Annual Report and Financial Statements
EUROPA OIL & GAS LIMITED

For the Year Ended 31 July 2011

Company registration number 3093716

Contents

Directors and advisors

Company registration number	3093716
Registered office	11 The Chambers Vineyard Abingdon Oxon OX14 3PX
Directors	HGD Mackay P Greenhalgh
Secretary	P Greenhalgh
Banker	Royal Bank of Scotland plc 1 Albyn Place Aberdeen AB10 1BR
Solicitor	Charles Russell LLP 7600 The Quorum Oxford Business Park North Oxford OX4 2JZ
Auditor	BDO LLP 55 Baker Street London W1U 7EU

Europa Oil & Gas Limited

Directors' report

The directors present their report and the audited financial statements for the year ended 31 July 2011

Principal Activities

Europa's business comprises three core strands production, appraisal and exploration and these activities take place in two European jurisdictions UK and France and one in the North African territory of Western Sahara In October 2011, Europa was additionally awarded acreage in a third EU jurisdiction in the Irish Atlantic Margin Licensing Round

Licence Interests Table

Country	Area	Licence	Field/ Prospect	Operator	Equity	Status
UK	East Midlands	DL003	West Firsby	Europa	100%	Production
		DL001	Crosby Warren	Europa	100%	Production
		PL199/215	Whisby-4	BPEL	65%	Production
		PEDL150	Hykeham / West Whisby	Europa	75%	Exploration
		PEDL180	Wressle	Egdon	33%	Exploration
		PEDL181	Caister	Europa	50%	Exploration
		PEDL182	Broughton	Egdon	33%	Exploration
	Weald	PEDL143	Holmwood	Europa	40%	Exploration
	North Sea	Holderness	Offshore UCG	Europa	90%	Exploration
		Humber South	Offshore UCG	Europa	90%	Exploration
Ireland	Porcupine	LO-11-7	Western margin	Europa	100%	Exploration
		LO-11-8	Eastern margin	Europa	100%	Exploration
France	Aquitaine	Béarn des Gaves	Berenx	Europa	100%	Exploration/Appraisal
		Tarbes V d'Adour	Osmets/Jacque	Europa	100%	Exploration/Appraisal
Western Sahara	Tindouf	Bir Lehlou		Europa	100%	Exploration
	Aaiuun	Hagounia		Europa	100%	Exploration

Business review

The Company holds interests in 16 licences (see table), with 14 in Europe and 2 in North Africa The company strives to maintain a balanced portfolio and to use production to build revenue through low risk drilling, and pay for high reward wells

During the financial year to 31 July 2011, Europa drilled an oil production well at West Firsby (WF9) The WF9 well was completed in February 2011 and put on production It has since contributed to an average daily production increase on the site of 40% from the first to second half of the reporting period Production operations continue at Europa's two other UK sites, combining to generate an average daily production volume over the year of 167bopd, and a fourth quarter average of 216bopd

With respect to Europa's strong appraisal project portfolio, work continued on better understanding the Berenx gas resource, with a 3D seismic survey, processed by CGG Veritas, greatly adding to the structural understanding of the reservoir Further 3D seismic data will be acquired ahead of finalising the location of an appraisal well due for 2013

Directors' report (continued)

United Kingdom

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

Activity in 2011 focused on drilling a further production well on the West Firsby Field and this was completed as a reservoir zone 1 and zone 2 oil producer in February A facilities upgrade at the site is now complete and work continues to optimise production Production continued at Crosby Warren and Whisby fields, contributing to a total annual production of 61,000 bbls across the three sites

In May 2011, Surrey County Council Planning Committee narrowly voted against the approval of permission to drill an exploration well on licence PEDL143 This well, to test the Holmwood Prospect, was supported in the planning officers' report and the Company intends to pursue an appeal in the coming months in order to drill the well in 2012

Following a cross-assignment of interests between Europa-operated PEDL180 and Egdon-operated PEDL182, Europa is now a 33% interest holder in a swathe of acrege running southeast from the Crosby Warren Oilfield, containing the Broughton oil discovery and the adjacent Wressle Prospect In order to plan 2012 drilling on these projects, a 3D seismic survey is being acquired in late 2011

Europa holds two inshore licences for underground coal gasification, a large resource at the early research phase in the UK In addition, Europa has been monitoring the developments in Lancashire with Cuadrilla's shale gas project, which have implications for the large licence area held in northeast Lincolnshire Similar geology in Europa's Humber Basin acreage to that of the Bowland Trough points to future potential for unconventional if the Cuadrilla Project goes forward

Exploration – NE Lincolnshire (PEDL 180 - 33%, PEDL 181 - 50%, PEDL 182 - 33%), Lincoln area (PEDL 150 - 75%), Dorking area (PEDL 143 - 40%)

In June 2011, Europa reached agreement with Egdon Resources Limited and Celtique Energie Petroleum Limited to equalise interests across the contiguous licences PEDL 180 and PEDL 182 Europa reduced working interest in PEDL 180 from 50% to 33% and in return gained a 33% interest in PEDL 182 – the licence containing the Broughton oil discovery A joint 3D seismic survey over 45 km^2 of the combined blocks is being acquired in January 2012

Within the PEDL150 concession, the Hykeham well was drilled in 2010 Despite encountering oil pay, the well failed to flow oil, thought to be principally as a result of formation damage incurred during drilling Though the likely forward plan is to plug and abandon the well, the investment has not been written off as prospectivity within the rest of the block, which includes the West Whisby feature, is believed to be good based on other information in the Company's possession Lessons learnt at Hykeham will be applied in the drilling of other prospects in the same reservoir interval

