

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

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**For the Year Ended 31 July 2009**

**Company registration number 3093716**

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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

**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

## Directors' report

The directors present their report and the audited financial statements for the year ended 31 July 2009.

### 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 Oilfield	100%	Europa	Production
UK	West Firsby Oilfield	100%	Europa	Production
UK	Whisby Oilfield (W4 only)	65%	BPEL	Production
UK	PEDL143 (Holmwood)	40%	Europa	Exploration, Holmwood-1 well planned 2010
UK	PEDL150 (SW Lincoln)	75%	Europa	Exploration, Hykeham-1 well, West Whisby prospect
UK	PEDL180 (NE Lincs)	50%	Europa	Exploration, Wressle prospect
UK	PEDL181 (NE Lincs)	50%	Europa	Exploration, Caister Horst prospect
UK	PEDL222 (Torksey Area)	50%	Valhalla	Exploration, maturing prospects
France	Béarn des Gaves	100%	Europa	Exploration possible field development
France	Tarbes val d'Adour	100%	Europa	Field re-development, exploration
Poland	Blocks 434, 435, 454 and 455	2.5% *	RWE-Dea	Appraisal drilling of Pola oil discovery to commence in late 2009
Egypt	West Darag Onshore	60%	Europa	Exploration, seismic acquisition
Western Sahara	Bir Lehlou	100%	Europa	Inactive – force majeure
Western Sahara	Hagounia	100%	Europa	Inactive – force majeure

\* Overriding royalty interest

## Directors' report (continued)

### **Business review**

The Company holds interests in 14 licences (see table), with 11 in Europe and 3 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.

### **United Kingdom**

#### **Production/Development**

##### Crosby Warren

Crosby Warren produces oil from the CW1 well, at about 45bopd. The CW2 well is currently shut-in awaiting a workover. The field is undergoing a production enhancement programme which includes a larger pump on CW1 and a proppant frac stimulation on CW2, a technique which was used to great effect on CW1. These are scheduled to complete during the fourth quarter of 2009.

##### West Firsby

In May, a series of engineering studies proved that the West Firsby Oilfield had been underperforming and production could be increased by over 40% from its average production of 120 bopd. An upgrade of the facilities will be required to maximize and sustain this production increase and ensure production reliability. In September, OSL Consulting Limited were engaged to design these modifications. Work has already begun and is scheduled to complete in 16 weeks.

On the morning of 22 June 2009, a fire caused damage to two engines and pumps. The emergency shutdown system activated and damage was contained within the engine bund. There were no injuries, no spill of oil, and the equipment was fully insured. Production was quickly restored from the WF7 well and at the time of writing, production from the field was averaging 80 bopd. Work continues to bring both wells back to full production.

The field is being remapped with the aim of determining infill drilling locations. This work is expected to be completed before the end of October. Planning permission has already been obtained for a new well at West Firsby and once a location is determined, this well can be drilled relatively quickly and cheaply.

##### Whisby

Production continues along a well-defined decline curve for the W4 well. At the end of the reporting period, the well was producing 90 bopd (58 bopd net to Europa) with a cumulative production of approximately 350,000 bbls. No additional work is planned on the well.

### **Exploration**

The UK onshore has several petroleum basins and our exploration efforts over the past year have concentrated on the East Midlands Petroleum Basin and the Weald Basin in Southern England. The East Midlands has a long history of oil and gas production from the Carboniferous and currently produces mainly oil, with rates of up to 2,500 bopd. The Weald Basin produces both gas and oil from Jurassic reservoirs.

## Directors' report (continued)

### United Kingdom (continued)

#### Exploration (continued)

##### PEDL150 (75%) – Hykeham & West Whisby Prospects (East Midlands Petroleum Basin)

The Hykeham prospect received planning consent for drilling in 2008. A moratorium during the bird breeding season at the adjacent Whisby Nature Park means that the well cannot be drilled between the beginning of March and the end of August. For this reason, it was cost effective to spud the well in January 2009 and drill to a depth of 88m before setting surface casing and suspending until the end of the bird breeding season. Europa has signed a contract with British Drilling and Freezing Limited (BDF) for their Rig 28 to drill the main section of Hykeham-1 and it is anticipated that drilling will commence in late 2009 after the rig's current campaign.

Hykeham is a well-defined prospect with clear four-way dip closure and a common spillpoint with the Whisby Oilfield, 1.5km to the northwest. The nearby Caledonian Farm well encountered good oil shows in a 10m thick channel sandstone reservoir, significantly thicker than that seen in the Whisby Oilfield. The well is targeting 10 million barrels of oil in place and is given an in-house risk assessment of better than a 1 in 3 chance of success.

We are excited about drilling this well and regard it as having a good chance of containing commercial hydrocarbons with an estimated 2.4 million barrels of potential recoverable oil. If successful, this well will more than double our reserves and can immediately be in production and generate revenue.

In April 2009 Europa received planning permission to drill an exploration well at West Whisby on the same licence. The West Whisby Prospect has an estimated 2.5 mmbo of most likely prospective reserves.

