

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

For the Year Ended 31 July 2016

Company registration number 3093716



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Europa Oil & Gas Limited

Directors and advisors

Company registration number

3093716

Registered office

6 Porter Street
London
W1U 6DD

Directors

HGD Mackay
P Greenhalgh

Secretary

P Greenhalgh

Banker

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

Solicitor

Charles Russell LLP
5 Fleet Place
London
EC4M 7RD

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 2016.

Principal activities

Europa Oil & Gas Limited's ("Europa") business comprises three core strands: production, appraisal and exploration and these activities take place in the UK.

Licence interests table

Country	Area	Licence	Field/ Prospect	Operator	Equity	Status
UK	East Midlands	DL 003	West Firsby	Europa	100%	Production
		DL 001	Crosby Warren	Europa	100%	Production
		PL 199/215	Whisby-4	BPEL	65%	Production
		PEDL180	Wressle	Egdon	30% ¹	Development
		PEDL181		Europa	50%	Exploration
		PEDL182	Broughton North	Egdon	30% ¹	Exploration
		PEDL299	Hardstoft	Ineos	33.3%	Field rejuvenation
		PEDL343	Cloughton	Third Energy	45%	Appraisal
	Weald	PEDL143	Holmwood	Europa	32.5%	Exploration
	SNS	Block 41/24	Maxwell	Europa	50%	Promote

¹ Following the post year end sale to Union Jack Oil plc and assuming OGA approval

Business review

East Midlands / PEDL181

In July 2016, Europa announced entry into the second phase of the licence – having fulfilled phase 1 work obligations by the drilling of the Kiln Lane well in 2015. Following analysis of seismic and geological data, together with the results of the Kiln Lane well, Europa elected to relinquish 380 km² of the licence. An area of 160 km² in the southeast of the licence was retained. The retained area provides exposure to the conventional and unconventional hydrocarbon potential of the Humber basin. It has technical synergy with the adjacent licence PEDL334 which was awarded to an Egdon led group in the 14th Round for the purpose of conventional and unconventional exploration.

East Midlands / PEDL299 (Hardstoft)

PEDL299 contains the Hardstoft oil field. This was discovered in 1919 by the UK's first ever exploration well and produced 26,000 barrels of oil from Carboniferous limestone reservoir. A CPR on Hardstoft, issued by joint venture partner Upland Resources, identified gross 2C contingent resources of 3.1 million boe and gross 3C contingent resources of 18.5 million boe in PEDL299. Production testing methodologies for carbonate reservoirs have evolved since 1919 and our hope is that commercial oil flowrates can be obtained.

As a consequence of our acquisition of Shale Petroleum (UK) Limited post year end we have increased our equity from 16.66% to 33.32%. Europa's interest in PEDL299 is restricted to the conventional prospectivity, and Ineos are operator.

East Midlands / PEDL343 (Cloughton)

PEDL343 (initially granted as PEDL348) was our top ranked block out of our three 14th Onshore Licensing Round applications. PEDL343 is operated by Third Energy and contains the Cloughton gas discovery made by Bow Valley. The 1986 exploration well flowed a small amount of gas to surface on production test from Carboniferous sandstone reservoirs. We regard Cloughton as a gas appraisal opportunity with the critical challenge being to obtain commercial flowrates from future production testing operations. The acquisition of Shale Petroleum (UK) Limited post year end increased our equity in the licence from 22.5% to 45%.

Directors' report (continued)

Business review (continued)

Weald / PEDL143 (Holmwood)

PEDL143 contains the Holmwood conventional oil prospect. Europa regards this as one of the best undrilled prospects in onshore UK. Following the farmout to Union Jack Oil plc, we remain as operator with a 32.5% interest in the licence and have a partial carry on our share of the exploration well costs up to a cap of £3.2 million. The well is currently being planned for drilling in 2017.

The results of the Horse Hill well 12 km to the east of the Holmwood prospect in PEDL137 are relevant. Horse Hill is along-strike from Holmwood in a very similar geological structure. Correlation of seismic data indicates that the Holmwood well will penetrate a similar stratigraphic section to that at Horse Hill. Whilst we cannot guarantee that Holmwood will encounter similar hydrocarbons to Horse Hill the results are encouraging.

