial liabilities into one of two categories, depending on the purpose for which the asset was acquired The accounting policy for each category is as follows

<u>Other financial liabilities</u>
Include the following items

Bank and other borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position Interest expense in this context includes initial transaction costs and any interest or coupon payable while the liability is outstanding

Amounts owed to Group companies, trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method

Notes to the financial statements (continued)

1 Accounting Policies (continued)

Financial instruments (continued)

Financial liabilities and equity instruments issued by the Company are classified in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs

Leased assets

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee A corresponding amount is recognised as a finance leasing liability

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight line basis over the lease term Lease incentives are spread over the term of the lease

During the current or prior year the Company did not have any finance leases

Inventories

Inventories comprise oil in tanks stated at the lower of cost and net realisable value

Joint arrangements

Joint arrangements are those in which the Company holds an interest on a long term basis which are jointly controlled by the Company and one or more venturers under a contractual arrangement When these arrangements do not constitute entities in their own right, the financial statements reflect the relevant proportion of costs, revenues, assets and liabilities applicable to the Company's interests in accordance with IAS 31 The Company's exploration, development and production activities are generally conducted jointly with other companies in this way

Share-based payments

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets)

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to reserves Where options over the parent company's shares are granted to employees of subsidiaries of the parent, the charge is recognised in the income statement of the subsidiary In the parent company accounts there is an increase in the cost of the investment in the subsidiary receiving the benefit

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates Any cumulative adjustment prior to vesting is recognised in the current period No adjustment is made to any expense recognised in prior periods if the number of share options ultimately exercised is different to that initially estimated.

Notes to the financial statements (continued)

1 **Accounting Policies (continued)**

Critical accounting judgements and key sources of estimation uncertainty

Details of the Company's significant accounting judgements and critical accounting estimates are set out in these financial statements and include

Accounting judgements and estimates

- Carrying value of intangible assets (Note 10) – carrying values are justified by reference to future estimates of cash flows
- Carrying value of property, plant and equipment (Note 11) – carrying values are justified by reference to future estimates of cash flows
- Decommissioning provision (Note 18) – inflation and discount rate estimates are used in calculating the provision
- Share-based payments (Note 20) – various estimates are used in determining the fair value of options

2 **Business segment analysis**

In the opinion of the directors the Company has one class of business, being oil and gas exploration development and production

The Company operated in 4 principal operating segments of business being the production and exploration activity in the United Kingdom and the exploration activity in Ireland, France and North Africa Activities are reported to Management on this basis The reporting on these investments to Management focuses on revenue, operating costs and capital expenditure

Segmental income statement for the year ended 31 July 2012

	UK	Ireland	France	North Africa	Total
	£000	**£000**	**£000**	**£000**	**£000**
Continuing operations					
Revenue	5,080	-	-	-	5,080
Other cost of sales	*(2,728)*	-	-	-	*(2,728)*
Exploration write-off - intangibles	*(2,377)*	-	-	-	*(2,377)*
Write-off – loans	*(5,454)*	-	-	-	*(5,454)*
Impairment of producing fields	*(785)*	-	-	-	*(785)*
Cost of sales	(11,344)	-	-	-	(11,344)
Gross profit	**(6,264)**	**-**	**-**	**-**	**(6,264)**
Administrative expenses	(310)	-	-	(41)	(351)
Finance costs	(1,351)	-	-	-	(1,351)
Loss before tax	**(7,925)**	**-**	**-**	**(41)**	**(7,966)**
Taxation	730	-	-	-	730
Loss for the year	**(7,195)**	**-**	**-**	**(41)**	**(7,236)**

Notes to the financial statements (continued)

2 Business segment analysis (continued)

Segmental statement of financial position as at 31 July 2012

	UK	Ireland	France	North Africa	Total
	£000	£000	£000	£000	£000
Total non-current assets	5,856	67	1,047	-	6,970
Total current assets	1,419	-	-	-	1,419
Total assets	**7,275**	**67**	**1,047**	-	**8,389**
Total non-current liabilities	(13,279)	-	-	-	(13,279)
Total current liabilities	(1,139)	-	-	-	(1,139)
Total liabilities	**(14,418)**	**-**	**-**	-	**(14,418)**
Other segment items					
Capital expenditure	523	67	521	-	1,111
Depreciation	633	-	-	-	633
Share based payments	1	-	-	-	1