##### PEDL180 and PEDL181 (50%) (East Midlands Petroleum Basin)

These two licences cover an area of some 600km<sup>2</sup> of the Humber Basin. On this acreage the Wressle prospect, only 7 km from Crosby Warren, is the most-likely low-risk first drill target. In addition, reprocessing of the Immingham 3D seismic survey is underway and there is a strong possibility that the Caister Horst lead, identified for the licence application, will develop into a Saltfleetby Field 'lookalike' (the largest onshore gasfield, with over 73bcf of 2P reserves) and therefore mature into a 'must-drill' prospect.

Management believes that the acquisition of this large prospective area stole a march on the competition and will create a flow of high quality drillable prospects over the coming years.

##### PEDL222 (50%) (East Midlands Petroleum Basin)

This is primarily protection acreage, connecting the three disparate parts of PEDL150, but also covering the Torksey Field, a subcommercial discovery with potential stratigraphic upside. Work continues on the block, operated by Valhalla.

##### PEDL143 (40%) – Holmwood Prospect (Weald Basin)

Following a lengthy process of environmental and planning management a planning application was lodged with Surrey County Council in January 2009. In April, the Council requested further information in order for the planning department to submit their recommendation to the committee. A planning decision is expected in late 2009.

There has been some local objection to this application due to its location in an Area of Outstanding Beauty in the Surrey Hills. While understandable, we believe the objections are unjustified. Enormous effort has been made to ensure that the location will not be adversely affected by this temporary development in a secluded, working, Forestry Commission conifer plantation site. Extensive ecological, archeological, noise, light and traffic assessments have been commissioned and these have not revealed any specific causes for concern over the proposed drilling.

## Directors' report (continued)

### **United Kingdom (continued)**

#### **Exploration (continued)**

##### P1545 (50%) – East Irish Sea blocks 109/5 and 112/30 (UK Offshore)

The existing 2D seismic database was reprocessed and amplitude variations with offset (AVO) work undertaken to attempt to de-risk the presence of gas in the large structural closure. Amplitude anomalies in the anticipated reservoir sequence did not result in an AVO anomaly. Following this result, it was decided to allow the licence to lapse in 2009 without entering into a drilling commitment.

#### **France**

Europa holds two licences in the Aquitaine Basin.

##### Tarbes Val d'Adour (100%)

In Tarbes Val d'Adour, effort is focused on the potential re-development of the Osmets Oilfield. This field was shut-in by Total during a time of very low oil price in the mid 80's. Europa has reprocessed a large amount of seismic, including 600km of 2D data in the vicinity of the Osmets play and is working with BRGM, the French Geological Survey, to undertake a regional geological study. With the early production data now received from Total, Europa intends to re-interpret the area with the expertise of BRGM, with the aim of finding a suitable well location in 2010 to re-develop the Osmets Oilfield.

##### Béarn des Gaves (100%)

In the Béarn des Gaves permit, there are a number of wells that have showed gas, including the deep Berenx-1 well, which encountered high pressure gas in the same reservoir as the 5TCF Lacq gasfield. In the western part of the licence, several shallow wells drilled in the early part of the 20<sup>th</sup> century flowed oil and gas. This western part of the licence is therefore the primary focus for exploration.

#### **Poland**

An early stage investment for Europa was in the North Carpathian area of Poland, home to a number of oil and gas fields in similar settings to the Company's Romanian acreage. As a result of this initial working interest in Blocks 434, 435, 454 and 455 in southern Poland, Europa acquired a 2.5% overriding royalty interest in any oil and gas production.

The current operator RWE Dea, the E&P arm of the German utility, has recently drilled several wells in the licence areas and plans to drill a number of appraisal wells to the Pola-1 oil discovery starting in November 2009. In advance of any production from these Blocks, the Company is in the process of clarifying the legal status of the royalty.

#### **Egypt**

Europa, along with its partner Solaris Energy plc, has identified several structural leads each with reserves potential of 15 - 35mmbo recoverable in the Sukhna area of the concession. Sukhna is a coastal plain where the Gulf of Suez (GOS) rift comes onshore and its proven petroleum system is indicated to extend into the area of these mapped leads. The GOS, despite its small overall size, is an extraordinarily prolific petroleum system, having produced over 5 billion barrels to date.

Although Europa has made significant progress with the existing seismic data, we have been unable to reprocess as planned due to degradation of the original tape records. We have therefore decided to progress directly to seismic acquisition with the objective of firming up drillable targets. The cost of the survey, detailed in the winning tender, will for the most part be covered by the existing letter of guarantee that Europa provided in favour of Egyptian General Petroleum Corporation (EGPC).

In June EGPC granted Europa a six month extension on the first phase of the West Darag concession in order to permit the acquisition of approximately 350km of 2D seismic data prior to making the decision to enter into Phase 2. The preferred contractor for this new seismic acquisition has indicated its availability to undertake the survey starting in October.

