Annual Report and Financial Statements
EUROPA OIL & GAS LIMITED

For the Year Ended 31 July 2017

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

Directors' report

The directors present their report and the audited financial statements for the year ended 31 July 2017.

Principal activities

Europa Oil & Gas Limited's ("Europa") business comprises three core strands: production, appraisal and exploration and these activities take place in the UK.

Licence interests table

Country	Area	Licence	Field/ Prospect	Operator	Equity	Status
UK	East Midlands	DL 003	West Firsby	Europa	100%	Production
		DL 001	Crosby Warren	Europa	100%	Production
		PL 199/215	Whisby-4	BPEL	65%	Production
		PEDL180	Wressle	Egdon	30%[1]	Development
		PEDL181		Europa	50%	Exploration
		PEDL182	Broughton North	Egdon	30%[2]	Exploration
		PEDL299	Hardstoft	Ineos	25%	Field rejuvenation
		PEDL343	Cloughton	Third Energy	35%	Appraisal
	Weald	PEDL143	Holmwood	Europa	20%	Exploration
	SNS	Block 41/24	Maxwell	Europa	50%	Promote

Business review

UK Onshore Production

East Midlands: West Firsby; Crosby Warren; Whisby-4

The Company produces from three oilfields in the East Midlands: a 100% working interest in both the West Firsby and Crosby Warren fields and a 65% non-operated interest in the Whisby-4 well. As these are mature oil fields, total production declined in line with expectations. During the year to 31 July 2017, 113 boepd were recovered (2016: 123 boepd). All the oil is transported by road to the Immingham refinery.

UK - Development

East Midlands: PEDL180 (Wressle); PEDL182 (Broughton North)

PEDL180 holds the Wressle oil discovery which lies 5km southeast of, and along the same structural trend as, Europa's producing evaluation of measurement whilst drilling ('MWD') log data indicated over 30 metres measured thickness of potential hydrocarbon pay in three main intervals: Ashover Grit; Wingfield Flags; and Penistone Flags. Reservoir engineering analyses indicate an initial production flow rate of 500 bopd gross from the Ashover Grit interval at Wressle.

A CPR issued on 26 September 2016 identified gross 2P reserves on the structure of 0.65 million boe in the Ashover and Wingfield Flags and gross 2C contingent resources of 1.86 million boe in the Penistone Flags. The CPR was undertaken by ERCE Equipoise, which at the same time assigned gross mean un-risked prospective resources of 0.6 million boe and a geological chance of success of 50% to the Broughton North exploration prospect on PEDL182 which lies adjacent and north of PEDL180. In 1984, a well was drilled by BP and discovered oil at Broughton.

[1] Reducing to 20% following the farm-out to Upland

[2] Reducing to 20% following the farm-out to Upland

Directors' report (continued)

Business review (continued)

During the period, Europa sold a 3.34% working interest in PEDLs180 & 182 to Union Jack Oil & Gas ('UJO') for a cash consideration of £600,000. On 24 November 2016, Europa agreed the sale of a further 10% interest in the two licences to Upland for a total consideration of up to £1.85 million. The transaction implies a value of up to £3.7 million for Europa's remaining 20% interest in the licences. Completion of the sale to Upland is subject to planning, and Field Development Plan ('FDP') approvals. The FDP was submitted to the OGA on 8 September 2016. In January 2017, Lincolnshire County Council refused to grant planning consent. The partners announced their intention to appeal and at the same time file a new application which included more detailed information to address the specific concerns outlined by the Council. In July 2017, this second application was refused by the County Council's Planning Committee.

As with the first refusal, the decision of the Committee went against the positive recommendation of the County Council's Planning Officer, which was determined after an extensive and thorough review of an augmented planning application.

The partners moved forward with the appeal against the January and July 2017 determinations, which was to be heard by the Planning Inspectorate in November 2017. A decision is expected in early January. The partners remain confident that planning consent will be granted and that Wressle will be brought into production.

UK – Exploration

Weald Basin: PEDL143 (Holmwood)

PEDL143 is located in the Weald Basin, Surrey and contains the Holmwood conventional oil prospect, which is predicted to have the same conventional Jurassic sandstone and limestone reservoirs that have been proven to be productive at the nearby Brockham oil field and at the Horse Hill oil discovery. In a CPR dated June 2012, ERCE Equipoise assigned Holmwood gross mean prospective resources of 5.6 million boe with a range of 1 to 11 million boe. At 5.6 million boe, Holmwood would become the fifth largest onshore oil field in the UK. Planning permission has been granted to drill a temporary exploratory borehole to a depth of 1,400 metres. Europa is working to discharge the remaining conditions before commencing drilling operations at Holmwood in 2018. Following the exploration success at Horse Hill 8km to the East, Europa rates the geological chance of success at Holmwood as 1 in 2.

