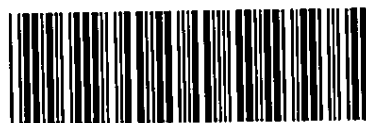


EUROPA OIL & GAS LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2007

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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 | Fasken Martineau Stringer Saul LLP 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 2007

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, France, 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

Licence Interests Table

| Block/Field | Country | Operator | Equity | Comments |
|---------------------|---------|-----------|--------|-------------------------------------|
| West Firsby | UK | Europa | 100% | Production |
| Crosby Warren | UK | Europa | 100% | Production |
| Whisby-4 | UK | Blackland | 65% | Production |
| PEDL150 | UK | Europa | 50% | Gravel Pits-1 well planned for 2008 |
| PEDL143 | UK | Europa | 40% | Holmwood-1 well planned for 2008 |
| 109/5 & 112/30 | UK | Europa | 50% | Large Carboniferous Prospect |
| Horodok | Ukraine | Europa | 70% | Asset sale planned |
| West Darag | Egypt | Europa | 60% | G&G work planned for 2008 |
| Béarn des Gaves | France | Europa | 100% | Seismic processing/interpretation |
| Hagounia/Bir Lehlou | SADR | Europa | 100% | Limited fieldwork possible 2008 |

Note: this table assumes full take-up of farm in options in PEDL150

United Kingdom

Europa operates five licences in the UK: three in the East Midlands Oil Province, one in the Weald Basin and one in the East Irish Sea Basin. In addition, the Company holds a non-operated interest in production from a further East Midlands oilfield.

With the acquisition of the **Crosby Warren Field (100%)**, oil production has increased and further increases are anticipated with the acquisition of the **West Firsby Field**.

Immediate production increases were achieved at Crosby Warren on acquisition and a second production well was drilled in July 2007. The initial sidetrack showed the reservoir to be deep to prognosis and a decision was made to initiate a second sidetrack to the south of the field, resulting in a reservoir penetration at a similar depth to the existing producer, Crosby Warren-1. The well was drilled underbalanced to reduce reservoir damage and subsequently perforated after year-end across the upper part of the Beacon Hill Flags reservoir. Strong gas flows were encountered at volumes and pressures beyond the capability of the existing production facilities. Consequently, the well was shut-in whilst site modifications were carried out.

The well has now been completed and put on pump. Early indications are that the well will require a fracture stimulation treatment to reach its full potential, as did the Crosby Warren-1 well, which then went on to produce over 600,000 barrels of oil to date.

Work is planned in the coming months on **West Firsby Field (100%)** to decrease water production by utilizing water shutoff treatments. It is hoped that by reducing the water production by shutting off high water producing zones, the pumps will lift higher oil volumes. This will be undertaken on a trial basis on the shut-in WF4 well, before moving on to other wells if successful. In addition, work is anticipated to commence in early 2008 on re-completing WF8 as a producer.

EUROPA OIL & GAS LIMITED

DIRECTORS' REPORT (continued)

On the exploration front, a planning application for drilling the Holmwood-1 exploration well on the **PEDL143 licence (40%)** was lodged in April 2007 and following extensive modifications to satisfy the planning authority's requests for clarification, was re-submitted in September 2007. There is as yet no firm timetable as to when this application may be determined.

50km of new seismic data were acquired over the **PEDL150 licence (50%¹)**, to the southwest of Lincoln. This survey was designed to high-grade a number of exciting leads to drillable prospect status. Whilst these data are still being interpreted, preliminary results confirm several prospects on the licence, the most encouraging being the Gravel Pits Prospect, located 2km to the southeast of the Whisby Field. This prospect has a robust four-way dip closure with a common spill-point to that of the Whisby Field. Thick reservoir development in the nearby Caledonian Farm-1 well, which had strong oil shows outside mapped closure, suggests the Gravel Pits structure may have a much thicker reservoir than that developed at Whisby. Subject to agreeing a wellsite location and obtaining planning permission, we hope to be in a position to drill this well in 2008. Europa will be partly carried by Valhalla on the well, resulting in Europa paying 25% of the well costs.

