

# Annual Report and Financial Statements **EUROPA OIL & GAS LIMITED**

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For the Year Ended 31 July 2010

Company registration number 3093716

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**Europa Oil & Gas Limited**

## Directors and advisors

**Company registration number**

3093716

**Registered office**

11 The Chambers  
Vineyard  
Abingdon  
Oxon  
OX14 3PX

**Directors**

P A Barrett  
P Greenhalgh

**Secretary**

P Greenhalgh

**Banker**

Royal Bank of Scotland plc  
1 Albion Place  
Aberdeen  
AB10 1BR

**Solicitor**

Charles Russell LLP  
7600 The Quorum  
Oxford Business Park North  
Oxford  
OX4 2JZ

**Auditor**

BDO LLP  
55 Baker Street  
London  
W1U 7EU

# Directors' report

The directors present their report and the audited financial statements for the year ended 31 July 2010

## Principal Activities

The principal activity of Europa Oil & Gas Limited (Europa) is investment in oil and gas exploration, development and production. The Company's assets and activities are located in the United Kingdom, France, and Western Sahara. In 2010 Europa was awarded two new licences for Underground Coal Gasification (UCG). The Board has considered and will continue to consider investments in Europe and the North Africa region.

## 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	W Whisby	Europa	75%	Exploration
		PEDL180	Wressle	Europa	50%	Exploration
		PEDL222		Valhalla	50%	Exploration
		PEDL181	Caister	Europa	50%	Exploration
	Weald	PEDL143	Holmwood	Europa	40%	Exploration
	North Sea	Holderness	Offshore UCG	Europa	90%	Exploration
		Humber South	Offshore UCG	Europa	90%	Exploration
France	Aquitaine	Béarn des Gaves	Berenx	Europa	100%	Exploration/Appraisal
		Tarbes V d'Adour	Osmets/Jacque	Europa	100%	Exploration/Appraisal
Western Sahara	Tindouf	Bir Lehlou		Europa	100%	Exploration
	Aaiun	Hagounia		Europa	100%	Exploration

## Business review

The Company holds interests in 14 licences (see table), with 12 in Europe and 2 in North Africa. The company strives to maintain a balanced portfolio and to use production to build revenue through low risk drilling, and pay for high reward wells.

## United Kingdom

The core of Europa's portfolio in the UK is in the East Midlands, a basin with a long history of successful oil exploration and production with potential for additional reserves and vast unconventional resources.

## Production/Development

### Production – West Firsby and Crosby Warren (100%), Whisby-4 (65%)

The Company holds interests in three producing oilfields in the East Midlands. The main operating base is at the West Firsby Field, 15km north of Lincoln. The production is tankered by road to the refinery at Immingham in North East Lincolnshire. Current 2P reserves are 1.4 mmbo, having recently been increased due to the identification of additional Zone 1 reserves at West Firsby. This resulted from a thorough review of the seismic and well data to calculate revised oil-in-place figures and a detailed review of production history to conclude that significant oil remains in the upper Zone 1 reservoir.

## Directors' report (continued)

### UK (continued)

#### Production – West Firsby and Crosby Warren (100%), Whisby-4 (65%) (continued)

West Firsby produces from two wells on a jet pump system at combined rates of up to 105bopd. A programme of site improvements and production optimisation is nearing completion and a new Zone 1 production well is expected to be drilled in late 2010.

At Crosby Warren, in the grounds of the Scunthorpe steelworks, the two production wells operate on traditional beam pumps or nodding donkeys, producing up to 40bopd. All producing and exploration assets are tested annually for possible impairment. In the case of Crosby Warren, the CW2 well, drilled in 2007 has continued to produce relatively small quantities of oil. This led to an overall carrying value for the site which was not supported by the expected future cash flows from existing oil production. As a result, the Board took the decision to write down the book value of the Crosby Warren site from £2,694,000 to £1,682,000, resulting in an impairment charge in the Statement of Comprehensive Income of £1,012,000.

At Whisby, just to the west of Lincoln, a well drilled by Europa in early 2003 remains on steady production, currently producing around 88bopd gross (55 bopd net to Europa) on beam pump.

#### Exploration – NE Lincolnshire (PEDL 180/181 - 50%), Lincoln area (PEDL 150 - 75%), Dorking area (PEDL 143 - 40%)

Europa operates a number of exploration licences in the UK, some with 'ready-to-drill' prospects.

In NE Lincolnshire, PEDL180 and PEDL181 licences contain two prospective areas: the Wressle Prospect and the Caster Horst. The seismic database over these two areas, comprising a mixed 2D/3D vintage dataset, has been reprocessed and work is ongoing to develop drilling locations. Prospect size is in the region of 5 to 8 mmbo recoverable (unrisked).