During the period, Europa agreed to farm-out a 12.5% interest in PEDL143 to Angus Energy. Thanks to earlier farm out activity, Europa's remaining 20% share of the exploration well costs at Holmwood will be fully carried up to a cap of £3.2 million. Europa is partnered in the licence with UK Oil & Gas Investments plc 30%, Egdon Resources 18.4%, Angus Energy 12.5%, Warwick Energy 10%, UJO 7.5% and Altwood Petroleum 1.6%.

Aside from Holmwood, there is ongoing exploration and development activity in the Weald Basin, the results of which will be relevant to Holmwood. The Horse Hill discovery in PEDL137 lies 8km to the east of and along-strike in a very similar geological structure to Holmwood. Correlation of seismic data indicates that the Holmwood well will penetrate a similar stratigraphic section to Horse Hill which produced at a rate of 323 bopd over an 8.5-hour period from Portland sandstone reservoirs, a well-known producing reservoir in the Weald basin. In addition to the Portland, Horse Hill produced a combined 1,365 bopd from two micritic limestone formations in the Kimmeridge section over a period of up to 7.5 hours. As well as increasing the geological chance of success on the Portland sandstone reservoir at Holmwood, Horse Hill has opened up the Kimmeridge limestone as an exciting new play in the Weald Basin, one which we believe is also present at Holmwood.

The Kimmeridge has also been identified in the Brockham field, which lies 5km to the north of Holmwood. Following OGA consent of the Field Development Plan, the operator, Angus Energy, intends to bring the Kimmeridge limestone reservoir into production from the Brockham-X4Z well. In addition, the Kimmeridge is due to be tested at the Broadford Bridge well in PEDL 234, which encountered a thick sequence of Kimmeridge with five limestone intervals. The limestones were cored and found to have live light oil seeping at surface. The operator, UKOG, intends to conduct an extended well test ('EWT') of Kimmeridge limestone, which will go some way to determining the amount of connected volume of the Kimmeridge that can be accessed by a well, and, importantly, if this is sufficient to enable commercial production.

Directors' report (continued)

Business review (continued)

East Midlands: PEDL299 (Hardstoft)

The Hardstoft oil field was discovered in 1919 by the UK's first ever exploration well and produced 26,000 barrels of oil from Carboniferous limestone reservoirs. A CPR issued by joint venture partner Upland, identified gross 2C contingent resources of 3.1 million boe and gross 3C contingent resources of 18.5 million boe at Hardstoft. Production testing methodologies for carbonate reservoirs have evolved since 1919, which it is hoped will lead to commercial oil flowrates being achieved.

During the period, Europa acquired Shale Petroleum, which resulted in the Company's interest in the licence increasing from 16.66% to 33.33%. This has subsequently been reduced following the reassignment of an 8.33% interest in the licence to existing partner Upland. As a result, Europa's interest in PEDL299, which is restricted to the conventional prospectivity, now stands at 25%, alongside Upland 25% and INEOS, the operator, 50%.

Cleveland Basin: PEDL343 (Cloughton)

PEDL343 is operated by Third Energy and contains the Cloughton gas discovery made by Bow Valley. An exploration well was drilled in 1986 and flowed a small amount of gas to surface on production test from Carboniferous sandstone reservoirs. Europa regards Cloughton as a gas appraisal opportunity with the critical challenge being to obtain commercial flowrates from future production testing operations.

The acquisition of Shale Petroleum increased the Company's equity in PEDL343 to 45% from 22.5%. This has subsequently been reduced to 35% following the assignment of a 10% interest to existing partner Arenite Petroleum Limited ('Arenite'). Europa holds a 35% interest in PEDL343 alongside Arenite 15%, Third Energy 20%, Egdon Resources 17.5% and Petrichor Energy 12.5%.

Southern North Sea: Block 41/24

This is a promote licence over Block 41/24 in the Southern North Sea to a joint venture comprising Europa and Arenite. The licence was awarded as part of the 28th Seaward Licensing Round. Block 41/24 adjoins the Yorkshire coast and contains the Maxwell gas field which was discovered in Permian Zechstein carbonates by Total with the drilling of offshore well 41/24a-1 in 1969. Two follow-up appraisal wells: 41/24a-2 drilled by Total (1981) and 41/24-3 by Conoco (1992) targeted this fractured Zechstein carbonate reservoir and flowed gas and condensate. The exploration emphasis of the licence is to address the Carboniferous prospectivity in the Namurian and Dinantian sequences. The adjoining onshore extension of the Cleveland basin contains a number of gas fields and discoveries including Kirby Misperton, Ebberstone Moor and Cloughton.