The PEDL 222 licence (50%), situated to the north of the Whisby Field, did not contain any prospects large enough to warrant drilling The modest investment was written off in 2010 and in June 2011 the licence was formally relinquished

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

All three production sites were affected by the severe UK weather in late December 2010 With temperatures reaching 17 degrees below freezing, and several feet of snow, production was shut down for between one and two weeks

At West Firsby the WF9 well spudded on 18 November 2010 and reached TD of 7,633 ft on 17 February 2011 The well was put on production on 1 March 2011 and trials were conducted on two producing zones using both beam pump and jet pump systems After initial higher rates, production has settled at around 30 bopd

Additional well intervention work took place at West Firsby, with the completion of WF3 as a water injector and the replacement of the WF7 bottom hole assembly

Crosby Warren continues to produce from two wells A re-frac of the existing CW1 producer is currently under review as the original cost assumptions have changed

Directors' report (continued)

United Kingdom (continued)

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

At Whisby, just to the west of Lincoln, a well drilled by Europa in early 2003 remains on steady production, currently producing around 50 bopd net to Europa on beam pump

Unconventional Resources – Underground Coal Gasification and Shale Gas

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

Underground coal gasification (UCG) is a developing technology that recovers up to 80% of the calorific value of *in situ* coal by a process of controlled combustion UCG, when combined with CO_2 storage in the depleted coal seams, creates a source of energy which rivals nuclear for low emissions and has lower unit costs than conventional gas-fired power stations

With only 30% utilisation rate for the coals, the estimated potential UCG energy resource in these two licence areas is $36x10^{15}$ Joules or 6 billion barrels of oil equivalent

In addition, the Company's large holding of over 600km² of the Humber Basin, has potential for significant shale gas resources from Carboniferous basinal shales Whilst this is being evaluated, activities in shale gas exploration elsewhere in the UK Carboniferous basins are being monitored with interest

France

Europa holds two exclusive licences in the Aquitaine Basin, adjacent to the world-class Lacq-Meillon gas developments There are two clear plays in Europa's acreage – large deep HPHT gas similar to the Lacq field in the Béarn des Gaves permit and oilfield re-development opportunities in the Tarbes Val d'Adour permit The large gas play, Berenx, is the focus of attention, recently reprocessed 3D seismic gives a much clearer image of the target zone and additional 3D will now be acquired over the western part of the feature prior to finalising a well location

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

The main focus for Europa is the appraisal of the Berenx gas wells, where a high pressure high temperature well encountered 500m of gross gas shows and mud gas kicks in similar reservoir to the nearby 5 tcf Lacq Field In mid-2010, Europa took delivery of a reprocessed 3D seismic dataset covering the area between Berenx and Lacq The proximity (20km) to the Lacq Field creates a straightforward export route, allowing the gas to be processed in an existing facility with spare capacity

The initial mapping indicates that the Berenx wells were drilled on the western edge of a sizeable structure which could reservoir in excess of 1 5 tcf of recoverable gas reserve However, the quality of the seismic data was still not optimal and it was decided to utilise the new technique of Controlled Beam Migration to improve the subsurface image This was highly successful and paves the way for further acquisition across the area The forward programme is for the acquisition of additional seismic data in the next 6-12 months followed by securing joint venture partner(s) for the drilling of an appraisal well in 2013

Field re-development and associated exploration – Tarbes Val d'Adour Licence (100%)

This licence contains several oil accumulations, previously produced by Elf but abandoned in 1985 in times of low oil price Europa commissioned the French Geological Survey to map the potential field re-development area of Osmets and Jacque from a reprocessed 2D data set and this work is now complete It demonstrates that there is significant upside potential in a stratigraphically trapped Meillon dolomite oil (proven in Osmets-1) below the proven Early Cretaceous oil in Osmets-2

It is hoped that, with a partner, an appraisal/production well can be drilled on Osmets in 2012

Directors' report (continued)

Ireland

<u>LO-11-7 and LO-11-8 (100%) Porcupine Basin</u>

In October 2011, Europa was awarded Licensing Options over two four-block areas in the Irish Porcupine Basin These blocks lie on the margins of the basin, where there is potential for stratigraphic traps in Cretaceous and Early Tertiary submarine fan systems, similar to similar highly successful plays elsewhere on the Atlantic Margin

The Porcupine Basin has a proven hydrocarbon system, with several discoveries to date in predominantly structural traps Greater potential exists for stratigraphic traps and Europa's work programme will be designed to define this upside prior to a decision to enter into the drilling phase with a Frontier Exploration Licence after 2 years

North Africa

<u>Western Sahara (100%) – Tindouf Basin and Aaiun Basin Licences</u>

Europa holds interests in Western Sahara licenced by the Sahrawi Arab Democratic Republic (SADR) covering almost 80,000km² of exciting exploration acreage The Tindouf licence has great potential for both conventional and unconventional gas resources, being geologically similar to the prolific Algerian Palaeozoic basins The Aaiun Basin is an Atlantic margin basin similar to that developed along the West African margin

In 2010, with the license areas remaining in force majeure throughout the year, the Board decided to write-down the intangible asset to nil value Though the investment has been written down, Europa retains its 100% interest in the 2 blocks

