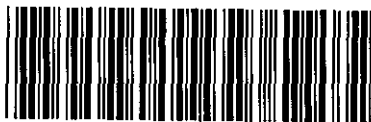


**EUROPA OIL & GAS LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 JULY 2006**

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# EUROPA OIL & GAS LIMITED

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# **EUROPA OIL & GAS LIMITED**

## **DIRECTORS AND ADVISERS**

DIRECTORS	P A Barrett E S Syba
SECRETARY	E S Syba
REGISTERED OFFICE	25 Moorgate London EC2R 6AY
BANKERS	Royal Bank of Scotland Plc 1 Albyn Place Aberdeen AB10 1BR
AUDITORS	Nexia Smith & Williamson Chartered Accountants 25 Moorgate London EC2R 6AY
SOLICITORS	Stringer Saul 17 Hanover Square London W1S 1HU
COMPANY'S REGISTERED NUMBER	3093716

# **EUROPA OIL & GAS LIMITED**

## **DIRECTORS' REPORT**

The directors present their report and audited financial statements for the year ended 31 July 2006.

### **Activities**

The principal activity of the Company is that of oil and gas exploration, development and production. The Company's assets and activities are currently in the UK, Romania, Ukraine, Poland, Egypt and the Western Sahara. The Board has considered and will continue to consider investments in Europe and the North Africa region.

### **Review of business**

#### **United Kingdom**

Europa operates a number of licences in the UK. The core UK producing area for the company is in the East Midlands Oil Province, where the oil producing asset, Whisby, is performing better than expected showing a lower decline rate in oil production than forecast.

Also in the East Midlands, the Company holds an operated interest in the PEDL150 licence, near to the Whisby Field, where progress has been made on maturing prospectivity. The newly reprocessed seismic dataset across the licence has led to the high-grading of four exploration leads which will be targeted by a new seismic programme, expected to be acquired in February 2007, leading the directors to anticipate drilling an exploration well in mid-2007.

The Company entered into a Sale and Purchase Agreement to acquire 100% of the Crosby Warren Oilfield in October 2006. The field, situated north of Whisby, is producing from a single well at variable rates of between 30 and 100 bopd. A programme of site improvement and well optimisation is planned over the coming months, during which time the field will be assessed for further production well drilling.

Work has continued on securing planning permission for the Holmwood-1 exploration well, situated in Surrey. Surrey County Council requested the group undertake a full Environmental Impact Assessment, which is nearly complete. This will form part of the planning application and the directors are hoping to be in a position to drill this well in 2007.

Offshore UK, the company has continued to work, in conjunction with the Peak Group, to plan the drilling of a well in late 2007 on Europa's P1131 licence, which will be an appraisal of the 41/24 gas condensate discovery in the UK Southern North Sea. Rig availability and day rates have become a significant issue in the North Sea and the Directors hope to be able to issue an update on this well in the coming year.

#### **Romania**

In Romania, the Company holds exploration and production interests in four large blocks in the Eastern Carpathians, totaling a gross area of 4,925 km<sup>2</sup> (1.2 million acres). All of these blocks have seen significant activity in the last 12 months, Europa having participated in one exploration well, the commissioning of gas production facilities and several seismic acquisition programmes.

Europa and its partners in the Brodina Block (EIII-1, 28.75%) spent a large part of the last 12 months constructing the Bilca Production Facilities. These facilities will process production from the three gas wells drilled by Europa and its partners in 2004 and 2005 – Bilca-1, Bilca-2 and Fratauti-1. First gas production was achieved on the 27 September 2006 and the project is expected to yield gross production volumes of 200mcm/d (c.1,200boepd) initially, rising to 300mcm/d (c.1,800boepd) after 6 months.

## **EUROPA OIL & GAS LIMITED**

### **DIRECTORS' REPORT (continued)**

A large seismic survey, comprising 260km of 2D data, was undertaken in 2006 over a large area of the Bilca play fairway previously lacking seismic coverage. Initial results are very encouraging and it is likely that an exploration well will be planned in this area for early 2007. A second seismic survey covering the Voitinél lead in the deeper platform play, in the central part of the block, started in August 2006.

Europa participated in the drilling of a deep, challenging, exploration well on Brates Block (EPI-3, 15%), Costisa-1, which encountered gas shows in a sandstone at 1,000m depth, but could not be properly tested for technical reasons. Europa and partner Moravske Naftove Doly (MND) negotiated an extension of the licence to enable this well to be re-entered and tested along with a re-evaluation of the remaining prospectivity on the block. The arrangement gives Europa an operated 80% interest in the eastern part of the block, including Costisa and a 20% interest in the western exploration area. It is hoped the well re-entry can take place in late 2006 or early 2007.

Elsewhere in Romania, your company participated in a further two seismic acquisition programmes, designed to identify drilling locations on known exploration leads. In the Cujeşti Block (EIII-3, 28.75%), a well is anticipated on the Topolita Prospect in 2007, whereas in the Bacău Block (EIII-4, 47.5%), work continues on recently traded seismic data to aid in the choice of drilling location to test the Miocene prospects in the northeast of the block.

### **Ukraine**

In the accounting year, the Company produced 27 boepd net from the Horodok Gasfield pilot production scheme in western Ukraine. The Company is still awaiting government approval for the full-field development licence. Gas production has been delivered to summer storage from early July.

Subsequent to the reporting period, Europa's partners Zahidukrgeolgia, commenced drilling the Horodok-10 step-out well along structural trend in the southern part of the licence and have open-hole tested gas from three zones. One of these gas-bearing zones is present, though has never been tested, in the Horodok Field

The Company is currently evaluating the assets in Ukraine and will be looking to have a definitive conclusion on the forward programme in the next 6 months.