Post the reporting date, the licence was sold to Egdon Resources for a consideration comprising the immediate reimbursement of the 2017 licence rental, OGA Levy and vendors' legal costs (c. £15,000 in total) and future staged payments that have the potential to total £1.45million gross contingent consideration on the successful completion of various potential exploration activities and/or on reaching certain production milestones, as summarised below:

- £50,000 cash payment on completion of the acquisition of a 3D survey over any part of the Licence
- £100,000 cash payment on completion of the drilling of the first well located wholly or partly within the area covered by the Licence
- £100,000 cash payment on first production, other than testing, from any well located wholly or partly within the area covered by the Licence
- £200,000 cash payment on reaching a total production of 5 billion standard cubic feet of gas ('bcf') (or oil equivalent) from any wells located wholly or partly within the area covered by the Licence
- £1,000,000 cash payment on reaching a total production of 20 bcf (or oil equivalent) from any wells located wholly or partly within the area covered by the Licence

The transfer of interest in P2304 from Europa to Egdon is subject to OGA approval.

Directors' report (continued)

East Midlands: PEDL181

The licence provides exposure to the hydrocarbon potential of the Humber basin. It has technical synergy with the adjacent PEDL334 which was awarded to an Egdon Resources led group in the 14th Round for the purpose of conventional and unconventional exploration.

Results for the year and dividends

The Company loss for the year after taxation was £721,000 (2016: (£757,000). The directors do not recommend the payment of a dividend (2016: £nil).

Directors

The directors who served during the year were as follows:

P Greenhalgh
HGD Mackay

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.

Primary risks and uncertainties

A full discussion of risks and uncertainties is included in the accounts of the parent and ultimate controlling company Europa Oil & Gas (Holdings) plc.

Strategic report

The directors have taken advantage of the exemption not to present a Strategic Report in accordance with section 414B of the Companies Act 2006.

Key performance indicators

At its regular meetings, the Board closely monitors production rates, costs and progress with all the licences in which the Group has interests.

Financial instruments

See note 21 to the financial statements.

Related party transactions

See note 24 to the financial statements.

Post reporting date events

Details of post reporting date events are included in note 25 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 next Annual General Meeting.

This report has been prepared in accordance with the special provisions applicable to companies subject to the small companies' regime within Part 15 of the Companies Act 2006.

Directors' report (continued)

Approved by the Board of directors and signed on behalf of the Board on 15 December 2017

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 auditor

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

Opinion

We have audited the financial statements of Europa Oil & Gas Limited ("the Company") for the year ended 31 July 2017 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 July 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Report of the independent auditor (continued)

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Director's report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.; or
- the Directors were not entitled to take advantage of the small companies' exemptions in preparing the Strategic report.

Responsibilities of Directors

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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Report of the independent auditor (continued)

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:

https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

J I Draycott

Jack Draycott, Senior Statutory Auditor
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
15/12/2017

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	Note	2017 £000	2016 £000
Revenue	2	**1,569**	1,269
Cost of sales		**(1,496)**	(1,318)
Gross profit/(loss)		**73**	(49)
Administrative expenses		**(278)**	(379)
Finance income	7	**6**	60
Finance expense	8	**(701)**	(650)
Loss before taxation	3	**(900)**	(1,018)
Taxation	9	**179**	261
Total comprehensive loss for the year		**(721)**	(757)

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

Statement of financial position

As at 31 July	Note	2017 £000	2016 £000
Assets			
Non-current assets			
Intangible assets	10	**3,653**	3,715
Property, plant and equipment	11	**806**	974
Loans to group companies	14	**376**	243
Deferred tax asset	17	**383**	204
Total non-current assets		**5,218**	5,136
Current assets			
Inventories	13	**14**	23
Trade and other receivables	14	**731**	201
Cash and cash equivalents		**728**	468
Total current assets		**1,473**	692
Total assets		**6,691**	5,828
Liabilities			
Current liabilities			
Trade and other payables	15	**(745)**	(300)
Current tax liabilities		-	(148)
Total current liabilities		**(745)**	(448)
Non-current liabilities			
Long-term borrowings	16	**(13,217)**	(12,159)
Long-term provisions	18	**(2,570)**	(2,346)
Total non-current liabilities		**(15,787)**	(14,505)
Total liabilities		**(16,532)**	(14,953)
Net liabilities		**(9,841)**	(9,125)
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	**(13,109)**	(12,393)
Total equity		**(9,841)**	(9,125)