Europa was awarded a licence covering two blocks in the East Irish Sea in the 24th Round of Licensing, **109/5 and 112/30 (50%)**. This licence contains a large undrilled Carboniferous prospect, named Ellen Vannin, which has potential for P50 gas-in-place volumes of 1.5 trillion cubic feet.

Following the year-end, the licence covering **41/24a and 41/25a** in the UK North Sea, lapsed. Europa was not willing to drill an appraisal well on the existing gas condensate discoveries due to a combination of low gas prices and high drilling costs, rendering the base case reserves in the project uneconomic.

UK Reserves Review

Towards the end of the reporting period, ERC undertook a review of the producing oil assets of Europa in the East Midlands. The review did not cover the Company's contingent or prospective resources in the UK or elsewhere.

The main conclusions of the ERC review, covering Europa's 65% interest in the Whisby-4 well and its 100% interest in the West Firsby and Crosby Warren Oilfields, is that Europa's net reserve base in these fields is between a P90 figure of 0.5 million barrels of oil (mmbo) and a P10 figure of 1.8 mmbo.

ERC estimated that the remaining commercial reserves of oil attributable to Europa in aggregate mmbo (millions of stock tank barrels) as at 31 July 2007 were as follows:

| | | |
|--------------|--------------|--------------|
| P90 0.5 mmbo | P50 1.0 mmbo | P10 1.8 mmbo |
|--------------|--------------|--------------|

Using a long term nominal Brent oil price of US\$70 per stock tank barrel, ERC have estimated the post tax net present value discounted at 10 per cent as at 30 June 2007 of the commercial reserves as follows:

| | | |
|------------|------------|-------------|
| P90 £4.4mm | P50 £8.3mm | P10 £12.9mm |
|------------|------------|-------------|

¹ Subject to Valhalla exercising its option over a well, otherwise remains at 75%.

EUROPA OIL & GAS LIMITED

DIRECTORS' REPORT (continued)

Romania

During the year the Romanian assets were sold to Europa Oil & Gas SRL

Egypt

On 5 June 2007, the Government of the Arab Republic of Egypt ratified the Production Sharing Agreement covering the onshore **West Darag concession (60%)**. This concession, situated to the northwest of the Gulf of Suez, is underexplored, there being only three wells drilled in an area the equivalent size to 20 UK North Sea blocks.

The northern part of the block is especially promising in terms of large Mesozoic structures whilst the east of the block shows potential for smaller structures adjacent to the Gulf of Suez oil system.

Exploration work, including geological and geochemical fieldwork, will commence in the cool season in early 2008.

France

The French Government ratified the onshore **Béarn des Gaves Permit (100%)** in the Aquitaine Basin of southwest France on the 23rd March 2007. Over 1,000km of seismic data has been delivered by the previous operator and the reprocessing and re-interpretation of these data will be the main element of the work programme in the first phase of the licence.

Ukraine

Europa plans to discontinue its operations in Ukraine and has entered into discussions with a third party interested in acquiring the asset.

Western Sahara

Limited geological fieldwork is possible in the eastern part of the **Bir Lehlou Block**, situated in the Tindouf Basin. The Tindouf Basin, which extends into Algeria, is an under-explored basin with a thick Palaeozoic sequence containing source rocks and reservoirs. Exploration drilling by the Spanish prior to 1975 has proven gas in the basin and there are oil seeps at surface. Planning the field campaign will be time consuming and it is hoped it can be achieved before summer 2008. Currently, no work is possible in the **Hagounia Block**.

Results for the year and dividends

The loss for the year after taxation was £1,812,525 (2006 £183,020). The directors do not recommend the payment of a dividend (2006 £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 (2006 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.