## Directors' report (continued)

### **Western Sahara**

Europa holds two large exploration permits, Bir Lehlou and Hagounia in Western Sahara licensed by the Saharawi Arab Democratic Republic. Due to the ongoing dispute over sovereignty between the indigenous Saharawi people and the Moroccan state, the licences are effectively in force majeure until such time as a resolution is reached.

#### Bir Lehlou (100%)

The Bir Lehlou permit is located in southwest of the Tindouf Basin. This is a sub-set of the large Palaeozoic basin which once covered North Africa and shares a common history with the Sirte and Murzuq Basins in Libya, along with the Ghadammes and Reggane Basins in Algeria. While these analogous basins have world-class volumes of proven hydrocarbons, the Tindouf is almost totally unexplored. This is primarily a function of its remote location and the fact that the basin is thought to be over mature for oil but remains gas bearing in the southern portion, where the Bir Lehlou permit is located. The basin is estimated to contain over 8000 metres of sediment and if found to be hydrocarbon bearing could be equally as prolific as the Libyan and Algerian Basins.

#### Hagounia (100%)

The Hagounia permit lies in the El Aaiun Basin in the coastal region of Western Sahara in a setting similar to other West African coastal margin basins, such as Mauritania. The basin formed as an extensional rift system during the Late Triassic to Lower Jurassic, followed by subsidence and renewed rifting during the Cretaceous period. Source rocks which were deposited in the basin during the Jurassic are now mature for oil and overlain by Cretaceous clastics and further organic-rich marine shales. Triassic age organic-rich shales may also provide a second deeper petroleum system.

Although there has been little exploration in the El Aaiun, gas shows have been recorded in Triassic through Tertiary age sediments. Oil shows were present in one well in Jurassic age sediments and the Cap Juby Field, which lies on trend in Morocco, produced heavy oil on test at a rate of 2,400 bopd from Jurassic carbonates.

### **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. Progress has been slow due to the legal process in Ukraine but we move towards completion.



## Directors' report (continued)

### Results for the year and dividends

The Company loss for the year from continuing activities after taxation was £340,000 (2008: profit £1,354,000). The directors do not recommend the payment of a dividend (2008: £nil).

### Directors

The directors who served during the year were as follows:

PA Barrett  
P Greenhalgh  
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.

### Post balance sheet 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. 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

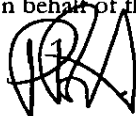
In the case of each person who was a director at the time this report was approved:

- 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, BDO LLP, will be proposed at the next Annual General Meeting.

On behalf of the Board 23 October 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 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 2009 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, and the related Notes 1 to 25. 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 sections 495 and 496 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**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### **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 2009 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;

### **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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent 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  
23 October 2009

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

# Income statement for the year ended 31 July 2009

		2009 £000	Restated 2008 £000
<b>Continuing operations</b>	Note		
Revenue	2	2,937	4,418
<i>Other cost of sales</i>		(1,722)	(1,599)
<i>Exploration write-off</i>		(296)	(1)
Total cost of sales		(2,018)	(1,600)
<b>Gross profit</b>		<u>919</u>	<u>2,818</u>
Administrative expenses		(240)	(163)
Finance income	7	99	261
Finance costs	8	(755)	(150)
<b>Profit before taxation</b>	3	<u>23</u>	<u>2,766</u>
Taxation	9	(363)	(1,412)
<b>(Loss) / profit for the period from continuing operations</b>		<u>(340)</u>	<u>1,354</u>
<b>Discontinued operations</b>			
Loss for the year from discontinued operations	6	(47)	-
<b>(Loss)/Profit for the year</b>		<u>(387)</u>	<u>1,354</u>

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

# Balance sheet as at 31 July 2009

	Note	2009 £000	2008 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	10	1,610	1,138
Property, plant and equipment	11	4,992	5,396
Investments	12	33	33
Loans to group companies	14	5,506	5,607
<b>Total non-current assets</b>		<b>12,141</b>	<b>12,174</b>
<b>Current assets</b>			
Inventories	13	15	16
Trade and other receivables	14	257	630
<b>Total current assets</b>		<b>272</b>	<b>646</b>
<b>Total assets</b>		<b>12,413</b>	<b>12,820</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	15	(662)	(705)
Current tax liabilities		(588)	(367)
Short-term borrowing	16	(1,043)	(1,152)
<b>Total current liabilities</b>		<b>(2,293)</b>	<b>(2,224)</b>
<b>Non-current liabilities</b>			
Long-term borrowings	16	(3,226)	(3,360)
Deferred tax liabilities	17	(2,558)	(2,601)
Long-term provisions	18	(1,137)	(1,058)
<b>Total non-current liabilities</b>		<b>(6,921)</b>	<b>(7,019)</b>
<b>Total liabilities</b>		<b>(9,214)</b>	<b>(9,243)</b>
<b>Net assets</b>		<b>3,199</b>	<b>3,577</b>
<b>Capital and reserves attributable to equity holders of the company</b>			
Share capital	19	2	2
Share premium account	19	3,266	3,266
Retained earnings	19	(69)	309
<b>Total equity</b>		<b>3,199</b>	<b>3,577</b>