Conclusion

Across the four jurisdictions where Europa operates, there remains a strong asset inventory waiting to be unlocked Oil exploration in the UK as well as potential for large gas developments in the Acquitaine area of France Ongoing and near-term drilling will crystallize some of this value, but there remains a conveyor belt of exploration work for the coming years, as demonstrated by the recent Irish awards

Results for the year and dividends

The Company loss for the year after taxation was £382,000 (2010 loss £1,613,000) The directors do not recommend the payment of a dividend (2010 £nil)

Directors

The directors who served during the year were as follows

PA Barrett	Resigned effective 21 October 2011
P Greenhalgh	
ES Syba	Resigned effective 31 August 2010
HGD Mackay	Appointed 21 October 2011

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

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 This judgement is based on correspondence with the Group's bankers, the performance of its existing oil production, and the availability of the Group's £5 million Yorkville SEDA facility

Directors' report (continued)

Going concern (continued)
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 impaired In addition, other costs and write downs may arise in the course of seeking to fund the liabilities of the Company

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

Accounting policies
A full list of accounting policies is set out in the notes to the accounts

Disclosure of information to the auditors
In the case of each person who was a director at the time this report was approved
- So far as that director was aware there was no relevant available information of which the Company's auditors were unaware
- That director had taken all necessary steps to make themselves aware of any relevant audit information, and to establish that the Company's auditors were aware of that information

Auditors
In accordance with the Companies Act 2006, a resolution for the re-appointment of BDO LLP as auditors of the Company was proposed and approved at the Annual General Meeting held on 13 December 2011

Approved by the Board of directors and signed on behalf of the Board on 4 January 2012

P Greenhalgh
Finance Director

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have chosen to prepare the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Report of the independent auditors

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

We have audited the financial statements of Europa Oil & Gas Limited for the year ended 31 July 2011 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows, and the related notes The financial reporting framework that has been applied in the preparation of the Company statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 July 2011 and of the loss for the year then ended,
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Emphasis of matter – further funding requirements for commitments

In forming our opinion on the financial statements, which is not modified, we draw your attention to the disclosure made in Note 10 of the financial statements concerning the Company's ability to fund its licence commitments

The Company requires additional funding within the next twelve months in order to meet its licence commitments in France The group, which the Company is part of, has a £5 million Standby Equity Distribution Agreement (SEDA) facility in place The drawdown of funds from SEDA is dependent on the market liquidity of the group's equity shares and therefore there is no certainty that the funds required to meet these licence commitments will be available from this source While the directors are confident that if required additional funding can be raised from other sources, being further debt or an equity raising to meet these licence commitments there can be no guarantee that this funding will be forthcoming The financial statements do not include the adjustments that would result if the Company is unable to secure additional funding

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Report of the independent auditors (continued)

Matters on which we are required to report by exception

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

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

BDO LLP

Anne Sayers, Senior Statutory Auditor
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
4 January 2012

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Statement of comprehensive income for the year ended 31 July 2011

	Note	2011 £000	2010 £000
Revenue	2	**3,766**	3,091
Other cost of sales		***(2,242)***	*(1,899)*
Exploration write-off	10	-	*(1,008)*
Impairment of producing fields	11	***(425)***	(1,012)
Total cost of sales		**(2,667)**	(3,919)
Gross profit / (loss)		**1,099**	(828)
Administrative expenses		**(384)**	(428)
Finance income	7	**114**	37
Finance costs	8	**(397)**	(413)
Profit/(loss) before taxation	3	**432**	(1,632)
Taxation	9	**(814)**	19
Loss after taxation and total comprehensive loss for the year		**(382)**	(1,613)

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

Statement of financial position as at 31 July 2011

	Note	2011 £000	2010 £000
Assets			
Non-current assets			
Intangible assets	10	**2,936**	2,579
Property, plant and equipment	11	**6,225**	3,959
Loans to group companies	14	**6,438**	6,175
Deferred tax asset	17	**930**	-
Total non-current assets		**16,529**	12,713
Current assets			
Inventories	13	**43**	38
Trade and other receivables	14	**557**	334
Current tax asset		**-**	335
Cash and cash equivalents		**297**	-
Total current assets		**897**	707
Total assets		**17,426**	13,420
Liabilities			
Current liabilities			
Trade and other payables	15	**(928)**	(1,105)
Current tax liabilities		**-**	(2)
Short-term borrowing	16	**-**	(900)
Total current liabilities		**(928)**	(2,007)
Non-current liabilities			
Long-term borrowings	16	**(9,116)**	(5,566)
Deferred tax liabilities	17	**(4,606)**	(2,867)
Long-term provisions	18	**(1,570)**	(1,395)
Total non-current liabilities		**(15,292)**	(9,828)
Total liabilities		**(16,220)**	(11,835)
Net assets		**1,206**	1,585
Capital and reserves attributable to equity holders of the company			
Share capital	19	**2**	2
Share premium account	19	**3,266**	3,266
Retained deficit	19	**(2,062)**	(1,683)
Total equity		**1,206**	1,585

These financial statements were approved by the Board of directors on 4 January 2012 signed on its behalf by

P Greenhalgh
Finance Director
Company registration number 3093716

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

Statement of changes in equity for the year ended 31 July 2011

	Share capital £000	Share premium £000	Retained deficit £000	Total Equity £000
Balance at 1 August 2009	2	3,266	(69)	3,199
Total comprehensive loss for the year	-	-	(1,613)	(1,613)
Share based payments (credit)	-	-	(1)	(1)
Balance at 31 July 2010	**2**	**3,266**	**(1,683)**	**1,585**

