

3093716

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

For the Year Ended 31 July 2008

THURSDAY



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Directors and advisors

Company registration number

3093716

Registered office

11 The Chambers
Vineyard
Abingdon
Oxon
OX14 3PX

Directors

P A Barrett
P Greenhalgh
E S Syba

Secretary

P Greenhalgh

Bankers

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

Solicitors

Fasken Martineau Stringer Saul
17 Hanover Square
London
W1S 1HU

Auditor

Nexia Smith & Williamson
25 Moorgate
London
EC2R 6AY

Directors' report

The directors present their report and the audited financial statements for the year ended 31 July 2008.

Principal Activities

The principal activity of Europa Oil & Gas Limited (Europa) is investment in oil and gas exploration, development and production. The Company's assets and activities are located in the United Kingdom, Ukraine, France, Western Sahara and Egypt. The Board has considered and will continue to consider investments in Europe and the North Africa region.

Licence Interests Table

Country	Project	Equity	Operator	Status
UK	Crosby Warren	100%	Europa	Production
UK	West Firsby	100%	Europa	Production
UK	Whisby (W4 only)	65%	BPEL	Production
UK	PEDL143(Holmwood)	40%	Europa	Exploration Holmwood-1 well planned 09
UK	PEDL150 (SW Linc)	50% *	Europa	Exploration Hykeham-1 formally known as Gravel Pits well planned 09
UK	PEDL180/181	50%	Europa	New licence
UK	PEDL222 Torksey area	50%	Valhalla	New licence
UK CS	109/5 & 112/30 (East Irish Sea)	50%	Europa	Exploration
France	Béarn des Gaves	100%	Europa	Exploration, new licence, possible field development
France	Tarbes val d'Adour	100%	Europa	New licence
Egypt	West Darag onshore	60% *	Europa	Exploration
Western Sahara	Hagounia / Bir Lehlou	100%	Europa	Inactive – force majeure
Ukraine	Horodok Gasfield	70%	Europa	Planned asset sale

* assumes full take up of farm in option

United Kingdom

The Company has interest in both the UK offshore and UK onshore. Onshore, the Company has built a balanced exploration and production portfolio. These assets include three producing oilfields and a wide range of exploration leads and prospects across the highly petroliferous East Midlands Basin and a key exploration prospect in the Weald Basin of southern England, the Holmwood Prospect. Offshore, Europa has a 50% interest in a very large Carboniferous prospect in the East Irish Sea on which there is a 1.5 tcf prospect (250mmboe). This prospect, although high risk, if successful would clearly take the Company to a different level.

Production/Development

Europa's East Midlands fields continue to produce strongly, with an overall 15% increase in volumes over the previous year. There are further increases targeted at both West Firsby and Crosby Warren.

Directors' report (continued)

United Kingdom (continued)

Production/Development (continued)

At West Firsby, where the wells are produced using jet pumps, additional perforations have been made in the WF6 well, resulting in an increase in field oil production. A study of the operation of the jet pump system has highlighted the potential for a further increase in oil production by upgrading the facilities. In addition, a production well location is being finalized utilising a newly reprocessed seismic dataset. The field, which has produced only 10.9% of the oil-in-place to date, requires an additional production well to optimize recovery. The WF9 well is scheduled to be drilled in 2009, the exact timing being dependent on rig availability.

At Crosby Warren, the new production well, CW-2Y, has been put on stream but continues to suffer from operational problems. The well is capable of good oil production but the oil flow rates are being affected by interference from produced gas. This phenomenon also occurs in the CW-1 well. A detailed study is being undertaken on the wells to determine the best completion for these high gas production oil wells. This should increase oil production from the Crosby Warren site.

The Company's production at Whisby has continued to perform strongly. The performance is testament to the geological understanding of the field by the Europa directors back in 2003, leading to the drilling of a well which has an estimated remaining recoverable reserve of 0.2 mmbo.

Exploration

In PEDL143, we progress towards obtaining planning permission for the Holmwood-1 well, a robust prospect situated in the northern part of the Weald Basin, close to the Albury and Brockham fields. Good progress has been made with the local authorities in respect of the planning application for this well and it is expected that the submission will be finalised in the near future.

In PEDL150, planning permission was granted for the Hykeham-1 (formerly Gravel Pits-1) prospect and this is the next UK well scheduled to be drilled. It is a 4-way dip closed structure, confirmed by seismic data acquired in 2007, some 2km from Europa's existing production at Whisby. Thick reservoir development at the nearby Caledonian Farm-1 well indicates the potential for significantly thicker oil pay at Hykeham than at Whisby. It is anticipated this well will spud in early 2009, as a consequence of a delay in securing a drilling unit. Several other prospects are present on the licence, including a Caledonian Farm re-drill which becomes a 'must drill' prospect in the event of success at Hykeham. Close by, the West Whisby structure is also well defined, with an additional deep 4-way dip closed target. Several further leads may require additional seismic acquisition, but it is clear that this licence is highly prospective.

The exploration portfolio has been significantly enhanced with three awards in the UK 13th onshore round in 2008. PEDL222, situated to the north of Whisby, contains several exploration leads which are to be evaluated with new seismic data. The largest and most exciting award was that in NE Lincolnshire, comprising approx 600km² across two licences (PEDL180/181).

The PEDL180/181 licences lie in the underexplored Humber Basin. Whilst there has been little drilling in this basin, success has been demonstrated by the Saltfleetby Gasfield, the largest onshore UK gasfield, which is now being prepared for gas storage. Commercial oil is proven at Keddington and Crosby Warren and the initial evaluation of the area undertaken for the licence application highlighted a surprisingly large number of undrilled features. At the time of the application, Europa had identified a total of 10 leads and prospects from existing data with total unrisks prospective resource of 25 million barrels net to Europa. Not all of these structures will survive scrutiny with the incorporation of additional seismic data, but it is apparent that this region represents one of the most prospective under-explored onshore areas in the UK for both gas and oil.

Directors' report (continued)

United Kingdom (continued)

Exploration (cont'd)

PEDL222 contains the undeveloped Torksey oil discovery. The petroleum system is proven on-block and 3 leads have been identified which will be matured using existing, newly available, seismic data. The acreage is a perfect adjunct to the Company's existing acreage, bridging two 'stranded' areas of PEDL150 that, without the additional acreage, could not be properly evaluated.