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 23 October 2009 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 2009

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 August 2007	2	3,266	(1,053)	2,215
Profit for the year	-	-	1,354	1,354
<b>Total recognised income and expense for the year</b>	-	-	<b>1,354</b>	<b>1,354</b>
Share based payment	-	-	8	8
<b>Balance at 31 July 2008</b>	<b>2</b>	<b>3,266</b>	<b>309</b>	<b>3,577</b>

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 August 2008	2	3,266	309	3,577
Profit for the year	-	-	(387)	387
<b>Total recognised income and expense for the year</b>			<b>(387)</b>	<b>(387)</b>
Share based payment	-	-	9	9
<b>Balance at 31 July 2009</b>	<b>2</b>	<b>3,266</b>	<b>(69)</b>	<b>3,199</b>

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

## Cashflow statement for the year ended 31 July 2009

	Note	2009 £000	2008 £000
<b>Cash flows from operating activities</b>			
(Loss) / profit from continuing operations		(340)	1,354
Adjustments for:			
Share based payments	20	9	8
Depreciation	11	527	516
Exploration write-off	10	297	1
Finance income	7	(99)	(261)
Finance expense	8	755	150
Taxation expense	9	363	1,412
Decrease in inventories		1	17
Increase in trade and other receivables		(17)	(224)
Decrease in trade and other payables		(262)	(292)
Cash generated from continuing operations		<u>1,234</u>	<u>2,681</u>
Loss after taxation from discontinued operations		(47)	-
Cash used in discontinued operations		(47)	-
Income taxes paid		(180)	(322)
<b>Net cash from operating activities</b>		<u>1,007</u>	<u>2,359</u>
<b>Cash flows used in investing activities</b>			
Purchase of property, plant and equipment		(178)	(2,220)
Purchase of intangible assets		(645)	(297)
Proceeds from sale of property, plant and equipment		-	23
<b>Net cash used in investing activities</b>		<u>(823)</u>	<u>(2,494)</u>
<b>Cash flows from financing activities</b>			
Proceeds from long-term borrowings		1,000	-
Repayment of borrowings		(684)	(439)
Interest paid		(59)	(67)
<b>Net cash from financing activities</b>		<u>257</u>	<u>(506)</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>441</b>	<b>(641)</b>
Exchange gain on cash		118	8
<b>Cash and cash equivalents at beginning of year</b>		<u>(1,152)</u>	<u>(519)</u>
<b>Cash and cash equivalents at end of year</b>		<u>(593)</u>	<u>(1,152)</u>

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 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 2009.

### 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. The IASB and IFRIC have issued the following standards and interpretations:

There were no amendments to published standards and interpretations to existing standards effective in the year adopted by the Company.

Standards, interpretations and amendments to published standards effective in the year but which are not relevant to the Company:

		Effective date (periods beginning on or after)
• IFRIC 12	Service concession arrangements	1 Jan 2008
• IFRIC 14	IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction	1 Jan 2008
• IFRIC 13	Customer loyalty programmes	1 Jul 2008
• IAS 39/IFRS7	Reclassification of financial instruments	1 Jul 2008
• IAS 39/IFRS7*	Reclassification of financial instruments – effective date and transition	1 Jul 2008

Standards, interpretations and amendments, which are effective for reporting periods beginning after the date of these financial statements:

		Effective date (periods beginning on or after)
• IFRIC 16	Hedges of a net investment in a foreign operation	1 Oct 2008
• IAS 1	Amendment - presentation of financial statements: a revised presentation	1 Jan 2009
• IAS 23	Amendment - borrowing costs	1 Jan 2009
• IAS 32 and 1	Amendments - puttable financial instruments and obligations arising on liquidation	1 Jan 2009
• IFRS 1*	First-time adoption of international accounting standards	1 Jan 2009
• IFRS 2	Amendment - share-based payment: vesting conditions and cancellations	1 Jan 2009

# Notes to the financial statements (continued)

## 1 Accounting Policies (continued)

### Future changes in accounting standards (continued)

Standards, Interpretations and amendments, which are effective for reporting periods beginning after the date of these financial statements (continued):

• IFRS 7*	Amendment – improving disclosures about financial instruments	1 Jan 2009
• IFRS 8	Operating segments	1 Jan 2009
• IFRS1 and IAS 27	Amendments – cost of an investment in a subsidiary, jointly controlled entity or associate	1 Jan 2009
• IFRIC 15	Agreements for the construction of real estate	1 Jan 2009
• IFRIC9 and IAS 39*	Amendments – embedded derivatives	30 Jun 2009
• IAS 27	Amendment - consolidated and separate financial statements	1 Jul 2009
• IAS 39	Amendment –recognition and measurement: eligible hedged items	1 Jul 2009
• IFRS 3	Revised - business combinations	1 Jul 2009
• IFRIC 17*	Distributions of non-cash assets to owners	1 Jul 2009
• IFRIC 18*	Transfers of assets from customers	1 Jul 2009
• IFRS 1*	Additional exemptions for first-time adopters	1 Jan 2010
• IFRS 2*	Amendment – group cash-settled share based payment transactions	1 Jan 2010

In addition the “improvements to IFRS’s project” is ongoing, with most changes expected 1 Jan 2010.