Segmental income statement for the year ended 31 July 2011

	UK	Ireland	France	North Africa	Total
	£000	£000	£000	£000	£000
Continuing operations					
Revenue	3,766	-	-	-	3,766
Other cost of sales	*(2,242)*	-	-	-	*(2,242)*
Exploration write-off	-	-	-	-	-
Impairment of producing fields	*(425)*	-	-	-	*(425)*
Cost of sales	(2,667)	-	-	-	(2,667)
Gross profit	**1,099**	**-**	**-**	**-**	**1,099**
Administrative expenses	(347)	-	-	(37)	(384)
Finance income	114	-	-	-	114
Finance costs	(397)	-	-	-	(397)
Profit before tax	**469**	**-**	**-**	**(37)**	**432**
Taxation	(814)	-	-	-	(814)
Loss for the year	**(345)**	**-**	**-**	**(37)**	**(382)**

Notes to the financial statements (continued)

2 Business segment analysis (continued)

Segmental statement of financial position as at 31 July 2011

	UK £000	Ireland £000	France £000	Total £000
Total non-current assets	16,003	-	526	16,529
Total current assets	897	-	-	897
Total assets	**16,900**	**-**	**526**	**17,426**
Total non-current liabilities	(15,292)	-	-	(15,292)
Total current liabilities	(928)	-	-	(928)
Total liabilities	**(16,220)**	**-**	**-**	**(16,220)**
Other segment items				
Capital expenditure	3,013	-	216	3,229
Depreciation	317	-	-	317
Share based payments	3	-	-	3

3 Loss for the year before taxation

Loss for the year is stated after charging

	2012 £000	2011 £000
Depreciation	633	317
Staff costs including directors	230	226
Exploration write-off	7,831	-
Impairment of producing fields	785	425
Fees payable to the auditor	29	29
Operating leases	37	35

4 Directors' emoluments (salaries and fees)

	2012 £000	2011 £000
All directors	-	-

The emoluments of the directors were borne by another Group company

5 Employee information

Average number of employees including directors

	2012 Number	2011 Number
Management and technical	-	-
Field exploration and production	5	4
	5	4

Notes to the financial statements (continued)

5 Employee information (continued)

Staff costs

	2012	2011
	£000	£000
Wages and salaries	**182**	179
Employers costs	**24**	23
Pensions	**22**	21
Share based payments	**1**	3
	229	226

6 Loss on disposal of investment and discontinued operations

The sale of the remaining Ukraine assets has been completed As it is not material to the Company, the costs of maintaining the asset and the sales proceeds have been included in Administrative expenses

7 Finance income

	2012	2011
	£000	£000
Exchange rate gains	**-**	114

8 Finance costs

	2012	2011
	£000	£000
Bank interest payable	**8**	28
Loan interest payable	**377**	271
Interest on tax payment	**1**	-
Unwinding of discount on decommissioning provision (Note 18)	**130**	92
Exchange rate losses	**833**	-
Bank charges	**2**	6
	1,351	397

9 Taxation

	2012	2011
	£000	£000
Current tax expense/(credit)	**87**	(925)
Deferred tax asset movement	**916**	-
Released deferred tax liability/deferred tax charge	**(1,733)**	1,739
Tax (credit)/charge	**(730)**	814

UK corporation tax is calculated at 30% (2011 - 30%) of the estimated assessable profit for the year Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions

	2012	2011
	£000	£000
(Loss) / profit before tax per the accounts	**(7,966)**	432
Tax reconciliation		
(Loss)/ profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2011 30%)	**(2,390)**	130
Expenses not deductible for tax purposes	**1,636**	2
Other reconciling items including tax payable at a higher rate in the UK	**24**	682
Total tax (credit)/charge	**(730)**	814

Notes to the financial statements (continued)

10 Intangible assets

	2012	2011
	£000	£000
At 1 August	2,936	2,579
Additions	1,586	357
Exploration write-off	(2,377)	-
At 31 July	2,145	2,936

Intangible assets comprise the Company's pre-production expenditure on licence interests as follows

	2012	2011
	£000	£000
France	1,047	526
UK PEDL 143 (Holmwood)	443	202
UK PEDL 150 (SW Lincoln)	-	2,032
UK PEDL 180 (NE Lincs)	282	70
UK PEDL 181	113	106
UK PEDL 182	193	-
Ireland – Porcupine Basin	67	-
Total	2,145	2,936

Exploration write-off		
UK PEDL150 (Hykeham)	2,070	-
EPI3-Brates(Romania)	307	-
Total	2,377	-

As highlighted in the Directors' report, the renewal process for the Béarn des Gaves and Tarbes permits is underway The company did not meet its expenditure commitments in the first phase of the permits and as a result there is a risk that the permits will not be renewed by the French authorities Based on correspondence received to date from the authorities, the directors have a reasonable expectation that the permits will be renewed Should the permits not be renewed, then there would be an impairment of the French intangible assets