Within the PEDL150 concession, the Hykeham well was drilled in the year. Despite encountering oil pay, the well has failed to flow oil to date, thought to be principally as a result of formation damage incurred during drilling. Though the likely forward plan is to plug and abandon the well, the investment has not been written off as prospectivity within the rest of the block, which includes the West Whisby feature, is believed to be good. Lessons learnt at Hykeham will be applied in the drilling of other prospects in the same reservoir interval.

The PEDL222 licence (50%), situated to the north of the Whisby Field, does not contain any prospects large enough to warrant drilling. The modest investment to date has been written off and for the remainder of the licence term Europa will assume operatorship to assess resource potential.

In PEDL143 in the Weald Basin, Europa and its partners continue to work to securing planning permission to drill the Holmwood-1 exploration well, south of Dorking. It is hoped permission will be granted late in 2010.

#### Unconventional Resources – Underground Coal Gasification and Shale Gas

Europa has been awarded two licences (90%) by the UK Coal Authority to investigate underground coal gasification of virgin coals along the eastern coast of England. These licences are situated in areas with deep coal measures with little structural complexity and a proximity to existing gas and utility infrastructure.

Underground Coal Gasification (UCG) is a developing technology that recovers up to 80% of the calorific value of *in situ* coal by a process of controlled combustion. UCG, when combined with CO<sub>2</sub> storage in the depleted coal seams, creates a source of energy which rivals nuclear for low emissions and has lower unit costs than conventional gas-fired power stations.

With only 30% utilisation rate for the coals, the estimated potential UCG energy resource in these two licence areas is 36x10<sup>15</sup> Joules or 6 billion barrels of oil equivalent.

In addition, the Company's large holding of over 600km<sup>2</sup> of the Humber Basin, has potential for significant shale gas resources from Carboniferous basinal shales. Whilst this is being evaluated, activities in shale gas exploration elsewhere in the UK Carboniferous basins are being monitored with interest.

## **Directors' report (continued)**

### **France**

Europa holds two exclusive licence in the Aquitaine Basin, adjacent to the world-class Lacq-Meilhon gas developments

#### Appraisal – The Berenx Structure (Béarn des Gaves Permit - 100%)

The main focus for Europa is the appraisal of the Berenx gas wells, where a high pressure high temperature well encountered 500m of gross gas shows and mud gas kicks in similar reservoir to the nearby 5TCF Lacq Field. In mid-2010, Europa took delivery of a reprocessed 3D seismic dataset covering the area between Berenx and Lacq. The initial mapping indicates that the Berenx wells were drilled on the western edge of a sizeable structure which could reservoir in excess of 1 trillion cubic feet of recoverable gas reserve. The proximity (20km) to the Lacq Field creates a straightforward export route, allowing the gas to be processed in an existing facility with spare capacity.

The forward programme is for detailed mapping of the structure by experienced Aquitaine geoscientists followed by securing joint venture partner(s) for the drilling of an appraisal well for 2011/2012.

#### Field Re-development and associated Exploration – Tarbes Val d'Adour Licence (100%)

This licence contains several oil accumulations, previously produced by Elf but abandoned in 1985 in times of low oil price. Europa commissioned the French Geological Survey to map the potential field re-development area of Osmets and Jacque from a reprocessed 2D data set and this work is now complete.

It is hoped that, with a partner, a re-development well can be drilled on one of these fields in 2011.

### **Other Areas**

#### Egypt

In December 2009, the Company relinquished its interest in the West Darag concession, onshore Egypt. The decision, driven by the lack of identified drill-ready prospects needed to commit to phase 2 of the concession, resulted in a write-off of the £738,000 investment in Egypt.

#### Western Sahara (100%) – Tindouf Basin and Anoun Basin Licences

Europa holds interests in Western Sahara through SADR covering almost 80,000km<sup>2</sup> of exciting exploration acreage. The Tindouf licence has great potential for both conventional and unconventional gas resources, being geologically similar to the prolific Algerian Palaeozoic basins. The Anoun Basin is an Atlantic margin basin similar to that developed along the West African margin.

As these license areas remained in force majeure throughout the year, the Board decided to write-down the intangible asset to nil value. Though the investment has been written down, Europa retains its 100% interest in the 2 blocks.

### **Conclusion**

The Company's broad asset base in the EU is a perfect platform for growth – two projects with Company-making potential will lift off in 2011 and the management intend to additionally develop a strong exploration-focused new venture strategy to take the Company to the next level.