Except for the adoption of IFRS 3 (Revised) and the adoption of IAS 23 the above standards, interpretations and amendments will not significantly affect the Company’s results or financial position, although the adoption of IFRS 8 may affect note disclosures.

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.

### 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 balance sheet.

### Restatement

The financial statements for the twelve months ended 31 July 2008 have been restated in accordance with IAS8 as a review of accounting treatment revealed errors in respect of transactions under the scope of IAS21 (para 32). The restatement had the effect of moving £261,000 of exchange loss arising on the translation of foreign subsidiaries from the Forex reserve to the Company Income statement.

### 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 is based on correspondence with the Company’s bankers, the performance of its existing oil production, and the spread of its prospective resources.

## Notes to the financial statements (continued)

### 1 Accounting Policies (continued)

#### 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

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 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.

##### 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.

## Notes to the financial statements (continued)

### 1 Accounting Policies (continued)

#### Non-current assets (continued)

##### 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.

#### 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.

#### 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 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.

## Notes to the financial statements (continued)

### 1 Accounting Policies (continued)

#### 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.

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 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 "Forex 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 Sterling. The Company's current operations are based in the UK, Ukraine, France, Western Sahara and Egypt, 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.

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 balance sheet when the Company becomes a party to the contractual provisions of the instrument. The Company classifies its 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 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.

## Notes to the financial statements (continued)

### 1 Accounting Policies (continued)

#### Financial instruments (continued)

The Company classifies its 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:

##### Fair value through profit or loss.

This category comprises only out-of-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the consolidated Income statement. Other than these derivative financial instruments, the Company does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

##### Other financial liabilities.

Include the following items:

Bank 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 balance sheet. 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.

#### 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 consolidated 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.

## Notes to the financial statements (continued)

### 1 Accounting Policies (continued)

#### 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.

#### Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale
- management is committed to a plan to sell
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn
- an active programme to locate a buyer has been initiated
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount immediately prior to being classified as held for sale in accordance with the Company's accounting policy; and fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed during the year are included in the consolidated income statement up to the date of disposal.

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations or its subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented in the income statement (including the comparative period) as a single line which comprises the post tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the re-measurement to fair value less costs to sell or on disposal of the assets/disposal groups constituting discontinued operations.

## Notes to the financial statements (continued)

### 1 Accounting Policies (continued)

#### **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:

- Discontinued operations (Note 6)
- Carrying value of intangible assets (Note 10)
- Carrying value of property, plant and equipment (Note 11)
- Decommissioning provision (Note 18)
- Share-based payments (Note 20)
- Financial instruments (Note 21)

### 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 4 geographic reporting segments.



# Notes to the financial statements (continued)

## 2 Business segment analysis (continued)

Segmental income statement for the year ended 31 July 2009

	UK £000	France £000	North Africa £000	Ukraine £000	Total £000
<b>Continuing operations</b>					
Revenue	2,937	-	-	-	2,937
Other cost of sales	(1,722)	-	-	-	(1,722)
Exploration write-off	(296)	-	-	-	(296)
Total cost of sales	(2,018)	-	-	-	(2,018)
<b>Gross profit</b>	<b>919</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>919</b>
Administrative expenses	(224)	-	(16)	-	(240)
Finance income	99	-	-	-	99
Finance costs	(755)	-	-	-	(755)
<b>Profit / (loss) before tax</b>	<b>39</b>	<b>-</b>	<b>(16)</b>	<b>-</b>	<b>23</b>
Taxation	(363)	-	-	-	(363)
<b>Loss for the year from continuing operations</b>	<b>(324)</b>	<b>-</b>	<b>(16)</b>	<b>-</b>	<b>(340)</b>
<b>Discontinued operations</b>					
Loss for the year from discontinued operation	-	-	-	(47)	(47)
<b>Loss for the period</b>	<b>(324)</b>	<b>-</b>	<b>(16)</b>	<b>(47)</b>	<b>(387)</b>

Segmental balance sheet as at 31 July 2009

	UK £000	France £000	North Africa £000	Ukraine £000	Total £000
Segment assets	11,751	139	539	-	12,413
<b>Total assets</b>	<b>11,751</b>	<b>139</b>	<b>539</b>	<b>-</b>	<b>12,413</b>
Segment liabilities	(6,068)	-	-	-	(6,068)
Current tax liabilities	(588)	-	-	-	(588)
Deferred tax liabilities	(2,558)	-	-	-	(2,558)
<b>Total liabilities</b>	<b>(9,214)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(9,214)</b>
<b>Other segment items</b>					
Capital expenditure	655	91	146	-	892
Depreciation	527	-	-	-	527
Share based payments	1	-	8	-	9