These financial statements have been prepared under the small company's accounting regime and were approved by the Board of directors on 15 December 2017 and 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

	Share capital £000	Share premium £000	Retained deficit £000	Total equity £000
Balance at 1 August 2015	2	3,266	(11,639)	(8,371)
Total comprehensive loss for the year	-	-	(757)	(757)
Share based payment	-	-	3	3
Balance at 31 July 2016	**2**	**3,266**	**(12,393)**	**(9,125)**

	Share capital £000	Share premium £000	Retained deficit £000	Total equity £000
Balance at 1 August 2016	2	3,266	(12,393)	(9,125)
Total comprehensive loss for the year	-	-	(721)	(721)
Share based payment	-	-	5	5
Balance at 31 July 2017	**2**	**3,266**	**(13,109)**	**(9,841)**

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

Statement of cash flows

For the year ended 31 July	Note	2017 £000	2016 £000
Cash flows used in operating activities			
Loss from operations		**(721)**	(757)
Adjustments for:			
Share based payments	20	**5**	3
Depreciation	11	**173**	176
Finance income	7	**(6)**	(60)
Finance expense	8	**701**	650
Taxation credit	9	**(179)**	(261)
Decrease/(increase) in inventories		**9**	(9)
(Increase)/decrease in trade and other receivables		**(39)**	114
Increase/(decrease) in trade and other payables		**165**	(118)
Cash generated/(used in) operations		**108**	(262)
Income taxes paid		**(144)**	-
Net cash used in operating activities		**(36)**	**(262)**
Cash flows used in investing activities			
Purchase of property, plant and equipment		**(5)**	-
Purchase of intangible assets		**(749)**	(934)
Sale of part interest in licence		**600**	-
Loans to subsidiary companies		**(133)**	(122)
Interest received		**2**	-
Net cash used in investing activities		**(285)**	(1,056)
Cash flows from financing activities			
Receipt of borrowings		**598**	1,005
Interest paid		**(2)**	(2)
Net cash from financing activities		**596**	1,003
Net increase/(decrease) in cash and cash equivalents		**275**	(315)
Exchange gain on cash		**(15)**	54
Cash and cash equivalents at beginning of year		**468**	729
Cash and cash equivalents at end of year		**728**	468

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 2017.

Going concern

Given the continuing cash inflow from the Company's producing assets and the firm expectation of cash inflow from development assets, the Directors have concluded, 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. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

Future changes in accounting standards

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

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

IFRS 15 is intended to introduce a single framework for revenue recognition and clarify principles of revenue recognition. This standard modifies the determination of when to recognise revenue and how much revenue to recognise. The core principle is that an entity recognises revenue to depict the transfer of promised goods and services to the customer of an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company is currently completing an assessment of the new standard based on the existing arrangements at their operations.

IFRS 16 introduces a single lease accounting model. This standard requires lessees to account for all leases under a single on-balance sheet model. Under the new standard, a lessee is required to recognise all lease assets and liabilities on the balance sheet; recognise amortisation of leased assets and interest on lease liabilities over the lease term; and separately present the principal amount of cash paid and interest in the cash flow statement. The Company is currently assessing the impact of this standard.

IFRS 9 will replace existing accounting Standards in relation to Financial Instruments. It is applicable to financial assets and liabilities and will introduce changes to existing accounting concerning classification, measurement and impairment (introducing an expected loss method). The Company is currently assessing the impact of IFRS 9.

The Company will adopt the above Standards at the time stipulated by that Standard. The Company does not at this time anticipate voluntary early adoption of any of the Standards.

Notes to the financial statements (cont'd)

1 Accounting Policies (cont'd)

Future changes in accounting standards (cont'd)

		Effective date (periods beginning on or after)
IFRS 9	Financial instruments	1 Jan 2018
IFRS 15	Revenue from Contracts with Customers	1 Jan 2018
IFRS 16	Leases	1 Jan 2019
IAS 7	Disclosure initiative	1 Jan 2017
IAS 12	Recognition of deferred tax assets for unrealised losses	1 Jan 2017

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 financial position.

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-production assets are classified as intangible assets on the statement of financial position. 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 tested for impairment prior to transfer 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 disclosed in notes 10 and 11. 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.