EUROPA OIL & GAS LIMITED

DIRECTORS' REPORT (continued)

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

Auditors

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 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 24. 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 company's affairs as at 31 July 2007 and of its loss for the year then ended, and
- 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 **28/4/08**

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 2007

| | Notes | Discontinued Operations £ | Acquired Operations £ | Continuing Operations £ | 2007 £ | Restated 2006 £ |
|---|-------|---------------------------------|-----------------------------|-------------------------------|-------------|-----------------------|
| Turnover | 2 | 617,770 | 469,518 | 992,901 | 2,080,189 | 1,392,230 |
| Cost of sales | | | | | | |
| – Operating costs | | (133,328) | (183,190) | (233,007) | (549,525) | (230,214) |
| – Exploration and appraisal write-off | | - | - | (1,588,232) | (1,588,232) | (137,947) |
| – Depletion and amortisation | | (443,502) | (53,011) | (102,285) | (598,798) | (150,164) |
| | | (576,830) | (236,201) | (1,923,524) | (2,736,555) | (518,325) |
| Gross (loss)/profit | | 40,940 | 233,317 | (930,623) | (656,366) | 873,905 |
| Administrative expenses | | - | - | (40,108) | (40,108) | (38,181) |
| Operating (loss)/profit | 3 | 40,940 | 233,317 | (970,731) | (696,474) | 835,724 |
| Interest receivable and similar income | 6 | 1,393 | - | 4,428 | 5,821 | 3,846 |
| Interest payable and similar charges | 7 | (7,051) | (12,790) | (196,073) | (215,914) | (30,105) |
| (Loss)/profit on ordinary activities before taxation | | 35,282 | 220,527 | (1,162,376) | (906,567) | 809,465 |
| Tax on profit on ordinary activities | 8 | | | | (905,958) | (992,485) |
| Retained (loss) for the financial year | 18 | | | | (1,812,525) | (183,020) |

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 2007

| | Notes | 2007 £ | 2006 £ |
|---|-------|-----------------|-------------------|
| Fixed assets | | | |
| Intangible assets | 9 | 961,003 | 4,853,329 |
| Tangible assets | 10 | 4,035,059 | 3,536,361 |
| Investments | 11 | 33,433 | 33,433 |
| | | <hr/> 5,029,495 | <hr/> 8,423,123 |
| Current assets | | | |
| Stock | 12 | 76,379 | 5,705 |
| Debtors | 13 | 6,206,259 | 320,049 |
| Cash at bank and in hand | | 769 | 2,300 |
| | | <hr/> 6,283,407 | <hr/> 328,054 |
| Creditors: amounts falling due within one year | 14 | (6,505,984) | (3,977,458) |
| | | <hr/> (222,577) | <hr/> (3,649,404) |
| Net current liabilities | | | |
| Provisions for liabilities | 15 | (2,428,653) | (590,593) |
| | | <hr/> 2,378,265 | <hr/> 4,183,126 |
| Net assets | | | |
| Capital and reserves | | | |
| Called up share capital | 17 | 1,934 | 1,934 |
| Share premium | 18 | 3,266,098 | 3,266,098 |
| Profit and loss account | 18 | (889,767) | 915,094 |
| | | <hr/> 2,378,265 | <hr/> 4,183,126 |
| Shareholders' funds | 19 | | |

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

1 February 2008 and

Director



EUROPA OIL & GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2007

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 based upon the quantity and price of oil and gas delivered to the customer.

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.

EUROPA OIL & GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2007 (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 2007 (continued)

1 Accounting Policies (continued)

Reserves (continued)

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

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.

EUROPA OIL & GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2007 (continued)

1 Accounting Policies (continued)

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

Share-based payments

The accounting standard FRS 20 'Share based payments' has been adopted for the first time during the 12 month period to the 31 July 2007. In order to provide comparative information a prior period adjustment has been made to the results for the 12 month period ended 31 July 2006

In accordance with FRS 20 'Share-based payments', the Company reflects the economic cost of awarding share options to employees by recording an expense in the profit and loss account equal to the fair value of the benefit awarded. The fair value is determined from the grant date of the award and expensed on a straight line basis over the vesting period based on an estimate of shares that will eventually vest and adjusted for non-market based vesting conditions. The expense to be charged to the profit and loss account is calculated using the Black-Scholes-Merton model.

The share options awarded are those of the ultimate parent undertaking Europa Oil & Gas (Holdings) plc.

