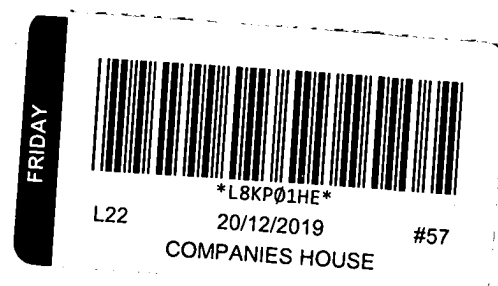


# Annual Report and Financial Statements **EUROPA OIL & GAS LIMITED**

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**For the Year Ended 31 July 2019**

**Company registration number 3093716**



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## 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 2019.

### 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/<br>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%    | Development |
|         |               | PEDL181    |                    | Europa       | 50%    | Exploration |
|         |               | PEDL182    | Broughton North    | Egdon        | 30%    | Exploration |
|         |               | PEDL299    | Hardstoft          | Ineos        | 25%    | Field       |
|         |               | PEDL343    | Cloughton          | Third Energy | 35%    | Appraisal   |

### Business review

#### UK - Onshore Production

Our oil production in onshore UK and the revenue streams that it generates is an important part of the company's portfolio. We are actively maximizing production from our existing fields and most importantly we are finally making positive progress towards obtaining planning approval for the Wressle oil development.

#### East Midlands: West Firsby; Crosby Warren; Whisby-4

During the period, initiatives were undertaken to maximise production at the West Firsby oil field including a workover of the WF6 well utilising a drain hole jetting technique for the first-time onshore UK. The workover involved jetting sixteen 90m length drain holes and setting a new record for hole angle. Having previously produced zero oil, WF6 is currently producing 7 bopd net to Europa. Whilst a comparatively small quantum of oil at \$60 per barrel oil price it is an increase of around 8% in our UK production. Most importantly we have gained unique insights into utilisation and deployment of the technology and we are seeking other opportunities where the quantum increase in production will be more substantial. An average of 91 boepd (2018: 94 boepd) was recovered from the three UK onshore fields. Production was down as a result of natural decline, but partially offset by the contribution from the WF6 well.

#### UK - Exploration

##### East Midlands: PEDL180 (Wressle); PEDL182 (Broughton North)

Europa has a 30% working interest in licence PEDL 180 in the East Midlands which holds the Wressle oil discovery, alongside Egdon (operator, 30%), Union Jack Oil (27.5%), and Humber Oil & Gas Limited (12.5%). An inquiry to hear the Company's appeal against the refusal of planning consent for the development of the Wressle oil field by the planning committee of North Lincolnshire Council ('NLC') concluded on 7 November 2019 and the result is expected sometime after 12 December. The Wressle oil field was discovered in 2014 by the Wressle-1 well. During testing, a total of 710 boepd were recovered from three separate reservoirs, the Ashover Grit, the Wingfield Flags and the Penistone Flags.

In September 2016, a Competent Person's Report ('CPR') provided independent estimates of reserves and contingent and prospective oil and gas resources for the Wressle discovery of 2.15 million stock tank barrels classified as discovered (2P+2C). Under the proposed development plan, Wressle is anticipated to produce at an initial gross rate of 500 bopd. If that were achieved, Europa would receive a net 150 bopd from Wressle and Europa's UK production would increase to around 240 bopd. Most importantly our revenue

## **Europa Oil & Gas Limited**

from production would more than double and make an important contribution to the financial stability of the company.

### **East Midlands: PEDL181**

PEDL181 provides exposure to the hydrocarbon potential of the Humber basin. The licence has technical synergy with the adjacent PEDL334 which was awarded to an Egdon Resources-led group in the 14th Round for the purpose of conventional and unconventional exploration.

### **East Midlands: PEDL299 (Hardstoft)**

PEDL299 contains the Hardstoft oil field which was discovered in 1919 by the UK's first ever exploration well. Hardstoft produced 26,000 barrels of oil from Carboniferous limestone reservoirs in the 1920s. We believe there is more oil to be recovered from the Hardstoft structure. Gross 2C contingent resources of 3.1 mmboe and gross 3C contingent resources of 18.5 mmboe were identified in a CPR issued by joint operation partner Upland Resources. We believe that application of modern production testing and drilling methodologies could well lead to commercial oil flowrates being achieved. Europa's interest in PEDL299, which is restricted to the conventional prospectivity including Hardstoft, is 25%, alongside Upland 25% and INEOS, the operator, 50%.

### **Cleveland Basin: PEDL343 (Cloughton)**

PEDL343 contains the Cloughton gas discovery, which was drilled by Bow Valley in 1986 and flowed gas to surface on production test from conventional Carboniferous sandstone reservoirs. Europa regards Cloughton as a gas appraisal opportunity with the critical challenge being to obtain commercial flowrates from future production testing operations. Europa holds a 35% interest in PEDL343 alongside Arenite 15%, Third Energy 20% (operator), Egdon Resources 17.5% and Petrichor Energy 12.5%.

### **Weald Basin: PEDL143 (Holmwood)**

We completed the sale of our 20% interest in the UK onshore PEDL143 exploration licence to AIM-traded UK Oil & Gas PLC ('UKOG') for a consideration of £300,000, satisfied through the issue of 25,951,557 shares ('Consideration Shares') in UKOG. The Consideration Shares are subject to a six-month orderly market provision.

### **Results for the year and dividends**

The Company loss for the year after taxation was £1,728,000 (2018: (£2,888,000)). The directors do not recommend the payment of a dividend (2018: £nil).

### **Directors**

The directors who served during the year were HGD Mackay and P Greenhalgh.

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 Company has interests.

### **Financial instruments**

See note 22 to the financial statements.

**Related party transactions**

See note 25 to the financial statements.