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 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 cost pool. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

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 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 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 finance expense.

Acquisitions of Exploration Licences

Acquisitions of Exploration Licenses through acquisition of non-operational corporate structures that do not represent a business, and therefore do not meet the definition of a business combination, are accounted for as the acquisition of an asset. Related future consideration that is contingent is not recognised as an asset or liability until the contingent event has occurred.

Taxation

Current tax is the tax payable based on taxable profit/(loss) for the year.

Notes to the financial statements (continued)

1 Accounting Policies (continued)

Taxation (continued)

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 statement of comprehensive income, 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 statement of comprehensive income 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 statement of comprehensive income.

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.

Notes to the financial statements (continued)

1 Accounting Policies (continued)

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 and short-term bank deposits with an original maturity of three months or less.

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:

Other financial liabilities.

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.

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 Group 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 Group 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

During the current and prior year the Company did not have any finance leases. All leases are regarded as operating leases and the payments made under them are charged to the statement of comprehensive income on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

Inventories

Inventories comprise oil in tanks stated at the lower of cost and net realisable value. Cost is determined by reference to the actual cost of production in the period.

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 statement of comprehensive income 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 statement of comprehensive income of the subsidiary.

In the parent company accounts there is an increase in the cost of the investment in the subsidiary receiving the benefit.

Notes to the financial statements (continued)

1 Accounting Policies (continued)

Share-based payments (continued)

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.

Upon exercise of share options the proceeds received, net of attributable transaction costs, are credited to share capital and, where appropriate, share premium.

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 with reference to indiators of impairment as set out in IFRS 6. Based on these estimates at 31 July 2017, no impairment is required.
- Carrying value of property, plant and equipment (note 11) – carrying values are justified by reference to future estimates of cash flows, discounted at appropriate rates.
- Deferred taxation (note 17) – assumptions regarding the future profitability of the Company and whether the deferred tax assets will be recovered.
- Decommissioning provision (note 18) – inflation and discount rate estimates (2% and 10% respectively) are used in calculating the provision, along with third party estimates of remediation costs.
- Share-based payments (note 20) – various estimates, referenced to external sources where possible, are used in determining the fair value of options.

2 Operating segment analysis

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

In the opinion of the Directors the Company has one reportable segments being the UK. The Béarn des Gaves asset in France was written down in 2016. 100% of the total revenue (2016: 100%) relates to UK based customers. Of this figure, one single customer (2016: one) commands more than 99% of the total.

Income statement for the year ended 31 July 2017

	UK	France	Total
	£000	£000	£000
Revenue	1,569		1,569
Cost of sales	(1,496)	-	(1,496)
Gross profit	**73**	**-**	**73**
Administrative expenses	(278)	-	(278)
Finance income	2	-	2
Finance costs	(697)	-	(697)
Loss before tax	**(900)**	**-**	**(900)**
Taxation	179	-	179
Loss for year	**(721)**	**-**	**(721)**

Notes to the financial statements (continued)

2 **Operating segment analysis (cont'd)**

Segmental assets and liabilities as at 31 July 2017

	UK	France	Total
	£000	£000	£000
Non-current assets	5,218	-	5,218
Current assets	1,473	-	1,473
Total assets	**6,692**	**-**	**6,692**
Non-current liabilities	(15,788)	-	(15,788)
Current liabilities	(745)	-	(745)
Total liabilities	**(16,532)**	**-**	**(16,532)**
Other segment items			
Capital expenditure	854	-	854
Depreciation	173	-	173
Share based payments	5	-	5

Income statement for the year ended 31 July 2016

	UK	France	Total
	£000	£000	£000
Revenue	1,269		1,269
Cost of sales	(1,318)	-	(1,318)
Gross loss	**(49)**	**-**	**(49)**
Administrative expenses	(360)	(19)	(379)
Finance income	60	-	60
Finance costs	(650)	-	(650)
Loss before tax	**(999)**	**(19)**	**(1,018)**
Taxation	261	-	261
Loss for year	(738)	(19)	(757)

Segmental assets and liabilities as at 31 July 2016

	UK	France	Total
	£000	£000	£000
Non-current assets	5,136	-	5,136
Current assets	692	-	692
Total assets	**5,828**	**-**	**5,828**
Non-current liabilities	(14,505)	-	(14,505)
Current liabilities	(448)	-	(448)
Total liabilities	**(14,953)**	**-**	**(14,953)**
Other segment items			
Capital expenditure	934	-	934
Depreciation	176	-	176
Share based payments	6	-	6

Notes to the financial statements (continued)

3 **Loss before taxation**

Loss from continuing operations is stated after charging:

	2017	2016
	£000	£000
Depreciation	**173**	176
Staff costs including directors (note 5)	**214**	221
Fees payable to the auditor	**32**	29
Operating leases	**40**	40
Amount of inventory recognised as an expense	**9**	(11)
Foreign exchange loss	**15**	(60)

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

	2017	2016
	£000	£000
All directors	**-**	-

The emoluments of the directors were borne by another Group company and it is not possible to apportion the cost of this remuneration relevant to services rendered to Europa Oil and Gas Limited.