EUROPA OIL & GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2007 (continued)

| | | | |
|----------|---|-------------|-------------------|
| 2 | Geographical analysis (by origin and destination) | 2007 | 2006 |
| | Turnover | £ | £ |
| | UK (of which £469,518 is acquired operations) | 1,462,419 | 1,327,015 |
| | Ukraine | - | 65,215 |
| | Romania (which represents discontinued operations) | 617,770 | - |
| | | <hr/> | <hr/> |
| | | 2,080,189 | 1,392,230 |
| | | <hr/> | <hr/> |
| | Operating (loss)/profit | £ | Restated £ |
| | UK (of which £233,317 is acquired operations) | 850,311 | 830,846 |
| | Ukraine | (1,577,141) | 4,878 |
| | Romania (which represents discontinued operations) | 40,940 | - |
| | Poland | (10,584) | - |
| | | <hr/> | <hr/> |
| | | (696,474) | 835,724 |
| | | <hr/> | <hr/> |
| | Intangible fixed assets | £ | £ |
| | UK | 593,408 | 347,653 |
| | Ukraine | - | 1,473,714 |
| | Romania | 61,162 | 2,923,035 |
| | Poland | - | 10,584 |
| | France | 12,474 | 6,775 |
| | Egypt | 231,599 | 47,641 |
| | Western Sahara | 62,360 | 43,927 |
| | | <hr/> | <hr/> |
| | | 961,003 | 4,853,329 |
| | | <hr/> | <hr/> |
| | Tangible fixed assets | £ | £ |
| | UK | 4,035,059 | 851,415 |
| | Romania | - | 2,684,946 |
| | | <hr/> | <hr/> |
| | | 4,035,059 | 3,536,361 |
| | | <hr/> | <hr/> |
| | Acquired operations refers to the Crosby Warren oil field See Note 10 | | |
| 3 | Operating profit/(loss) is stated after charging | £ | £ |
| | Auditors' remuneration | | |
| | Fees payable to the auditor for the audit of the annual accounts | 15,000 | 8,500 |
| | Depreciation (£443,505 for discontinued operations and £53,001 for acquired operations) | 598,798 | 150,164 |
| | | <hr/> | <hr/> |

EUROPA OIL & GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2007 (continued)

| | | | |
|----------|---|-------------|-----------------------|
| 4 | Directors' emoluments | 2007 | 2006 |
| | | £ | £ |
| | All directors | | |
| | Consideration paid to third parties | - | 11,124 |
| | | <hr/> | <hr/> |
| 5 | Employee information | | |
| | The average number of persons, including directors, employed during the year was 20 (2006 20) | | |
| | | £ | Restated £ |
| | Staff costs | | |
| | Wages and salaries | 35,560 | 33,243 |
| | Social security costs | 17,250 | 12,283 |
| | Pension costs | 2,680 | - |
| | Share incentive plan | 7,664 | 10,597 |
| | | <hr/> | <hr/> |
| | | 63,154 | 56,123 |
| | | <hr/> | <hr/> |
| 6 | Interest receivable and similar income | £ | £ |
| | Bank interest receivable | 3,532 | 3,846 |
| | Exchange rate gain | 2,289 | - |
| | | <hr/> | <hr/> |
| | | 5,821 | 3,846 |
| | | <hr/> | <hr/> |
| 7 | Interest payable and similar charges | £ | £ |
| | Bank interest payable | 19,599 | 6,761 |
| | Bank charges | 35,948 | 941 |
| | Unwinding of discount on decommissioning provision | 13,661 | - |
| | Loan interest payable | 143,105 | - |
| | Exchange rate loss | 3,601 | 22,403 |
| | | <hr/> | <hr/> |
| | | 215,914 | 30,105 |
| | | <hr/> | <hr/> |

During the year repayment terms were agreed with the loan provider in respect of the West Firsby oil field 'Loan interest payable' includes £143,105 which represents an amount above the outstanding capital balance and interest normally due under the loan paid to the loan provider in satisfaction of the loan obligation