## Directors' report (continued)

### **Results for the year and dividends**

The Company loss for the year after taxation was £1,613,000 (2009 loss £387,000) The directors do not recommend the payment of a dividend (2009 £nil)

### **Directors**

The directors who served during the year were as follows

PA Barrett

P Greenhalgh

ES Syba

Resigned effective 31 August 2010

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 balance sheet events**

Details of post balance sheet events are included in Note 24 to the financial statements

### **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**

A resolution to re-appoint the auditors, BDO LLP, will be proposed at the next Annual General Meeting

On behalf of the Board 3 December 2010

Paul Barrett  
Managing 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 2010 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 1 to 25. 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 sections 495 and 496 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**

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

### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 July 2010 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,

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

**BDO LLP**

Anne Sayers, Senior Statutory Auditor  
For and on behalf of BDO LLP, Statutory Auditor  
London  
United Kingdom  
3 December 2010

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 2010

		2010	2009
	Note	£000	£000
Revenue	2	3,091	2,937
Other cost of sales		(1,899)	(1,721)
Exploration write-off	10	(1,008)	(297)
Impairment of producing fields	11	(1,012)	-
Total cost of sales		(3,919)	(2,018)
<b>Gross (loss)/profit</b>		<b>(828)</b>	<b>919</b>
Administrative expenses		(428)	(287)
Finance income	7	37	99
Finance costs	8	(413)	(755)
<b>Loss before taxation</b>	<b>3</b>	<b>(1,632)</b>	<b>(24)</b>
Taxation	9	19	(363)
<b>Loss for the year</b>		<b>(1,613)</b>	<b>(387)</b>

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

# Statement of financial position as at 31 July 2010

	Note	2010 £000	2009 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	10	2,579	1,610
Property, plant and equipment	11	3,959	4,992
Investments	12	-	33
Loans to group companies	14	6,175	5,506
<b>Total non-current assets</b>		<b>12,713</b>	<b>12,141</b>
<b>Current assets</b>			
Inventories	13	38	15
Trade and other receivables	14	334	257
Current tax asset		335	-
<b>Total current assets</b>		<b>707</b>	<b>272</b>
<b>Total assets</b>		<b>13,420</b>	<b>12,413</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	15	(1,105)	(662)
Current tax liabilities		(2)	(588)
Short-term borrowing	16	(900)	(1,043)
<b>Total current liabilities</b>		<b>(2,007)</b>	<b>(2,293)</b>
<b>Non-current liabilities</b>			
Long-term borrowings	16	(5,566)	(3,226)
Deferred tax liabilities	17	(2,867)	(2,558)
Long-term provisions	18	(1,395)	(1,137)
<b>Total non-current liabilities</b>		<b>(9,828)</b>	<b>(6,921)</b>
<b>Total liabilities</b>		<b>(11,835)</b>	<b>(9,214)</b>
<b>Net assets</b>		<b>1,585</b>	<b>3,199</b>
<b>Capital and reserves attributable to equity holders of the company</b>			
Share capital	19	2	2
Share premium account	19	3,266	3,266
Retained earnings	19	(1,683)	(69)
<b>Total equity</b>		<b>1,585</b>	<b>3,199</b>

The accounts have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small entities. These financial statements were approved by the Board of directors on 3 December 2010 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.

# Statement of changes in equity for the year ended 31 July 2010

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 August 2008	2	3,266	309	3,577
Total comprehensive loss for the year	-	-	(387)	(387)
Share based payments	-	-	9	9
<b>Balance at 31 July 2009</b>	<b>2</b>	<b>3,266</b>	<b>(69)</b>	<b>3,199</b>

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 August 2009	2	3,266	(69)	3,199
Total comprehensive loss for the year	-	-	(1,613)	(1,613)
Share based payment	-	-	(1)	(1)
<b>Balance at 31 July 2010</b>	<b>2</b>	<b>3,266</b>	<b>(1,683)</b>	<b>1,585</b>

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

# Statement of cashflows for the year ended 31 July 2010

	Note	2010 £000	2009 £000
<b>Cash flows from operating activities</b>			
Loss from operations		(1,613)	(387)
Adjustments for			
Share based payments	20	(1)	9
Depreciation	11	468	527
Exploration write-off	10	1,008	297
Impairment of property, plant & equipment	11	1,012	-
Investment in group company write off	12	33	-
Finance income	7	(37)	(99)
Finance expense	8	413	755
Taxation (credit)/expense	9	(19)	363
(Increase)/decrease in inventories		(23)	1
Increase in trade and other receivables		(703)	(17)
Increase/(decrease) in trade and other payables		628	(262)
Cash generated from operations		1,166	1,187
Income taxes paid		(597)	(180)
<b>Net cash from operating activities</b>		<b>569</b>	<b>1,007</b>
<b>Cash flows used in investing activities</b>			
Purchase of property, plant and equipment		(210)	(178)
Purchase of intangible assets		(2,253)	(645)
<b>Net cash used in investing activities</b>		<b>(2,463)</b>	<b>(823)</b>
<b>Cash flows from financing activities</b>			
Proceeds from long-term borrowings		2,559	1,000
Repayment of borrowings		(450)	(684)
Interest paid		(81)	(59)
<b>Net cash from financing activities</b>		<b>2,028</b>	<b>257</b>
<b>Net increase in cash and cash equivalents</b>		<b>134</b>	<b>441</b>
Exchange (loss)/gain on cash		(41)	118
<b>Cash and cash equivalents at beginning of year</b>		<b>(593)</b>	<b>(1,152)</b>
<b>Cash and cash equivalents at end of year</b>		<b>(500)</b>	<b>(593)</b>

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 11 The Chambers, Vineyard, Abingdon OX14 3PX. 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 balance sheet 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 2010.