**Post reporting date events**

Details of post reporting date events are included in note 26 to the financial statements.

**Capital structure and going concern**

The critical assumption in the going concern determination is that the Wressle planning appeal that was held on 5 November 2019 has a positive outcome and production commences at the forecasted rate in 2020. In the absence of incremental production from Wressle in 2020 then additional funding by the issuance of shares or sale of assets would be required. If additional funding was not available there is a risk that commitments could not be fulfilled, and assets would be relinquished. Further information can be found in note 1.

**Accounting policies**

A full list of accounting policies is set out in the notes to the accounts. IFRS 15 and IFRS 9 have come into effect in the period. IFRS 15 has no material impact on the Company's revenue recognition. IFRS 9 has resulted in the write down of a portion of the Group's intercompany loans (detailed in note 25).

**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 18 December 2019.



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. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

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**

### **Opinion**

We have audited the financial statements of Europa Oil & Gas Limited ("the Company") for the year ended 31 July 2019 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 July 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Material uncertainty related to going concern**

We draw attention to note 1 to the financial statements, which indicates that the ability of the company to continue as a going concern is dependent on the continued financial support of the Group. As stated in note 1, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter

### **Other information**

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' report has been prepared in accordance with applicable legal requirements.



**Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Director's report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 take advantage of the small companies' exemptions in preparing the Strategic report.

**Responsibilities of Directors**

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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

**Use of our report**

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.

BDO LLP

Jack Draycott, Senior Statutory Auditor  
For and on behalf of BDO LLP, Statutory Auditor  
London  
United Kingdom

18 December 2019

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 | 2019<br>£000   | 2018<br>£000   |
|--|------|----------------|----------------|
| Revenue                                      | 2    | 1,712          | 1,635          |
| Cost of sales                                |      | (1,725)        | (1,411)        |
| Impairment of producing fields               |      | -              | (142)          |
| Exploration write back/(write off)           |      | 270            | (1,206)        |
| <b>Total cost of sales</b>                   |      | <b>(1,455)</b> | <b>(2,759)</b> |
| <b>Gross profit/(loss)</b>                   |      | <b>257</b>     | <b>(1,124)</b> |
| Administrative expenses                      |      | (1,144)        | (690)          |
| Finance income                               | 7    | 31             | 7              |
| Finance expense                              | 8    | (813)          | (698)          |
| <b>Loss before taxation</b>                  | 3    | <b>(1,669)</b> | <b>(2,505)</b> |
| Taxation                                     | 9    | -              | (383)          |
| <b>Loss for the year</b>                     |      | <b>(1,669)</b> | <b>(2,888)</b> |
| Loss on investment revaluation               |      | (59)           | -              |
| <b>Total comprehensive loss for the year</b> |      | <b>(1,728)</b> | <b>(2,888)</b> |

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

# Statement of financial position

As at 31 July

|   | Note | 2019<br>£000    | 2018<br>£000    |
|---|------|-----------------|-----------------|
| <b>Assets</b>   |      |                 |                 |
| <b>Non-current assets</b>   |      |                 |                 |
| Intangible assets   | 11   | 3,092           | 2,969           |
| Property, plant and equipment   | 12   | 511             | 599             |
| Investments   | 13   | 241             | -               |
| Amounts due from group companies  | 15   | 532             | 581             |
| <b>Total non-current assets</b>   |      | <b>4,376</b>    | <b>4,149</b>    |
| <b>Current assets</b>   |      |                 |                 |
| Inventories   | 14   | 19              | 21              |
| Trade and other receivables   | 15   | 223             | 352             |
| Cash and cash equivalents   |      | 352             | 965             |
| <b>Total current assets</b>   |      | <b>594</b>      | <b>1,338</b>    |
| <b>Total assets</b>   |      | <b>4,970</b>    | <b>5,487</b>    |
| <b>Liabilities</b>  |      |                 |                 |
| <b>Current liabilities</b>  |      |                 |                 |
| Trade and other payables  | 16   | (361)           | (472)           |
| <b>Total current liabilities</b>  |      | <b>(361)</b>    | <b>(472)</b>    |
| <b>Non-current liabilities</b>  |      |                 |                 |
| Long-term borrowings  | 17   | (16,537)        | (15,008)        |
| Long-term provisions  | 19   | (2,918)         | (2,736)         |
| <b>Total non-current liabilities</b>                                      |      | <b>(19,455)</b> | <b>(17,744)</b> |
| <b>Total liabilities</b>  |      | <b>(19,816)</b> | <b>(18,216)</b> |
| <b>Net liabilities</b>  |      | <b>(14,846)</b> | <b>(12,729)</b> |
| <b>Capital and reserves attributable to equity holders of the company</b> |      |                 |                 |
| Share capital   | 20   | 2               | 2               |
| Share premium   | 20   | 3,266           | 3,266           |
| Retained deficit  | 20   | (18,114)        | (15,997)        |
| <b>Total equity</b>   |      | <b>(14,846)</b> | <b>(12,729)</b> |