In addition to producing oil from Portland sandstone reservoirs, Horse Hill also produced oil from micritic limestone formations in the Kimmeridge section. This is an interesting development. One of the peculiarities of limestone reservoir rocks (compared with sandstones) is that typically there are no, or very weak, direct hydrocarbon shows whilst drilling and often only inconclusive indications of hydrocarbons on electric logs. It is therefore encouraging that perseverance at Horse Hill yielded 1,365 bopd aggregate flowrate from two limestone intervals. It is possible that the micritic limestone may be a "missed pay" in the Weald basin.

Whilst the results of Horse Hill are encouraging our estimate of geological chance of success is unchanged at 1 in 3 and our guidance for gross mean prospective resources remains at 5.6 million boe with a range of 1 to 11 million barrels. At 5.6 million boe, Holmwood would be the fifth largest onshore field in UK history.

Southern North Sea / Block 41/24

This is a promote licence awarded in July 2015 over Block 41/24 in the Southern North Sea to a joint venture comprising Europa and Arenite Petroleum Limited. The licence was awarded as part of the 28th Seaward Licensing Round. Block 41/24 adjoins the Yorkshire coast and contains the Maxwell gasfield which was discovered in Permian Zechstein carbonates by Total with the drilling of offshore well 41/24a-1 in 1969. Two follow-up appraisal wells: 41/24a-2 drilled by Total (1981) and 41/24-3 by Conoco (1992) targeted this fractured Zechstein carbonate reservoir and flowed gas and condensate. The exploration emphasis of the licence is to address the Carboniferous prospectivity in the Namurian and Dinantian sequences. The adjoining onshore extension of the Cleveland basin contains a number of gas fields and discoveries including Kirby Misperton, Ebberstone Moor and Cloughton.

The promote licence is for two years duration and requires financial, technical and environmental capacity to be in place and a firm drilling (or agreed equivalent substantive activities) commitment to have been made by the end of the second year.

Development - UK

East Midlands / PEDL180 (Wressle); PEDL182 (Broughton North)

The operator Egdon continues to bring the Wressle oil discovery forward to development. Reservoir engineering analyses indicate an initial production flow rate of 500 bopd gross from the Ashover Grit interval, which even at sub US\$50 per barrel oil prices, will return Europa to a positive operating cashflow. An application for planning permission and applications for Environment Agency permits were submitted in June 2016. The Field Development Plan ("FDP") was submitted on 8 September 2016 and a CPR issued on 26 September. On 27 September Europa announced the sale of 3.34% interest in PEDL180 and PEDL182 to Union Jack Oil plc for a cash consideration of £600,000. The transaction implies a mark to market value of £5.4 million for Europa's remaining 30% interest in the licences. The CPR identifies gross 2P reserves of 0.65 mmboe in the Ashover and Wingfield Flags and gross 2C contingent resources of 1.86 million boe in the Penistone Flags on the Wressle structure; and gross mean unrisks prospective resources of 0.6 million boe at the Broughton North exploration prospect.

Directors' report (continued)

Business review (continued)

Production – UK

East Midlands / West Firsby; Crosby Warren; Whisby-4

Production from the three fields declined in line with expectations. In the year 123 boepd were recovered, down from 141 boepd in 2015. The change to beam pumps (nodding donkeys) away from jet pumps at West Firsby, and successful rateable valve appeals were the main drivers of the 33% reduction in cost of sales which was achieved. The pump change enabled savings in utility costs, chemicals and the need for interventions in order to keep the field producing.

Results for the year and dividends

The Company loss for the year after taxation was £757,000 (2015: (£1,553,000)). The directors do not recommend the payment of a dividend (2015: £nil).

Directors

The directors who served during the year were as follows:

P Greenhalgh
HGD Mackay

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.

Primary risks and uncertainties

A full discussion of risks and uncertainties is included in the accounts of the parent and ultimate controlling company Europa Oil & Gas (Holdings) plc.

Strategic report

The directors have taken advantage of the exemption not to present a Strategic Report in accordance with section 414B of the Companies Act 2006.

Key performance indicators

At its regular meetings, the Board closely monitors production rates, costs and progress with all the licences in which the Group has interests.

Financial instruments

See note 20 to the financial statements.

Related party transactions

See note 22 to the financial statements.

Post reporting date events

Details of post reporting date events are included in note 23 to the financial statements.

Capital structure and 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 continue in operational existence for the foreseeable future. This judgement is based on the performance of its existing oil production and correspondence with other Group companies and its bankers.

Further information can be found in note 1.