### 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. The IASB and IFRIC have issued the following standards and interpretations.

There were no amendments to published standards and interpretations to existing standards effective in the year adopted by the Company.

The following were amendments to published standards and interpretations to existing standards effective in the year and adopted by the Company:

		Effective date (periods beginning on or after)
IAS 1	Amendment - Presentation of financial statements - a revised presentation	1 Jan 2009
IAS 23	Amendment - Borrowing costs	1 Jan 2009
IFRS 2	Amendment - Share-based payment - vesting conditions and cancellations	1 Jan 2009
IFRS 7	Amendment - Improving Disclosures about Financial Instruments	1 Jan 2009
	Improvements to IFRSs (2009)	1 Jan 2009
IAS 27	Amendment - Consolidated and separate financial statements	1 Jul 2009
IFRS 3	Revised - Business combinations	1 Jul 2009

New Standards effective in the year relevant to the Group

IFRS 8	Operating Segments	1 Jan 2009
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The adoption of IFRS 8 and the amendment to IAS 1 and IFRS 7 affected the presentation and disclosure of the financial statements. The amendment to IAS 23 and IFRS 2 did not have any financial effect in the year; however, the accounting policies of the Group have been updated to reflect the required amendments. The revision to IFRS 3 would affect the presentation and disclosure of future business combinations completed in the period; the accounting policies have been updated to reflect the required change.

# Notes to the financial statements (continued)

## 1 Accounting Policies (continued)

### Future changes in accounting standards

Standards, interpretations and amendments to published standards effective in the year but which are not relevant to the Group

International Accounting Standards (IAS/IFRS)

		Effective date (periods beginning on or after)
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 Oct 2008
IFRS 1 and IAS 27	Amendments – Cost of an Investment in a subsidiary, jointly controlled entity or associate	1 Jan 2009
IFRS 2	Amendment - Vesting conditions and cancellations	1 Jan 2009
IAS 32 and 1	Amendments - Puttable financial instruments and obligations arising on liquidation	1 Jan 2009
IFRIC 15	Agreements for the Construction of Real Estate	1 Jan 2009
IFRIC9 and IAS 39	Amendments – Embedded derivatives	30 Jun 2009
IAS 39	Amendment –Recognition and measurement Eligible hedged items	1 Jul 2009
IFRIC 17	Distributions of Non-cash assets to owners	1 Jul 2009
IFRIC 18	Transfers of assets from customers	1 Jul 2009
IFRS 1	First-time adoption of international accounting standards	1 Jul 2009

Standards, interpretations and amendments, which are effective for reporting periods beginning after the date of these financial statements

International Accounting Standards (IAS/IFRS)

		Effective date (periods beginning on or after)
IFRS 1	Additional exemptions for first-time adopters	1 Jan 2010
IFRS 2	Amendment – Group cash-settled share based payment transactions	1 Jan 2010
	Improvements to IFRSs (2009) generally	1 Jan 2010
IAS 32	Amendment – Classification of rights issues	1 Feb 2010
IFRIC19*	Extinguishing financial liabilities with equity instruments	1 Apr 2010
IFRS 1	Amendment – first-time adopters of IFRS	1 Jul 2010
IAS24	Revised – Related party disclosures	1 Jan 2011
IFRIC 14	Amendment to IFRIC 14 – IAS 19 Limit on a defined benefit asset	1 Jan 2011
	Minimum funding requirements and their interaction	
	Improvements to IFRSs (2010)* generally	1 Jan 2011
IFRS9*	Financial instruments	1 Jan 2013

The above standards, interpretations and amendments will not significantly affect the Group's results or financial position. The adoption of IFRS 9 will eventually replace IAS 39 in its entirety and consequently may have a material effect on the presentation, classification, measurement and disclosures of the Group's financial instruments.

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.



## Notes to the financial statements (continued)

### 1 Accounting Policies (continued)

#### **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 balance sheet.

#### **Going Concern**

After making enquiries, the directors have formed a judgement at the time of approving the financial statements that the additional capital raised by the parent on 14 October 2010 alongside the Group's current forecast cash generation enables the Company to remain a going concern for the foreseeable future. This is based on correspondence with the Group's bankers, the performance of its existing oil production, and the spread of its prospective resources.