5 **Employee information**

Average number of employees including directors	2017	2016
	Number	Number
Field exploration and production	**4**	4
	4	4

Staff costs

	2017	2016
	£000	£000
Wages and salaries	**164**	170
Employer's costs	**22**	22
Pensions	**23**	26
Share based payments	**5**	3
	214	221

6 **Key management personnel**

The emoluments of the key management personnel were borne by another Group company and it is not possible to apportion the cost of this remuneration relevant to services rendered to Europa Oil and Gas Limited. The Company did not provide any benefits or post-retirement benefits to the key management personnel.

7 **Finance income**

	2017	2016
	£000	£000
Interest receivable	**2**	-
Interest receivable on tax	**4**	-
Foreign exchange gains	**-**	60
	6	60

Notes to the financial statements (continued)

8 Finance expense

	2017	2016
	£000	**£000**
Loan interest payable	**460**	439
Unwinding of discount on decommissioning provision (note 18)	**224**	202
Foreign exchange losses	**15**	-
Interest on tax payment	**-**	7
Bank charges	**2**	2
	701	650

9 Taxation

	2017	2016
	£000	**£000**
Deferred tax movement (note 17)	**(179)**	(261)
Tax credit	**(179)**	(261)

UK corporation tax is calculated at 30% (2016: 30%) of the estimated assessable profit for the year being the applicable rate for a ring-fence trade excluding the Supplementary Charge of 20% (2016: 20%).

	2017	2016
	£000	**£000**
Total loss before tax	**(900)**	(1,018)
Tax reconciliation		
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2016: 30%)	**(270)**	(305)
Expenses not deductible for tax purposes	**2**	1
Other reconciling items including Supplementary Charge	**89**	43
Total tax charge	**(179)**	(261)

10 Intangible assets

	2017	2016
	£000	**£000**
At 1 August	**3,715**	3,227
Additions	**538**	488
Disposals Sale of 3.34% interest in PEDL180 and PEDL182	**(600)**	-
At 31 July	**3,653**	3,715

During the year the Company sold 3.34% of its interest in both PEDL180 and PEDL182 to Union Jack Oil for £600k. The sale of a further 10% interest in PEDL180 and PEDL182 to Upland was not completed in the period and as the £160,000 received is potentially repayable, it is reported in "Other Payables" in note 15.

Notes to the financial statements (continued)

10 Intangible assets (cont'd)

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

	2017	2016
	£000	£000
UK PEDL 143 (Holmwood)	**913**	732
UK PEDL 180 (Wressle)	**2,532**	2,676
UK PEDL 181	**61**	48
UK PEDL 299 (Hardstoft)	**12**	-
UK PEDL 182 (Broughton)	**25**	223
UK PEDL 348 (Cloughton)	**69**	5
UK Block 41/24	**41**	31
Total	**3,653**	**3,715**

The drilling of an exploration well at Holmwood and developing the discovery at Wressle are subject to the securing of certain planning permissions. If these are not secured then the PEDL143 and PEDL180 intangible assets disclosed above will be impaired. If the Company is not able to or elects not to continue in any other licence, then the impact on the financial statements will be the impairment of some or all of the intangible assets disclosed above. Further details of the commitments are included in note 22.

11 Property, plant and equipment

Producing fields

	2017	2016
	£000	£000
Cost		
At 1 August	**10,580**	10,580
Additions	**5**	-
At 31 July	**10,585**	10,580
Depreciation and depletion		
At 1 August	**9,606**	9,430
Charge for year	**173**	176
Impairment	**-**	-
At 31 July	**9,779**	9,606
Net Book Value		
At 1 August	974	1,150
At 31 July	**806**	974

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 interest in the Whisby W4 well, representing three of the Company's cash generating units.