# Notes to the financial statements (continued)

## 2 Business segment analysis (continued)

### Segmental income statement for the year ended 31 July 2008

	UK	France	North Africa	Ukraine	Total
	£000	£000	£000	£000	£000
<b>Continuing operations</b>					
Revenue	4,418	-	-	-	4,418
Other cost of sales	(1,599)	-	-	-	(1,599)
Exploration write-off	(1)	-	-	-	(1)
Cost of sales	(1,600)	-	-	-	(1,600)
<b>Gross profit</b>	<b>2,818</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,818</b>
Administrative expenses	(163)	-	-	-	(163)
Finance income	261	-	-	-	261
Finance costs	(150)	-	-	-	(150)
<b>Profit before tax</b>	<b>2,766</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,766</b>
Taxation	(1,412)	-	-	-	(1,412)
<b>Profit for the period from continuing operations</b>	<b>1,354</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,354</b>
<b>Profit for the period</b>	<b>1,354</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,354</b>

### Segmental balance sheet as at 31 July 2008

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

## Notes to the financial statements (continued)

### 3 (Loss) / profit for the year is stated after charging:

(Loss) / profit from continuing operations:

	2009	Restated 2008
	£000	£000
Depreciation	527	517
Staff costs including directors	163	181
Exploration write-off	296	1
Fees payable to the previous auditor	24	48
Fees payable to the auditor	32	-
Operating leases	36	32

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

	2009	2008
	£000	£000
All directors	-	-

The emoluments of the directors were borne by another Group company.

### 5 Employee information

Average number of employees including directors

	2009 Number	2008 Number
Management and technical	6	4
Field exploration and production	15	16
	21	20

Total includes 15 (2008:16) based in the Ukraine (reported as discontinued operations).

Staff costs	2009 £000	2008 £000
Wages and salaries	93	98
Social security and tax	43	59
Pensions	17	17
Share based payments	10	7
	163	181

### 6 Discontinued operations

	2009 £000	2008 £000
Ukraine costs	47	-
	47	-

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. Costs relate to expenses incurred in progressing the completion of the sale which has required asset transfers from joint investment companies. The sale is expected to complete in the next few months.

## Notes to the financial statements (continued)

### 7 Finance income

	2009	Restated 2008
	£000	£000
Exchange rate gains	99	261

### 8 Finance costs

	2009	2008
	£000	£000
Bank interest payable	53	47
Loan interest payable	126	56
Interest on tax payment	-	15
Unwinding of discount on decommissioning provision	79	21
Exchange rate losses	491	9
Bank charges	6	2
	<u>755</u>	<u>150</u>

### 9 Taxation

	2009	2008
	£000	£000
Current tax charge	406	755
Deferred tax (credit) / charge	(43)	657
	<u>363</u>	<u>1,412</u>

UK corporation tax is calculated at 30% (2008 - 30%) of the estimated assessable profit for the year. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

	2009	2008
	£000	£000
Profit on ordinary activities per the accounts	23	2766
<i>Tax reconciliation</i>		
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2008: 30%)	7	830
Expenses not deductible for tax purposes	191	66
Supplementary North Sea oil taxation	175	338
Adjustment re prior year	(10)	178
Total tax charge	<u>363</u>	<u>1,412</u>

## Notes to the financial statements (continued)

### 10 Intangible assets

	2009 £000	2008 £000
<b>Cost</b>		
At 1 August	1,139	797
Additions	769	342
At 31 July	<u>1,908</u>	<u>1,139</u>
<b>Impairment</b>		
At 1 August	1	-
Change for the year	297	1
	<u>298</u>	<u>1</u>
<b>Net book value</b>		
At end of year	<u>1,610</u>	<u>1,138</u>
At start of year	<u>1,138</u>	<u>797</u>

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

	2009 £000	2008 £000
Egypt	434	288
France	139	49
Western Sahara	105	105
UK PEDL 143 (Holmwood)	179	140
UK PEDL 150 (SW Lincoln)	595	254
UK PEDL 180/181 (NE Lincs)	117	31
UK Continental Shelf	-	271
UK PEDL 222	41	-
<b>Total</b>	<u>1,610</u>	<u>1,138</u>

Following reprocessing of seismic data in the current year it was decided to allow the licence over block P1545 to lapse and therefore write-off the entire value of the UK Continental Shelf resulting in an impairment charge of £297,000. Licence commitments are explained further in Note 22.

## Notes to the financial statements (continued)

### 11 Property, plant and equipment

#### Producing fields

	2009 £000	2008 £000
<b>Cost</b>		
At 1 August	7,002	5,126
Additions	123	1,900
Disposals	-	(24)
At 31 July	7,125	7,002
<b>Depreciation and depletion</b>		
At 1 August	1,606	1,091
Charge for year	527	517
Disposals	-	(2)
At 31 July	2,133	1,606
<b>Net Book Value</b>		
At 31 July	4,992	5,396

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

The carrying value of the Crosby Warren oilfield has been tested for impairment. No impairment has been recorded because the carrying value of the asset was lower than the asset's value under a value-in-use calculation, which was based on the expected outcome of the production enhancement programme using a 10% discount rate. Further details of the production enhancement programme are described in the Operational review. If this work is unsuccessful then a write down in the value of this asset will be required.