#### **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.

#### **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

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 tangible non-current assets 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.

## Notes to the financial statements (continued)

### 1 Accounting Policies (continued)

#### Non-current assets (continued)

##### 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.

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 any resulting changes not applied retrospectively.

##### **Future decommissioning costs**

A provision for decommissioning is recognised in full at the point that the Group 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 non-current 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.

## Notes to the financial statements (continued)

### 1 Accounting Policies (continued)

#### 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 balance sheet 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 balance sheet 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. 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 balance sheet 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 "Forex 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, Ukraine, France, Western Sahara and Egypt, 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.

## Notes to the financial statements (continued)

### 1 Accounting Policies (continued)

#### Foreign currency (continued)

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 balance sheet when the Company becomes a party to the contractual provisions of the instrument. The Company classifies its 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 at fair value. 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 Income statement.

Cash and cash equivalents comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less.

The Company classifies its 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:

##### Other financial liabilities

Include the following items:

Bank 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 balance sheet. Interest expense in this context includes initial transaction costs and any interest or coupon payable while the liability is outstanding.

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.

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.

## Notes to the financial statements (continued)

### 1 Accounting Policies (continued)

#### **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 consolidated 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

- Discontinued operations (Note 6)
- Carrying value of intangible assets (Note 10)

##### Accounting estimates

- Carrying value of property, plant and equipment (Note 11)
- Decommissioning provision (Note 18)
- Share-based payments (Note 20)
- Financial instruments (Note 21)

### 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 3 principal operating segments of business being the production and exploration activity in the United Kingdom, the exploration activity in France and exploration activity in 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.

# Notes to the financial statements (continued)

## 2 Business segment analysis (continued)

### Segmental income statement for the year ended 31 July 2010

	UK	France	North Africa	Total
	£000	£000	£000	£000
<b>Continuing operations</b>				
Revenue	3,091	-	-	3,091
Other cost of sales	(1,899)	-	-	(1,899)
Exploration write-off	(87)	-	(921)	(1,008)
Impairment of producing fields	(1,012)	-	-	(1,012)
Cost of sales	(2,998)	-	(921)	(3,919)
<b>Gross profit/ (loss)</b>	<b>93</b>	<b>-</b>	<b>(921)</b>	<b>(828)</b>
Administrative expenses	(396)	-	(32)	(428)
Finance income	37	-	-	37
Finance costs	(413)	-	-	(413)
<b>Loss before tax</b>	<b>(679)</b>	<b>-</b>	<b>(953)</b>	<b>(1,632)</b>
Taxation	19	-	-	19
<b>Loss for the year</b>	<b>(660)</b>	<b>-</b>	<b>(953)</b>	<b>(1,613)</b>

### Segmental statement of financial position as at 31 July 2010

	UK	France	North Africa	Total
	£000	£000	£000	£000
Total non-current assets	12,403	310	-	12,713
Total current assets	707	-	-	707
<b>Total assets</b>	<b>13,110</b>	<b>310</b>	<b>-</b>	<b>13,420</b>
Total non-current liabilities	(9,828)	-	-	(9,828)
Total current liabilities	(2,007)	-	-	(2,007)
<b>Total liabilities</b>	<b>(11,835)</b>	<b>-</b>	<b>-</b>	<b>(11,835)</b>
<b>Other segment items</b>				
Capital expenditure	2,049	169	245	2,463
Depreciation	468	-	-	468
Share based payments	3	-	(4)	(1)

# Notes to the financial statements (continued)

## 2 Business segment analysis (continued)

### Segmental income statement for the year ended 31 July 2009

	UK	France	North Africa	Total
	£000	£000	£000	£000
<b>Continuing operations</b>				
Revenue	2,937	-	-	2,937
<i>Other cost of sales</i>	(1,721)	-	-	(1,721)
<i>Exploration write-off</i>	(297)	-	-	(297)
Total cost of sales	(2,018)	-	-	(2,018)
<b>Gross profit</b>	<b>919</b>	<b>-</b>	<b>-</b>	<b>919</b>
Administrative expenses	(271)	-	(16)	(287)
Finance income	99	-	-	99
Finance costs	(755)	-	-	(755)
<b>Profit / (loss) before tax</b>	<b>(8)</b>	<b>-</b>	<b>(16)</b>	<b>(24)</b>
Taxation	(363)	-	-	(363)
<b>Loss for the year</b>	<b>(371)</b>	<b>-</b>	<b>(16)</b>	<b>(387)</b>