	Share capital £000	Share premium £000	Retained deficit £000	Total Equity £000
Balance at 1 August 2010	2	3,266	(1,683)	1,585
Total comprehensive loss for the year	-	-	(382)	(382)
Share based payment	-	-	3	3
Balance at 31 July 2011	**2**	**3,266**	**(2,062)**	**1,206**

Statement of cashflows for the year ended 31 July 2011

	Note	2011 £000	2010 £000
Cash flows from operating activities			
Loss from operations		**(382)**	(1,613)
Adjustments for:			
Share based payments	20	**3**	(1)
Depreciation	11	**317**	468
Exploration write-off	10	**-**	1,008
Impairment of property, plant & equipment	11	**425**	1,012
Investment in group company write off	12	**-**	33
Finance income	7	**(114)**	(37)
Finance expense	8	**397**	413
Taxation expense /(credit)	9	**814**	(19)
(Increase) in inventories		**(5)**	(23)
(Increase) in trade and other receivables		**(238)**	(34)
(Decrease)/increase in trade and other payables		**(198)**	628
Cash generated from operations		**1,019**	1,835
Income taxes paid		**-**	(597)
Income tax refund received		**330**	-
Net cash from operating activities		**1,349**	1,238
Cash flows used in investing activities			
Purchase of property, plant and equipment		**(3,090)**	(210)
Purchase of intangible assets		**(311)**	(2,253)
Loans to subsidiary companies		**(29)**	(669)
Net cash used in investing activities		**(3,430)**	(3,132)
Cash flows from financing activities			
Proceeds from long-term borrowings		**3,446**	2,559
Repayment of borrowings		**(500)**	(450)
Interest paid		**(34)**	(81)
Net cash from financing activities		**2,912**	2,028
Net increase in cash and cash equivalents		**831**	134
Exchange (loss) on cash		**(34)**	(41)
Cash and cash equivalents at beginning of year		**(500)**	(593)
Cash and cash equivalents at end of year		**297**	(500)

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

Notes to the financial statements

1 Accounting Policies

General information

Europa Oil & Gas Limited is a company incorporated and domiciled in England and Wales with registered number 3093716 The address of the registered office is 11 The Chambers, Vineyard, Abingdon OX14 3PX The company's administrative office is at the same address

The nature of the company's operations and its principal activities are set out in the Directors' report

The functional and presentational currency of the company is Sterling (UK£)

Basis of accounting

The financial statements have been prepared in accordance with applicable International Financial Reporting Standards (IFRS) as adopted by the EU The policies have not changed from the previous year

The accounting policies that have been applied in the opening statement of financial position have also been applied throughout all periods presented in these financial statements These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 July 2011

Future changes in accounting standards

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

There were various amendments to published standards and interpretations to existing standards effective in the year adopted by the Company

The following are amendments to existing standards and new standards which may apply to the Company in future accounting periods Except for the disclosure requirements of IAS 24 and the impact of IFRS 9 and IFRS 11, which the directors are continuing to assess, none of the following are considered to affect the Company

		Effective date (periods beginning on or after)
IAS 24	Revised - Related Party Disclosures	1 Jan 2011
IFRIC 14	Amendment - IAS 19 Limit on a defined benefit asset	1 Jan 2011
IFRS 7 *	Amendment - Transfer of financial assets	1 Jul 2011
IFRS 11	Joint Arrangment s	1 May 2011
IFRS 1 *	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 Jul 2011
	Improvements to IFRSs (2010) *	1 Jan 2011
IAS 12 *	Deferred Tax Recovery of Underlying Assets	1 Jan 2012
IFRS 10*	Consolidated Financial Statements	1 Jan 2013
IFRS 11*	Joint Arrangements	1 Jan 2013
IFRS 12*	Disclosure of Interests in Other Entities	1 Jan 2013
IFRS 13*	Fair Value Measurement	1 Jan 2013
IAS 27*	Separate Financial Statements	1 Jan 2013
IAS 28*	Investment in Associates and Joint Ventures	1 Jan 2013
IFRS 9 *	Financial instruments	1 Jan 2015

Items marked * had not yet been endorsed by the European Union at the date that these financial statements were approved and authorised for issue by the Board

Notes to the financial statements (continued)

1 Accounting Policies (continued)

Basis of preparation

The Company is exempt from the obligation to prepare and deliver consolidated group accounts as it has been included in the consolidated group accounts of its immediate parent company, Europa Oil & Gas (Holdings) plc which are publicly available The Company is engaged in oil and gas exploration, development and production through unincorporated joint arrangements The Company accounts for its share of the results and net assets of these joint arrangements In addition, where the Company acts as operator to the joint arrangement, the gross liabilities and receivables (including amounts due to or from non-operating partners) of the joint arrangement are included in the statement of finance position

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 This judgement is based on correspondence with its bankers, the performance of its existing oil production, and the availability of the £5 million Yorkville SEDA facility

Revenue Recognition

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

Non-current assets

Oil and gas interests

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

Pre-production assets

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

Production assets

Production assets are categorized within property, plant and equipment on the statement of financial position With the determination of commercial viability and approval of an oil and gas project the related pre-production assets are transferred from intangible non-current assets to property, plant and equipment and depreciated upon commencement of production within the appropriate cash generating unit

Impairment tests

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units) As 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