Directors' report (continued)

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:

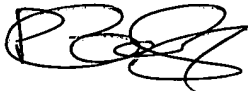
- So far as that director was aware there was no relevant available information of which the Company's auditors were unaware.
- That director had taken all necessary steps to make themselves aware of any relevant audit information, and to establish that the Company's auditors were aware of that information.

Auditors

In accordance with the Companies Act 2006, a resolution for the re-appointment of BDO LLP as auditors of the Company will be proposed at the next Annual General Meeting.

This report has been prepared in accordance with the special provisions applicable to companies subject to the small companies' regime within Part 15 of the Companies Act 2006.

Approved by the Board of directors and signed on behalf of the Board on 3 January 2017.



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 auditor

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 2016 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC'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 FRC's website www.frc.org.uk/auditscopeukprivate

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 2016 and of the loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the 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

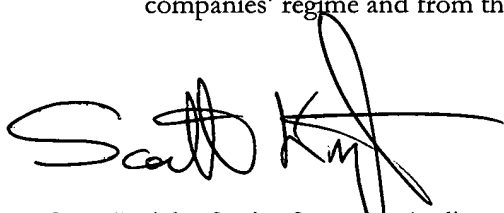
In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Report of the independent auditor (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; or
- the directors were not entitled to prepare the directors' report in accordance with the small companies' regime and from the requirement to prepare a strategic report.



Scott Knight, Senior Statutory Auditor
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
3 January 2017

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

	Note	2016 £000	2015 £000
Revenue	2	1,269	2,205
Cost of sales		(1,318)	(1,941)
Exploration write-off - intangibles	9	-	(2,212)
Impairment of producing fields	10	-	(1,100)
Total cost of sales		(1,318)	(5,253)
Gross loss		(49)	(3,048)
Administrative expenses		(379)	(721)
Finance income	6	60	453
Finance expense	7	(650)	(577)
Loss before taxation	3	(1,018)	(3,893)
Taxation	8	261	2,340
Total comprehensive loss for the year		(757)	(1,553)

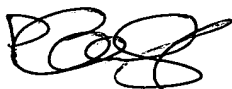
The accompanying accounting policies and notes form part of these financial statements.

Statement of financial position

As at 31 July 2016

	Note	2016 £000	2015 £000
Assets			
Non-current assets			
Intangible assets	9	3,715	3,227
Property, plant and equipment	10	974	1,150
Loans to group companies		243	121
Deferred tax asset	16	204	-
Total non-current assets		5,136	4,498
Current assets			
Inventories	12	23	14
Trade and other receivables	13	201	309
Cash and cash equivalents		468	729
Total current assets		692	1,052
Total assets		5,828	5,550
Liabilities			
Current liabilities			
Trade and other payables	14	(300)	(863)
Current tax liabilities		(148)	(141)
Total current liabilities		(448)	(1,004)
Non-current liabilities			
Long-term borrowings	15	(12,159)	(10,716)
Deferred tax liabilities	16	-	(57)
Long-term provisions	17	(2,346)	(2,144)
Total non-current liabilities		(14,505)	(12,917)
Total liabilities		(14,953)	(13,921)
Net liabilities		(9,125)	(8,371)
Capital and reserves attributable to equity holders of the company			
Share capital	18	2	2
Share premium	18	3,266	3,266
Retained deficit	18	(12,393)	(11,639)
Total equity		(9,125)	(8,371)

These financial statements have been prepared under the small company's accounting regime and were approved by the Board of directors on 3 January 2017 and 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

	Share capital £000	Share premium £000	Retained deficit £000	Total equity £000
Balance at 1 August 2014	2	3,266	(10,092)	(6,824)
Total comprehensive loss for the year	-	-	(1,553)	(1,553)
Share based payment	-	-	6	6
Balance at 31 July 2015	2	3,266	(11,639)	(8,371)

	Share capital £000	Share premium £000	Retained deficit £000	Total equity £000
Balance at 1 August 2015	2	3,266	(11,639)	(8,371)
Total comprehensive loss for the year	-	-	(757)	(757)
Share based payment	-	-	3	3
Balance at 31 July 2016	2	3,266	(12,393)	(9,125)