These financial statements have been prepared under the small company's accounting regime and were approved by the Board of directors on 18 December 2019 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<br>capital<br>£000 | Share<br>premium<br>£000 | Retained<br>deficit<br>£000 | Total<br>equity<br>£000 |
|---------------------------------------|--------------------------|--------------------------|-----------------------------|-------------------------|
| Balance at 1 August 2017              | 2                        | 3,266                    | (13,109)                    | (9,841)                 |
| Total comprehensive loss for the year | -                        | -                        | (2,888)                     | (2,888)                 |
| Share based payment                   | -                        | -                        | -                           | -                       |
| <b>Balance at 31 July 2018</b>        | <b>2</b>                 | <b>3,266</b>             | <b>(15,997)</b>             | <b>(12,729)</b>         |

|  | Share<br>capital<br>£000 | Share<br>premium<br>£000 | Retained<br>deficit<br>£000 | Total<br>equity<br>£000 |
|--|--------------------------|--------------------------|-----------------------------|-------------------------|
| Balance at 1 August 2018 originally stated                       | 2                        | 3,266                    | (15,997)                    | (12,729)                |
| Change in accounting policy IFRS 9                               | -                        | -                        | (389)                       | (389)                   |
| Balance at 1 August 2018 restated                                | 2                        | 3,266                    | (16,386)                    | (13,118)                |
| Total comprehensive loss for the year                            | -                        | -                        | (1,669)                     | (1,669)                 |
| Other comprehensive loss attributable to the equity shareholders | -                        | -                        | (59)                        | (59)                    |
| Share based payment  | -                        | -                        | -                           | -                       |
| <b>Balance at 31 July 2019</b>                                   | <b>2</b>                 | <b>3,266</b>             | <b>(18,114)</b>             | <b>(14,846)</b>         |

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

## Statement of cash flows

| For the year ended 31 July                                  | Note | 2019<br>£000   | 2018<br>£000 |
|---|------|----------------|--------------|
| <b>Cash flows used in operating activities</b>              |      |                |              |
| Loss from operations  |      | (1,669)        | (2,888)      |
| Adjustments for:  |      |                |              |
| Exploration (write back)/write off                          |      | (270)          | 1,206        |
| Impairment  |      | -              | 142          |
| Depreciation  | 12   | 88             | 65           |
| Movement in intercompany provision                          | 22   | 685            | -            |
| Finance income  | 7    | (31)           | (7)          |
| Finance expense   | 8    | 813            | 698          |
| Taxation credit   | 9    | -              | 383          |
| Decrease/(increase) in inventories                          |      | 2              | (7)          |
| (Increase)/decrease in trade and other receivables          |      | (21)           | 32           |
| Decrease in trade and other payables                        |      | (81)           | (15)         |
| Cash used in operations                                     |      | (484)          | (391)        |
| Income taxes paid   |      | -              | -            |
| <b>Net cash used in operating activities</b>                |      | <b>(484)</b>   | <b>(391)</b> |
| <b>Cash flows used in investing activities</b>              |      |                |              |
| Purchase of intangible assets                               |      | (149)          | (436)        |
| Sale of part interest in licence associated costs           |      | (8)            | -            |
| Loans to subsidiary companies                               |      | (901)          | (205)        |
| Interest received   |      | 7              | 6            |
| <b>Net cash used in investing activities</b>                |      | <b>(1,051)</b> | <b>(635)</b> |
| <b>Cash flows from financing activities</b>                 |      |                |              |
| Receipt of borrowings                                       |      | 900            | 1,263        |
| Interest paid   |      | (2)            | (4)          |
| <b>Net cash from financing activities</b>                   |      | <b>898</b>     | <b>1,259</b> |
| <b>Net (decrease)/increase in cash and cash equivalents</b> |      | <b>(637)</b>   | <b>233</b>   |
| Exchange gain on cash                                       |      | 24             | 4            |
| <b>Cash and cash equivalents at beginning of year</b>       |      | <b>965</b>     | <b>728</b>   |
| <b>Cash and cash equivalents at end of year</b>             |      | <b>352</b>     | <b>965</b>   |

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.

Exploration and evaluation assets are measured at historical cost and tested at least twice annually for impairment. Internally generated intangibles are measured at historic cost.

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 2019.

#### Going concern

The ability of the company to continue as a going concern is dependent on the continued financial support of the Group. The Directors have prepared a cash flow forecast for the period ending 31 December 2020, which considers the continuing and forecast cash inflow from the Group's producing assets, the cash held by the Group at the year end, less administrative expenses and planned capital expenditure. The Directors have concluded, at the time of approving these financial statements, that there is a reasonable expectation, based on the Group's cash flow forecasts, that the forecasts are achievable and accordingly the Group will be able to continue as a going concern and meet its obligations as and when they fall due. The critical assumption in reaching that conclusion is that the Wressle planning appeal decision expected after the 12 December 2019 UK general election has a positive outcome and production commences at the forecasted rate in 2020. In the absence of incremental production from Wressle in 2020, additional funding by the issuance of shares or sale of assets would be required. If additional funding cannot be obtained there is a risk that the Group cannot continue to provide financial support to the company.

These conditions indicate the existence of a material uncertainty which may cast significant doubt as to the company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. These Financial Statements do not include the adjustments that would result if the company was unable to continue as a going concern.

#### Accounting standards adopted in the period

IFRS 15 and IFRS 9 have come into effect in the period. IFRS 15 has no material impact on the Company's revenue recognition (see below). IFRS 9 has resulted in the write down of a portion of the Company's intercompany loans (detailed in notes 22 and 25).

#### Accounting standards to be adopted in future periods

Adoption of IFRS 16 will result in the Company recognising right-of-use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements the group does not recognise related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment. The Board has decided it will apply the modified retrospective adoption method in IFRS 16, and, therefore, will only recognise leases on balance sheet as at 1 August 2019. In addition, it has decided to measure right-of-use assets by reference to the measurement of the lease liability on that date. This will ensure there is no immediate impact to net assets on that date. Instead of recognising an operating expense for its operating lease payments, the group will instead recognise interest on its lease liabilities and amortisation on its right-of-use assets.

### **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**

The Group has adopted IFRS 15 from 1 August 2018. The standard provides a single comprehensive model for revenue recognition. The Group has elected to apply the modified retrospective method. The core principle of the standard is that an entity shall recognise revenue when control passes on the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below.