Notes to the financial statements (continued)

11 Property, plant and equipment

Producing fields

	2012 £000	2011 £000
Cost		
At 1 August	**10,580**	7,572
Additions	**-**	3,008
At 31 July	**10,580**	10,580
Depreciation and depletion		
At 1 August	**4,355**	3,613
Charge for year	**633**	317
Impairment	**785**	425
At 31 July	**5,773**	4,355
Net Book Value		
At 31 July	**4,807**	6,225

The producing fields referred to in the table above are the production assets of the Company, namely the oilfields at Crosby Warren and West Firsby, and the Company's share in the W-4 well at Whisby

The carrying value of each producing field was tested for impairment by comparing the carrying value with the value in use The value in use was calculated using a discount rate of 10% In 2012, as a result of the reduction in reserves, there was an impairment at Crosby Warren of £785,000 (2011 £257,000) There was no impairment at West Firsby (2011 £168,000) or Whisby W-4 well

12 Investments

Investment in subsidiaries	**£000**
31 July 2011 and 31 July 2012	-

The Company's investments at the reporting date in the share capital of unlisted companies include 100% of the ordinary share capital of each of the following companies

- Europa Oil & Gas SRL registered in Romania The results of this company have been included in the consolidated accounts of the parent company Europa Oil & Gas (Holdings) plc
- Europa Oil & Gas Resources Ltd registered in UK The results of this company have been included in the consolidated accounts of the parent company Europa Oil & Gas (Holdings) plc

The sale of the company's assets in Europa Nafta & Gas Ukraine registered in Ukraine was completed in the year

The aggregate capital and reserves, and result for the year of the subsidiaries are as below

	2012 £000	2011 £000
Aggregate capital and reserves		
Europa Oil & Gas SRL	**(10,699)**	(3,953)
Europa Nafta & Gas Ukraine	**-**	(458)
Europa Oil & Gas Resources Ltd	**(42)**	(32)
Loss for the year		
Europa Oil & Gas SRL	**(10,342)**	(56)
Europa Oil & Gas Resources Ltd	**(10)**	(8)

Notes to the financial statements (continued)

13 Inventories

	2012	2011
	£000	£000
Oil in tanks	**57**	43

14 Trade and other receivables

	2012	2011
Current trade and other receivables	£000	£000
Trade receivables	**1,056**	438
Other receivables	**65**	99
Prepayments and accrued income	**39**	20
	1,160	557
Non-current trade and other receivables		
Owed by Group undertakings	**4**	6,438

Loans to Group companies are interest free and are repayable on demand but currently have no planned repayment date

A loan to Europa Oil & Gas SRL ("SRL") was written off to exploration costs at the end of the year as the projects costs in SRL have been written off in the Group accounts and it was felt that the monies owed by SRL would not now be recoverable

15 Trade and other payables

	2012	2011
	£000	£000
Trade payables	**928**	719
Accruals and deferred income	**97**	85
Owed to Group undertakings	**27**	124
	1,052	928

Notes to the financial statements (continued)

16 Borrowings

The Royal Bank of Scotland (RBS) multi-currency facility signed on 5 March 2012 provides an overdraft of up to £700,000 At 31 July 2012 the facility was not used (2011 facility not used) The facility is due to be renewed 31 January 2013

	2012	2011
Loans repayable in less than one year	£000	£000
Multi-option facility	-	-
Term loan	-	-
Total short term borrowing	-	-
Loans repayable in 2 to 5 years		
Term Loan	-	-
Loan from parent	8,456	9,116
Total loans repayable in 2 to 5 years	8,456	9,116
Total long term borrowing	8,456	9,116

The loan from the parent company represents borrowings against a facility put in place on 21 July 2008 with Europa Oil & Gas (Holdings) plc

17 Deferred Tax

The Company has recognised a non-current deferred tax asset of £14,000 (2011 930,000) in respect of losses arising in the year, within the UK ring fence It is expected that these losses will be utilised against profits arising in the 2013 financial year

	2012	2011
Recognised deferred tax liability:	£000	£000
As at 1 August	4,606	2,867
(Credited)/charged to income statement	(1,733)	1,739
At 31 July	2,873	4,606

The Company has a net deferred tax liability of £2,873,000 (2011 £4,606,000) arising from accelerated capital allowances

	2012	2011
Unrecognised deferred tax asset:	£000	£000
Accelerated capital allowances	(335)	(158)
Trading losses	1,279	1,181
Net deferred tax asset	944	1,023