1 Accounting Policies (continued)

Non-current assets (continued)

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items The corresponding liability is recognised within provisions

Depreciation

All expenditure within each geographical cost pool is depreciated from the commencement of production, on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of proven plus probable commercial reserves at the end of the period, plus the production in the period Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs within each geographical cost pool Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively

Computer equipment, software, and furniture are depreciated on a 25% per annum straight line basis

Reserves

Proven and probable oil and gas reserves are estimated quantities of commercially producible hydrocarbons which the existing geological, geophysical and engineering data shows to be recoverable in future years The proven reserves included herein conform to the definition approved by the Society of Petroleum Engineers (SPE) and the World Petroleum Congress (WPC) The probable and possible reserves conform to definitions of probable and possible approved by the SPE/WPC using the deterministic methodology Reserves used in accounting estimates for depreciation are updated periodically to reflect management's view of reserves in conjunction with third party formal reports Reserves are reviewed at the time of formal updates or as a consequence of operational performance, plans and the business environment at that time

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

Future decommissioning costs

A provision for decommissioning is recognised in full at the point that the Company has an obligation to decommission an appraisal, development or producing well A corresponding non-current asset (included within producing fields in Note 11) of an amount equivalent to the provision is also created The amount recognised is the estimated cost of decommissioning, discounted to its net present value and is reassessed each year in accordance with local conditions and requirements For producing wells, the asset is subsequently depreciated as part of the capital costs of production facilities within tangible noncurrent assets, on a unit of production basis Any decommissioning obligation in respect of a pre-production asset is carried forward as part of its cost and tested annually for impairment in accordance with the above policy

Changes in the estimates of commercial reserves or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to the decommissioning asset The unwinding of the discount on the decommissioning provision is included within interest expense

Notes to the financial statements (continued)

1 Accounting Policies (continued)

Taxation

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

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

Deferred tax liabilities are provided in full, with no discounting Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary difference will be able to be offset against future taxable income Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the reporting 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 reporting date Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of transaction Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value was determined

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

The monetary assets and liabilities in the financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the reporting 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 exchange reserve in equity On disposal of a foreign operation the cumulative translation differences are transferred to the income statement as part of the gain or loss on disposal

Europa Oil and Gas Limited is domiciled in the UK, which is its primary economic environment and the Company's functional currency is UK Pounds Sterling The Company's current operations are based in the UK, Ukraine, France and Western Sahara and the functional currencies of the Company's subsidiaries are the prevailing local currencies in each jurisdiction Given that the functional currency of the Company is Sterling, management has elected to continue to present the consolidated financial statements of the Company in Sterling

Foreign currency (continued)

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

Investments

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

Financial instruments

Financial assets and liabilities are recognised on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument The Company classifies financial assets into loans and receivables, which comprise trade and other receivables and cash and cash equivalents The Company has not classified any of its financial assets as held to maturity or available for sale or fair value through profit or loss

Trade and other receivables are measured initially at fair value plus directly attributable transaction costs, and subsequently at amortised cost using the effective interest rate method, less provision for impairment A provision is established when there is objective evidence that the Company will not be able to collect all amounts due The amount of any provision is recognised in the Statement of comprehensive income

Cash and cash equivalents comprise cash held by the Company, short-term bank deposits with an original maturity of three months or less and bank overdrafts Within the consolidated statement of cash flows, cash and cash equivalents includes the overdraft drawn against the multi-currency facility described in Note 16

The Company classifies financial liabilities into one of two categories, depending on the purpose for which the asset was acquired The accounting policy for each category is as follows

<u>Other financial liabilities</u>
Include the following items

Bank and other borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position Interest expense in this context includes initial transaction costs and any interest or coupon payable while the liability is outstanding

Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method

Financial liabilities and equity instruments issued by the 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

Financial instruments (continued)

Leased assets

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

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

During the current or prior year the Company did not have any finance leases

Inventories

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

Joint arrangements

Joint arrangements are those in which the Company holds an interest on a long term basis which are jointly controlled by the Company and one or more venturers under a contractual arrangement When these arrangements do not constitute entities in their own right, the financial statements reflect the relevant proportion of costs, revenues, assets and liabilities applicable to the Company's interests in accordance with IAS 31 The Company's exploration, development and production activities are generally conducted jointly with other companies in this way

Share-based payments

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

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to reserves Where options over the parent company's shares are granted to employees of subsidiaries of the parent, the charge is recognised in the income statement of the subsidiary In the parent company accounts there is an increase in the cost of the investment in the subsidiary receiving the benefit

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

Critical accounting judgements and key sources of estimation uncertainty

Details of the Company's significant accounting judgements and critical accounting estimates are set out in these financial statements and include

Accounting judgements and estimates

- Carrying value of intangible assets (Note 10) – carrying values are justified by reference to future estimates of cash flows
- Carrying value of property, plant and equipment (Note 11) – carrying values are justified by reference to future estimates of cash flows
- Decommissioning provision (Note 18) – inflation and discount rate estimates are used in calculating the provision
- Share-based payments (Note 20) – various estimates are used in determining the fair value of options

2 **Business segment analysis**

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

The Company operated in 3 principal operating segments of business being the production and exploration activity in the United Kingdom, the exploration activity in France and exploration activity in North Africa Activities are reported to Management on this basis The reporting on these investments to Management focuses on revenue, operating costs and capital expenditure