Contracts with customers are presented in an entity's balance sheet as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. The Group's accounting policy under IFRS 15 is that revenue is recognised when the Group satisfies a performance obligation by transferring oil to a customer. The title to oil and gas typically transfers to a customer at the same time as the customer takes physical possession of the oil or gas. Typically, at this point in time, the performance obligations of the Group are fully satisfied. The accounting for revenue under IFRS 15 does not, therefore, represent a substantive change from the Group's previous accounting.

Revenue is measured based on the consideration to which the Group expects to be entitled under the terms of a contract with a customer. The consideration is determined by the quantity and price of oil and gas delivered to the customer at the end of each month.

### **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 10 and 11. As a result, some assets are tested individually for impairment and some are tested at cash generating unit level.

Impairment tests are performed when indicators as described in IFRS6 are identified. In addition, indicators such as a lack of funding or farm-out options for a licence which is approaching termination, or the implied value of a farm-out transaction are considered as indicators of impairment.

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.

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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 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 11) of an amount equivalent to the provision is also created. The amount recognised is the estimated cost of decommissioning, discounted to its net present value and is reassessed each year in accordance with local conditions and requirements. For producing wells, the asset is subsequently depreciated as part of the capital costs of production facilities within tangible 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.

### Acquisitions of Exploration Licences

Acquisitions of Exploration Licences through acquisition of non-operational corporate structures that do not represent a business, and therefore do not meet the definition of a business combination, are accounted for as the acquisition of an asset. Related future consideration that is contingent is not recognised as an asset or liability until the contingent event has occurred.

## **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.



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

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

### IFRS 9

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 from 1 August 2018 resulted in changes in accounting policies but there were no adjustments to the amounts recognised in the financial statements. The Company has elected to apply the modified retrospective method.

The table below shows the new classification of financial assets on adoption of IFRS 9 compared to IAS 39.

| Financial assets               | Original classification<br>IAS 39 | New classification<br>under IFRS 9 | Change in carrying<br>amount |
|--------------------------------|-----------------------------------|------------------------------------|------------------------------|
| Trade and other<br>receivables | Loans and receivables             | Amortised cost                     | No impact                    |
| Cash and cash<br>equivalents   | Loans and receivables             | Amortised cost                     | No impact                    |

### Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" ("ECL") model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

For trade receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available. The Company's trade receivables are generally settled on a short time frame without material credit risk concerns at the time of transition, so this change in policy had no impact on the amounts recognised in the financial statements.

Management assessed which business models apply to the financial assets held by the Company and has classified its financial instruments into the appropriate IFRS 9 categories. This had the effect of reclassifying

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the loans to subsidiary undertakings from loans and receivables to financial assets at amortised cost but had no impact on the measurement of the loans or on equity.

Loans to subsidiary undertakings are subject to IFRS 9's new expected credit loss model. Lifetime ECLs are determined using all relevant, reasonable and supportable historical, current and forward-looking information that provides evidence about the risk that the subsidiaries will default on the loan and the amount of losses that would arise as a result of that default. Success rates of the projects indicated that 33% of each loan will be recovered. ECLs of 67% on the loans made to subsidiaries have been recognised in the current period (Note 22).

### Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the group becomes a party to the contractual provisions of the instrument. The below policy has been updated for the year to 31 July 2019 in line with the adoption of IFRS 9. See above for further details.

#### Financial assets

Financial assets are classified as either financial assets at amortised cost, at fair value through other comprehensive income ("FVTOCI") or at fair value through profit or loss ("FVPL") depending upon the business model for managing the financial assets and the nature of the contractual cash flow characteristics of the financial asset.

A loss allowance for expected credit losses is determined for all financial assets, other than those at FVPL, at the end of each reporting period. The Group applies a simplified approach to measure the credit loss allowance for trade receivables using the lifetime expected credit loss provision. The lifetime expected credit loss is evaluated for each trade receivable taking into account payment history, payments made subsequent to year end and prior to reporting, past default experience and the impact of any other relevant and current observable data. The group applies a general approach on all other receivables classified as financial assets. The general approach recognises lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or have expired.

#### Fair value through other comprehensive income

The Group has a number of strategic investments in listed and unlisted entities which are not accounted for as subsidiaries, associates or jointly controlled entities. For those investments, the Group has made an irrevocable election to classify the investments at fair value through other comprehensive income rather than through profit or loss as the Group considers this measurement to be the most representative of the business model for these assets. They are carried at fair value with changes in fair value recognised in other comprehensive income and accumulated in the fair value through other comprehensive income reserve. Upon disposal any balance within fair value through other comprehensive income reserve is reclassified directly to retained earnings and is not reclassified to profit or loss.

Dividends are recognised in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment, in which case the full or partial amount of the dividend is recorded against the associated investments carrying amount.

Purchases and sales of financial assets measured at fair value through other comprehensive income are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the fair value through other comprehensive income reserve.

#### Amortised cost

This category is the most relevant to the Company. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

This category generally applies to trade and other receivables.

#### Cash and cash equivalents

Cash and cash equivalents are carried at cost and include all highly liquid investments with a maturity of three months or less.

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Restricted cash are those amounts held by third parties on behalf of the Group and are not available for the Group's use; these are accounted for separately from cash and cash equivalents.

### Financial Liabilities

The classification of financial liabilities at initial recognition depends on the purpose for which the financial liability was issued and its characteristics. All purchases of financial liabilities are recorded on trade date, being the date on which the Group becomes party to the contractual requirements of the financial liability. Unless otherwise indicated the carrying amounts of the Group's financial liabilities approximate to their fair values. The Group's financial liabilities consist of financial liabilities measured at amortised cost and financial liabilities at fair value through profit or loss.

### Trade and other payables

Trade and other payables are initially recorded at fair value and subsequently carried at amortised cost.

### Derecognition of financial liabilities

A financial liability (in whole or in part) is derecognized when the Group has extinguished its contractual obligations, it expires or is cancelled. Any gain or loss on derecognition is taken to the statement of comprehensive income.