### **New Ventures**

It has been an active year for New Ventures. The Company acquired three new exploration blocks in North Africa, totaling some 85,000 km<sup>2</sup> (21 million acres). The blocks are all located in very large unexplored basins adjacent to petroleum producing areas in Saharan Africa. During the year, the Company made an exclusive application for exploration acreage in the Aquitaine Basin, SW France. This area is adjacent to multi TCF fields and adds quality acreage to our core area of Western and Central Europe.

# EUROPA OIL & GAS LIMITED

## DIRECTORS' REPORT (continued)

### Detailed Asset Review

#### Current Licences

The Company currently has a spread of 13 licence holdings across Europe and North Africa. Europa operates 8 of these projects:

Country	Licence	Interest	Operator	Project	Status at 20 October 2006
UK	P1131	100%	Europa	41/24 & 25 Gas Condensate Project	Pre-Development
	PL199-2 & PL215b	65%*	BPEL	Whisby Oilfield	Production
	PEDL143	40%	Europa	Holmwood Prospect	Exploration
	PEDL150	75%**	Europa	Doddington Area	Exploration
	DL001	100%	Europa	Crosby Warren Field	Subject to Completion
Romania	EIII-1 Brodina	28.75%	Aurelian	Bilca Development	Development
	EIII-3 Cujeidui	28.75%	Aurelian	Topolita Prospect	Exploration
	EIII-4 Bacau	47.50%	Aurelian		Exploration
	EPI-3 Brates	80%/20% ***	Europa	Costisa	Exploration
Ukraine	1915 Horodok	70%	Europa	Horodok Gasfield	Pilot Production
Poland	434,435 454,455	2.5% ORRI	RWE	Ropa	Appraisal
Egypt	West Darag	60%	Europa		Awaiting PSA ratification
Western Sahara	Bir Lehlou	100%	Europa		Awaiting conditions precedent
	Hagounia	100%	Europa		Awaiting conditions precedent

\* Interest in Whisby-4 production.

\*\* After Valhalla seismic acquisition programme. Reduces to 50% if Valhalla funds exploration well.

\*\*\* 80% of eastern area, including Costisa-1. 20% of western and central exploration area.

## **EUROPA OIL & GAS LIMITED**

### **DIRECTORS' REPORT (continued)**

#### **Portfolio Development**

The board has consistently recognised the need for a broad portfolio which gives shareholders a solid production base with exposure to both low and high risk exploration upside. At the end of the financial year, the number of fields in production remained at three with the Bilca Development preparing for production. The Company has also seen several low-risk exploration leads move into the ready-to-drill category in anticipation of the 2007 drilling programme. With the Company's expansion into North Africa, the portfolio now contains an element of true high reward exploration in largely unexplored basins.

#### **United Kingdom**

The United Kingdom remains a core area for the Company where it has extensive experience in both the UK onshore and offshore continental shelf (UKCS). In the short term, the Company is looking to increase production in the UK through both field re-development and acquisition. In the long term, step-change increases in production will be achieved mainly through successful exploration.

Over the next several months, the Company will be undertaking a comprehensive field appraisal programme on its East Midlands producing assets and has recently employed an experienced engineer whose remit is to improve production efficiency in the UK and across the portfolio.

#### **The Whisby Oilfield (PL199-2 & PL215b)**

Europa holds a 65% working interest in the Whisby-4 well (W-4) on the Whisby Field in the East Midlands Oil Province. The well is the only producing well on the field and produced on average 158 bopd gross during the 2006 financial year. This represents a 10% decline from the previous year which is very low and when taking into account the continued low water production, exceeds our expectations.

At 31 July 2006, the W-4 well had produced over 199,000 barrels of oil since Europa drilled the well and brought it onstream in January 2003. A comparison of the W-4 well with the only other two oil producers W-1 and W-3 (now shut-in and abandoned, respectively) show the W-4 well to be consistently producing at significantly higher rates with much lower water cuts. The directors anticipate that the W-4 well will continue its excellent performance.

#### **Doddington (previously Whisby) Exploration Area (PEDL150)**

Europa was awarded the PEDL150 licence in the 12<sup>th</sup> UK Onshore Licensing Round in 2004. The Doddington Exploration Area lies in The East Midlands Petroleum Province adjacent to the Whisby Oilfield.

In October 2005, Europa entered into a farm-out agreement with Valhalla Oil & Gas Ltd. Under this agreement, Valhalla agreed to reprocess the existing seismic dataset and acquire 40km of new 2D seismic, to earn a 25% interest in the licence. Valhalla has an option to earn a further 25% interest by funding 75% of an exploration well.

In May 2006, the seismic dataset reprocessing was completed. A thorough review of the reprocessed seismic was undertaken and integrated with the previous Gore geochemical survey, which had highlighted a number of geochemical anomalies on the acreage. This has now led to the high-grading of several strong structural leads which are to be targeted by a seismic acquisition programme of 60km

## **EUROPA OIL & GAS LIMITED**

### **DIRECTORS' REPORT (continued)**

to bring one or more of them up to drillable status. This seismic programme is in the planning stage and is expected to be acquired in February 2007. Subject to the results of this survey, the directors anticipate an exploration well could be drilled on one of these leads in mid to late 2007.

#### **Holmwood Exploration Acreage (PEDL143)**

Europa, as Operator of a partnership, was awarded PEDL143 licence in the Weald Basin in the 12<sup>th</sup> Onshore Licensing Round in 2004, situated in Surrey and containing the Holmwood Prospect. The Holmwood Prospect is a ready-to-drill anticlinal structure and represents a very low risk prospect with an estimated 1:2 chance of success (Source: Scott Pickford Evaluation, 2004).