Offshore, on the 109/5 East Irish Sea block, the prospect contains mid-range prospective resources of 0.75 tcf (125 million boe) net to Europa. The prospect is a classic high risk - high reward prospect. The play is a large Carboniferous fault-block with potential in Namurian sandstones for significant gas volumes. The decision to commit to drilling this well or relinquish the acreage must be made by June 2009.

France

The Company was awarded a second permit in the Aquitaine Basin of southwest France in early 2008. This permit, the Tarbes Val d'Adour (TVd'A), complements the Company's existing permit of Béarn des Gaves (BdG). The TVd'A permit is surrounded by existing producing oilfields and contains the Jacque and Osmets Oilfields, both of which were put into production briefly before being shut-in during the oil price crash of 1986. Both Jacque and Osmets produced medium gravity oil from Cretaceous reef carbonates. The most promising candidate for a field redevelopment pilot project is a re-drill of the Osmets-2 well, where a sequence of porous beds was only partly exploited. The upper part of these units, up to 9m of net pay, has never been produced. A well to target these horizons at a high angle would provide an excellent test of the long-term productivity of these units. It is hoped this well can be drilled in 2009.

Elsewhere in Europa's French portfolio, the reprocessing of seismic in the BdG permit has identified an area with amplitude anomalies in the northwest of the licence, suggestive of gas accumulations. Trials are being undertaken with the data to quantify these possible gas effects on the seismic, though it is likely that new seismic data will be required prior to any drilling. The BdG permit has the deep high pressure Berenx-1 gas discovery, drilled by Elf in 1975. The appraisal and development of this discovery, or any further drilling along trend, is an expensive, specialised operation and the Company will be seeking a competent HPHT partner to achieve this goal in due course.

Egypt

An evaluation of the existing database on the West Darag concession has led to a concentration of effort on the rift margin triangle in the Sukhna area. In this area, Gulf of Suez rifting overprints earlier Mesozoic carbonate systems and the overall effect is a confluence of Mesozoic (Western Desert) style source rock systems and younger, Gulf of Suez, reservoir systems. The existing seismic database has highlighted undrilled structures which will require new infill data to be acquired before a drilling location can be chosen. It is anticipated these data will be acquired in early 2009.

Western Sahara

These two highly prospective licences remain under force majeure.

Ukraine

A letter of intent was signed between the Company and a Swedish-listed oil and gas company in anticipation of an outright sale of the Ukraine assets.

Directors' report (continued)

Results for the year and dividends

The Company profit for the year after taxation was £1,093,000 (2007: loss £1,912,000). The directors do not recommend the payment of a dividend (2007: £nil).

Directors

The directors who served during the year were as follows:

KE Ainsworth	Resigned 22 January 2008
PA Barrett	
P Greenhalgh	Appointed 22 January 2008
ES Syba	

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

Accounting policies

A full list of accounting policies is set out in the notes to the accounts. The accounts have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small entities.

Disclosure of information to the auditors

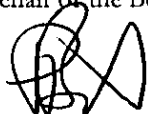
In the case of each person who was a director at the time this report was approved:

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

Auditors

A resolution to re-appoint the auditors, Nexia Smith & Williamson, will be proposed at the next Annual General Meeting.

On behalf of the Board 25 February 2009



Paul Barrett
Managing Director

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union. The directors are required to prepare financial statements for each financial year which present fairly the financial position of the Company and the financial performance and cash flows of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the 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.

The directors confirm that they have complied with these requirements and, having a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the financial statements.

Nexia Smith & Williamson

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

We have audited the Company financial statements ('the financial statements') of Europa Oil & Gas Limited for the year ended 31 July 2008 which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statements and the related notes 1 to 27. These financial statements 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union applied in accordance with the provisions of the Companies Act 1985.

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

We read the information contained within the Directors' Report and consider whether it is consistent with the audited accounts.

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.

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, 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 financial statements 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 financial statements.

Nexia Smith & Williamson

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs at 31 July 2008 and of the Company's profit for the year then ended.
- the financial statements have been properly prepared in accordance with the Companies Act 1985;
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Company's ability to continue as a going concern and the significant judgment made concerning the recoverability of amounts due from its subsidiary in Romania.

Although the Company made a profit for the year to 31 July 2008 of £1,093,000, and at that date it had net current assets of £4,029,000, as described in note 16, its bank facility is currently being renegotiated and as described in note 22 the Company has significant contractual commitments.

As described in note 1, the directors have plans to manage the cashflows of the Company to enable it to continue as a going concern, and the group is taking action to secure the future of its Romanian subsidiary. However, these conditions, along with other matters explained in note 1 to the financial statements, indicate the existence of material uncertainty which may cast significant doubt about the ability of the Company to continue as a going concern.

The financial statements do not include the adjustments that would result if the Company or the Group of which it is a part were unable to continue as a going concern.

Nexia Smith & Williamson

Nexia Smith & Williamson
Chartered Accountants
Registered Auditors

27/2/09

25 Moorgate
London
EC2R 6AY

Income statement for the year ended 31 July 2008

		2008 £000	2007 £000
Continuing operations	Note		
Revenue	2	4,418	1,462
Cost of sales		(1,599)	(611)
Gross profit		<u>2,819</u>	<u>851</u>
Administrative expenses		(160)	(22)
Other operating expenses		(3)	(79)
Exploration expenses		(1)	-
Finance income	6	-	4
Finance costs	7	(150)	(203)
Profit before taxation	3	<u>2,505</u>	<u>551</u>
Taxation	8	(1,412)	(886)
Profit / (loss) for the period from continuing operations		<u>1,093</u>	<u>(335)</u>
Discontinued operations			
Loss for the period from discontinued operations		-	(1,577)
Profit / (loss) for the period		<u><u>1,093</u></u>	<u><u>(1,912)</u></u>

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

Balance sheet as at 31 July 2008

	Note	2008 £000	2007 £000
Assets			
Non-current assets			
Intangible assets	9	1,138	797
Property, plant and equipment	10	5,396	4,035
Investments	11	33	33
Total non-current assets		<u>6,567</u>	<u>4,865</u>
Current assets			
Inventories	12	16	33
Trade and other receivables	13	6,237	6,206
Cash and cash equivalents		-	1
Total current assets		<u>6,253</u>	<u>6,240</u>
Total assets		<u>12,820</u>	<u>11,105</u>
Liabilities			
Current liabilities			
Trade and other payables	14	(705)	(5,988)
Current tax liabilities		(367)	-
Short-term borrowings	16	(1,152)	(520)
Total current liabilities		<u>(2,224)</u>	<u>(6,508)</u>
Non-current liabilities			
Long-term borrowings	15	(3,360)	-
Deferred tax liabilities	17	(2,601)	(1,944)
Long-term provisions	18	(1,058)	(438)
Total non-current liabilities		<u>(7,019)</u>	<u>(2,382)</u>
Total liabilities		<u>(9,243)</u>	<u>(8,890)</u>
Net assets		<u>3,577</u>	<u>2,215</u>
Equity			
Share capital	19	2	2
Share premium account		3,266	3,266
Forex reserve		261	-
Retained earnings		48	(1,053)
Total equity		<u>3,577</u>	<u>2,215</u>