EUROPA OIL & GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2007 (continued)

| | | |
|--|-------------|-------------|
| 8 Tax on profit on ordinary activities | 2007 | 2006 |
| | £ | £ |
| Current Tax | | |
| UK corporation tax at 50% (2006 50%) | 504,029 | (400,734) |
| Overseas tax | (9,594) | (1,158) |
| | <hr/> | <hr/> |
| | 494,435 | (401,892) |
| Deferred Tax | | |
| Timing difference origination and reversal (note 15) | (1,400,393) | (590,593) |
| | <hr/> | <hr/> |
| | (905,958) | (992,485) |
| | <hr/> | <hr/> |
| | £ | £ |
| (Loss)/profit on ordinary activities per the accounts | (906,567) | 809,465 |
| | <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% (2006 30%) | (271,970) | 242,840 |
| Expenses not deductible for tax purposes | 547,893 | 3,179 |
| Capital allowances in (deficit)/excess of depreciation | (914,612) | 83,988 |
| Losses utilised in year | - | (61,207) |
| Other items subject to taxation | - | 6,160 |
| Supplementary North Sea oil taxation | 134,660 | 125,774 |
| Overseas tax | 9,594 | 1,158 |
| | <hr/> | <hr/> |
| Total current tax charge | (494,435) | 401,892 |
| | <hr/> | <hr/> |

The company has a net deferred tax asset of £387,587 (2006 £45,078), in relation to overseas trading losses, that has not been recognised in the accounts as the transfer of economic benefit is uncertain

EUROPA OIL & GAS LIMITED**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2007 (continued)****9 Intangible fixed assets**

| | Cost of exploration £ |
|-------------------------------------|--------------------------------------|
| Cost | |
| At 1 August 2006 | 4,853,329 |
| Additions | 1,300,542 |
| Disposal | (3,593,144) |
| Exploration and appraisal write-off | (1,599,724) |
| | <hr/> |
| At 31 July 2007 | 961,003 |

Fixed asset disposals represent the sale of the Romanian exploration concessions to Europa Oil & Gas SRL at cost

10 Tangible fixed assets

| | Cost of producing fields £ |
|-----------------------|---|
| Cost | |
| At 1 August 2006 | 4,450,986 |
| Additions | 3,905,685 |
| Disposal | (2,787,980) |
| | <hr/> |
| At 31 July 2007 | 5,568,691 |
| | <hr/> |
| Depreciation | |
| At 1 August 2006 | 914,625 |
| Charge for year | 619,007 |
| | <hr/> |
| At 31 July 2007 | 1,533,632 |
| | <hr/> |
| Net book value | |
| At 31 July 2007 | 4,035,059 |
| | <hr/> |
| At 31 July 2006 | 3,536,361 |

Fixed asset additions include £258,761 for the purchase of the Crosby Warren oil field and £971,562 for the purchase of the West Firsby oil field both located in the East Midlands, UK. Fixed asset disposals include the sale of the Bilca gas field in Romania to Europa Oil & Gas SRL.

EUROPA OIL & GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2007 (continued)

| 11 | Investments – Company | Investment in subsidiaries £ |
|----|-----------------------|---------------------------------------|
| | Cost | |
| | At 1 August 2007 | 33,433 |
| | Addition | - |
| | | <hr/> |
| | At 31 July 2007 | 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. The results of this company have been included in the consolidated accounts of the parent company, Europa Oil & Gas (Holdings) plc

| 12 | Stock | 2007 £ | 2006 £ |
|----|---|-----------|-----------|
| | Oil & gas in tanks | 76,379 | 5,705 |
| | | <hr/> | <hr/> |
| 13 | Debtors | £ | £ |
| | Trade debtors | 139,146 | 121,477 |
| | Other debtors | 364,479 | 173,206 |
| | Corporation tax | 183,295 | - |
| | Amounts owed by group undertakings – fellow subsidiaries | 5,493,228 | - |
| | Prepayments and accrued income | 26,111 | 25,366 |
| | | <hr/> | <hr/> |
| | | 6,206,259 | 320,049 |
| | | <hr/> | <hr/> |