The licence is located in an environmentally sensitive area and the partnership recognises the need to take a cautious approach towards all aspects of the planning application submission. This will inevitably lead to a longer time period than otherwise. However, Europa can report that progress is being made in this process. In April 2006, Europa submitted a report and formal request to Surrey County Council for a Screening Opinion on whether a full Environmental Impact Assessment (EIA) would be required. Although the screening checklist did not highlight any specific risks with the drilling plan, Surrey County Council was of the opinion that a full EIA would be required.

Europa is currently finalising the EIA report and is looking to submit it, together with the application for planning permission, to Surrey County Council during the 4<sup>th</sup> quarter 2006. The choice of drillsite, in isolated Forestry Commission land, is part of the overall process of reducing environmental impact of this short exploration programme.

#### **UKCS Blocks 41/24 and 41/25 (P1131)**

Europa was awarded two blocks, Blocks 41/24 and 41/25 in the 21<sup>st</sup> UK Offshore Licensing Round in 2003 located in the Southern Gas Basin. Each of the blocks contains a gas condensate accumulation which flowed gas at rates between 15 and 39 million cubic feet per day and condensate at between 1,000 and 1,440 barrels per day. In October 2005, Europa was approved by the DTI as an Offshore Exploration Operator and the licence was extended until October 2007, before which time Europa is obligated to start drilling operations.

Consequently, the Company has engaged the services of the Peak Group to design and plan an appraisal well on Block 41/24. It is widely known that rig availability has tightened in tandem with increases in rig day rates. As a result, the estimated cost of drilling this well is more than double the 2004 estimate. In order to mitigate against this, the Company has been seeking a partner and discussions are continuing with one UKCS operator on participation in the project.

#### **Romania**

Romania has one of the most important onshore oil and gas regions in Western and Central Europe with proven oil reserves totaling almost 1 billion barrels (Source: EIA). The country has had a long history of oil and gas production and has a considerable infrastructure with gas export routes to Western Europe.

Europa has one of the largest holdings of Romanian licences with a total acreage in 4 licences of some 1.25 million acres. All these licences are within the Carpathian Oil & Gas Province near to and on trend to giant oil and gas fields.

Europa has recently brought onstream two gas discoveries in under 28 months and is an example of the Romanian authorities' positive approach to business.



## **EUROPA OIL & GAS LIMITED**

### **DIRECTORS' REPORT (continued)**

At the end of September 2006, it was announced that Romania had been approved to join the EU in January 2007. This we believe will have a strong positive impact on gas prices in the short to medium term.

#### **Bilca Development Area**

The Bilca Gasfield Production Facilities are located in northern Romania where Europa has a 28.75% interest in the three wells Bilca-1, Bilca-2 and Fratauti-1 within the EIII-1 Brodina Concession.

In May 2004, following the identification of several seismic anomalies indicating gas accumulations, the partnership drilled their first successful gas well on the concession, the Bilca-1 well. Bilca-1 flowed dry sweet gas on test at rates up to 6.3 mmscf/d (1,050 boepd). This was shortly followed with the Bilca-2 appraisal well in February 2005. At the time, the Bilca-2 logs indicated a similar gas reservoir to the Bilca-1 well and the well was suspended as a future producer without testing. In April 2005, a third seismic anomaly was drilled, the Fratauti well. The Fratauti well tested several zones which flowed on aggregate at rates up to 12.7 mmscf/d (c. 2,120 boepd). The Bilca-2 well was re-entered in July 2006 and tested at similar rates to the Bilca-1 well. These three wells have been connected to a newly built production facility, the Bilca Gasfield Facility and subsequently connected by a 15 km export pipeline to a pressure reduction facility at Radauti where it enters the Transgas national pipeline.

The facility produced the first gas into the Transgas grid on 27 September, only 28 months after the discovery of the first gas field. The gas is under contract to be sold to Romgas SA, the Romanian State Gas Company and partner in the development.

The partnership has agreed that the gas will be produced at a rate of 200mcm/d (1,200 boepd) for the first six months, a pressure test will then be performed in order to assess reserves. Gas production will then be increased to the facility capacity of 300 mcm/d (1,800 boepd) if the early production history confirms the reservoir is capable at producing at the higher rate.

#### **Brodina Exploration Concession (EIII-1)**

The Brodina Concession is located on the eastern margin of the Carpathian Mountains close to the Ukraine border. The reserves and remaining prospectivity of the concession are mainly found within the Miocene gas accumulations in the Carpathian foredeep in the eastern part, as well as deeper accumulations within large subthrust structures in the central part. The Miocene Bilca and Fratauti gas fields are both located on the Brodina Concession.

The partnership has acquired over 600km of modern 2D seismic data on the concession and has undertaken extensive geological and geophysical interpretation of all the available data. Currently, 10 prospects and leads have been identified in the low-risk Bilca-type shallow gas play along with 3 prospects and leads in the deeper platform play.

In the summer of 2006, Europa and its partners in the Brodina Concession acquired and processed over 250km of new 2D seismic in the southeastern area of the concession previously devoid of seismic. Miocene age reservoirs, geologically similar to the reservoirs containing the shallow gas at Bilca and Fratauti, are found south of the concession in the Todiresti Field. The new seismic was designed to investigate potential in this play in the large area between the Todiresti Field and Fratauti-1 well, some 30km apart. The interpretation of these new data commenced in September 2006, giving rise to several potential candidates for the 2007 drilling campaign.

In addition to the above seismic, the partnership acquired an additional 40 km of seismic over the Voitineli prospect in August 2006. The initial data appear to confirm a large dip-closed structure on

## **EUROPA OIL & GAS LIMITED**

### **DIRECTORS' REPORT (continued)**

trend with the Lopushna Oilfield in Ukraine (50-100mmbo reserves). Voitinell is one of three prospects currently identified in the Platform play which has potential in the Cretaceous to Eocene age reservoirs. The results of the interpretation of these seismic data are anticipated towards the end of 2006.