The accounts have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small entities. These financial statements were approved by the Board of directors on 25 February 2009 and signed on its behalf by:



P Greenhalgh
Finance Director

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

Statement of changes in equity for the years ended 31 July 2007 and 2008

	Share capital £000	Share premium £000	Forex reserve £000	Retained earnings £000	Total equity £000
Balance at 1 August 2006	2	3,266	-	852	4,120
Changes in equity for year					
Exchange difference on translation of foreign operations	-	-	-	-	-
Loss for the year	-	-	-	(1,912)	(1,912)
Total recognised income and expense for the year	-	-	-	(1,912)	(1,912)
Share based payment	-	-	-	7	7
Issue of share capital	-	-	-	-	-
Balance at 31 July 2007	2	3,266	-	(1,053)	2,215

	Share capital £000	Share premium £000	Forex reserve £000	Retained earnings £000	Total equity £000
Balance at 1 August 2007	2	3,266	-	(1,053)	2,215
Changes in equity for year					
Exchange difference on translation of foreign operations	-	-	261	-	261
Profit for the year	-	-	-	1,093	1,093
Total recognised income and expense for the year	-	-	261	1,093	3,569
Share based payment	-	-	-	8	8
Issue of share capital	-	-	-	-	-
Balance at 31 July 2008	2	3,266	261	48	3,577

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

Cashflow statement for the year ended 31 July 2008

	2008 £000	2007 £000
Cash flows from continuing operating activities		
Profit / (loss) after taxation	1,093	(335)
Adjustments for:		
Share based payments	8	7
Forex reserve	261	-
Depreciation including exploration and appraisal write off	517	619
Finance income	-	(4)
Finance expense	150	203
Taxation expense recognised in profit and loss	1,412	886
Decrease / (increase) in inventories	17	(31)
(Increase) / decrease in trade and other receivables	(224)	307
(Decrease) / increase in trade and other payables	(553)	724
Cash generated from operations	2,681	2,376
Interest paid	(67)	(42)
Income taxes paid	(322)	(80)
Net cash from continuing operating activities	2,292	2,254
Net cash from discontinued operating activities	-	22
Net cash from operating activities	2,292	2,276
Cash flows used in investing activities		
Purchase of property, plant and equipment and intangible assets	(2,517)	(2,797)
Proceeds from sale of property, plant and equipment	23	-
Interest received	-	2
Net cash used in investing activities	(2,494)	(2,795)
Cash flows from financing activities		
Repayment of borrowings	(439)	-
Net cash from financing activities	(439)	-
Net decrease in cash and cash equivalents	(641)	(519)
Exchange gain / (loss) on cash	8	(2)
Cash and cash equivalents at beginning of period	(519)	2
Cash and cash equivalents at end of period	(1,152)	(519)

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

Notes to the financial statements (continued)

1 Accounting Policies

Basis of accounting

The financial statements have been prepared in accordance with applicable International Financial Reporting Standards as adopted by the EU and International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

The financial statements have been prepared under the historical cost convention. The measurement bases and principal accounting policies of the Company are set out below. 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 policies have changed from the previous year when the financial statements were prepared under applicable United Kingdom Generally Accepted Accounting Practice (UK GAAP). The comparative information has been restated in accordance with IFRS. The changes to accounting policies are explained in note 26, together with the reconciliation of opening and prior year balances. The date of transition to IFRS was 1 August 2006.

The Company has taken advantage of certain exemptions available under IFRS 1 First-time Adoption of International Financial Reporting Standards. The exemptions used are explained under the respective accounting policy.

The accounting policies that have been applied in the opening balance sheet have also been applied throughout all periods presented in these financial statements. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 July 2008.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

		Effective date
IFRS 8:	Operating Segments	1 January 2009
IAS 1 (amended):	Presentation of financial statements	1 January 2009

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company.

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 consolidated balance sheet.

Going Concern

After making enquiries, the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Company can secure adequate resources to continue in operational existence for the foreseeable future based on correspondence with its bankers and the performance of its existing oil production, the latter having generated a profit for the Company of £1,093,000 for the year to 31 July 2008.

Notes to the financial statements (continued)

1 Accounting Policies (continued)

Going Concern (continued)

For this reason, the directors continue to adopt the going concern basis in preparing the financial statements. However, the directors have not yet secured the necessary funds to meet the Company's liabilities, including the planned forward work programme (see note 22), these being primarily the future revenues to be generated from its current oil production and the renewal of existing banking facilities (see note 16). Recent events have generated significant uncertainty in the credit markets and precipitated a major fall in oil prices, both of which are ongoing events outside the control of the directors. Accordingly there is no certainty over the outcome of the matters described.

The directors consider that based upon income projections, the efforts being made to reduce liabilities through trade arrangements, assurances that the parent undertaking will not call amounts due to it and dependent on the success of their efforts to renew the banking facilities, the Company will be a going concern for twelve months from the date of approval of these financial statements.

As described on page 20, the financial statements of the parent company, Europa Oil & Gas (Holdings) plc, disclose uncertainties regarding the ability of the Group to continue as a going concern and to fund the development of its subsidiary's assets, and that impairment to these assets may result from a failure to secure such funding.

If it is not possible for the directors to secure adequate resources, the carrying value of the assets of the Company including intangible exploration assets and the investment of the Company in its subsidiaries are likely to be partially impaired. In addition, other costs and write downs may arise in the course of seeking to fund the liabilities of the Company.

Business combinations completed prior to the date of transition to IFRS

The Company has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations prior to 1 August 2006.

Accordingly the classification of the combination (acquisition, reverse acquisition or merger) remains unchanged from that used under UK GAAP. Assets and liabilities are recognised at date of transition if they would be recognised under IFRS, and are measured using their UK GAAP carrying amount immediately post-acquisition as deemed cost under IFRS, unless IFRS requires fair value measurement. Deferred tax and minority interest are adjusted for the impact of any consequential adjustments after taking advantage of the transitional provisions.