Segmental income statement for the year ended 31 July 2011

	UK	France	North Africa	Total
	£000	£000	£000	£000
Continuing operations				
Revenue	3,766	-	-	3,766
Other cost of sales	*(2,242)*	-	-	*(2,242)*
Exploration write-off	-	-	-	-
Impairment of producing fields	*(425)*	-	-	*(425)*
Cost of sales	(2,667)	-	-	(2,667)
Gross profit	**1,099**	-	-	**1,099**
Administrative expenses	(347)	-	(37)	(384)
Finance income	114	-	-	114
Finance costs	(397)	-	-	(397)
Profit before tax	**469**	-	**(37)**	**432**
Taxation	(814)	-	-	(814)
Loss for the year	**(345)**	-	**(37)**	**(382)**

Notes to the financial statements (continued)

2 **Business segment analysis (continued)**

Segmental statement of financial position as at 31 July 2011

	UK	France	North Africa	Total
	£000	£000	£000	£000
Total non-current assets	16,003	526	-	16,529
Total current assets	897	-	-	897
Total assets	**16,900**	**526**	**-**	**17,426**
Total non-current liabilities	(15,292)	-	-	(15,292)
Total current liabilities	(928)	-	-	(928)
Total liabilities	**(16,220)**	**-**	**-**	**(16,220)**
Other segment items				
Capital expenditure	3,013	216	-	3,229
Depreciation	317	-	-	317
Share based payments	3	-	-	3

Segmental income statement for the year ended 31 July 2010

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

Segmental statement of financial position as at 31 July 2010

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

3 Loss for the year before taxation

Loss for the year is stated after charging

	2011	2010
	£000	£000
Depreciation	**317**	468
Staff costs including directors	**226**	192
Exploration write-off	**-**	1,008
Impairment of producing fields	**425**	1,012
Fees payable to the auditor	**29**	11
Operating leases	**35**	36

4 Directors' emoluments (salaries and fees)

	2011	2010
	£000	£000
All directors	**-**	-

The emoluments of the directors were borne by another Group company

Notes to the financial statements (continued)

5 Employee information

Average number of employees including directors	2011	2010

	Number	Number
Management and technical	**-**	4
Field exploration and production	**4**	12
	4	16

The 2010 figures include 12 staff based in the Ukraine terminated in 2010

Staff costs	**2011**	**2010**
	£000	**£000**
Wages and salaries	**179**	149
Employers costs	**23**	26
Pensions	**21**	18
Share based payments / (credits)	**3**	(1)
	226	192

6 Loss on disposal of investment and discontinued operations

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

7 Finance income

	2011	**2010**
	£000	**£000**
Exchange rate gains	**114**	37

8 Finance costs

	2011	**2010**
	£000	**£000**
Bank interest payable	**28**	62
Loan interest payable	**271**	168
Interest on tax payment	**-**	4
Unwinding of discount on decommissioning provision (Note 18)	**92**	85
Exchange rate losses	**-**	79
Bank charges	**6**	15
	397	413

Notes to the financial statements (continued)

9 Taxation

	2011 £000	2010 £000
Current tax credit	(925)	(328)
Deferred tax charge	1,739	309
	814	(19)

UK corporation tax is calculated at 30% (2010 - 30%) of the estimated assessable profit for the year Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions

	2011 £000	2010 £000
Profit / (Loss) Loss before tax per the accounts	432	(1,632)
Tax reconciliation		
Profit / (Loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2010 30%)	130	(490)
Expenses not deductible for tax purposes	2	2
Adjustment re deferred tax	682	469
Total tax charge / (credit)	814	(19)

10 Intangible assets

	2011 £000	2010 £000
At 1 August	2,579	1,610
Additions	357	1,977
Exploration write-off	-	(1,008)
At 31 July	2,936	2,579

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

	2011 £000	2010 £000
France	526	310
UK PEDL 143 (Holmwood)	202	189
UK PEDL 150 (SW Lincoln)	2,032	1,916
UK PEDL 180 (NE Lincs)	70	65
UK PEDL 181	106	99
Total	2,936	2,579

In 2010 as the license areas in Western Sahara remained in force majeure throughout the year, the Board decided to write-down the intangible asset to nil value

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

Notes to the financial statements (continued)

10 Intangible assets (continued)

If it is not possible for the directors to secure adequate resources to fund the Company's ongoing liabilities, including the planned forward work programme (see Note 22), the carrying value of the assets of the Company including intangible exploration assets and the investment of the Company are likely to be partially impaired

11 Property, plant and equipment

Producing fields

	2011 £000	2010 £000
Cost		
At 1 August	**7,572**	7,125
Additions	**3,008**	447
At 31 July	**10,580**	7,572
Depreciation and depletion		
At 1 August	**3,613**	2,133
Charge for year	**317**	468
Impairment	**425**	1,012
At 31 July	**4,355**	3,613
Net Book Value		
At 31 July	**6,225**	3,959

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

The carrying value of each producing field was tested for impairment In 2011, as a result of the increase in the supplementary tax charge, there was an impairment at Crosby Warren of £257,000, (2010 £1,012,000) and at West Firsby £168,000 (2010 nil)

12 Investments

Investment in subsidiaries	£000
At 1 August 2009	**33**
Write off investment in Ukraine subsidiary	**(33)**
31 July 2010 and 31 July 2011	**-**