#### **Brates Concession (EPI-3)**

In 2005, Europa participated in the drilling of a deep, challenging, exploration well on the Brates Concession, the Costisa-1 well. The primary target at over 4,000 metres depth was absent but the well encountered 25 metres of gas shows in the upper part of a shallower sandstone sequence which could not be tested for technical reasons. The well was suspended for later re-entry in early 2007.

Europa and its partner, MND, negotiated an extension of the licence to enable the Costisa-1 well to be re-entered, sidetracked and tested. Europa has an 80% interest and will operate the eastern part of the concession containing the Costisa-1 well.

With the close-out of the original drilling operation not achieved by the previous operator until September 2006, the group was delayed in its efforts to obtain the necessary permits for the re-entry. However, this work is now proceeding and it is hoped that the permissions can be in place to allow the rig to move onto location during the coming winter.

The programme for the well is to sidetrack out of existing wellbore and drill a section of virgin formation in the sandstones, which are situated at a depth of 1,000 metres. The original hole was not capable of being properly tested, due to the previous damage from drilling fluids and the large hole size due to wash-outs. Sandstones, geologically similar to the Costisa-1 sandstones, have produced commercially in the nearby Tescani and Campeni Fields.

In parallel with this work, a re-evaluation of the remaining prospectivity in the western-central portion of the concession is underway. MND will operate the evaluation of the western exploration acreage and Europa will retain a 20% interest.

#### **Cuejdiu Concession (EIII-3)**

The Cuejdiu Concession lies to the south of the Brodina Concession and is located in the Carpathian Foredeep thus sharing many similarities with the Brodina and Brates Concessions. The prospectivity on the concession occurs in both the shallow Miocene sandstones and in the deeper Cretaceous to Eocene sandstones below the Badenian Anhydrite.

Since award of the licence in 2002, the partnership has acquired 104km of modern 2D seismic data. The interpretation of this data identified 6 prospects associated with high amplitude at the relatively low risk Miocene level.

The most promising of these prospects is the Topolita Complex in the northeast of the concession. The prospect shows a series of amplitude anomalies thought to be associated with gas sands and is slated for drilling in early 2007.

#### **The Bacau Concession (EIII-4)**

The Bacau Concession is situated immediately south of the giant Roman Gasfield Complex (600 bcf initial reserves). The concession is geologically similar to the Brodina, Cuejdiu and Brates concessions but has a considerably thicker post-Eocene sedimentary section, suggesting that the Miocene age gas sands in the Bacau Block are thicker than in the concessions to the north.

## **EUROPA OIL & GAS LIMITED**

### **DIRECTORS' REPORT (continued)**

Since award in 2002, the partnership has acquired 100km of modern 2D seismic and reprocessed a further 270km of 2D seismic data. The interpretation of these data identified 3 prospects associated with high amplitudes at the relatively low risk Miocene level.

Following acquisition of 50km of new seismic in 2006, further offset seismic data to the north has been provided by an adjacent concession holder. Both datasets are now being incorporated into the interpretation. Subject to the results of this work, due to complete by the end of 2006, a well may be planned in the northern Schineni Prospect for 2007.

### **Ukraine**

#### **Horodok**

In the accounting year the Company produced 27 boepd net from the Horodok Gasfield pilot production scheme in western Ukraine. The Company is still awaiting government approval for the full-field development licence. Gas production has been delivered to summer storage from early July 2006.

Subsequent to the reporting period, Europa's partners Zahidukrgeolgia, commenced drilling the Horodok-10 step-out and have open-hole tested gas from three zones. One of these gas-bearing zones is present, though has never been tested, in the Horodok Field proper.

The Company is currently evaluating the assets in Ukraine and will be looking to have a definitive conclusion on the forward programme in the next 6 months.

### **New Ventures**

During the 2006 financial year the Directors concurred that the Company should concentrate on new ventures in areas close to European markets and more critically in those areas offering the potential for large oil and gas discoveries.

Saharan Africa fulfils both of these criteria: the region has discovered resources of over 160 billion barrels of oil equivalent and with the continued development of LNG and gas interconnectors, is becoming increasingly important to the European oil and gas markets.

In March 2006, Europa signed a Production Sharing Contract in Western Sahara covering two licences, followed in May 2006 by an award in Egypt currently awaiting ratification by the Egyptian authorities. Together the acreage totals over 21 million acres.

Oil and gas producing basins onshore and offshore Western and Central Europe also remain a focus for new ventures for the Company.

### **Western Sahara**

In March 2006 the Company signed a Production Sharing Contract with the Democratic Peoples Republic of Western Sahara (SADR) covering two large blocks in the Western Sahara. Western Sahara is located west of Algeria between Mauritania and Morocco on the Atlantic Ocean. With the exception of part of one licence lying in SADR territory, the exploration of these large tracts can only take place following a political settlement enabling the Western Saharan authorities to take control of the territories, at which time the PSC would be formally ratified.

Europa has a 100% interest in two blocks in geologically contrasting areas, totalling approximately 80,000 km<sup>2</sup> (20 million acres, equivalent to roughly half of the licensed area of the UK Central and

## **EUROPA OIL & GAS LIMITED**

### **DIRECTORS' REPORT (continued)**

Northern North Sea). The Bir Lehlou Block is located in the southern part of the Tindouf Basin, a Lower Palaeozoic basin system stretching north-eastwards into Algeria. Although unexplored, it has strong similarities with the world-class Ghadames Lower Palaeozoic-sourced petroleum system in central Algeria.