The transitional provisions used for past business combinations apply equally to past acquisitions of interests in associates and joint ventures.

Revenue Recognition

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

Non-current assets

Oil and Gas interests

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

Notes to the financial statements (continued)

1 Accounting Policies (continued)

Non-current assets (continued)

Pre-production assets

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

Production assets

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

Impairment tests

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

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

Depreciation

All expenditure within each geographical cost pool is depreciated from the commencement of production, on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of 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 or gas production. A corresponding tangible non-current 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 non current 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.

Notes to the financial statements (continued)

1 Accounting Policies (continued)

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. Reserves used in accounting estimates for depreciation are updated periodically to reflect management's view of reserves in conjunction with third party formal reports. Reserves are reviewed at the time of formal updates or as a consequence of operational performance, plans and the business environment at that time.

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

Taxation

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

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

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

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

Foreign currency

The Company prepares its financial statements in Sterling.

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

Notes to the financial statements (continued)

1 Accounting Policies (continued)

Foreign currency (continued)

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the profit or loss in the period in which they arise. Exchange differences on non-monetary items are recognised in the statement of changes in equity to the extent that they relate to a gain or loss on that non-monetary item taken to the statement of changes in equity, otherwise such gains and losses are recognised in the income statement.

The assets and liabilities in the financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at monthly average rates providing there is no significant change in the month. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to the "Foreign currency reserve" in equity. On disposal of a foreign operation the cumulative translation differences (including, if applicable, gains and losses on related hedges) are transferred to the income statement as part of the gain or loss on disposal.

Europa Oil & Gas Limited is domiciled in the UK, which is its primary economic environment and the Company's functional currency is Sterling. Management has elected to continue to present the consolidated financial statements of the Company in Sterling.

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

Financial instruments

Financial assets and liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument.

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

Trade and other receivables are measured at fair value. A provision is established when there is objective evidence that the Company will not be able to collect all amounts due. The amount of any provision is recognised in the income statement.

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

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

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

Interest bearing bank loans, overdrafts and other loans are initially recorded at fair value, which is ordinarily equal to the proceeds received net of direct issue costs. Finance costs are accounted for on an accruals basis in the income statement using the effective interest method.

Notes to the financial statements (continued)

1 Accounting Policies (continued)

Leased assets

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

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

Defined contribution pension schemes

The pension costs charged against profits are the contributions payable to the scheme in respect of the accounting period.

Inventories

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

Share-based payments

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 August 2006 are recognised in the financial statements.

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

Share-based payments

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to reserves.

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

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

Notes to the financial statements (continued)

1 Accounting Policies (continued)

Significant judgements and estimates

Judgements and estimates are regularly evaluated based on historical experience, current circumstances and expectations of future events.

The critical judgements and estimates made in the preparation of the financial statements set out below were made in accordance with the appropriate IFRS and the Company's accounting policy. The resulting accounting estimate may not equal the related actual result.

Intangible assets are tested for impairment annually. In accordance with IAS 36, an intangible asset is considered impaired when its carrying amount exceeds its recoverable amount on an individual cash generating unit basis. The recoverable amounts of relevant cash generating units are based on value in use calculations using management's best estimate of future business performance.

The financial statements of the parent company, Europa Oil & Gas (Holdings) plc, disclose uncertainties regarding the ability of the Group to continue as a going concern and to fund the development of its subsidiary's assets, and that impairment to these assets may result from a failure to secure such funding. As described in Note 23, the Company is due significant sums from that subsidiary (Europa Oil & Gas SRL).

In addition, as at 31 July 2008 filings required by the Romanian state relating to the Company's Romanian subsidiary were not all up to date and therefore a threat arises to the continuing existence of that subsidiary, which has title to the Company's Romanian assets. All the necessary returns are now filed or in the process of being completed and accordingly the directors believe that the Romanian subsidiary will not be struck off or declared dormant by the Romanian authorities.

In the event that the Romanian subsidiary were struck off, or its intangible assets impaired then the Company would need to write down the amount owed by the subsidiary since there would be little prospect of the amounts due from this subsidiary being recovered.

2 Business segment analysis

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

The Company's primary reporting format is determined to be the geographical segment according to the location of the oil and gas asset. There are currently 5 geographic reporting segments.

Notes to the financial statements (continued)

2 Business segment analysis (continued)

Segmental income statement for the year ended 31 July 2008

	UK	Romania	France	North Africa	Ukraine	Total
	£000	£000	£000	£000	£000	£000
Continuing operations						
Revenue	4,418	-	-	-	-	4,418
Cost of sales	(1,599)	-	-	-	-	(1,599)
Gross profit	2,819	-	-	-	-	2,819
Administrative expenses	(160)	-	-	-	-	(160)
Other operating expenses	(3)	-	-	-	-	(3)
Exploration expenses	-	(1)	-	-	-	(1)
Finance income	-	-	-	-	-	-
Finance costs	(150)	-	-	-	-	(150)
Profit / (loss) before tax	2,506	(1)	-	-	-	2,505
Income tax expense	(1,412)	-	-	-	-	(1,412)
Profit / (loss) for the period from continuing operations	1,094	(1)	-	-	-	1,093
Profit / (loss) for the period	1,094	(1)	-	-	-	1,093

Segmental balance sheet as at 31 July 2008

	UK	Romania	France	North Africa	Ukraine	Total
	£000	£000	£000	£000	£000	£000
Segment assets	12,378	-	49	393	-	12,820
Cash and cash equivalents	-	-	-	-	-	-
Total assets	12,378	-	49	393	-	12,820
Segment liabilities	(668)	(5,607)	-	-	-	(6,275)
Current tax liabilities	(367)	-	-	-	-	(367)
Deferred tax liabilities	(2,601)	-	-	-	-	(2,601)
Total liabilities	(3,636)	(5,607)	-	-	-	(9,243)
Other segment items						
Capital expenditure	1,990	-	49	203	-	2,242
Depreciation	517	-	-	-	-	517
Share based payments	6	-	-	2	-	8

Notes to the financial statements (continued)