### **Treatment of finance costs**

All finance costs are expensed through the income statement. The Group does not incur any finance costs that qualify for capitalisation.

### **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.

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:

- Going concern - the critical assumption is that the Wressle planning appeal held 5 November 2019 has a positive outcome and production commences at the forecasted rate in 2020. See note 1 Going Concern disclosures for further information.
- Carrying value of intangible assets (note 11) – carrying values are justified with reference to indicators of impairment as set out in IFRS 6. Based on judgements at 31 July 2019, no impairment was recognised (2018: the investment in securing planning permission to drill the Holmwood well from the Bury Hill Wood site was written off). (Please see pages 3 and 4 for the conclusions reached as to why no impairment was recognised regarding PEDL180 & 182 (Wressle))
- Carrying value of property, plant and equipment (note 12) – carrying values are justified by reference to future estimates of cash flows, discounted at appropriate rates.
- Deferred taxation (note 18) – assumptions regarding the future profitability of the Company and whether the deferred tax assets will be recovered.
- Decommissioning provision (note 19) – inflation and discount rate estimates (2% and 10% respectively) are used in calculating the provision, along with third party estimates of remediation costs.
- Share-based payments (note 21) – various estimates, referenced to external sources where possible, 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 period, the Europa Oil and Gas Group has considered potential new venture opportunities in seven countries outside of Ireland and the UK. These range from greenfield exploration to brownfield re-development projects in North Africa, Western Europe, and Central Europe. Only those opportunities which stand up to robust technical and commercial scrutiny and which meet the Company's strict investment criteria, particularly in terms of cost, strategic fit, political, security and regulatory risk, and have clearly defined paths to value creation are being pursued. We continue to screen possible new ventures in areas which fit well with Europa's strategy and technical skillset. As a result of the above, in the opinion of the Directors the Company has two reportable segments being the UK and new ventures. 100% of the total revenue (2018: 100%) relates to UK based customers. Of this figure, one single customer (2018: one) commands more than 99% of the total.

## Income statement for the year ended 31 July 2019

|                         | UK             | New Ventures | Total          |
|-------------------------|----------------|--------------|----------------|
|                         | £000           | £000         | £000           |
| Revenue                 | 1,712          | -            | 1,712          |
| Cost of sales           | (1,455)        | -            | (1,455)        |
| <b>Gross profit</b>     | <b>257</b>     | <b>-</b>     | <b>257</b>     |
| Administrative expenses | (1,098)        | (46)         | (1,144)        |
| Finance income          | 31             | -            | 31             |
| Finance costs           | (813)          | -            | (813)          |
| <b>Loss before tax</b>  | <b>(1,623)</b> | <b>(46)</b>  | <b>(1,669)</b> |
| Taxation                | -              | -            | -              |
| <b>Loss for year</b>    | <b>(1,623)</b> | <b>(46)</b>  | <b>(1,669)</b> |

**Segmental assets and liabilities as at 31 July 2019**

|                            | UK              | New Ventures | Total           |
|----------------------------|-----------------|--------------|-----------------|
|                            | £000            | £000         | £000            |
| Non-current assets         | 4,376           | -            | 4,376           |
| Current assets             | 594             | -            | 594             |
| <b>Total assets</b>        | <b>4,970</b>    | <b>-</b>     | <b>4,970</b>    |
| Non-current liabilities    | (19,455)        | -            | (19,455)        |
| Current liabilities        | (361)           | -            | (361)           |
| <b>Total liabilities</b>   | <b>(19,816)</b> | <b>-</b>     | <b>(19,816)</b> |
| <b>Other segment items</b> |                 |              |                 |
| Capital expenditure        | 149             | -            | 149             |
| Depreciation               | 88              | -            | 88              |
| Share based payments       | -               | -            | -               |

**Income statement for the year ended 31 July 2018**

|                         | UK             | New Ventures | Total          |
|-------------------------|----------------|--------------|----------------|
|                         | £000           | £000         | £000           |
| Revenue                 | 1,635          | -            | 1,635          |
| Cost of sales           | (2,759)        | -            | (2,759)        |
| <b>Gross profit</b>     | <b>(1,124)</b> | <b>-</b>     | <b>(1,124)</b> |
| Administrative expenses | (461)          | (229)        | (690)          |
| Finance income          | 7              | -            | 7              |
| Finance costs           | (698)          | -            | (698)          |
| <b>Loss before tax</b>  | <b>(2,276)</b> | <b>(229)</b> | <b>(2,505)</b> |
| Taxation                | (383)          | -            | (383)          |
| <b>Loss for year</b>    | <b>(2,659)</b> | <b>(229)</b> | <b>(2,888)</b> |

**Segmental assets and liabilities as at 31 July 2018**

|                            | UK              | New Ventures | Total           |
|----------------------------|-----------------|--------------|-----------------|
|                            | £000            | £000         | £000            |
| Non-current assets         | 4,149           | -            | 4,149           |
| Current assets             | 1,338           | -            | 1,338           |
| <b>Total assets</b>        | <b>5,487</b>    | <b>-</b>     | <b>5,487</b>    |
| Non-current liabilities    | (17,744)        | -            | (17,744)        |
| Current liabilities        | (472)           | -            | (472)           |
| <b>Total liabilities</b>   | <b>(18,216)</b> | <b>-</b>     | <b>(18,216)</b> |
| <b>Other segment items</b> |                 |              |                 |
| Capital expenditure        | 436             | -            | 436             |
| Depreciation               | 65              | -            | 65              |
| Share based payments       | -               | -            | -               |

**3 Loss before taxation**

Loss from continuing operations is stated after charging:

|  | 2019  | 2018  |
|--|-------|-------|
|  | £000  | £000  |
| Depreciation                                 | 88    | 65    |
| Staff costs including directors (note 5)     | 250   | 213   |
| Impairment of producing fields               | -     | 142   |
| Exploration (write back)/write off           | (270) | 1,206 |
| Diesel                                       | 123   | 88    |
| Business rates                               | 41    | 46    |
| Site security & safety                       | 132   | 50    |
| Fees payable to the auditor                  | 34    | 36    |
| Operating leases                             | 41    | 40    |
| Amount of inventory recognised as an expense | 2     | -     |

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

|               | 2019 | 2018 |
|---------------|------|------|
|               | £000 | £000 |
| All directors | -    | -    |

The emoluments of the directors were borne by another Group company and it is not possible to apportion the cost of this remuneration relevant to services rendered to Europa Oil and Gas Limited.