The Hagounia Block encompasses a large area of the onshore part of the Atlantic margin coastal basin system. No significant exploration has taken place, though a promising Cretaceous deltaic package over 3km thick is present in the basin. Hydrocarbons have been discovered just to the north at Cap Juby and notably recently in Cretaceous sands in the north of Mauritania.

#### **Egypt**

In May 2006 the Company was awarded the West Darag Block in Egypt. The award is subject to government approvals and execution of a Production Sharing Agreement ('PSA') with the Egyptian General Petroleum Corporation (EGPC), expected to take place in late 2006. It is anticipated that the licence will be operated by Europa with a 60% interest, the remainder being held by Solaris Energy plc.

The concession covers a large under-explored onshore area in excess of 5,300 km<sup>2</sup> (1.3 million acres, equivalent of 25 UK North Sea blocks). It lies on the north-western margin of the Gulf of Suez and contains a Mesozoic sequence similar to that in the prolific Egyptian Western Desert oil province.

Half of all of Saharan Africa discovered resources reside in Mesozoic basins. Egypt, in particular, had 36 oil and gas discoveries in 2005 alone and continues to deliver exploration success in both new and established plays.

#### **Recent Events**

##### **UK**

##### **The Crosby Warren Oilfield (Subject to Contract) (DL001)**

Subject to completion of a Sale and Purchase Agreement, Europa holds 100% interest in the Crosby Warren licence.

The Crosby Warren Field has produced to date some 625,000 barrels and averaged 35 bopd last year. However, it has been producing up to 100 bopd over the recent past. The field has multiple reservoirs and significant potential for re-development. A full review of the field's potential will be carried out in the coming months in parallel with site improvement and well optimisation work.

##### **France**

In September 2005, the Company made an application for an exclusive exploration permit in the Aquitaine Basin of southwest France, the Béarn des Gaves permit. The application successfully passed the 90 day period allowed for competitive bids without any such bid being lodged and the award is now subject to government approval, expected in early 2007.

The application, which covers an area of 928 km<sup>2</sup> west of Pau, lies immediately west of the Lacq and Meillon Gasfields, the discoveries that made Elf Aquitaine over 50 years ago, and together contained estimated initial recoverable gas reserves of 12 trillion cubic feet.

Europa plans to investigate the western continuation of the Lacq play under the Pyrenean thrust front, evidence for this coming from a gas discovery in the permit area at Berenx along with other, sub-

## **EUROPA OIL & GAS LIMITED**

### **DIRECTORS' REPORT (continued)**

thrust, discoveries. In addition, there is potential for oil accumulations in the northern part of the permit area.

The vast majority of wells drilled in the area was in the 1950's and 1960's, based on now obsolete exploration concepts. Modern exploration methods will greatly improve the chances of finding significant hydrocarbon reserves in an area close to markets and with well-developed infrastructure.

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

The loss for the year after taxation was £172,423 (2005: profit £574,486). The directors do not recommend the payment of a dividend (2005: £nil).

### **Directors and their interests**

The directors who served during the year were P A Barrett and E S Syba. None of the directors had an interest in the share capital of the company during the period (2005: nil). The interest of P A Barrett and E S Syba in the share capital of Europa Oil & Gas (Holdings) plc, the ultimate parent undertaking, is disclosed in the accounts of that company.

### **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; and
- that director had taken all steps that the director ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the company's auditors were aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of s234ZA of the Companies Act 1985.

### **Auditors**

During the year our auditors, Nexia Audit Limited changed their name to Nexia Smith & Williamson Audit Limited and now trade as Nexia Smith & Williamson. A resolution to re-appoint the auditors, Nexia Smith & Williamson, will be proposed at the next Annual General Meeting.

The above report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies

Approved by the board of directors and signed on behalf of the board.

**P A Barrett**  
Director



## **EUROPA OIL & GAS LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

Company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position for the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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. In addition, the directors are responsible for the maintenance and integrity of the corporate website.

# Nexia Smith & Williamson

## Independent auditors' report to the shareholders of Europa Oil and Gas Limited

We have audited the accounts of Europa Oil and Gas Limited for the year ended 31 July 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 22. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement within it.

### Basis of audit opinion

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

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

### Opinion

In our opinion:

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 July 2006 and of its loss for the year then ended;
- the accounts have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the accounts.

*Nexia Smith & Williamson*  
Nexia Smith & Williamson  
Chartered Accountants  
Registered Auditors

25 Moorgate  
London  
EC2R 6AY

Date 8/11/06

*The maintenance and integrity of the europaoil.com web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the accounts since they were initially presented on the web site.*

*Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.*

# EUROPA OIL & GAS LIMITED

## PROFIT AND LOSS ACCOUNT for the year ended 31 JULY 2006

	Notes	2006 £	2005 £
<b>Turnover</b>	2	1,392,230	1,201,275
Cost of sales			
- Operating costs		(219,617)	(220,242)
- Exploration and appraisal write-off		(137,947)	-
- Depletion and amortisation		(150,164)	(340,492)
		<hr/>	<hr/>
		(507,728)	(560,734)
<b>Gross profit</b>		884,502	640,541
Administrative expenses		(38,181)	(68,782)
		<hr/>	<hr/>
<b>Operating profit</b>	3	846,321	571,759
Interest receivable	6	3,846	20,171
Interest payable and similar charges	7	(30,105)	(15,218)
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>		820,062	576,712
Tax on profit on ordinary activities	8	(992,485)	(2,226)
		<hr/>	<hr/>
<b>Retained (loss)/profit for the financial year</b>	17	(172,423)	574,486
		<hr/>	<hr/>

All of the company's activities are classified as continuing. There were no gains or losses in the year other than those included in the above profit and loss account.