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

Statement of cash flows

For the year ended 31 July	Note	2016 £000	2015 £000
Cash flows used in operating activities			
Loss from operations		(757)	(1,553)
Adjustments for:			
Share based payments	19	3	6
Depreciation	10	176	349
Exploration write-off - intangibles	9	-	2,212
Impairment of property, plant & equipment	10	-	1,100
Finance income	6	(60)	(453)
Finance expense	7	650	577
Taxation credit	8	(261)	(2,340)
(Increase)/decrease in inventories		(9)	18
Decrease in trade and other receivables		114	96
Decrease in trade and other payables		(118)	(37)
Net cash used in operating activities		<u>(262)</u>	<u>(25)</u>
Cash flows used in investing activities			
Purchase of intangible assets		(934)	(3,003)
Expenditure on well decommissioning		-	(5)
Loans to subsidiary companies		(122)	(121)
Interest received		-	5
Net cash used in investing activities		<u>(1,056)</u>	<u>(3,124)</u>
Cash flows from financing activities			
Receipt of borrowings		1,005	880
Interest paid		(2)	(2)
Net cash from financing activities		<u>1,003</u>	<u>878</u>
Net decrease in cash and cash equivalents		(315)	(2,271)
Exchange gain on cash		54	47
Cash and cash equivalents at beginning of year		<u>729</u>	<u>2,953</u>
Cash and cash equivalents at end of year		<u><u>468</u></u>	<u><u>729</u></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 6 Porter Street, London, W1U 6DD. 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 2016.

Going concern

In their assessment of going concern the Directors did not renew the bank facility when it expired in January 2016. Given the continuing cash inflow from the Company's producing assets and the firm expectation of cash inflow from development assets, the Directors have concluded, at the time of approving the financial statements, that there is a reasonable expectation, based on the Group's cash flow forecasts, that the Company can continue in operational existence for the foreseeable future, which is deemed to be at least 12 months from the date of signing these financial statements. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

Future changes in accounting standards

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

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 IFRS 9, which the Directors are continuing to assess, none of the following are considered to affect the Company.

		Effective date (periods beginning on or after)
IFRS 9 *	Financial instruments	1 Jan 2018
IFRS 15 *	Revenue from Contracts with Customers	1 Jan 2017
IFRS 11	Amendments – acquisition of interests in joint operations	1 Jan 2018
IFRS 16 *	Leases	1 Jan 2019
IAS 1	Amendments - disclosure initiative	1 Jan 2016
IAS 7	Disclosure initiative	1 Jan 2017
IAS 12	Recognition of deferred tax assets for unrealised losses	1 Jan 2017
IAS 16 and 38	Amendments- clarification of acceptable depreciation and amortisation methods	1 Jan 2016

* Not yet endorsed by the EU.

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 financial position.

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-production assets are classified as intangible assets on the statement of financial position. 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 tested for impairment prior to transfer 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 disclosed in notes 9 and 10. 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.

Notes to the financial statements (continued)

1

Accounting Policies (continued)

Non-current assets (continued)

Depreciation

All expenditure within each 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 cost pool. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

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 10) 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 non-current 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 finance expense.

Taxation

Current tax is the tax payable based on taxable profit/(loss) 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.

Notes to the financial statements (continued)

1

Accounting Policies (continued)

Taxation (continued)

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the statement of comprehensive income, 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 statement of comprehensive income 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 statement of comprehensive income.

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 statement of comprehensive income 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 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 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 15.

Notes to the financial statements (continued)

1

Accounting Policies (continued)

Financial instruments (continued)

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:

Other financial liabilities.

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 Group 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 Group 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

During the current and prior year the Group and Company did not have any finance leases. All leases are regarded as operating leases and the payments made under them are charged to the statement of comprehensive income on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

Assets held for sale

Assets classified as held for sale are those assets which are being actively marketed for sale and the Board has an expectation that the sale will be completed in the following year.

Leased assets

During the current and prior year the Company did not have any finance leases. All leases are regarded as operating leases and the payments made under them are charged to the statement of comprehensive income on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

Inventories

Inventories comprise oil in tanks stated at the lower of cost and net realisable value. Cost is determined by reference to the actual cost of production in the period.

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 statement of comprehensive income 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 statement of comprehensive income of the subsidiary.

Notes to the financial statements (continued)

1 Accounting Policies (continued)

Share based payments (continued)

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.