**5 Employee information**

Average number of employees including directors

|                                  | 2019   | 2018   |
|----------------------------------|--------|--------|
|                                  | Number | Number |
| Field exploration and production | 4      | 4      |
|                                  | 4      | 4      |

**Staff costs**

|                      | 2019 | 2018 |
|----------------------|------|------|
|                      | £000 | £000 |
| Wages and salaries   | 209  | 177  |
| Employer's costs     | 27   | 22   |
| Pensions             | 14   | 14   |
| Share based payments | -    | -    |
|                      | 250  | 213  |

**6 Key management personnel**

The emoluments of the key management personnel were borne by another Group company and it is not possible to apportion the cost of this remuneration relevant to services rendered to Europa Oil and Gas Limited. The Company did not provide any benefits or post-retirement benefits to the key management personnel.

**7 Finance income**

|                        | 2019 | 2018 |
|------------------------|------|------|
|                        | £000 | £000 |
| Interest receivable    | 7    | 6    |
| Foreign exchange gains | 24   | 1    |
|                        | 31   | 7    |

**8 Finance expense**

|  | 2019       | 2018       |
|--|------------|------------|
|  | £000       | £000       |
| Loan interest payable  | 629        | 529        |
| Unwinding of discount on decommissioning provision (note 19) | 182        | 166        |
| Bank charges   | 2          | 3          |
|  | <u>813</u> | <u>698</u> |

**9 Taxation**

|  | 2019  | 2018  |
|--|-------|-------|
|  | £000  | £000  |
| Movement in deferred tax asset (note 18)     | (116) | 751   |
| Movement in deferred tax liability (note 18) | 116   | (368) |
| Tax credit                                   | -     | 383   |

UK corporation tax is calculated at 30% (2018: 30%) of the estimated assessable profit for the year being the applicable rate for a ring-fence trade excluding the Supplementary Charge of 10% (2018: 10%).

|   | 2019           | 2018           |
|---|----------------|----------------|
|   | £000           | £000           |
| Loss before tax   | <u>(1,669)</u> | <u>(2,505)</u> |
| <i>Tax reconciliation</i>   |                |                |
| Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2017: 30%) | (501)          | (751)          |
| Deferred tax asset not recognised   | 30             | 751            |
| Expenses not deductible for tax purposes  | 35             | -              |
| Other reconciling items   | 436            | 383            |
| Total tax charge  | <u>-</u>       | <u>383</u>     |

**10 Other comprehensive income**

|                                | 2019        | 2018     |
|--------------------------------|-------------|----------|
|                                | £000        | £000     |
| Loss on investment revaluation | <u>(59)</u> | <u>-</u> |

On 8 May 2019, the Company sold its interest in PEDL143 to UK Oil & Gas Plc ('UKOG') for 25,951,557 UKOG shares. At the time of the sale the shares were worth 1.156p each, resulting in a total value of £300,000. The investment was revalued at the year end to £241,000 (0.93p per share). An irrevocable election has been made to record gains and losses arising on the shares as Other Comprehensive Income.

**11 Intangible assets**

|                       | 2019         | 2018         |
|-----------------------|--------------|--------------|
|                       | £000         | £000         |
| At 1 August           | 2,969        | 3,653        |
| Additions             | 132          | 521          |
| Exploration write off | -            | (1,205)      |
| Disposal              | (9)          | -            |
| At 31 July            | <u>3,092</u> | <u>2,969</u> |

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

|                         | 2019         | 2018         |
|-------------------------|--------------|--------------|
|                         | £000         | £000         |
| UK PEDL 143 (Holmwood)  | -            | 9            |
| UK PEDL 180 (Wressle)   | 2,872        | 2,750        |
| UK PEDL 181             | 102          | 96           |
| UK PEDL 299 (Hardstoft) | 12           | 12           |
| UK PEDL 182 (Broughton) | 29           | 26           |
| UK PEDL 348 (Cloughton) | 77           | 76           |
| UK Block 41/24          | -            | -            |
| <b>Total</b>            | <u>3,092</u> | <u>2,969</u> |

**Disposal**

|                        | 2019     | 2018     |
|------------------------|----------|----------|
|                        | £000     | £000     |
| UK PEDL 143 (Holmwood) | <u>9</u> | <u>-</u> |

**Exploration write off**

|                        | 2019     | 2018         |
|------------------------|----------|--------------|
|                        | £000     | £000         |
| UK PEDL 143 (Holmwood) | -        | 1,159        |
| UK Block 41/24         | -        | 46           |
|                        | <u>-</u> | <u>1,205</u> |

**Exploration write back**

On 8 May 2019 the Company sold its interest in PEDL143 (Holmwood) to UK Oil & Gas Plc ("UKOG") for 25,951,557 shares in UKOG at 1.156p per share.

|   | 2019       | 2018     |
|---|------------|----------|
|   | £000       | £000     |
| Consideration for the PEDL 143 interest | 300        | -        |
| Disposal costs                          | (21)       | -        |
| Book value of remaining interest        | (9)        | -        |
|   | <u>270</u> | <u>-</u> |

If the Company is not able to 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 23.