### Segmental statement of financial position as at 31 July 2009

	UK	France	North Africa	Total
	£000	£000	£000	£000
Total non-current assets	11,463	139	539	12,141
Total current assets	272	-	-	272
<b>Total assets</b>	<b>11,735</b>	<b>139</b>	<b>539</b>	<b>12,413</b>
Total non-current liabilities	(6,921)	-	-	(6,921)
Total current liabilities	(2,293)	-	-	(2,293)
<b>Total liabilities</b>	<b>(9,214)</b>	<b>-</b>	<b>-</b>	<b>(9,214)</b>
<b>Other segment items</b>				
Capital expenditure	655	91	146	892
Depreciation	527	-	-	527
Share based payments	1	-	8	9



## Notes to the financial statements (continued)

### 3 Loss for the year is stated after charging:

	2010	2009
	£000	£000
Depreciation	468	527
Staff costs including directors	192	211
Exploration write-off	1,008	297
Impairment of property, plant and equipment	1,012	-
Fees payable to the previous auditor	-	24
Fees payable to the auditor	11	32
Operating leases	36	36

### 4 Directors' emoluments (salaries and fees)

	2010	2009
	£000	£000
All directors	-	-

The emoluments of the directors were borne by another Group company

### 5 Employee information

#### Average number of employees including directors

	2010	2009
	Number	Number
Management and technical	4	6
Field exploration and production	12	15
	16	21

Figures include average of 12 staff (2009 15) based in the Ukraine terminated in 2010

Staff costs	2010	2009
	£000	£000
Wages and salaries	149	147
Employers costs	26	37
Pensions	18	17
Share based (credits)/payments	(1)	10
	192	211

### 6 Loss on disposal of investment and discontinued operations

The anticipated sale of the remaining Ukraine asset has not completed. As it is not material to the Company, the cost of maintaining the asset has been included in Administrative expenses and the comparative period has been re-presented for consistency.

### 7 Finance income

	2010	2009
	£000	£000
Exchange rate gains	37	99

# Notes to the financial statements (continued)

## 8 Finance costs

	2010	2009
	£000	£000
Bank interest payable	62	53
Loan interest payable	168	126
Interest on tax payment	4	-
Unwinding of discount on decommissioning provision (note 18)	85	79
Exchange rate losses	79	491
Bank charges	15	6
	<u>413</u>	<u>755</u>

## 9 Taxation

	2010	2009
	£000	£000
Current tax (credit)/charge	(328)	406
Deferred tax charge/(credit)	309	(43)
	<u>(19)</u>	<u>363</u>

UK corporation tax is calculated at 30% (2009 - 30%) of the estimated assessable profit for the year  
Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions

	2010	2009
	£000	£000
Loss before tax per the accounts	<u>(1,632)</u>	<u>(24)</u>
<i>Tax reconciliation</i>		
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2009 - 30%)	(490)	(7)
Losses carried forward not recognised for deferred tax	563	195
Expenses not deductible for tax purposes	2	10
Supplementary taxation of Ring Fence profits	(101)	175
Adjustment re prior year	7	(10)
Total tax (credit) / charge	<u>(19)</u>	<u>363</u>

## 10 Intangible assets

	2010	2009
	£000	£000
At 1 August	1,610	1,138
Additions	1,977	769
Exploration write-off	(1,008)	(297)
At 31 July	<u>2,579</u>	<u>1,610</u>

# Notes to the financial statements (continued)

## 10 Intangible assets (continued)

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

	2010 £000	2009 £000
Egypt	-	434
France	310	139
Western Sahara	-	105
UK PEDL 143 (Holmwood)	189	179
UK PEDL 150 (SW Lincoln)	1,916	595
UK PEDL 180 (NE Lincs)	65	52
UK PEDL 181	99	65
UK PEDL 222	-	41
<b>Total</b>	<b>2,579</b>	<b>1,610</b>

In December 2009, the Company relinquished its interest in the West Darag concession, onshore Egypt. The decision, driven by the lack of identified drill-ready prospects needed to commit to phase 2 of the concession, resulted in a write-off of the investment in Egypt.

As the license areas in Western Sahara remained in force majeure throughout the year, the Board decided to write-down the intangible asset to nil value.

With a lack of identified prospects in the PEDL222 concession, the Board also decided to write down the investment to nil value.

Within the PEDL150 concession, the Hykeham well was drilled in the year. Though the likely forward plan is to plug and abandon the well, the investment has not been written off as prospectivity within the rest of the concession area, which is considered as one cost pool, is good.

## 11 Property, plant and equipment

### Producing fields

	2010 £000	2009 £000
<b>Cost</b>		
At 1 August	7,125	7,002
Additions	447	123
At 31 July	7,572	7,125
<b>Depreciation and depletion</b>		
At 1 August	2,133	1,606
Charge for year	468	527
Impairment	1,012	-
At 31 July	3,613	2,133
<b>Net Book Value</b>		
At 31 July	<b>3,959</b>	<b>4,992</b>

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 W4 well at Whisby.