EUROPA OIL & GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2007 (continued)

| | | | |
|----|--|-------------|-------------|
| 14 | Creditors: amounts falling due within one year | 2007 | 2006 |
| | | £ | £ |
| | Bank loans and overdrafts | 519,864 | - |
| | Trade creditors | 1,479,624 | 9,385 |
| | Amounts owed to group undertakings | 3,799,948 | 3,456,024 |
| | Other creditors including taxation and social security | 673,500 | 102,815 |
| | Corporation tax | - | 400,734 |
| | Accruals and deferred income | 33,048 | 8,500 |
| | | <hr/> | <hr/> |
| | | 6,505,984 | 3,977,458 |
| | | <hr/> | <hr/> |

On the 10 May 2007 the company entered into a £2 million uncommitted multi-option facility with its bankers which can be utilised in either sterling or foreign currency via an overdraft or the issue of bonds, guarantees, indemnities or Standby Letters of Credit. Included above within 'Bank loans and overdrafts' is an overdraft £480,498 (2006 £nil) which has been utilised under this facility. The £2 million uncommitted multi-option facility referred is secured over the assets of Europa Oil & Gas (Holdings) plc, Europa Oil & Gas Limited and Europa Oil & Gas (West Firsby) Limited. The facility is repayable on demand with a review date of the 30 April 2008 and can be extended by mutual agreement. Interest is charged at the relevant sterling base rate or equivalent foreign currency rate plus the banks margin.

Included above within 'Bank loans and overdrafts' is a bank loan of £39,366 (2006 £nil) for the purchase of the Crosby Warren oil field.

During the year repayment terms were agreed with the loan provider in respect of the Group's West Firsby oil field and a remaining payment of £398,724 is shown within 'Other creditors including taxation and social security'.

As at 31 July 2007 included in amounts owed to group undertakings is an amount of £948,217 in respect of a \$3 million unsecured loan facility provided by Europa Oil & Gas (Holdings) plc which is repayable on the 1 December 2007. Interest is payable at the three monthly London Interbank Offered Rate plus 1%. This loan was previously owed by Europa Oil & Gas (West Firsby) Limited but during the year the West Firsby oil field was sold to Europa Oil & Gas Limited and with it a transfer of the loan obligation.

EUROPA OIL & GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2007 (continued)

| 15 | Provisions | Deferred taxation £ | Decommis- sioning £ | Total £ |
|----|--|---------------------------|---------------------------|------------|
| | As at 1 August 2006 | 590,593 | - | 590,593 |
| | Increase in provision | - | 633,059 | 633,059 |
| | Release of provision | - | (222,880) | (222,880) |
| | Net charge to profit and loss account in year | 1,400,393 | 27,488 | 1,427,881 |
| | At 31 July 2007 | 1,990,986 | 437,667 | 2,428,653 |

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.

The increase in decommissioning provision during the year is from the commencement of production from the Crosby Warren oil field and Bilca gas field and on the acquisition of the West Firsby oil field. The release of the decommissioning provision is from the effective date of the sale of the Bilca gas field.

| 16 | Deferred tax | £ 2007 | £ 2006 |
|----|---|-----------|-------------|
| | <i>Analysis of deferred tax balance</i> | | |
| | Accelerated capital allowances | 2,002,232 | 590,593 |
| | Decommissioning provision | (11,246) | - |
| | Undiscounted provision for deferred tax | 1,990,986 | 590,593 |
| | <i>Unrecognised deferred tax</i> | £ | £ |
| | Accelerated capital allowances | (91,924) | (1,680,032) |
| | Overseas trading losses | 479,511 | 1,725,110 |
| | Net deferred tax asset | 387,587 | 45,078 |