In the 2008 annual report and accounts, cost and depreciation at 1 August 2008 were overstated by £443,000. Also, cost and depreciation of disposals in 2008 were overstated by £1,061,000. Figures for 2008 are presented, corrected for these mis-statements. Net book value at 31 July 2008 is unchanged

### 12 Investments

#### Investment in subsidiaries

	£000
At 1 August 2008	33
Additions	-
31 July 2009	33

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)

### 12 Investments (continued)

The aggregate capital and reserves, and result for the year of the subsidiaries are as below. Figures for 2008 have been restated for consistency in presentation.

	2009	2008
	£000	£000
<b>Aggregate capital and reserves</b>		
Europa Oil & Gas SRL	(3,781)	(492)
Europa Nafta & Gas Ukraine	458	463
	<u>          </u>	<u>          </u>
<b>(Loss) / profit for the year</b>		
Europa Oil & Gas SRL	(3,289)	346
Europa Nafta & Gas Ukraine	(5)	(477)
	<u>          </u>	<u>          </u>

### 13 Inventories

	2009	2008
	£000	£000
Oil in tanks	15	16
	<u>          </u>	<u>          </u>

### 14 Trade and other receivables

	2009	2008
	£000	£000
<u>Current trade and other receivables</u>		
Trade receivables	164	550
Other receivables	29	36
Prepayments and accrued income	64	44
	<u>          </u>	<u>          </u>
	257	630

#### Non current trade and other receivables

Owed by Group undertakings	5,506	5,607
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Loans to Group companies are interest free, have no fixed repayment date and are repayable on demand. Prior year disclosure has been amended in order to ensure consistency with the current year accounting treatment.

### 15 Trade and other payables

	2009	2008
	£000	£000
Trade payables	223	321
Other payables	382	240
Accruals and deferred income	48	49
Owed to Group undertakings	9	95
	<u>          </u>	<u>          </u>
	662	705

Other payables includes advances received from partners on projects in UK and Egypt.

### 16 Borrowings

On 1 May 2009 the Company agreed a £1 million uncommitted multi-option facility and a £1million term loan with its bankers. This replaced a £2 million multi option facility which was being renegotiated at the previous year end.

The multi-option facility can be utilised in either Sterling or foreign currency via an overdraft or the issue of bonds, guarantees, indemnities or letters of credit. At 31 July 2009 this facility was drawn to £297,000 (2008: £1,022,000) and one guarantee for £475,000 (2008: £581,000) was outstanding. The facility is

## Notes to the financial statements (continued)

### 16 Borrowings (continued)

available until 30 April 2010. The term loan is repayable in 10 quarterly installments. At 31 July 2009 it was drawn to £950,000 of which £450,000 was classified as short term.

	2009	2008
	£000	£000
<u>Loans repayable in less than one year</u>		
Multi-option facility	593	1,152
Term loan	450	-
<b>Total short term borrowing</b>	<b>1,043</b>	<b>1,152</b>
<u>Loans repayable in 1 to 2 years</u>		
Term loan	400	-
Loan from parent	2,726	3,360
<b>Total loans repayable in 1 to 2 years</b>	<b>3,126</b>	<b>3,360</b>
<u>Loans repayable in 2 to 5 years</u>		
Term Loan	100	-
<b>Total loans repayable in 2 to 5 years</b>	<b>100</b>	<b>-</b>
<b>Total long term borrowing</b>	<b>3,226</b>	<b>3,360</b>

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

### 17 Deferred Tax

	2009	2008
	£000	£000
<b>Recognised deferred tax liability:</b>		
As at 1 August	2,601	1,944
(Credited)/charged to income statement	(43)	657
<b>At 31 July</b>	<b>2,558</b>	<b>2,601</b>

The Company has a net deferred tax liability of £2,558,000 (2008: £2,601,000) arising from accelerated capital allowances.

	2009	2008
	£000	£000
<b>Unrecognised deferred tax asset:</b>		
Accelerated capital allowances	(243)	(167)
Overseas trading losses	728	582
<b>Net deferred tax asset</b>	<b>485</b>	<b>415</b>

The Company has a net deferred tax asset of £485,000 (2008: £415,000), in relation to overseas trading losses, that has not been recognised in the accounts as the transfer of economic benefits is uncertain.



## Notes to the financial statements (continued)

### 18 Long term provision

	2009	2008
	£000	£000
As at 1 August	1,058	438
Charged to income statement	79	21
Added to tangible non current assets	-	599
At 31 July	<u>1,137</u>	<u>1,058</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. 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 and the judgement of directors. By its nature, the detailed scope of work required and timing is uncertain. No decommissioning is anticipated before 2022.