The carrying value of each producing field was tested for impairment. As a result, the board decided to write down the value of the Crosby Warren oilfield by £1,012,000.

## Notes to the financial statements (continued)

### 12 Investments

#### Investment in subsidiaries

At 1 August 2008 and 2009

Write off investment in Ukraine subsidiary

31 July 2010

£000

33

(33)

-

The Company's investments at the balance sheet 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
- Europa Nafta & Gas Ukraine registered in Ukraine. The results of this company have been included in the consolidated accounts of the parent company Europa Oil & Gas (Holdings) plc
- Malopolska Oil & Gas company Sp z o o, registered in Poland. The result of the Polish company have not been consolidated on the grounds that they are not material to the Company

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

	2010	2009
Aggregate capital and reserves	£000	£000
Europa Oil & Gas SRL	(3,897)	(3,781)
Europa Nafta & Gas Ukraine	(458)	458
Europa Oil & Gas Resources Ltd	(24)	-
<b>Loss for the year</b>		
Europa Oil & Gas SRL	(116)	(3,289)
Europa Nafta & Gas Ukraine	-	(5)
Europa Oil & Gas Resources Ltd	(24)	-

### 13 Inventories

	2010	2009
	£000	£000
Oil in tanks	38	15

## Notes to the financial statements (continued)

### 14 Trade and other receivables

	2010	2009
	£000	£000
<u>Current trade and other receivables</u>		
Trade receivables	217	164
Other receivables	70	29
Prepayments and accrued income	47	64
	<u>334</u>	<u>257</u>
<u>Non current trade and other receivables</u>		
Owed by Group undertakings	6,175	5,506
	<u>6,175</u>	<u>5,506</u>

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

### 15 Trade and other payables

	2010	2009
	£000	£000
Trade payables	535	223
Other payables	222	382
Accruals and deferred income	114	48
Owed to Group undertakings	234	9
	<u>1,105</u>	<u>662</u>

Other payables includes advances received from partners on projects in UK

### 16 Borrowings

On 1 May 2009 the Company agreed a £1 million uncommitted multi-option facility and a £1million term loan with its bankers. This replaced a £2 million multi option facility which was being renegotiated at the previous year end.

The multi-option facility was replaced with a multi-currency facility in August 2010 which can be utilised in either Sterling or foreign currency via an overdraft. At 31 July 2010 this facility was drawn to £479,000 (2009 £297,000). On the new facility there were no guarantees outstanding (2009 £475,000). As at the date of these accounts, renegotiation of the facility was in progress. The term loan is repayable in 10 quarterly installments. At 31 July 2010 it was drawn to £500,000 of which £400,000 was classified as short term.

## Notes to the financial statements (continued)

### 16 Borrowings (continued)

	2010	2009
	£000	£000
<u>Loans repayable in less than one year</u>		
Multi-option facility	500	593
Term loan	400	450
<b>Total short term borrowing</b>	<b>900</b>	<b>1,043</b>
 <u>Loans repayable in 1 to 2 years</u>		
Term loan	100	400
<b>Total loans repayable in 1 to 2 years</b>	<b>100</b>	<b>400</b>
 <u>Loans repayable in 2 to 5 years</u>		
Term Loan	-	100
Loan from parent	5,466	2,726
<b>Total loans repayable in 2 to 5 years</b>	<b>5,466</b>	<b>2,826</b>
<b>Total long term borrowing</b>	<b>5,566</b>	<b>3,226</b>

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

	2010	2009
	£000	£000
<b>Recognised deferred tax liability:</b>		
As at 1 August	2,558	2,601
Charged /(credited) to income statement	309	(43)
<b>At 31 July</b>	<b>2,867</b>	<b>2,558</b>

The Company has a net deferred tax liability of £2,867,000 (2009 £2,558,000) arising from accelerated capital allowances

	2010	2009
	£000	£000
<b>Unrecognised deferred tax asset:</b>		
Accelerated capital allowances	(81)	(243)
Overseas trading losses	933	728
<b>Net deferred tax asset</b>	<b>852</b>	<b>485</b>

The Company has a net deferred tax asset of £852,000 (2009 £485,000), in relation to overseas trading losses of £3.1 million, that have 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

	2010	2009
	£000	£000
As at 1 August	1,137	1,058
Charged to income statement	85	79
Added to intangible non-current assets	173	-
At 31 July	<u>1,395</u>	<u>1,137</u>

The addition during the year is the decommissioning cost for the Hykeham well

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 is the only well where decommissioning is anticipated before 2022.