# EUROPA OIL & GAS LIMITED

## BALANCE SHEET as at 31 JULY 2006

	Notes	2006 £	2005 £
<b>Fixed assets</b>			
Intangible assets	9	4,853,329	4,528,269
Tangible assets	10	3,536,361	1,001,579
Investments	11	33,433	33,394
		<hr/>	<hr/>
		8,423,123	5,563,242
		<hr/>	<hr/>
<b>Current assets</b>			
Stock	12	5,705	13,578
Debtors	13	320,049	499,869
Cash at bank and in hand		2,300	59,094
		<hr/>	<hr/>
		328,054	572,541
		<hr/>	<hr/>
<b>Creditors: amounts falling due within one year</b>	14	(3,977,458)	(1,780,234)
		<hr/>	<hr/>
<b>Net current liabilities</b>		(3,649,404)	(1,207,693)
		<hr/>	<hr/>
Provisions for liabilities	15	(590,593)	-
		<hr/>	<hr/>
<b>Net assets</b>		4,183,126	4,355,549
		<hr/>	<hr/>
<b>Capital and reserves</b>			
Called up share capital	16	1,934	1,934
Share premium	17	3,266,098	3,266,098
Profit and loss account	17	915,094	1,087,517
		<hr/>	<hr/>
<b>Shareholders' funds</b>	18	4,183,126	4,355,549
		<hr/>	<hr/>

These accounts were approved by the Board of Directors on  
signed on behalf of the Board by

8 November 2006 and

Director



# EUROPA OIL & GAS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2006

### 1 Accounting Policies

#### **Basis of accounting**

The financial statements have been prepared under the historical cost convention, in accordance with applicable United Kingdom accounting standards. The financial statements fall within the scope of the Statement of Recommended Practice (SORP), "Accounting for oil and gas exploration, development, production and decommissioning activities" issued by the UK Oil Industry Accounting Committee. The financial statements, including disclosures, have been prepared in accordance with the provisions of the SORP currently in effect.

These accounts present information about the company as an individual undertaking and not about the group of which this company is parent.

The company is exempt from the obligation to prepare and deliver consolidated group accounts under section 228 Companies Act 1985, as it has been included in the consolidated group accounts of its immediate parent company, Europa Oil & Gas (Holdings) plc, which is registered in Great Britain.

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.

#### **Turnover**

Turnover, excluding value added tax and similar taxes, represents net invoiced sales of the Company's share of oil and gas revenues in the year. Turnover is recognised each month as sales are invoiced.

#### **Fixed assets**

##### *Oil and Gas interests*

The financial statements with regard to oil and gas exploration, appraisal and development expenditure have been prepared under the full cost basis as set out in the SORP.

##### *Pre-production assets*

Expenditure on pre-licence, licence acquisition costs, geological and geophysical costs, costs of drilling exploration, appraisal and development wells, and an appropriate share of overheads (including appropriate 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 fixed assets pending determination of commercial viability.

Pre-production capitalised intangible assets will be recognised as a loss in the profit and loss account upon withdrawal from a geographical area. To the extent that pre-production fixed assets are not supported by underlying oil and gas reserves in a geographical area then a loss will be recognised.

##### *Production assets*

With the determination of commercial viability and approval of an oil and gas project the related pre-production costs are transferred from intangible to tangible fixed assets and subsequently depreciated upon commencement of production within the appropriate geographical cost pool.

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2006 (continued)**

**1 Accounting Policies (continued)**

**Fixed assets (continued)**

*Impairment tests*

An impairment test is carried out at each balance sheet date to assess whether the net book value of the capitalised costs in the intangible and tangible cost pools are covered by the associated recoverable amount, as outlined in FRS 11 "Impairment of Fixed Assets and Goodwill". Impairment losses are recognised in the profit and loss account.

Impairment is considered where a change in the economic or other conditions indicates a possible impairment in the value of an oil or gas producing field included in tangible fixed assets. The recoverability of the net book value relating to that field is then assessed by comparison with the estimated discounted future cash flows based on management's expectations of future oil and gas production, prices and costs. Any impairment identified is charged to the Profit and Loss Account as additional depreciation. Where conditions that gave rise to impairment are subsequently reversed, the effect of the impairment charge is also reversed as a credit to the Profit and Loss Account, net of any depreciation that would have been charged since the impairment.

*Depreciation*

All expenditure within each tangible 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 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.

*Future decommissioning costs*

A provision for decommissioning is recognised in full at the commencement of oil and/or natural gas production. A corresponding tangible fixed asset 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. This asset is subsequently depreciated as part of the capital costs of production facilities within tangible fixed assets, on a unit of production basis.

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.

*Computer equipment and related software, and motor vehicles*

Computer equipment and related software, and motor vehicles 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 included herein conform to definitions of probable and possible approved by the SPE/WPC using the deterministic methodology.

# **EUROPA OIL & GAS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2006 (continued)**

### **1 Accounting Policies (continued)**

#### **Current Taxation**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

#### **Deferred taxation**

Deferred tax is provided for on a full provision basis on all timing differences, which have arisen but not reversed at the balance sheet date. No timing differences are recognised in respect of gains on sale of assets where those gains have been rolled over into replacement assets. Deferred tax assets are recognised to the extent that they are recoverable, that is, on the basis of all available evidence, it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Any assets and liabilities recognised have not been discounted.

#### **Foreign currencies**

Foreign currency transactions are translated into sterling at the rate of exchange ruling at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currency are translated at the rate ruling at that date. All exchange differences arising are dealt with in the profit and loss account.

For the purposes of consolidation the closing rate method is used under which translation gains and losses on the opening net assets of overseas undertakings are shown as a movement in reserves. Profit and loss accounts of overseas undertakings are translated at the closing exchange rate for the period.