### 19 Called up share capital

	2009	2008
	£000	£000
<b>Authorised</b>		
1,000,000 ordinary shares of 10p each	<u>100</u>	<u>100</u>
<b>Allotted, called up and fully paid</b>		
19,344 ordinary shares of 10p each (2008: 19,344)	<u>2</u>	<u>2</u>

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 earnings	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 400,000 ordinary share options in Europa Oil and Gas (Holdings) plc of 1p (2008: 400,000).

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. No share options were granted, 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	nil	nil	nil
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 flotation.

Based on the above fair values the expense arising from the grant of employee share options was £9,000 (2008: £8,000).

	2009 Number of options	2009 Average exercise price	2008 Number of options	2008 Average exercise price
Outstanding at the start of the year	400,000	22.5p	240,000	25p
Granted	-	-	160,000	18.75p
Outstanding at the end of the year	400,000	22.5p	400,000	22.5p
Exercisable at the end of the year	213,334	25p	186,667	25p

No options were exercised in the year (2008: nil).

**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. 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.

**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 2009 trade receivables were £164,000 (2008: £550,000) representing one month of oil revenue (2008: 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 £400,000 (2008: £550,000).

# Notes to the financial statements (continued)

## 21 Financial instruments (continued)

### Liquidity risk

On 1 May 2009 the Company agreed a £1 million uncommitted multi-option facility and a £1million term loan with its bankers. The multi-option facility can be utilised in either Sterling or foreign currency via an overdraft or the issue of bonds, guarantees, indemnities or letters of credit. The term loan is repayable in 10 quarterly installments.

Included within short term borrowings is an overdraft of £593,000 (2008: £1,152,000) which has been utilised under this multi-option facility. An amount of £950,000 is owed at 31 July 2009 on the term loan.

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 2009	Trade and other payables £000	Short term borrowings £000	Long term borrowings £000
6 months or less	366	843	-
6-12 months	296	200	-
1-2 years	-	-	3,126
2-5 years	-	-	100
Total	<u>662</u>	<u>1,043</u>	<u>3,226</u>
At 31 July 2008			
6 months or less	582	1,152	-
6-12 months	123	-	-
1-2 years	-	-	3,360
Total	<u>705</u>	<u>1,152</u>	<u>3,360</u>

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 £1 million multi-option facility and £1 million term loan are secured over the assets of Europa Oil & Gas (Holdings) plc and Europa Oil & Gas Limited. Interest is charged on the multi-option facility at base rate plus 3% (2008: base plus 2%) and on the term loan, and the loan from parent at libor plus 3.25%.

### 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 such extreme movement in oil price. There would be a corresponding increase or decrease in net assets.

Oil price	Month	Price \$/bbl	Profit / (loss) before taxation £000
Highest achieved	August 2008	\$111.28	2,319
Average		\$62.30	23
Lowest achieved	December 2008	\$39.35	(1,064)

## Notes to the financial statements (continued)

**21 Financial instruments (continued)****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	August 2008	\$1.9355	(412)
Average		\$1.6533	23
Lowest rate	March 2009	\$1.4331	466

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.

	2009 £000	2008 £000
Currency		
Euro	(31)	(50)
US Dollar	709	654
Total	<u>678</u>	<u>604</u>

**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 2009 the Company had a contractual commitment to drill 2 wells in the UK, and to shoot seismic in UK and Egypt.

The company estimates that its share of costs for these wells and other exploration activities over the next 3 years is approximately £2.3 million. This commitment is expected to be met from cash generated from production and borrowings referred to in note 15.

As at the 31 July 2009 the Company has a financial guarantee in place for £475,000 (2008: £581,000) in favour of the Egyptian General Petroleum Corporation (EGPC) in relation to the licence concession in Egypt. This financial guarantee is held by the EGPC to ensure that an agreed work programme for a minimum of the same value is undertaken by Europa. The guarantee has been provided by utilising part of the £1 million multi-option facility referred to in Note 17. A cash sum of £190,000 has been provided to Europa by our joint venture partner in the project representing their share of the guarantee.

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.

## Notes to the financial statements (continued)

### 23 Related party transactions

The Company received services from its parent Europa Oil & Gas (Holdings) plc to the value of £677,000 (2008: £585,000). 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:

	2009 £000	2008 £000
Europa Oil & Gas (Holdings) plc	<u>2,736</u>	<u>3,455</u>

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

	2009 £000	2008 £000
Europa Oil & Gas (West Firsby) Limited		
Group tax relief	<u>-</u>	<u>136</u>
Europa Oil & Gas SRL		
Provision of management services	<u>-</u>	<u>63</u>

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

	2009 £000	2008 £000
Europa Oil & Gas (West Firsby) Limited	-	-
Europa Oil & Gas SRL	<u>5,506</u>	<u>5,607</u>
Total	<u>5,506</u>	<u>5,607</u>

### 24 Post balance sheet events

On 24 September Europa signed a contract with British Drilling and Freezing (BDF) to drill the main section of Hykeham-1. It is anticipated that the well will commence drilling in late 2009. The target is at a depth of around 1000m and the well is anticipated to take 15-20 days to drill.

Work continues towards completing the sale of the Ukrainian subsidiary.

### 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.