The Company has an unprovided net deferred tax asset of £944,000 (2011 £1,023,000), in relation to overseas trading losses of £3 47million, that has not been recognised in the accounts as the timing of the utilisation of the losses is considered uncertain

Notes to the financial statements (continued)

18 Long term provision

	2012	2011
	£000	**£000**
As at 1 August	**1,570**	1,395
Charged to the statement of comprehensive income	**130**	92
Added to exploration write-off	**250**	-
Added to property, plant & equipment non-current assets	**-**	83
At 31 July	**1,950**	1,570

The addition during the year is a provision for decommissioning the Barchiz well which was drilled by the company's Romanian subsidiary

Decommissioning provisions are based on third party estimates of work which will be required and the judgement of directors By its nature, the detailed scope of work required and timing is uncertain Hykeham and Barchiz are the only wells where decommissioning is anticipated before 2020

19 Called up share capital

	2012	2011
	£000	**£000**
Authorised		
1,000,000 ordinary shares of 10p each	**100**	100
Allotted, called up and fully paid		
19,344 ordinary shares of 10p each (2011 19,344)	2	2

All the authorised and allotted shares are of the same class and rank pari passu
The following describes the purpose of each reserve within owners' equity

Reserve	**Description and purpose**
Share premium	Amount subscribed for share capital in excess of nominal value
Retained deficit	Cumulative net gains and losses recognised in the consolidated income statement

Notes to the financial statements (continued)

20 Share based payments

Employees of the Company have been granted a total of 360,000 ordinary 1p share options in Europa Oil and Gas (Holdings) plc (2011 360,000)

The options are exercisable one third 18 months after grant, a further third 30 months after grant and the balance 42 months after grant There are no further vesting conditions The latest date at which these can be exercised is the 10th anniversary from the date of award During the year no options were granted, exercised forfeited or expired The fair value of the various options was determined using a Black Scholes Merton model, and the inputs used to determine these values are detailed in the table below

Grant date	11 November 2004	1 December 2006	23 October 2009
Number of options	160,000	80,000	120,000
Share price at grant	32 5p	21 5p	13 3p
Exercise price	25p	25p	16p
Volatility	40%	50%	60%
Dividend yield	nil	nil	nil
Risk free investment rate	4 80%	4 90%	2 74%
Option life (years)	6 25	6 25	6
Fair value per share	16 76p	10 16p	6 58p

Volatility for the shares granted on 11 November 2004 was based on the Company's share price volatility in the first year of flotation on the AIM market Volatility for subsequent grants has been based on the parent company's share price volatility since flotation

Based on the above fair values the charge arising from the grant of employee share options was £1,000 (2011 £3,000)

	2012 Number of options	2012 Average exercise price	2011 Number of options	2011 Average exercise price
Outstanding at the start of the year	360,000	22p	360,000	22p
Outstanding at the end of the year	360,000	22p	360,000	22p
Exercisable at the end of the year	319,998	22 7p	279,999	23 7p

No options were granted, forfeited or exercised in the year (2011 nil)

21 Financial instruments

The Company's financial instruments comprise cash, bank borrowings, loans, cash, and items such as receivables and payables which arise directly from its operations The company's activities are subject to a range of financial risks the main ones being credit, liquidity, interest rates, commodity prices and foreign exchange These risks are managed through ongoing review taking into account the operational, business and economic circumstances at that time

Credit risk

The Company sells all crude oil produced to one multinational oil company The customer is invoiced monthly for the oil delivered to the refinery in the previous month and invoices are settled in full on the 15th of the following month At 31 July 2012 trade receivables were £1,056,000 (2011 £438,000) representing one month of oil revenue £417,000 and other receivables in respect of oil deliveries made on behalf of other parties and joint venture partners £639,000 (2011 one month of oil revenue) The fair value of trade receivables and payables approximates to their carrying value because of their short maturity Any surplus cash is held on deposit with Royal Bank of Scotland The maximum credit exposure in the year was £513,000 (2011 £479,000)

Notes to the financial statements (continued)

21 Financial instruments (continued)

Liquidity risk
Though the Company has the benefit of a regular revenue stream, there is still a need for bank financing The Group has in place a £700,000 flexible multi-currency facility with its bankers which can be utilised in either Sterling or foreign currency via an overdraft At the year end there was no overdraft (2011 no overdraft)

The Company monitors its levels of working capital to ensure it can meet liabilities as they fall due The following tables show the contractual maturities of the Company's financial liabilities, all of which are measured at amortised cost

At 31 July 2012	Trade and other payables £000	Long term borrowings £000
6 months or less	935	-
6-12 months	117	-
2-5 years	-	8,456
Total	1,052	8,456
At 31 July 2011		
6 months or less	928	-
2-5 years	-	9,116
Total	928	9,116