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

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 9) – carrying values are justified by reference to future estimates of reserves and costs to extract, discounted at appropriate rates.
- Carrying value of property, plant and equipment (note 10) – carrying values are justified by reference to future estimates of cash flows, discounted at appropriate rates.
- Deferred taxation (note 16) – assumptions regarding future rates of taxation and the future profitability of the Group.
- Decommissioning provision (note 17) – inflation and discount rate estimates are used in calculating the provision, along with third party estimates of remediation costs.
- Share-based payments (note 19) – various estimates are used in determining the fair value of options.

2 Operating segment analysis

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

In the opinion of the Directors the Company has two reportable segments being the UK and France. 100% of the total revenue (2015: 100%) relates to UK based customers. Of this figure, one single customer (2015: one) commands more than 99% of the total.

Income statement for the year ended 31 July 2016

	UK £000	France £000	Total £000
Revenue	1,269		1,269
<i>Cost of sales</i>	<i>(1,318)</i>	-	<i>(1,318)</i>
<i>Exploration write-off</i>	-	-	-
<i>Impairment of producing fields</i>	-	-	-
Cost of sales	(1,318)	-	(1,318)
Gross loss	(49)	-	(49)
Administrative expenses	(360)	(19)	(379)
Finance income	60	-	60
Finance costs	(650)	-	(650)
Loss before tax	(999)	(19)	(1,018)
Taxation	261	-	261
Loss for year	(738)	(19)	(757)

Notes to the financial statements (continued)

2 Operating segment analysis (cont'd) Segmental assets and liabilities as at 31 July 2016

	UK £000	France £000	Total £000
Non-current assets	5,136	-	5,136
Current assets	692	-	692
Total assets	5,828	-	5,828
Non-current liabilities	(14,505)	-	(14,505)
Current liabilities	(448)	-	(448)
Total liabilities	(14,953)	-	(14,953)
Other segment items			
Capital expenditure	934	-	934
Depreciation	176	-	176
Share based payments	3	-	3

Income statement for the year ended 31 July 2015

	UK £000	France £000	Total £000
Revenue	2,205	-	2,205
<i>Other cost of sales</i>	<i>(1,941)</i>	<i>-</i>	<i>(1,941)</i>
<i>Exploration write-off</i>	<i>(2,212)</i>	<i>-</i>	<i>(2,212)</i>
<i>Impairment of producing fields</i>	<i>(1,100)</i>	<i>-</i>	<i>(1,100)</i>
Cost of sales	(5,253)	-	(5,253)
Gross loss	(3,048)	-	(3,048)
Administrative expenses	(615)	(106)	(721)
Finance income	453	-	453
Finance costs	(577)	-	(577)
Loss before tax	(3,787)	(106)	(3,893)
Taxation	2,340	-	2,340
Loss for year	(1,447)	(106)	(1,553)

Notes to the financial statements (continued)

2 Operating segment analysis (cont'd) Segmental assets and liabilities as at 31 July 2015

	UK £000	France £000	Total £000
Non-current assets	4,498	-	4,498
Current assets	1,052	-	1,052
Total assets	5,550	-	5,550
Non-current liabilities	(12,917)	-	(12,917)
Current liabilities	(1,004)	-	(1,004)
Total liabilities	(13,921)	-	(13,921)
Other segment items			
Capital expenditure	(3,003)	-	(3,003)
Depreciation	(349)	-	(349)
Share based payments	(6)	-	(6)

3 Loss before taxation

Loss from continuing operations is stated after charging:

	2016 £000	2015 £000
Depreciation	176	349
Staff costs including directors (note 5)	221	234
Exploration write-off	-	2,212
Impairment of producing fields	-	1,100
Fees payable to the auditor	29	29
Operating leases	40	39
Amount of inventory recognised as an expense	(11)	19
Foreign exchange gain	(60)	(448)

4 Directors' emoluments (salaries and fees)

	2016 £000	2015 £000
All directors	-	-

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

5 Employee information

Average number of employees including directors

	2016 Number	2015 Number
Field exploration and production	4	5
	<u>4</u>	<u>5</u>

Notes to the financial statements (continued)

5 Employee information (cont'd)

Staff costs

	2016	2015
	£000	£000
Wages and salaries	170	178
Employers costs	22	23
Pensions	26	27
Share based payments	3	6
	<u>221</u>	<u>234</u>

6 Finance income

	2016	2015
	£000	£000
Interest receivable	-	5
Foreign exchange gains	60	448
	<u>60</u>	<u>453</u>