2 Business segment analysis (continued)

Segmental income statement for the year ended 31 July 2007

	UK	Romania	France	North Africa	Ukraine	Total
	£000	£000	£000	£000	£000	£000
Continuing operations						
Revenue	1,462	-	-	-	-	1,462
Cost of sales	(611)	-	-	-	-	(611)
Gross profit	851	-	-	-	-	851
Administrative expenses	(22)	-	-	-	-	(22)
Other operating expenses	(20)	-	(6)	(53)	-	(79)
Exploration expenses	-	-	-	-	-	-
Finance income	4	-	-	-	-	4
Finance costs	(203)	-	-	-	-	(203)
Profit / (loss) before tax	610	-	(6)	(53)	-	551
Income tax expense	(886)	-	-	-	-	(886)
Loss for the period from continuing operations	(276)	-	(6)	(53)	-	(335)
Discontinued operations						
Loss for the period from discontinued operation	-	-	-	-	(1,577)	(1,577)
Loss for the period	(276)	-	(6)	(53)	(1,577)	(1,912)

Segmental balance sheet as at 31 July 2007

	UK	Romania	France	North Africa	Ukraine	Total
	£000	£000	£000	£000	£000	£000
Segment assets	10,848	66	-	190	-	11,104
Cash and cash equivalents	-	-	-	-	1	1
Total assets	10,848	66	-	190	1	11,105
Segment liabilities	(1,471)	(5,475)	-	-	-	(6,946)
Current tax liabilities	-	-	-	-	-	-
Deferred tax liabilities	(1,944)	-	-	-	-	(1,944)
Total liabilities	(3,415)	(5,475)	-	-	-	(8,890)
Other segment items						
Capital expenditure	3,038	-	-	149	-	3,187
Depreciation	619	-	-	-	-	619
Share based payments	7	-	-	-	-	7

Notes to the financial statements (continued)

3 Profit for the year is stated after charging:

Profit from continuing operations:

	2008	2007
	£000	£000
Depreciation	517	619
Fees payable to the auditor for the Company audit	48	15
Operating leases	32	8
	<u>597</u>	<u>642</u>

The loss for the year from discontinued operations in 2007 relates to the write down of assets in Ukraine amounting to £1,577,000.

4 Directors' emoluments (salaries and fees)

	2008	2007
	£000	£000
All directors	<u>-</u>	<u>-</u>

5 Employee information

Average number of employees including directors

	2008	2007
	Number	Number
Management and technical	4	-
Field exploration and production	16	20
	<u>20</u>	<u>20</u>

Total includes 16 (2007:19) based in the Ukraine (reported as discontinued operations).

Staff costs

	2008	2007
	£000	£000
Wages and salaries	98	20
Social security and tax	59	11
Pensions	17	3
Share incentive plan	7	8
	<u>181</u>	<u>42</u>

6 Finance income

	2008	2007
	£000	£000
Bank interest receivable	-	2
Exchange rate gains	-	2
	<u>-</u>	<u>4</u>

Notes to the financial statements (continued)

7 Finance costs

	2008	2007
	£000	£000
Bank interest payable	47	6
Loan interest payable	56	143
Interest on tax payment	15	-
Unwinding of discount on decommissioning provision	21	14
Exchange rate losses	9	4
Bank charges	2	36
	<u>150</u>	<u>203</u>

8 Taxation

	2008	2007
	£000	£000
Current tax charge / (credit)	755	(495)
Deferred tax charge	657	1,381
	<u>1,412</u>	<u>886</u>

UK corporation tax is calculated at 30% (2007 - 30%) of the estimated assessable profit for the year. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

	2008	2007
	£000	£000
Profit on ordinary activities per the accounts	<u>2,505</u>	<u>551</u>
<i>Tax reconciliation</i>		
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2007: 30%)	751	165
Expenses not deductible for tax purposes	145	576
Supplementary North Sea oil taxation	338	135
Adjustment re prior year	178	-
Overseas tax	-	10
Total tax charge	<u>1,412</u>	<u>886</u>

Notes to the financial statements (continued)

9 Intangible assets

	2008 £000	2007 £000
Cost		
At 1 August	797	4,768
Additions	342	1,221
At 31 July	<u>1,139</u>	<u>5,989</u>
Disposal and exploration write-off		
At 1 August	-	-
Disposal	-	3,593
Change for the year	1	1,599
At 31 July	<u>1</u>	<u>5,192</u>
Net book value		
At 1 August 2007	<u>797</u>	<u>4,768</u>
At 31 July 2008	<u>1,138</u>	<u>797</u>

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

	2008 £000	2007 £000
Romania	-	66
Egypt	288	131
France	49	-
Western Sahara	105	59
UK PEDL 143 (Holmwood)	140	84
UK PEDL 150 (SW Lincoln)	254	184
UK PEDL 180/181 (NE Lincs)	31	14
UK Continental Shelf	271	259
Total	<u>1,138</u>	<u>797</u>

Notes to the financial statements (continued)

10 Property, plant and equipment

Producing fields

	2008 £000	2007 £000
Cost		
At 1 August	5,569	4,451
Additions	1,900	3,906
Disposals	(1,085)	(2,788)
At 31 July	<u>6,384</u>	<u>5,569</u>
Depreciation and depletion		
At 1 August	1,534	915
Charge for year	517	619
Disposals	(1,063)	-
At 31 July	<u>988</u>	<u>1,534</u>
Net Book Value		
At 31 July	<u>5,396</u>	<u>4,035</u>

The producing fields referred to in the table above are the production assets of the Company, namely the oilfields at Crosby Warren and West Firsby; and the Company's share in the W4 well at Whisby.

11 Investments

Investment in subsidiaries

	£000
At 1 August 2007	33
Additions	-
31 July 2008	<u>33</u>

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

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

Notes to the financial statements (continued)

11 Investments (continued)

The aggregate capital, reserves and result for the year of the subsidiaries is as follow:

	Aggregate Capital and Reserves at 31 July 2008	Loss for year ended 31 July 2008
	£000	£000
Europa Oil & Gas SRL	(918)	(17)
Europa Nafta & Gas Ukraine	468	(477)

12 Inventories

	2008	2007
	£000	£000
Oil in tanks	<u>16</u>	<u>33</u>

13 Trade and other receivables

	2008	2007
	£000	£000
Trade receivables	550	139
Other receivables	36	365
Corporation tax	-	183
Owed by group undertakings	5,607	5,493
Prepayments and accrued income	44	26
	<u>6,237</u>	<u>6,206</u>

Amounts owed by group undertakings are due after more than one year.

14 Trade and other payables

	2008	2007
	£000	£000
Trade payables	321	1,480
Other payables	240	673
Accruals and deferred income	49	35
Owed to group undertakings	95	3,800
	<u>705</u>	<u>5,988</u>

The balance owed to group undertakings was consolidated into the long term borrowing facility referred to in Note 15.