**12 Property, plant and equipment**  
**Producing fields**

|                                   | 2019   | 2018   |
|-----------------------------------|--------|--------|
|                                   | £000   | £000   |
| <b>Cost</b>                       |        |        |
| At 1 August                       | 10,585 | 10,585 |
| Additions                         | -      | -      |
| At 31 July                        | 10,585 | 10,585 |
| <b>Depreciation and depletion</b> |        |        |
| At 1 August                       | 9,986  | 9,779  |
| Charge for year                   | 88     | 65     |
| Impairment                        | -      | 142    |
| At 31 July                        | 10,074 | 9,986  |
| <b>Net Book Value</b>             |        |        |
| At 1 August                       | 599    | 806    |
| At 31 July                        | 511    | 599    |

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.

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 7-12%, Brent crude prices rising from US\$70 per barrel in 2020 to US\$74 per barrel in 2022 increasing by inflation from 2022 onwards and a pre-tax discount rate of 20%. The pre-tax discount rate is derived from a post-tax rate of 10% and is high because of the applicable rates 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 (2018: £142,000 impairment 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:

|   | Further impairment of<br>producing fields<br>£000 |
|---|---|
| <b>Production decline rate (current assumption 7-12%)</b>   |   |
| 12%   | 312   |
| 15%   | 602   |
| <b>Brent crude price per barrel (current assumption US\$70/bbl in 2020 rising to US\$7/bbl in 2022)</b> |   |
| \$70 flat   | 168   |
| \$65 flat   | 392   |
| <b>Pre-tax discount rate (current assumption 20%)</b>   |   |
| 25%   | 62  |
| 30%   | 29  |

**13 Investments**

|                                   | Investment in<br>subsidiaries<br>£000 | Investment in<br>shares<br>£000 | Total<br>£000 |
|-----------------------------------|---------------------------------------|---------------------------------|---------------|
| At 1 August 2017 and 31 July 2018 | -                                     | -                               | -             |
| Additions                         | -                                     | 241                             | 241           |
| <b>At 31 July 2019</b>            | <b>-</b>                              | <b>241</b>                      | <b>241</b>    |

The Company owns 100% of the ordinary share capital of Europa Oil & Gas (New Ventures) Limited (previously Europa Oil & Gas Resources Limited the name was changed on 16<sup>th</sup> May 2018) and 100% of the ordinary share capital of Europa Oil & Gas (UK) Limited.

Both subsidiaries are dormant and are registered in the UK.

On 8 May 2019, the Company sold its interest in PEDL 143 to UK Oil & Gas Plc ("UKOG") for 25,951,557 UKOG shares. At the time of the sale the shares were worth 1.156p each, resulting in a total value of £300,000. The investment was revalued at the year end to the value of £241,000 (0.93p per share) with the loss being recorded in Other Comprehensive Income (note 9). Under the agreement, the Company must hold onto the investment for at least 6 months from the date of the initial transaction.

**14 Inventories**

|              | 2019<br>£000 | 2018<br>£000 |
|--------------|--------------|--------------|
| Oil in tanks | 19           | 21           |

**15 Trade and other receivables**

|  | 2019<br>£000 | 2018<br>£000 |
|--|--------------|--------------|
| <b>Current trade and other receivables</b> |              |              |
| Trade receivables                          | 173          | 301          |
| Other receivables                          | 24           | 22           |
| Prepayments and accrued income             | 26           | 29           |
|  | <b>223</b>   | <b>352</b>   |
| <b>Non-current receivables</b>             |              |              |
| Owed by Group undertakings                 | 532          | 581          |

**16 Trade and other payables**

|                             | 2019<br>£000 | 2018<br>£000 |
|-----------------------------|--------------|--------------|
| Trade payables              | 232          | 433          |
| Accruals and other payables | 129          | 39           |
|                             | <b>361</b>   | <b>472</b>   |

Other payables include advances accrued from partners on projects.

**17 Borrowings**

|  | 2019<br>£000  | 2018<br>£000  |
|--|---------------|---------------|
| <u>Loans repayable in 2 to 5 years</u> |               |               |
| Loan from parent                       | 16,517        | 14,988        |
| Intercompany balance with subsidiary   | 20            | 20            |
| <b>Total long term borrowing</b>       | <b>16,537</b> | <b>15,008</b> |

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.

## 18 Deferred Tax

|   | 2019 | 2018  |
|---|------|-------|
|   | £000 | £000  |
| <b>Recognised deferred tax liability:</b> |      |       |
| As at 1 August                            | -    | (383) |
| Charged to income statement               | -    | 383   |
| At 31 July                                | -    | -     |

The Company has a deferred tax liability of £1,058,000 (2018: £1,174,000) arising from accelerated capital allowances and a deferred tax asset of £1,058,000 (2018: £1,174,000) arising from trading losses which will be utilised against future taxable profits. These have been offset against each other resulting in a total of £nil net asset/liability (2018: £nil). This offsetting is required because the Company settles current tax assets and liabilities on a net basis.

The Company has a non-recognised deferred tax asset of £5,400,000 (2018: £5,370,000), which arises in relation to ring-fence UK trading losses of £6.3 million (2018: £5.9 million) and non-ring-fence UK trading losses of £11.7 million (2018: £12.0 million).