### 19 Called up share capital

	2010	2009
	£000	£000
<b>Authorised</b>		
1,000,000 ordinary shares of 10p each	<u>100</u>	<u>100</u>
<b>Allotted, called up and fully paid</b>		
19,344 ordinary shares of 10p each (2009 19,344)	<u>2</u>	<u>2</u>

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 earnings	Cumulative net gains and losses recognised in the consolidated income statement

### 20 Share based payments

Employees of the Company have been granted a total of 360,000 ordinary share options in Europa Oil and Gas (Holdings) plc of 1p (2009 400,000).

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 120,000 options were granted and 160,000 options were forfeited. No options were exercised 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

## Notes to the financial statements (continued)

### 20 Share based payments (continued)

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 credit arising from the grant of employee share options was £1,000 (2009 expense £9,000)

	2010 Number of options	2010 Average exercise price	2009 Number of options	2009 Average exercise price
Outstanding at the start of the year	400,000	22.5p	400,000	22.5p
Granted	120,000	16p	-	-
Forfeited	(160,000)	18.75p	-	-
Outstanding at the end of the year	360,000	22p	400,000	22.5p
Exercisable at the end of the year	240,000	25p	213,334	25p

No options were exercised in the year (2009 nil)

### 21 Financial Instruments

The Company's financial instruments comprise cash, bank borrowings, loans, cash, and items such as debtors and creditors 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 2010 trade receivables were £217,000 (2009 £164,000) representing one month of oil revenue (2009 one month). 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 £344,000 (2009 £400,000).

#### Liquidity risk

On 1 May 2009 the Company agreed a £1 million uncommitted multi-option facility and a £1 million term loan with its bankers. The multi-option facility can be utilised in either Sterling or foreign currency via an overdraft or the issue of bonds, guarantees, indemnities or letters of credit. The term loan is repayable in 10 quarterly installments.

Included within short term borrowings is an overdraft of £500,000 (2009 £593,000) which has been utilised under this multi-option facility. An amount of £500,000 is owed at 31 July 2010 on the term loan.



# Notes to the financial statements (continued)

## 21 Financial Instruments (continued)

### Liquidity risk (continued)

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 2010	Trade and other payables £000	Short term borrowings £000	Long term borrowings £000
6 months or less	996	700	-
6-12 months	110	200	-
1-2 years	-	-	100
2-5 years	-	-	5,466
Total	<u>1,106</u>	<u>900</u>	<u>5,566</u>
At 31 July 2009			
6 months or less	366	843	-
6-12 months	296	200	-
1-2 years	-	-	400
2-5 years	-	-	2,826
Total	<u>662</u>	<u>1,043</u>	<u>3,226</u>

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 £1 million multi-currency facility and £1 million term loan are 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% (2009 base plus 3%) and on the term loan, and the loan from parent at libor plus 3.25% (2009 libor plus 3.25%).

### 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	2010 Price \$/bbl	2010 PBT £000	2009 Price \$/bbl	2009 PBT £000
Highest	Apr 10 (Aug 08)	\$83.40	(1,246)	111.28	2319
Average		\$73.95	(1,632)	62.30	23
Lowest	Sep 09 (Dec 08)	\$66.10	(1,967)	39.35	(1,064)

# 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	2010	2010	2009	2009
		Rate	PBT	Rate	PBT
		\$/£	£000	\$/£	£000
Highest	Oct 09 (Aug 08)	\$1 6478	(1,807)	\$1 9355	(412)
Average		\$1 5584	(1,632)	\$1 6533	23
Lowest	May 10 (Mar 09)	\$1 4459	(1,400)	\$1 4331	466

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	2010	2009
	£000	£000
Euro	(49)	(31)
US Dollar	678	709
Total	<u>629</u>	<u>678</u>

### 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 2010 the Company had contractual commitments to acquire seismic in the UK. We estimate that our share of costs for this activity over the next year is approximately £450,000. This commitment is expected to be met from cash generated from production and borrowings referred to in Note 16.

In the Western Sahara 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 £17,000 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 and is reviewed every 5 years, the next review being later in 2010.

## 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 £906,000 (2009 £677,000). This included geological, operational and financial services provided by the executive directors of Europa Oil & Gas (Holdings) plc.

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

	2010	2009
	£000	£000
Europa Oil & Gas (Holdings) plc	<u>5,700</u>	<u>2,736</u>

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

	2010	2009
	£000	£000
Europa Oil & Gas (West Firsby) Limited	-	-
Europa Oil & Gas SRL	<u>6,175</u>	<u>5,506</u>
<b>Total</b>	<u><b>6,175</b></u>	<u><b>5,506</b></u>

### **24 Post reporting date events**

On 14 October 2010 the parent company Europa Oil & Gas (Holdings) plc announced the placing of 13,360,810 new shares at 11 5p, raising £1,452,000 net of fees.

### **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 11 The Chambers, Vineyard, Abingdon, OX14 3PX.