Notes to the financial statements (continued)

15 Long term borrowings

	2008	2007
	£000	£000
Loans repayable in 1 to 2 years	3,360	-
Loans repayable in 2 to 5 years	-	-
Loans repayable after 5 years	-	-
	<u>3,360</u>	<u>-</u>

Long term borrowings represent a loan from the parent company Europa Oil & Gas (Holdings) plc drawn against a £5 million facility put in place on 21 July 2008.

16 Short term borrowings

	2008	2007
	£000	£000
Bank overdraft	1,152	481
Other bank loans	-	39
Total	<u>1,152</u>	<u>520</u>

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 letters of credit. Included within short term borrowings is an overdraft of £1,152,000 (2007: £481,000) which has been utilised under this facility. Europa Oil & Gas (Holdings) plc has a guarantee in place for \$1,150,000 (2007: \$1,150,000) in favour of a third party relating to a licence concession in an overseas jurisdiction. This financial guarantee is held by the third party to ensure that an agreed work programme for a minimum of the same value is undertaken by Europa. This facility is repayable on demand and is currently being renegotiated.

Included in "Other bank loans" in 2007 is a loan for the purchase of the Crosby Warren oilfield.

17 Deferred Tax

Recognised deferred tax liability:

	2008	2007
	£000	£000
As at 1 August	1,944	563
Charged to income statement	657	1,381
At 31 July	<u>2,601</u>	<u>1,944</u>

Notes to the financial statements (continued)

17 Deferred Tax (continued)

The Company has a net deferred tax liability of £2,601,000 (2007: £1,944,000) arising from accelerated capital allowances.

Unrecognised deferred tax asset:

	2008	2007
	£000	£000
Accelerated capital allowances	(167)	(92)
Overseas trading losses	582	480
Net deferred tax asset	<u>415</u>	<u>388</u>

The Company has a net deferred tax asset of £415,000 (2007: £388,000), in relation to overseas trading losses, that has not been recognised in the accounts as the transfer of economic benefits is uncertain.

18 Long term provision

	2008	2007
	£000	£000
As at 1 August	438	282
Charged to income statement	21	156
Added to tangible non current assets	599	-
At 31 July	<u>1,058</u>	<u>438</u>

A provision for decommissioning is recognised in full at the commencement of production. A corresponding tangible non current 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. In the year ended 31 July 2008, the provision was reassessed in accordance with local conditions and requirements and an additional £599,000 provision was recorded. The tangible non current asset is depreciated as part of the capital cost of production facilities on a unit of production basis.

Decommissioning provisions are based on third party estimates of work which will be required. By its nature, the detailed scope of work required and timing is uncertain. No decommissioning is anticipated before 2022.

19 Called up share capital

	2008	2007
	£000	£000
Authorised		
1,000,000 ordinary shares of 10p each	<u>100</u>	<u>100</u>
Allotted, called up and fully paid		
19,340 ordinary shares of 10p each (2007: 19,340)	<u>2</u>	<u>2</u>

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

Notes to the financial statements (continued)

20 Share based payments

Employees of the Company have been granted a total of 400,000 ordinary share options in Europa Oil and Gas (Holdings) plc of 1p (2007: 240,000).

The options are exercisable: one third 18 months after grant; a further third 30 months after grant and the balance 42 months after grant. There are no further vesting conditions. The latest date at which these can be exercised is the 10th anniversary from the date of award. A total of 160,000 options were granted in the year. No share options were exercised, forfeited or expired during the year. The fair value of the various options was determined using a Black Scholes Merton model, and the inputs used to determine these values are detailed in the table below:

Grant date	11 November 2004	1 December 2006	8 May 2008
Number of options	160,000	80,000	160,000
Share price at grant	32.5p	21.5p	21.5p
Exercise price	25p	25p	18.75p
Volatility	40%	50%	50%
Dividend yield	-	-	-
Risk free investment rate	4.80%	4.90%	4.42%
Option life (years)	6.25	6.25	6
Fair value per share	16.76p	10.16p	11.31p

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

Based on the above fair values the expense arising from the grant of employee share options was £8,000 (2007: £7,000).

20 Share based payments (continued)

	2008 Number of options	2008 Average exercise price	2007 Number of options	2007 Average exercise price
Outstanding at the start of the period	240,000	25p	160,000	25p
Granted	160,000	18.75p	80,000	25p
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at the end of the period	400,000	22.5p	240,000	25p
Exercisable at the end of the period	186,667	25p	106,668	25p

21 Financial instruments

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

Notes to the financial statements (continued)

21 Financial instruments (continued)**Credit risk**

The Company sells all crude oil produced to one multinational oil company. The customer is invoiced monthly for the oil delivered to the refinery in the previous month and invoices are settled in full on the 15th of the following month. At 31 July 2008 trade receivables were £550,000 (2007: £139,000) representing one month of oil revenue (2007: one month). The fair value of trade debtors and creditors approximates to their carrying value because of their short maturity.

Liquidity risk

The Company along with other group companies is party to 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 letters of credit. Included within short term borrowings is an overdraft of £1,152,000 (2007: £481,000) which has been utilised under this facility. Europa Oil & Gas (Holdings) plc has a guarantee in place for \$1,150,000 (2007: \$1,150,000) in favour of a third party relating to a licence concession in an overseas jurisdiction. The facility is being renegotiated and is expected to be renewed at a similar level, pending the outcome of an independent review of oil reserves.

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

At 31 July 2008	Trade and other Payables £000	Short term borrowings £000	Long term Borrowings £000
6 months or less	582	1,181	-
6-12 months	123	-	-
1-2 years	-	-	3,528
2-5 years	-	-	-
Total	<u>705</u>	<u>1,181</u>	<u>3,528</u>

At 31 July 2007	Trade and other Payables £000	Short term borrowings £000
6 months or less	5,910	538
6-12 months	78	-
1-2 years	-	-
2-5 years	-	-
Total	<u>5,988</u>	<u>538</u>

Interest rate risk

The Company has interest bearing liabilities as described in note 17, and during the year entered into a loan with a related party as described in note 24. The £2 million uncommitted multi-option facility referred to in Note 16 is secured over the assets of Europa Oil & Gas (Holdings) plc, Europa Oil & Gas Limited and Europa Oil & Gas (West Firsby) Limited. Interest is charged at the relevant sterling base rate

Notes to the financial statements (continued)

21 Financial instruments (continued)

Interest rate risk (continued)

or equivalent foreign currency rate plus the banks margin. Interest on the related party loan was an agreed fixed amount.