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 2007 (continued)

| | | | |
|----|---|----------------------|--------------------------------|
| 17 | Called up share capital | 2007 | 2006 |
| | | £ | £ |
| | Authorised | | |
| | 1,000,000 ordinary shares of 10p each | 100,000 | 100,000 |
| | | <hr/> | <hr/> |
| | Allotted, called up and fully paid | | |
| | 19,340 ordinary shares of 10p each | 1,934 | 1,934 |
| | | <hr/> | <hr/> |
| 18 | Reserves | Share Premium | Profit and loss account |
| | | £ | £ |
| | Balance at 1 August 2006 | 3,266,098 | 915,094 |
| | Loss retained for the period | - | (1,812,525) |
| | Costs relating to share option plans | - | 7,664 |
| | | <hr/> | <hr/> |
| | Balance at 31 July 2007 | 3,266,098 | (889,767) |
| | | <hr/> | <hr/> |
| 19 | Reconciliation of movements in shareholders' funds | Restated | |
| | | £ | £ |
| | Loss for the financial period | (1,812,525) | (183,020) |
| | Costs relating to share option plans | 7,664 | 10,597 |
| | | <hr/> | <hr/> |
| | Net reduction to shareholders' funds | (1,804,861) | (172,423) |
| | Opening shareholders' funds | 4,183,126 | 4,355,549 |
| | | <hr/> | <hr/> |
| | Closing shareholders' funds | 2,378,265 | 4,183,126 |
| | | <hr/> | <hr/> |

EUROPA OIL & GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2007 (continued)

20 Share Options

There are 240,000 ordinary share options of 1p (2006 160,000) exercisable at 25p per share. These are held by employees of the Company. Of these 240,000 ordinary share options of 1p

- (1) from 11 November 2004, a third of 1,060,000 ordinary share options are exercisable after 18 months, a further third after 30 months and the balance after 42 months,
- (2) from 1 December 2006, a third of 200,000 ordinary share options are exercisable after 18 months, a further third after 30 months and the balance after 42 months

The latest date at which the options in (1) and (2) above can be exercised is the 10th anniversary from the date of award.

No share options were exercised, expired or forfeited during the year. 80,000 share options were granted in the year and detailed in (2) above.

The following were used in the valuation of granted share options

| Grant date | 11 November 2004 | 1 December 2006 |
|------------------------------|------------------|-----------------|
| Share price at date of grant | £0.3255 | £0.2155 |
| Exercise price | £0.2500 | £0.2500 |
| Volatility | 40.00% | 50.00% |
| Dividend yield | 0.00% | 0.00% |
| Risk free investment rate | 4.80% | 4.90% |
| Employee turnover | 0.00% | 0.00% |
| Fair value estimate | £0.1700 | £0.1000 |

Volatility for the shares granted on 11 November 2004 has been based on the Company's share price volatility in the first year of flotation on the AIM market. Volatility for the shares granted on 1 December 2006 has been based on the Company's share price volatility since its flotation on the AIM market.

Based on the above fair values the expense arising from share options awarded to employees was £7,664 (2006 £10,597).

EUROPA OIL & GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 JULY 2007 (continued)

21 Commitments

As at the 31 July 2007 the Group had a contractual commitment to drill two wells in the UK. The Company estimates that its share of these costs is approximately £3.9 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.

Europa Oil & Gas Limited pays an annual site rental for the land upon which the West Firsby and Crosby Warren oil field facilities are located.

The West Firsby oil field lease is for 30 years from the 23 September 1999 and can be determined upon giving 2 months notice. The annual cost is currently £15,557 and increases in line with the retail price index.

The Crosby Warren oil field lease is for more than 15 years until the 31 December 2022 and can be determined upon giving 3 months notice. The annual cost is currently £20,000 and is reviewed every 5 years the next being in 2010.

22 Related party transactions

During the year C W Ahlefeldt-Laurvig did not provide services as a petroleum engineer on a consultancy basis. These services totalled £nil (2006 £11,124). At the 31 July 2007 C W Ahlefeldt-Laurvig was due £nil (2006 £2,284).

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.

23 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.

24 Post balance sheet events

On the 30 November 2007 a full and final payment was made to the loan provider of the Group's West Firsby oil field as detailed in note 14.

Following the year-end the licence P1131 covering 41/24a and 41/25a in the UK North Sea lapsed and with it a release from a £2.5mm commitment referred to in note 21.