7 Finance expense

	2016	2015
	£000	£000
Loan interest payable	439	385
Unwinding of discount on decommissioning provision (note 17)	202	185
Foreign exchange losses	-	-
Interest on tax payment	7	5
Bank charges	2	2
	<u>650</u>	<u>577</u>

8 Taxation

	2016	2015
	£000	£000
Current tax liability	-	(84)
Deferred tax movement (note 16)	(261)	(2,256)
Tax credit	<u>(261)</u>	<u>(2,340)</u>

UK corporation tax is calculated at 30% (2016: 30%) of the estimated assessable profit for the year being the applicable rate for a ring-fence trade excluding the Supplementary Charge of 20% (2015: 32% (to December 2014) and 20% from January 2015).

	2016	2015
	£000	£000
Total loss before tax	<u>(1,018)</u>	<u>(3,893)</u>
<i>Tax reconciliation</i>		
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2015: 30%)	(305)	(1,168)
Expenses not deductible for tax purposes	1	1,352
Other reconciling items including Supplementary Charge	43	(2,524)
Total tax charge	<u>(261)</u>	<u>(2,340)</u>

Notes to the financial statements (continued)

9 Intangible assets

	2016	2015
	£000	£000
At 1 August	3,227	2,324
Additions	488	3,115
Exploration write-off	-	(2,212)
At 31 July	<u>3,715</u>	<u>3,227</u>

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

	2016	2015
	£000	£000
UK PEDL 143 (Holmwood)	732	691
UK PEDL 180 (Wressle)	2,676	2,274
UK PEDL 181	48	43
UK PEDL 182 (Broughton)	223	219
UK PEDL 348 (Cloughton)	5	-
UK Block 41/24	31	-
Total	<u>3,715</u>	<u>3,227</u>

Exploration write-off

	2016	2015
	£000	£000
PEDL 181 – Kiln Lane	<u>-</u>	<u>2,212</u>

The UK PEDL143 exploration licence carries a well commitment by September 2018. If the Company elects to continue with this licence, it will need to fund the drilling of a well by raising funds or by farming down. If the Company is not able to raise funds, farm-down, or extend the PEDL143 licence; or elects not to continue in any other licence, then the impact on the financial statements will be the impairment of some or all of the intangible assets disclosed above. Further details of the commitments are included in note 21.

10 Property, plant and equipment Producing fields

	2016	2015
	£000	£000
Cost		
At 1 August	10,580	10,580
Additions	-	-
At 31 July	<u>10,580</u>	<u>10,580</u>
Depreciation and depletion		
At 1 August	9,430	7,981
Charge for year	176	349
Impairment	-	1,100
At 31 July	<u>9,606</u>	<u>9,430</u>
Net Book Value		
At 1 August	1,150	2,599
At 31 July	<u>974</u>	<u>1,150</u>

The producing fields referred to in the table above are the production assets of the Company, namely the oilfields at Crosby Warren and West Firsby, and the Company's interest in the Whisby W4 well, representing three of the Company's cash generating units.

Notes to the financial statements (continued)

10 Property, plant and equipment (cont'd)

The carrying value of each producing field was tested for impairment by comparing the carrying value with the value in use. The value in use was calculated using a discounted cash flow model with production decline rates of 7-8%, Brent crude prices rising from US\$54 per barrel in 2017 to US\$74 in 2020 and a pre-tax discount rate of 18%. The pre-tax discount rate is derived from a post-tax rate of 10%, and is high because of the applicable rate of tax in the UK. Cash flows were projected over the expected life of the fields which is expected to be longer than 5 years.

There was no impairment in the year (2015: £1,100,000 relating to the West Firsby site).

Sensitivity to key assumption changes

Variations to the key assumptions used in the value in use calculation would cause impairment of the producing fields as follows:

	Impairment of producing fields £000
Production decline rate (current assumption 7-8%)	
10%	-
20%	-
Brent crude price per barrel (current assumption US\$54/bbl in 2016 rising to US\$74 in 2020)	
10% reduction in the assumed forward price	-
20% reduction in the assumed forward price	100

11 Investments

Investment in subsidiaries	£000
31 July 2016 and 31 July 2015	-

The Company owns 100% of the ordinary share capital of Europa Oil & Gas Resources Limited (this UK company is non-trading). The results of this company were included in the consolidated accounts of the parent company Europa Oil & Gas (Holdings) plc as discontinued operations in 2014.