Trade and other payables do not normally incur interest charges Borrowings bear interest at variable rates

Interest rate risk
The Company has interest bearing liabilities as described in Note 16 The £700,000 multi-currency facility is secured over the assets of Europa Oil & Gas (Holdings) plc and Europa Oil & Gas Limited Interest is charged on the multi-currency facility at base rate plus 3% (2011 base plus 3%)

Commodity price risk
The selling price of the Company's production of crude oil is set at a small discount to Brent prices The table below shows the range of prices achieved in the year and the sensitivity of the Company's Profit/(Loss) Before Taxation (PBT) to such movements in oil price There would be a corresponding increase or decrease in net assets

Oil price	Month	2012 Price $/bbl	2012 PBT £000	2011 Price $/bbl	2011 PBT £000
Highest	March 12	123 80	(7,338)	121 70	1,272
Average		110 03	(7,966)	98 70	432
Lowest	June 12	93 30	(8,729)	75 6	(473)

Notes to the financial statements (continued)

21 Financial instruments (continued)

Foreign exchange risk

The Company's production of crude oil is invoiced in US Dollars Revenue is translated into Sterling using a monthly exchange rate set by reference to the market rate The table below shows the range of average monthly US Dollar exchange rates used in the year and the sensitivity of the Company's PBT to movements in US Dollar exchange

US Dollar	Month	2012 2ate $/£	2012 PBT £000	2011 Rate $/£	2011 PBT £000
Highest	Aug 12	1 628	(8,098)	1 665	307
Average		1 585	(7,966)	1 594	432
Lowest	May 12	1 528	(7,778)	1 557	559

The table below shows the Company's currency exposures Exposures comprise the assets and liabilities of the Company that are not denominated in the functional currency

Currency	2012 £000	2011 £000
Euro	**(7)**	(92)
US Dollar	**480**	548
Total	**473**	456

Capital risk management

The company's capital is closely monitored by the directors in the light of the capital needs of the Europa Oil & Gas (Holdings) plc Group as a whole. Further details are disclosed in the Group Annual Report and Accounts which are publicly available

22 Commitments

As at the 31 July 2012 the Group had contractual commitments to drill 2 wells and acquire seismic in the UK.

Europa's share of costs for these wells and other exploration activities over the next year is approximately £1 7 million This commitment is expected to be met from cash generated from production and borrowings referred to in Note 16

An appraisal/production well at Osmets (Tarbes Val d'Adour, France) would be drilled in 2013 subject to reaching agreement with a partner In the Sahrawi Arab Democratic Republic a further £3 million is committed pending a resolution of the political situation in the country

Europa Oil & Gas Limited pays an annual site rental for the land upon which the West Firsby and Crosby Warren oil field facilities are located The West Firsby lease runs until September 2022 and can be determined upon giving 2 months notice The annual cost is currently £18,000 and increases annually in line with the retail price index The Crosby Warren lease runs until December 2022 and can be determined on 3 months' notice The annual cost is currently £20,000

Notes to the financial statements (continued)

23 Related party transactions

The Company received services from its parent Europa Oil & Gas (Holdings) plc to the value of £1,094,000 (2011 £881,000) This included geological, operational and financial services provided by the executive directors of Europa Oil & Gas (Holdings) plc

At the year end the balance owed by Europa Oil & Gas SRL to the Company (£5,454,000) was written off to Income statement

At the end of the year the Company owed the following unsecured amounts to related parties

	2012 £000	2011 £000
Europa Oil & Gas (Holdings) plc	**8,483**	9,240
Comprising		
Loans (Note 16)	**8,456**	9,116
Other payables (Note 15)	**27**	124

During the year, the Company provided no services to subsidiary and other Group companies

At the end of the year the Company was owed the following amounts by its fellow subsidiaries

	2012 £000	2011 £000
Europa Oil & Gas Resources Limited	**4**	3
Europa Oil & Gas SRL	**-**	6,435
Total	**4**	6,438

24 Post reporting date events

On 19 September, Europa announced it had identified two large prospects – Mullen and Kiernan in the Irish South Porcupine Basin Further information on the size of the Mullen prospect was published on 6 November

On 27 September it was announced that the Holmwood planning appeal had been dismissed On 1 November it was announced that Europa had applied to contest the decision in the High Court

25 Ultimate parent undertaking

The parent company and ultimate controlling company is Europa Oil & Gas (Holdings) plc, a company registered in England and Wales, the accounts of which are available from 6 Porter Street, London, W1U 6DD