#### **Leases**

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

#### **Pensions**

The company contributes to money purchase pension plans for certain employees. The charge for the year represents the premiums payable to these schemes during the year.

#### **Stocks**

Stocks comprise oil and gas in tanks valued at the price applicable on the balance sheet date.

#### **Cash flow statement**

The company is exempt from the requirement of Financial Reporting Standard 1 (FRS1 revised) to include a cash flow statement as part of the accounts because it is a wholly owned subsidiary and a consolidated cash flow statement is included in the group accounts of the parent company.

# EUROPA OIL & GAS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2006 (continued)

### 2 Geographical analysis (by origin and destination)

	2006 £	2005 £
<b>Turnover</b>		
UK	1,327,015	1,124,480
Ukraine	65,215	76,795
	<hr/>	<hr/>
	1,392,230	1,201,275
	<hr/>	<hr/>
<b>Operating profit</b>	£	£
UK	841,443	564,686
Ukraine	4,878	7,073
	<hr/>	<hr/>
	846,321	571,759
	<hr/>	<hr/>
<b>Intangible fixed assets</b>	£	£
UK	347,653	271,180
Ukraine	1,473,714	1,547,130
Romania	2,923,035	2,699,375
Poland	10,584	10,584
France	6,775	-
Egypt	47,641	-
Western Sahara	43,927	-
	<hr/>	<hr/>
	4,853,329	4,528,269
	<hr/>	<hr/>
<b>Tangible fixed assets</b>	£	£
UK	851,415	1,001,579
Romania	2,684,946	-
	<hr/>	<hr/>
	3,536,361	1,001,579
	<hr/>	<hr/>
<b>3 Operating profit is stated after charging:</b>	£	£
Auditors' remuneration		
- audit	8,500	20,000
Depreciation	150,164	340,492
	<hr/>	<hr/>

# EUROPA OIL & GAS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2006 (continued)

### 4 Directors' emoluments

	2006 £	2005 £
--	-----------	-----------

All directors:

Consideration paid to third parties	11,124	23,862
-------------------------------------	--------	--------

Brigantian Exploration Limited, a company in which PA Barrett and E S Syba are directors, was paid £nil (2005:£22,662) for the provision of technical services.

During the year, C W Ahlefeldt-Laurvig a director of the ultimate parent company, Europa Oil & Gas (Holdings) plc, provided services as a petroleum engineer on a consultancy basis. These services totalled £11,124 (2005: £1,200).

### 5 Employee information

The average number of persons, including directors, employed during the year was 20 (2005: 22).

	£	£
Staff costs:		
Wages and salaries	33,243	34,644
Social security costs	12,283	12,855
	45,526	47,499

### 6 Interest receivable and similar income

	£	£
Bank interest receivable	3,846	6,385
Exchange rate gain	-	13,786
	3,846	20,171

### 7 Interest payable and similar charges

	£	£
Bank interest payable	6,761	11,248
Bank charges	941	3,970
Exchange rate loss	22,403	-
	30,105	15,218

# EUROPA OIL & GAS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2006 (continued)

<b>8 Tax on profit on ordinary activities</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Current Tax		
UK corporation tax at 50% (2005: 30%)	(400,734)	-
Overseas tax	(1,158)	(2,226)
	<hr/>	<hr/>
	(401,892)	(2,226)
Deferred Tax		
Timing difference origination and reversal (note 15)	(590,593)	-
	<hr/>	<hr/>
	(992,485)	(2,226)
	<hr/>	<hr/>
	<b>£</b>	<b>£</b>
Profit on ordinary activities per the accounts	820,062	576,711
	<hr/>	<hr/>
<i>Tax reconciliation</i>		
Tax effect of:		
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005: 30%)	246,019	173,013
Capital allowances in excess of depreciation	83,988	29,467
Losses utilised in year	(61,207)	(201,813)
Other items subject to taxation	6,160	(667)
Supplementary North Sea oil taxation	125,774	-
Overseas tax	1,158	2,226
	<hr/>	<hr/>
Total current tax charge	401,892	2,226
	<hr/>	<hr/>

The company has a net deferred tax asset of £45,078 (2005: £7,746), in relation to overseas trading losses, that has not been recognised in the accounts as the transfer of economic benefits is uncertain.

**EUROPA OIL & GAS LIMITED****NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2006 (continued)****9 Intangible fixed assets**

	<b>Cost of Exploration £</b>
<b>Cost</b>	
At 1 August 2005	4,528,269
Additions	2,364,996
Transfer to tangible fixed assets	(1,901,989)
Exploration and appraisal write-off	(137,947)
	<hr/>
At 31 July 2006	4,853,329
	<hr/>

**10 Tangible fixed assets**

	<b>Cost of producing fields £</b>
<b>Cost</b>	
At 1 August 2005	1,766,040
Additions	782,957
Transfer from intangible fixed assets	1,901,989
	<hr/>
At 31 July 2006	4,450,986
	<hr/>
<b>Depreciation</b>	
At 1 August 2005	764,461
Charge for year	150,164
	<hr/>
At 31 July 2006	914,625
	<hr/>
<b>Net book value</b>	
At 31 July 2006	3,536,361
	<hr/>
At 31 July 2005	1,001,579
	<hr/>

Depreciation for 2006 of £150,164 (2005: £340,492) was substantially below the 2005 charge due the director's being of the opinion that the future reserves to be produced from the W-4 well on the Whisby field will be significantly higher than previously estimated. Consequently the depreciation charge for 2006 has assumed higher remaining reserves. The effect of the change in the depreciation method used is to reduce the depreciation charge by £133,984.