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 discounted cash flow model with production decline rates of 7-8%, Brent crude prices rising from US$56 per barrel in 2018 to US$71 in 2021 and a pre-tax discount rate of 21%. The pre-tax discount rate is derived from a post-tax rate of 10%, and is high because of the applicable rate of tax in the UK. Cash flows were projected over the expected life of the fields which is expected to be longer than 5 years. There was no impairment in the year (2016: no impairment).

Notes to the financial statements (continued)

11 Property, plant and equipment (cont'd)

Sensitivity to key assumption changes
Variations to the key assumptions used in the value-in-use calculation would cause impairment of the producing fields as follows:

	Impairment of producing fields £000
Production decline rate (current assumption 7-8%)	
20%	-
30%	27
Brent crude price per barrel (current assumption US$54/bbl in 2016 rising to US$74 in 2020)	
10% reduction in the assumed forward price	76
20% reduction in the assumed forward price	247

12 Investments

Investment in subsidiaries	**£000**
31 July 2017 and 31 July 2016	-

The Company owns 100% of the ordinary share capital of Europa Oil & Gas Resources Limited (this UK company is non-trading). On 12th August 2016, the Company acquired 100% of the ordinary share capital of Europa Oil & Gas (UK) Limited which held 22.5% interest in the UK licence PEDL343. The interest in PEDL 343 was transferred to Europa Oil & Gas Limited and Europa Oil & Gas (UK) Limited is non trading.

13 Inventories

	2017 £000	**2016 £000**
Oil in tanks	**14**	23

14 Trade and other receivables

Current trade and other receivables	**2017 £000**	**2016 £000**
Trade receivables	**612**	120
Other receivables	**88**	35
Prepayments and accrued income	**31**	46
	731	201
Non current receivables		
Owed by Group undertakings	**376**	243

15 Trade and other payables

	2017 £000	**2016 £000**
Trade payables	**708**	260
Accruals and deferred income	**37**	40
	745	300

Notes to the financial statements (continued)

16 Borrowings

	2017	2016
Loans repayable in 2 to 5 years	£000	£000
Loan from parent	**13,197**	12,159
Intercompany balance with subsidiary	**20**	-
Total long term borrowing	**13,217**	12,159

The loan from the parent company represents borrowings against a facility put in place on 21 July 2008 with Europa Oil & Gas (Holdings) plc. The loan is unsecured and there is no scheduled repayment date.

17 Deferred Tax

	2017	2016
Recognised deferred tax liability:	£000	£000
As at 1 August	**(204)**	57
Credited to income statement	**(179)**	(261)
At 31 July	**(383)**	(204)

The Company has a deferred tax liability of £1,542,000 (2016: £1,487,000) arising from accelerated capital allowances and a deferred tax asset of £1,925,000 (2016: £1,691,000) arising from trading losses which will be utilised against future taxable profits. These have been offset against each other resulting in the total net asset of £383,000 (2015: £204,000). This offsetting is required because the Group settles current tax assets and liabilities on a net basis.

The Company has a net deferred tax asset of £3,518,000 (2016: £3,343,000) which arises mainly in relation to non ring-fence UK trading losses of £11.7 million (2016: £11.9 million), that has not been recognised in the accounts as the timing of the utilisation of the losses is considered uncertain.

18 Provisions

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.

	2017	2016
Long-term provisions	£000	£000
As at 1 August	**2,346**	2,144
Charged to the statement of comprehensive income	**224**	202
At 31 July	**2,570**	2,346

19 Called up share capital

	2017	2016
	£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 (2016: 19,344)	2	2

All the authorised and allotted shares are of the same class and rank pari passu.

Notes to the financial statements (continued)

19 Called up share capital (cont'd)

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.

20 Share based payments

There are 760,000 ordinary 1p share options in Europa Oil and Gas (Holdings) plc (2016: 680,000) held by employees of the Company. .

The fair value of these 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	13 June 2017	13 July 2016
Number of options	160,000	160,000
Share price at grant	6.2p	3.75p
Exercise price	8p	6.5p
Volatility	60%	75%
Dividend yield	nil	nil
Risk free investment rate	0.29%	0.41%
Option life (years)	6	6
Fair value per share	1.94p	1.9p

The 2017 granted options vest if the share price is above 10p for 30 days and expire on the 10th anniversary of the grant date. (2016 granted options are exercisable 12 months after grant, with no further vesting conditions)

Volatility is 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 £5,000 (2016: £3,000).

	2017 Number of options	2017 Average exercise price	2016 Number of options	2016 Average exercise price
Outstanding at the start of the year	680,000	11.7p	600,000	12.8p
Outstanding at the end of the year	760,000	9.55p	680,000	11.7p
Exercisable at the end of the year	546,664	11.8p	413,334	14.5p

The weighted average remaining contractual life of share options outstanding at the end of the period was 6.2 years (2016: 6.2 years).