Commodity price risk

The selling price of the Company's production of crude oil is set at a small discount to Brent prices. The year saw massive volatility in oil prices and this has a direct impact on the Company's revenue and profitability. The table below shows the range of prices achieved in the year and the sensitivity of the Company's "profit before taxation" to movement in oil price.

Oil price	Month	Price	Profit before taxation
		\$/bbl	£000
Highest achieved	July 2008	\$131.43	3,902
Average		\$99.45	2,505
Lowest achieved	August 2007	\$69.88	1,179

Foreign exchange risk

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

US Dollar	Month	Price	Profit before taxation
		\$/£	£000
Highest rate	October 2007	\$2.0661	2,357
Average		\$2.0050	2,505
Lowest rate	May 2008	\$1.9803	2,542

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

Currency	2008 £000	2007 £000
Euro	(50,000)	-
US Dollar	654,000	477,000
Total	<u>604,000</u>	<u>477,000</u>

22 Commitments

As at the 31 July 2008 the Company had a contractual commitment to drill 2 wells in the UK.

The Company estimates that its share of costs for these wells and other exploration activities is approximately £1.6 million. This commitment is expected to be met in the next year to two years from cash generated from production and borrowings referred to in note 16.

Notes to the financial statements (continued)

22 Commitments (continued)

As at the 31 July 2008 Europa Oil & Gas (Holdings) plc has a financial guarantee in place for US\$1,150,000 in favour of a third party in relation to a licence concession in an overseas jurisdiction. This financial guarantee is held by the third party to ensure that an agreed work programme for a minimum of the same value is undertaken by Europa. The majority (US\$690,000) of the guarantee has been provided by utilising some of the £2 million uncommitted multi-option facility referred to in Note 16. The remainder (US\$460,000) has been provided in cash by Europa's joint venture partner in the overseas jurisdiction.

In the Western Sahara a further £3 million is committed pending a resolution of the political situation in the country.

Europa Oil & Gas Limited pays an annual site rental for the land upon which the West Firsby and Crosby Warren oil field facilities are located. The West Firsby lease runs until September 2022 and can be determined upon giving 2 months notice. The annual cost is currently £16,000 and increases in line with the retail price index. The Crosby Warren lease is until December 2022 and can be determined on 3 months notice. The annual cost is currently £20,000 and is reviewed every 5 years, the next review being in 2010.

23 Related party transactions

During the year, an intercompany debt with the subsidiary Europa Oil & Gas (West Firsby) Limited of £23,000 was written off. The Company received services from its parent Europa Oil & Gas (Holdings) plc to the value of £585,000 (2007: £348,000).

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

	2008 £000	2007 £000
Europa Oil & Gas (Holdings) plc	3,455	3,800
Total	3,455	3,800

During the year, the Company provided services to subsidiary and other group companies as follows:

	2008 £000	2007 £000
Europa Oil & Gas (West Firsby) Limited		
West Firsby acquisition	-	79
Group tax relief	136	-
Total	136	79
Europa Oil & Gas SRL		
Transfer of assets to subsidiary	-	6,574
Provision of management services	63	37
Total	63	6,611

Notes to the financial statements (continued)

23 Related party transactions (continued)

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

	2008	2007
	£000	£000
Europa Oil & Gas (West Firsby) Limited	-	18
Europa Oil & Gas SRL	5,607	5,475
Total	5,607	5,493

24 Post balance sheet events

Lower market prices for Brent crude has resulted in reduced monthly revenues for the Company.

25 Ultimate parent undertaking

The parent company and ultimate controlling company is Europa Oil & Gas (Holdings) plc, a company registered in England and Wales, the accounts of which are available from 11 The Chambers, Vineyard, Abingdon, OX14 3PX.

26 Transition to IFRS

This is the first year that the Company has presented financial statements under IFRS. The following disclosures, including reconciliations between IFRS and UK GAAP, upon implementation of the standards described below, are required in the year of conversion. The last financial statements under UK GAAP were for the year ended 31 July 2007 and the date of the transition to IFRS was 1 August 2006. The amounts described as UK GAAP have been reclassified to conform with IFRS format.

The information below explains the principal adjustments made by the Company in restating its UK GAAP balance sheet at 1 August 2006 and its previously published UK GAAP financial statements for the year ended 31 July 2007.

Notes to the financial statements (continued)

26 Transition to IFRS (continued)

Reconciliation of income statement for year ended 31 July 2007

	Note	UK GAAP £000	Discontinued operations £000	Effect of Transition £000	IFRS £000
Continuing operations					
Revenue	1	2,080	(618)	-	1,462
Cost of sales	2	(1,148)	577	(40)	(611)
Gross profit		932	(41)	(40)	851
Other operating expenses	3	-	-	(79)	(79)
Administrative expenses		(40)	19	(1)	(22)
Operating profit / (loss)		892	(22)	(120)	750
Exploration expenses		(1,588)	1,588	-	-
Loss on sale of property, plant and equipment		-	-	-	-
Finance income		6	(2)	-	4
Finance costs		(216)	13	-	(203)
Profit / (loss) on ordinary activities before tax		(906)	1,577	(120)	551
Income tax expense		(906)	-	20	(886)
Loss on ordinary activities after taxation		(1,812)	1,577	(100)	(335)
Discontinued operations					
Loss for the period from discontinued operations		-	(1,577)	-	(1,577)
Loss for the period		(1,812)	-	(100)	(1,912)

Notes to the reconciliation of loss for the year ended 31 July 2007

1. Under UK GAAP, the results of discontinued operations are disclosed on a line by line basis on the face of the profit and loss account. Under IFRS, the income statement discloses the results of discontinued operations as a single line item with additional disclosures being shown in the notes to the financial statements. This change in presentation is reflected above.
2. The adjustment to cost of sales reflects the gain in relation to inventories that was previously recognised under UK GAAP as a result of valuing inventories at estimated net realisable value.
3. The adjustment to other operating expenses reflects pre-licence costs incurred in the period.