12 Inventories

	2016 £000	2015 £000
Oil in tanks	23	14

13 Trade and other receivables

	2016 £000	2015 £000
Current trade and other receivables		
Trade receivables	120	186
Other receivables	35	89
Prepayments and accrued income	46	34
	<u>201</u>	<u>309</u>
Non current receivables		
Owed by Group undertakings	<u>243</u>	<u>121</u>

Notes to the financial statements (continued)

14 Trade and other payables

	2016	2015
	£000	£000
Trade payables	260	798
Accruals and deferred income	40	65
	<u>300</u>	<u>863</u>

15 Borrowings

The Directors decided not to renew The Royal Bank of Scotland (RBS) multi-currency facility which lapsed in January 2016. The facility had provided an overdraft of up to £350,000 (2015: £350,000) and was not in use at 31 July 2015.

	2016	2015
	£000	£000
<u>Loans repayable in less than one year</u>		
Total short term borrowing	<u>-</u>	<u>-</u>
<u>Loans repayable in 2 to 5 years</u>		
Loan from parent	12,159	10,716
Total long term borrowing	<u>12,159</u>	<u>10,716</u>

The loan from the parent company represents borrowings against a facility put in place on 21 July 2008 with Europa Oil & Gas (Holdings) plc. The loan is unsecured and there is no scheduled repayment date.

16 Deferred Tax

	2016	2015
	£000	£000
Recognised deferred tax liability:		
As at 1 August	57	2,313
Credited to income statement	(261)	(2,256)
At 31 July	<u>(204)</u>	<u>57</u>

The Company has a deferred tax liability of £1,487,000 (2015: £1,745,000) arising from accelerated capital allowances and a deferred tax asset of £1,691,000 (2015: £1,688,000) arising from trading losses which will be utilised against future taxable profits. These have been offset against each other resulting in the total net asset of £204,000 (2015: net liability £57,000). This offsetting is required because the Group settles current tax assets and liabilities on a net basis.

	2016	2015
	£000	£000
Unrecognised deferred tax asset:		
Accelerated capital allowances	(214)	(488)
Trading losses	3,557	3,655
Net deferred tax asset	<u>3,343</u>	<u>3,167</u>

The Company has a net deferred tax asset of £3,343,000 (2015: £3,167,000) which arises mainly in relation to non ring-fence UK trading losses of £11.9 million (2015: £12.2 million), that has not been recognised in the accounts as the timing of the utilisation of the losses is considered uncertain.

Notes to the financial statements (continued)

17 Provisions

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.

Short-term provisions	2016 £000	2015 £000
As at 1 August	-	1
Utilised in year - Hykeham	-	(1)
At 31 July	-	-
Long-term provisions		
As at 1 August	2,144	1,959
Charged to the statement of comprehensive income	202	185
At 31 July	2,346	2,144

18 Called up share capital

	2016 £000	2015 £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 (2015: 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)

19 Share based payments

There are 680,000 ordinary 1p share options in Europa Oil and Gas (Holdings) plc (2015: 600,000) held by employees of the Company. .

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 160,000 options were granted, 80,000 were forfeited and none were exercised or expired (2015: no options were granted and none were exercised, forfeited or expired). The fair value of these 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	13 July 2016
Number of options	160,000
Share price at grant	3.75p
Exercise price	6.5p
Volatility	75%
Dividend yield	nil
Risk free investment rate	0.41%
Option life (years)	6
Fair value per share	1.9p

The options are exercisable 12 months after grant, with no further vesting conditions. The latest date at which these options can be exercised is the 10th anniversary of the grant date.

Volatility is 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 (2015: £6,000).

	2016 Number of options	2016 Average exercise price	2015 Number of options	2015 Average exercise price
Outstanding at the start of the year	600,000	12.8p	426,665	20.1p
Outstanding at the end of the year	680,000	11.7p	600,000	12.8p
Exercisable at the end of the year	413,334	14.5p	333,330	15.8p

The weighted average remaining contractual life of share options outstanding at the end of the period was 6.2 years (2015: 6.3 years).

20 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.

Credit risk

The Company is exposed to credit risks as it 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 2016 trade receivables were £120,000 representing one month of oil revenue and receivables due from project partners (2015: £187,000 representing one month of oil revenue). 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 £140,000 (2015: £278,000).