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

- Europa Oil & Gas SRL registered in Romania The results of this company have been included in the consolidated accounts of the parent company Europa Oil & Gas (Holdings) plc
- Europa Oil & Gas Resources Ltd registered in UK The results of this company have been included in the consolidated accounts of the parent company Europa Oil & Gas (Holdings) plc
- Europa Nafta & Gas Ukraine registered in Ukraine The results of this company have been included in the consolidated accounts of the parent company Europa Oil & Gas (Holdings) plc

Notes to the financial statements (continued)

12 Investments (continued)

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

	2011	2010
Aggregate capital and reserves	**£000**	**£000**
Europa Oil & Gas SRL	**(3,953)**	(3,897)
Europa Nafta & Gas Ukraine	**(458)**	(458)
Europa Oil & Gas Resources Ltd	**(32)**	(24)
Loss for the year		
Europa Oil & Gas SRL	**(56)**	(116)
Europa Nafta & Gas Ukraine	**-**	-
Europa Oil & Gas Resources Ltd	**(8)**	(24)

13 **Inventories**

	2011	2010
	£000	**£000**
Oil in tanks	**43**	38

14 **Trade and other receivables**

	2011	2010
Current trade and other receivables	**£000**	**£000**
Trade receivables	**438**	217
Other receivables	**99**	70
Prepayments and accrued income	**20**	47
	557	334
Non current trade and other receivables		
Owed by Group undertakings	**6,438**	6,175

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

15 **Trade and other payables**

	2011	2010
	£000	**£000**
Trade payables	**719**	535
Other payables	**-**	222
Accruals and deferred income	**85**	114
Owed to Group undertakings	**124**	234
	928	1,105

Other payables includes advances received from partners on projects in UK

Notes to the financial statements (continued)

16 **Borrowings**

The Royal Bank of Scotland (RBS) multi-currency facility signed on 11 February 2011 provides an overdraft of up to £700,000 At 31 July 2011 the facility was not used (2010 overdraft of £500,000) The facility is due to be renewed 31 October 2011

A term loan also provided by RBS was fully repaid on 31 January 2011 At 31 July 2010 this loan was drawn to £500,000 of which £400,000 was classified as short term

	2011	2010
Loans repayable in less than one year	£000	£000
Multi-option facility	-	500
Term loan	-	400
Total short term borrowing	-	900
Loans repayable in 1 to 2 years		
Term loan	-	100
Total loans repayable in 1 to 2 years	-	100
Loans repayable in 2 to 5 years		
Term Loan	-	-
Loan from parent	**9,116**	5,466
Total loans repayable in 2 to 5 years	**9,116**	5,466
Total long term borrowing	**9,116**	5,566

The loan from the parent company represents borrowings against a facility put in place on 21 July 2008 with Europa Oil & Gas (Holdings) plc

17 Deferred Tax

The Company has recognised a non-current deferred tax asset of £930,000 (2010 nil) in respect of losses arising in the year, within the UK ring fence It is expected that these losses will be utilised against profits arising in the 2012 financial year

	2011	2010
Recognised deferred tax liability:	**£000**	**£000**
As at 1 August	**2,867**	2,558
Charged to income statement	**1,739**	309
At 31 July	**4,606**	2,867

The Company has a net deferred tax liability of £4,606,000 (2010 £2,867,000) arising from accelerated capital allowances

Notes to the financial statements (continued)

17 Deferred tax (continued)

Unrecognised deferred tax asset:	**2011** **£000**	**2010** **£000**
Accelerated capital allowances	**(158)**	(81)
Trading losses	**1,181**	933
Net deferred tax asset	**1,023**	852

The Company has an unprovided net deferred tax asset of £1,023,000 (2010 £852,000), in relation to overseas trading losses of £3 1 million, that have not been recognised in the accounts as the timing of the utilisation of the losses is considered uncertain

18 Long term provision

	2011 **£000**	**2010** **£000**
As at 1 August	**1,395**	1,137
Charged to the statement of comprehensive income	**92**	85
Added to intangible non-current assets	**-**	173
Added to property, plant & equipment non current assets	**83**	-
At 31 July	**1,570**	1,395

The addition during the year is the decommissioning provision for the West Firsby 9 well (2010 Hykeham well)

Decommissioning provisions are based on third party estimates of work which will be required and the judgement of directors By its nature, the detailed scope of work required and timing is uncertain Hykeham is the only well where decommissioning is anticipated before 2022

19 Called up share capital

	2011 **£000**	**2010** **£000**
Authorised		
1,000,000 ordinary shares of 10p each	**100**	100
Allotted, called up and fully paid		
19,344 ordinary shares of 10p each (2010 19,344)	**2**	2

All the authorised and allotted shares are of the same class and rank pari passu
The following describes the purpose of each reserve within owners' equity

Reserve	**Description and purpose**
Share premium	Amount subscribed for share capital in excess of nominal value
Retained deficit	Cumulative net gains and losses recognised in the consolidated income statement

Notes to the financial statements (continued)

20 Share based payments

Employees of the Company have been granted a total of 360,000 ordinary 1p share options in Europa Oil and Gas (Holdings) plc (2010 360,000)

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

Grant date	**11 November 2004**	**1 December 2006**	**23 October 2009**
Number of options	160,000	80,000	120,000
Share price at grant	32 5p	21 5p	13 3p
Exercise price	25p	25p	16p
Volatility	40%	50%	60%
Dividend yield	nil	nil	nil
Risk free investment rate	4 80%	4 90%	2 74%
Option life (years)	6 25	6 25	6
Fair value per share	16 76p	10 16p	6 58p