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.

Notes to the financial statements (continued)

21 **Financial instruments (cont'd)**

Credit risk

The Company is exposed to credit risks as it 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 2017 trade receivables were £612,000 representing one month of oil revenue and receivables due from project partners (2016: £120,000). 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 £155,000 (2016: £140,000).

Liquidity risk

The Company currently has no overdraft or overdraft facility with its bankers.

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 2017	**Trade and other payables £000**	**Long term borrowings £000**
6 months or less	745	-
2-5 years	-	13,217
Total	745	13,217
At 31 July 2016		
6 months or less	300	-
6-12 months	-	12,159
Total	300	12,159

Trade and other payables do not normally incur interest charges. Borrowings bear interest at variable rates. There is no difference between the fair value of trade and other payables and their carrying amount.

Interest rate risk

The Company has interest bearing liabilities.

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 Loss Before Taxation (LBT) to such movements in oil price. There would be a corresponding increase or decrease in net assets.

Oil price	**Month**	**2017 Price $/bbl**	**2017 LBT £000**	**2016 Price $/bbl**	**2016 LBT £000**
Highest	Feb 17	**54.1**	**(703)**	47.3	(708)
Average		**49.0**	**(869)**	41.5	(901)
Lowest	Nov 16	**44.1**	**(1,029)**	30	(1,284)

Notes to the financial statements (continued)

21 Financial instruments (cont'd)

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 LBT to movements in US Dollar exchange.

		2017	2017	2016	2016
		Rate	**LBT**	**Rate**	**LBT**
US Dollar	**Month**	**$/£**	**£000**	**$/£**	**£000**
Highest	Jul 17	**1.318**	**(925)**	1.544	(1,096)
Average		**1.272**	**(869)**	1.452	(1,021)
Lowest	Oct 16	**1.221**	**(802)**	1.327	(902)

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.

	2017	2016
Currency	**£000**	**£000**
Euro	**-**	(26)
US Dollar	**735**	702
Total	**735**	676

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 Capital and operating lease commitments

At the reporting date, the Company had a contractual commitment to drill a well on PEDL143 (Holmwood) before September 2018. Europa's share of the well cost is expected to be £0.2 million. For PEDL299 (Hardstoft) and PEDL343 (Cloughton) there is a commitment to acquire seismic and Europa's share of combined cost is expected to be £0.9 million.

If the Company is not able to raise funds, farm-down, or extend licences; or elects not to continue in an exploration licence, then the impact on the financial statements will be the impairment of the relevant intangible asset disclosed in note 10.

23 Operating lease commitments

The Company pays annual site rentals 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 terminated upon giving two months' notice. The annual cost is currently £20,000 (2016: £20,000) and increases annually in line with the retail price index. The Crosby Warren lease runs until December 2022 and can be terminated on three months' notice. The annual cost is currently £20,000 (2016: £20,000).

Future minimum lease payments are as follows:

	2017	2016
	£000	£000
Less than 1 year	**40**	40
2-5 years	**160**	160
5+ years	**-**	40
Total	**200**	240

Notes to the financial statements (continued)

24 Related party transactions

The Company received services from its parent Europa Oil & Gas (Holdings) plc to the value of £1,165,000 (2016: £1,129,000). 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:

	2017 £000	2016 £000
Europa Oil & Gas (Holdings) plc	**13,197**	12,159
Europa Oil & Gas (UK) Ltd	**20**	-
	13,217	12,159
Comprising:		
Loans (note 15)	**13,217**	12,159

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 subsidiaries:

	2017 £000	2016 £000
Europa Oil & Gas (Ireland West) Limited	**110**	63
Europa Oil & Gas (Ireland East) Limited	**266**	180
Total	**376**	243

Provision against balance owed by fellow subsidiaries

	2017 £000	2016 £000
Balance of provision at 1 August	7	7
Provision made in the year	-	-
Loan fully written off on disposal of subsidiary	-	-
Total at 31 July	7	7

25 Post reporting date events

- In September 2017 we announced an extension to the date by which the conditions of the Upland agreed sale of 10% interest in Wressle are to be satisfied to 28 February 2018.
- In October 2017 Surrey County Council approved a security fence at the Holmwood site but deferred a decision on traffic conditions.
- In December 2017 we announced the sale of interest in P2304 to Egdon.

26 Ultimate parent undertaking

The parent company and ultimate and immediate 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.