# EUROPA OIL & GAS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2006 (continued)

<b>11</b>	<b>Investments – Company</b>	<b>Investment in subsidiaries £</b>
	<b>Cost</b>	
	At 1 August 2005	33,394
	Addition	39
		<hr/>
	At 31 July 2006	33,433
		<hr/>

The company's investments at the balance sheet date in the share capital of unlisted companies include the following:

The company owns 100% of the ordinary share capital of Europa Nafta I Gaz Ukraini, a company registered in the Ukraine. The results of this company have been included in the consolidated accounts of the parent company, Europa Oil & Gas (Holdings) plc.

The company also owns 100% of the ordinary share capital of Malopolska Oil & Gas Company Sp.z.o.o., a company registered in Poland. The results of this company have not been consolidated on the grounds that its results are not material to the group.

The company also owns 100% of the ordinary share capital of Europa Oil & Gas S.R.L, a company registered in Romania in June 2006. The results of this company have been included in the consolidated accounts of the parent company, Europa Oil & Gas (Holdings) plc.

<b>12</b>	<b>Stock</b>	<b>2006 £</b>	<b>2005 £</b>
	Oil & gas in tanks	5,705	13,578
		<hr/>	<hr/>
<b>13</b>	<b>Debtors</b>	<b>£</b>	<b>£</b>
	Trade debtors	121,477	93,101
	Other debtors	173,206	219,848
	Amounts owed by group undertakings	-	184,968
	Prepayments and accrued income	25,366	1,952
		<hr/>	<hr/>
		320,049	499,869
		<hr/>	<hr/>

# EUROPA OIL & GAS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2006 (continued)

14	<b>Creditors:</b> amounts falling due within one year	<b>2006</b> £	<b>2005</b> £
	Trade creditors	9,385	15,762
	Amounts owed to group undertakings	3,456,024	1,686,359
	Other creditors including taxation and social security	102,815	70,613
	Corporation tax	400,734	-
	Accruals and deferred income	8,500	7,500
		<hr/>	<hr/>
		3,977,458	1,780,234
		<hr/>	<hr/>
15	<b>Provision for deferred tax</b>	<b>£</b>	<b>£</b>
	Opening balance	-	-
	Charged to profit and loss account	590,593	-
		<hr/>	<hr/>
	Closing balance	590,593	-
		<hr/>	<hr/>
	<i>Analysis of deferred tax balance:</i>	<b>£</b>	<b>£</b>
	Accelerated capital allowances	590,593	-
		<hr/>	<hr/>
	Undiscounted provision for deferred tax	590,593	-
		<hr/>	<hr/>
	<i>Unrecognised deferred tax:</i>	<b>£</b>	<b>£</b>
	Accelerated capital allowances	(1,680,032)	(1,027,498)
	Overseas trading losses	1,725,110	1,035,244
		<hr/>	<hr/>
	Net deferred tax asset	45,078	7,746
		<hr/>	<hr/>

This net deferred tax asset has not been recognised in the accounts as the future transfer of economic benefits is uncertain.

# EUROPA OIL & GAS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2006 (continued)

16	<b>Called up share capital</b>	<b>2006 £</b>	<b>2005 £</b>
	<b>Authorised</b>		
	1,000,000 ordinary shares of 10p each	100,000	100,000
		<hr/>	<hr/>
	<b>Allotted, called up and fully paid</b>		
	19,340 ordinary shares of 10p each	1,934	1,934
		<hr/>	<hr/>
17	<b>Reserves</b>	<b>Share Premium  £</b>	<b>Profit and loss account  £</b>
	Balance at 1 August 2005	3,266,098	1,087,517
	Loss retained for the period	-	(172,423)
		<hr/>	<hr/>
	Balance at 31 July 2006	3,266,098	915,094
		<hr/>	<hr/>
18	<b>Reconciliation of movements in shareholders' funds</b>	<b>2006 £</b>	<b>2005 £</b>
	(Loss)/profit for the financial period	(172,423)	574,486
	Share Issue	-	2,597,607
		<hr/>	<hr/>
	Net (reduction)/addition to shareholders' funds	(172,423)	3,172,093
	Opening shareholders' funds	4,355,549	1,183,456
		<hr/>	<hr/>
	Closing shareholders' funds	4,183,126	4,355,549
		<hr/>	<hr/>

## **EUROPA OIL & GAS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2006 (continued)**

#### **19 Commitments**

As at the 31 July 2006 Europa Oil & Gas Limited had a contractual commitment to drill six wells, four in Romania and two in the UK. The Company estimates that its share of these costs is approximately £4.6 million. In the Western Sahara a further £3.0 million is committed should the conditions precedent be met to allow exploration work to be undertaken.

#### **20 Related party transactions**

Brigantian Exploration Limited, a company in which PA Barrett and E S Syba are directors, was paid £nil (2005: £22,662) for the provision of technical services. These are now provided under the terms of their respective service agreements with the ultimate parent company Europa Oil & Gas (Holdings) plc. No sums were due to Brigantian Exploration Limited at the 31 July 2006.

During the year C W Ahlefeldt-Laurvig provided services as a petroleum engineer on a consultancy basis. These services totalled £11,124 (2005: £1,200). It is anticipated that these services will continue into the next financial year. At the 31 July 2006 C W Ahlefeldt-Laurvig was due £2,284 (2005: £1,200).

The company has taken advantage of the exemption in FRS 8 concerning related party transactions with other group companies by virtue of its status as a 100% owned subsidiary of a parent whose accounts are made publicly available.

#### **21 Post balance sheet events**

On the 13 October 2006 Europa Oil & Gas Limited entered into a Sale and Purchase Agreement to acquire 100% of the Crosby Warren oil field.

#### **22 Ultimate parent undertaking**

The ultimate parent undertaking is Europa Oil & Gas (Holdings) plc, a company registered in England and Wales, the accounts of which are available from 25 Moorgate, London, EC2R 6AY.