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

Based on the above fair values the charge arising from the grant of employee share options was £3,000 (2010 a credit of £1,000)

	2011 Number of options	**2011 Average exercise price**	**2010 Number of options**	**2010 Average exercise price**
Outstanding at the start of the year	360,000	22p	400,000	22 5p
Granted	-	-	120,000	16p
Forfeited	-	-	160,000	18 75p
Outstanding at the end of the year	360,000	22p	360,000	22p
Exercisable at the end of the year	279,999	23 7p	240,000	25p

No options were exercised in the year (2010 nil)

21 Financial instruments

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

Notes to the financial statements (continued)

21 Financial instruments (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 2011 trade receivables were £438,000 (2010 £217,000) representing one month of oil revenue (2010 one month) The fair value of trade receivables and payables approximates to their carrying value because of their short maturity Any surplus cash is held on deposit with Royal Bank of Scotland The maximum credit exposure in the year was £479,000 (2010 £344,000)

Liquidity risk
Though the Company has the benefit of a regular revenue stream, there is still a need for bank financing The Group has in place a £700,000 flexible multi-currency facility with its bankers which can be utilised in either Sterling or foreign currency via an overdraft At the year end there was no overdraft (2010 £500,000)

As explained in Note 1, the directors have not yet secured the necessary funds to meet the Group's liabilities, including the planned forward work programme (see Note 22) The directors consider that based upon income projections, the efforts being made to reduce liabilities through trade arrangements, use of the Group's SEDA facility and an expectation to renew the bank facility, the Company will be a going concern for twelve months from the date of approval of these financial statements

If it is not possible for the directors to secure adequate resources, the carrying value of the assets of the Group 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 Group

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 2011	Trade and other payables £000	Short term borrowings £000	Long term borrowings £000
6 months or less	928	-	-
6-12 months	-	-	-
1-2 years	-	-	-
2-5 years	-	-	9,116
Total	928	-	9,116
At 31 July 2010			
6 months or less	996	700	-
6-12 months	109	200	-
1-2 years	-	-	100
2-5 years	-	-	5,466
Total	1,105	900	5,566

Trade and other payables do not normally incur interest charges Borrowings bear interest at variable rates

Interest rate risk
The Company has interest bearing liabilities as described in Note 16 The £700,000 multi-currency facility is secured over the assets of Europa Oil & Gas (Holdings) plc and Europa Oil & Gas Limited Interest is charged on the multi-currency facility at base rate plus 3% (2010 base plus 3%)

Notes to the financial statements (continued)

21 Financial instruments (continued)
Commodity price risk

The selling price of the Company's production of crude oil is set at a small discount to Brent prices The table below shows the range of prices achieved in the year and the sensitivity of the Company's Profit/(Loss) Before Taxation (PBT) to such movements in oil price There would be a corresponding increase or decrease in net assets

Oil price	Month	2011 Price $/bbl	2011 PBT £000	2010 Price $/bbl	2010 PBT £000
Highest	Apr 2011	121 70	1,272	83 40	(1,246)
Average		98 70	432	73 95	(1,632)
Lowest	Aug 2011	75 60	(473)	66 10	(1,967)

Foreign exchange risk

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

US Dollar	Month	2011 Rate $/£	2011 PBT £000	2010 Rate $/£	2010 PBT £000
Highest	Apr 2011	1 665	307	1 6478	(1,807)
Average		1 594	432	1 5584	(1,632)
Lowest	Nov 2011	1 557	559	1 4459	(1,400)

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	2011 £000	2010 £000
Euro	(92)	(49)
US Dollar	548	678
Total	456	629

Capital risk management

The company's capital is closely monitored by the directors in the light of the capital needs of the Europa Oil & Gas (Holdings) plc Group as a whole Further details are disclosed in the Group Annual Report and Accounts which are publicly available

22 **Commitments**

As at the 31 July 2011 the Company had contractual commitments to acquire seismic in the UK and France

Europa's share of costs for this and other exploration activities over the next year is approximately £2 million This commitment is expected to be met from cash generated from production, borrowings referred to in Note 16, and loans from the parent

An appraisal/production well at Osmets (Tarbes Val d'Adour, France) could be drilled in 2013 subject to reaching agreement with a partner In the Western Sahara a further £3 million is committed pending a resolution of the political situation in the country

Notes to the financial statements (continued)

22 **Commitments (continued)**

Europa Oil & Gas Limited

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 for 2012 is £17,000 and increases annually in line with the retail price index The Crosby Warren lease runs until December 2022 and can be determined on 3 months notice The annual cost is £20,000 and is currently under review

23 Related party transactions

The Company received services from its parent Europa Oil & Gas (Holdings) plc to the value of £881,000 (2010 £906,000) This included geological, operational and financial services provided by the executive directors of Europa Oil & Gas (Holdings) plc

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

	2011	2010
	£000	£000
Europa Oil & Gas (Holdings) plc	9,240	5,700
Comprising		
Loans (note 16)	9,116	5,466
Other payables (note 15)	124	234

During the year, the Company provided no services to subsidiary and other Group companies

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

	2011	2010
	£000	£000
Europa Oil & Gas Resources Limited	3	-
Europa Oil & Gas SRL	6,435	6,175
Total	6,438	6,175

24 Post reporting date events

On 21 October 2011, PA Barrett resigned, and HGD Mackay was appointed as a director of the Company

The award of two Licensing Options over acreage in the 2011 Irish Atlantic Margin Round was notified on 17 October 2011

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