Notes to the financial statements (continued)

26 Transition to IFRS (continued)

Reconciliation of equity at 31 July 2007 (date of last UK GAAP financial statements)

	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Non-current assets			
Intangible assets	961	(164)	797
Property, plant and equipment	4,035	-	4,035
Investments	33	-	33
	<u>5,029</u>	<u>(164)</u>	<u>4,865</u>
Current assets			
Inventories	77	(44)	33
Trade and other receivables	6,206	-	6,206
Cash and cash equivalents	1	-	1
	<u>6,284</u>	<u>(44)</u>	<u>6,240</u>
Total assets	<u>11,313</u>	<u>(208)</u>	<u>11,105</u>
Current liabilities			
Trade and other payables	(5,986)	(2)	(5,988)
Current tax liability	-	-	-
Borrowings	(520)	-	(520)
	<u>(6,506)</u>	<u>(2)</u>	<u>(6,508)</u>
Non-current liabilities			
Borrowings	-	-	-
Deferred tax liabilities	(1,991)	47	(1,944)
Long-term provisions	(438)	-	(438)
	<u>(2,429)</u>	<u>47</u>	<u>(2,382)</u>
Total liabilities	<u>(8,935)</u>	<u>45</u>	<u>(8,890)</u>
Net assets	<u>2,378</u>	<u>(163)</u>	<u>2,215</u>
Equity			
Share capital	2	-	2
Share premium	3,266	-	3,266
Retained earnings	(890)	(163)	(1,053)
Total equity	<u>2,378</u>	<u>(163)</u>	<u>2,215</u>

Notes to the financial statements (continued)

26 Transition to IFRS (continued)

Notes to the reconciliation of equity at 31 July 2007

The adjustment to retained earnings comprises the following:

	£'000
Pre-licence costs	(164)
Inventories	(44)
Holiday pay accrual	(2)
Deferred taxation	47
Total adjustment	<u>(163)</u>

Reconciliation of equity at 1 August 2006 (date of transition to IFRS)

	UK GAAP	Effect of transition	IFRS
	£000	£000	£000
Non-current assets			
Intangible assets	4,853	(85)	4,768
Property, plant and equipment	3,536	-	3,536
Investments	33	-	33
	<u>8,422</u>	<u>(85)</u>	<u>8,337</u>
Current assets			
Inventories	6	(4)	2
Trade and other receivables	320	-	320
Cash and cash equivalents	2	-	2
	<u>328</u>	<u>(4)</u>	<u>324</u>
Total assets	<u>8,750</u>	<u>(89)</u>	<u>8,661</u>
Current liabilities			
Trade and other payables	(3,576)	(1)	(3,577)
Current tax payable	(401)	-	(401)
	<u>(3,977)</u>	<u>(1)</u>	<u>(3,978)</u>
Non-current liabilities			
Deferred tax liabilities	(590)	27	(563)
Long-term provisions	-	-	-
	<u>(590)</u>	<u>27</u>	<u>(563)</u>
Total liabilities	<u>(4,567)</u>	<u>26</u>	<u>(4,541)</u>
Net assets	<u>4,183</u>	<u>(63)</u>	<u>4,120</u>
Equity			
Share capital	2	-	2
Share premium	3,266	-	3,266
Retained earnings	915	(63)	852
Total equity	<u>4,183</u>	<u>(63)</u>	<u>4,120</u>

Notes to the financial statements (continued)

26 Transition to IFRS (continued)

Notes to the reconciliation of equity at 1 August 2006

The adjustment to retained earnings comprises the following:

	£000
Pre-licence costs	(85)
Inventories	(4)
Holiday pay accruals	(1)
Deferred taxation	27
Total adjustment	<u>(63)</u>

Explanations of differences between UK GAAP and IFRS, giving rise to adjustments in the reconciliations

Pre-licence costs

Under UK GAAP some pre-licence costs were capitalised as intangible assets. IFRS 6 - Exploration for and evaluation of mineral resources - precludes the capitalisation of expenditure incurred before an entity has obtained the legal rights to explore a specific area. Under IFRS, these pre-licence costs amounting to £164,000 at 31 July 2007 (31 July 2006: £133,000) have been expensed as "other operating expenses" or adjusted against retained earnings at 1 August 2006, as appropriate.

Inventories

Under UK GAAP inventories of oil and gas in tanks were recognised at estimated net realisable value with any gains or losses being taken as a profit or loss to the income statement. This was considered acceptable under 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 and regarded as industry practice. With the adoption of IFRS, the Board has decided to revise the accounting policy with regard to inventories and measure at the lower of cost and net realisable value. Accordingly, inventories have been reduced to cost (which was lower than estimated realisable value at the relevant accounting dates). Inventories at 31 July 2007 were reduced by £44,000 (31 July 2006: £4,000).

Short-term employee benefits

Under IAS 19 when an employee has rendered service to a Company during an accounting period, the Company should recognise the amount of short-term employee benefits, e.g. compensated absences, profit sharing or bonuses payable, expected to be paid in exchange for that service as a liability, after deducting any amounts already paid.

The Company accrual required to reflect holidays not taken (accrued holiday pay) at 31 July 2007 was £2,000 (31 July 2006: £1,000). These accruals were not previously recognised under UK GAAP.

Deferred taxation

The adjustments noted above have impacted the calculation of the deferred tax liability at the balance sheet dates.

Notes to the financial statements (continued)

26 Transition to IFRS (continued)

Discontinued activities

The results for the year ended 31 July 2007 disclose the loss before tax in respect of discontinued activities, relating to the Company's interest in Ukraine which is planned to be disposed, as a single line in accordance with IFRS 5 - Asset disposals and discontinued activities.

IFRS 1 Exemptions

IFRS1, First Time Adoption of International Financial Reporting Standards, allows companies adopting IFRS for the first time to elect to utilise some exemptions from the full requirements of IFRS in the transition period.

Europa Oil & Gas plc has taken the following key exemptions:

- Business combinations – business combinations that took place prior to 1 August 2006 have not been restated.
- Fair value or revaluation as deemed cost – at the date of transition, fair value has been used as deemed cost for property, plant and equipment previously measured at fair value.

Explanations of differences between UK GAAP and IFRS, giving rise to adjustments in the reconciliations

- Decommissioning liabilities - previous changes to decommissioning liabilities have not been recorded against the cost of the asset.
- Share-based payments – the Company has applied the requirements of IFRS 2 (share-based payments) to all grants of equity instruments after 7 November 2002 that were unvested as of 1 August 2006. The Company has previously applied FRS 20 under UK GAAP, therefore there will be no further change.

27 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and maintain an optimal capital structure to reduce the cost of capital. The Company defines capital as being share capital plus reserves. The Board monitors the level of capital as compared to the Company's long term debt commitments and adjusts the ratio of debt to capital as is determined to be necessary, by issuing new shares, reducing or increasing debt, paying dividends and returning capital to shareholders. The Company is not subject to any externally imposed capital requirements.