Notes to the financial statements (continued)

20

Financial instruments (cont'd)**Liquidity risk**

The Company currently has no overdraft facility with its bankers (2015: £350,000 flexible multi-currency overdraft facility). At the year end there was no overdraft (2015: no overdraft).

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 2016	Trade and other payables £000	Long term borrowings £000
6 months or less	300	-
2-5 years	-	12,159
Total	300	12,159
At 31 July 2015		
6 months or less	863	-
6-12 months	-	10,716
Total	863	10,716

Trade and other payables do not normally incur interest charges. Borrowings bear interest at variable rates. There is no difference between the fair value of trade and other payables and their carrying amount.

Interest rate risk

The Company has interest bearing liabilities as described in note 15. The £350,000 (2015: £350,000) multi-currency facility, which was not renewed was secured over the assets of Europa Oil & Gas (Holdings) plc and Europa Oil & Gas Limited. Interest was charged on the multi-currency facility at base rate plus 3% (2015: base plus 3%).

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 Loss Before Taxation (LBT) to such movements in oil price. There would be a corresponding increase or decrease in net assets.

Oil price	Month	2016 Price \$/bbl	2016 LBT £000	2015 Price \$/bbl	2015 LBT £000
Highest	June 16	47.3	(708)	100.1	(2,884)
Average		41.5	(901)	68.1	(3,911)
Lowest	Jan 16	30	(1,284)	46.8	(4,594)

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 LBT to movements in US Dollar exchange.

US Dollar	Month	2016 Rate \$/£	2016 LBT £000	2015 Rate \$/£	2015 LBT £000
Highest	Oct 15	1.544	(1,096)	1.661	(4,183)
Average		1.452	(1,021)	1.561	(4,049)
Lowest	Jul 16	1.327	(902)	1.485	(3,939)

Notes to the financial statements (continued)

20

Financial instruments (cont'd)

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	2016 £000	2015 £000
Euro	(26)	(22)
US Dollar	702	1,146
Total	<u>676</u>	<u>1,124</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.

21

Capital and operating lease commitments

At the reporting date, the Group had a contractual commitment to drill a well on PEDL143 (Holmwood) before September 2018. Europa's share of the well cost is expected to be £0.8 million. For PEDL299 (Hardstoft) and PEDL343 (Cloughton) there is a commitment to acquire seismic and Europa's share of combined cost is expected to be £0.9 million.

If the Group is not able to raise funds, farm-down, or extend licences; or elects not to continue in an exploration licence, then the impact on the financial statements will be the impairment of the relevant intangible asset disclosed in note 9.

Europa Oil & Gas Limited pays annual site rentals 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 terminated upon giving two months' notice. The annual cost is currently £20,000 (2015: £20,000) and increases annually in line with the retail price index. The Crosby Warren lease runs until December 2022 and can be terminated on three months' notice. The annual cost is currently £20,000 (2015: £20,000).

22

Related party transactions

The Company received services from its parent Europa Oil & Gas (Holdings) plc to the value of £1,129,000 (2015: £1,235,000). 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:

	2016 £000	2015 £000
Europa Oil & Gas (Holdings) plc	<u>12,159</u>	<u>10,716</u>
Comprising:		
Loans (note 15)	<u>12,159</u>	<u>10,716</u>

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 subsidiaries:

	2016 £000	2015 £000
Europa Oil & Gas (Ireland West) Limited	63	34
Europa Oil & Gas (Ireland East) Limited	180	87
Total	<u>243</u>	<u>121</u>

Notes to the financial statements (continued)

22 Related party transactions (cont'd)

Provision against balance owed by fellow subsidiaries

	2016 £000	2015 £000
Balance of provision at 1 August	7	7
Provision made in the year	-	-
Loan fully written off on disposal of subsidiary	-	-
Total at 31 July	7	7

23 Post reporting date events

- Acquisition of Shale Petroleum (UK) Limited (renamed as “Europa Oil & Gas (UK) Limited”) by parent company, increasing the Company’s interest in PEDL299 (including the Hardstoft oil field) to 33.32% and increasing interest in PEDL343 (containing the Cloughton gas discovery) to 45%
- Elected not to accept the award of PEDL286 in the southern Cleveland basin

24 Ultimate parent undertaking

The parent company and ultimate and immediate controlling company is Europa Oil & Gas (Holdings) plc, a company registered in England and Wales, the accounts of which are available from 6 Porter Street, London, W1U 6DD.