## 19 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.

|  | 2019  | 2018  |
|--|-------|-------|
|  | £000  | £000  |
| <b>Long-term provisions</b>                      |       |       |
| As at 1 August                                   | 2,736 | 2,570 |
| Charged to the statement of comprehensive income | 182   | 166   |
| At 31 July                                       | 2,918 | 2,736 |

## 20 Called up share capital

|   | 2019 | 2018 |
|---|------|------|
|   | £000 | £000 |
| <b>Authorised</b>                                 |      |      |
| 1,000,000 ordinary shares of 10p each             | 100  | 100  |
| <b>Allotted, called up and fully paid</b>         |      |      |
| 19,344 ordinary shares of 10p each (2018: 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. |

## 21 Share based payments

There are 760,000 ordinary 1p share options in Europa Oil and Gas (Holdings) plc (2018: 760,000) held by employees of the Company.

There were no options granted in 2019 or 2018.

The charge arising from the grant of employee share options was £nil (2018: £nil).

|                                      | 2019      | 2019     | 2018      | 2018     |
|--------------------------------------|-----------|----------|-----------|----------|
|                                      | Number of | Average  | Number of | Average  |
|                                      | options   | exercise | options   | exercise |
|                                      |           | price    |           | price    |
| Outstanding at the start of the year | 760,000   | 9.55p    | 760,000   | 9.55p    |
| Outstanding at the end of the year   | 760,000   | 9.55p    | 760,000   | 9.55p    |
| Exercisable at the end of the year   | 600,000   | 9.86p    | 546,664   | 11.8p    |

The weighted average remaining contractual life of share options outstanding at the end of the period was 4.8 years (2018: 5.8 years).

## 22 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.

| Financial assets         | Amortised<br>cost | Amortised<br>cost | Fair value<br>through other<br>comprehensive<br>income | Fair value<br>through other<br>comprehensive<br>income |
|--------------------------|-------------------|-------------------|--|--|
|                          | 2019<br>£000      | 2018<br>£000      | 2019<br>£000   | 2018<br>£000   |
| Investments              | -                 | -                 | 241  | -  |
| Trade receivables        | 173               | 301               | -  | -  |
| Cash and cash equivalent | 352               | 965               | -  | -  |
| Total financial assets   | <u>525</u>        | <u>1,266</u>      | <u>241</u>   | <u>-</u>   |

| Financial liabilities    | Amortised<br>cost | Amortised<br>cost | Fair value<br>through other<br>comprehensive<br>income | Fair value<br>through other<br>comprehensive<br>income |
|--------------------------|-------------------|-------------------|--|--|
|                          | 2019<br>£000      | 2018<br>£000      | 2019<br>£000   | 2018<br>£000   |
| Trade and other payables | <u>(361)</u>      | <u>(472)</u>      | <u>-</u>   | <u>-</u>   |

### 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 2019 trade receivables were £173,000 representing one month of oil revenue and receivables due from project partners (2018: £301,000). 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 £169,000 (2018: £161,000).

### Liquidity risk

The Company currently has no overdraft or overdraft facility with its bankers.

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 2019  | Trade and<br>other payables<br>£000 | Long term<br>borrowings<br>£000 |
|------------------|-------------------------------------|---------------------------------|
| 6 months or less | 361                                 | -                               |
| 2-5 years        | -                                   | 16,537                          |
| Total            | <u>361</u>                          | <u>16,537</u>                   |
| At 31 July 2018  |                                     |                                 |
| 6 months or less | 472                                 | -                               |
| 2-5 years        | -                                   | 15,008                          |
| Total            | <u>472</u>                          | <u>15,008</u>                   |

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.

## Europa Oil & Gas Limited

### Interest rate risk

The Company has interest bearing liabilities.

### 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       | 2019   | 2019    | 2018   | 2018    |
|-----------|-------------|--------|---------|--------|---------|
|           |             | Price  | LBT     | Price  | LBT     |
|           |             | \$/bbl | £000    | \$/bbl | £000    |
| Highest   | October 18  | 79.79  | (1,333) | 75.40  | (2,231) |
| Average   |             | 66.74  | (1,669) | 64.60  | (2,505) |
| Lowest    | December 18 | 56.50  | (1,931) | 50.60  | (2,858) |

### 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       | 2018  | 2018    | 2018  | 2018    |
|-----------|-------------|-------|---------|-------|---------|
|           |             | Rate  | LBT     | Rate  | LBT     |
|           |             | \$/£  | £000    | \$/£  | £000    |
| Highest   | February 19 | 1.330 | (1,723) | 1.422 | (2,586) |
| Average   |             | 1.288 | (1,669) | 1.351 | (2,505) |
| Lowest    | July 19     | 1.225 | (1,581) | 1.289 | (2,426) |

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  | 2019       | 2018       |
|-----------|------------|------------|
|           | £000       | £000       |
| US Dollar | 381        | 830        |
| Total     | <u>381</u> | <u>830</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.

### Intercompany loans

The adoption of IFRS 9 has changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking Expected Credit Loss ('ECL') approach. IFRS 9 requires the Company to recognise an allowance for ECLs for all debt instrument not held at fair value through profit or loss. The Company has chosen not to restate comparatives on adoption of IFRS 9 and, therefore, are not reflected in the restated prior year financial statements. Rather, these changes have been processed at the date of initial application (i.e. 1 August 2018) and recognised in the opening equity balances. The loans to the subsidiaries are classified as repayable on demand. IFRS 9 requires consideration of the expected credit risk associated with the loan. As the subsidiary company does not have any liquid assets to sell to repay the loan, should it be recalled, the conclusion reached was that the loan should be categorised as stage 3. As part of the assessment of expected credit losses of the intercompany loan receivable, the Directors have considered the published chance of success for the project on the licence held by Europa Oil & Gas (Inishkea) Ltd, and applying the same 33% general wildcat exploration success rate, the loans to other subsidiaries have been 67% provided.

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The movement in the provision was as follows:

|                                 | Europa<br>Oil & Gas<br>(Ireland<br>West)<br>Limited<br>£000 | Europa<br>Oil & Gas<br>(Ireland<br>East)<br>Limited<br>£000 | Europa<br>Oil & Gas<br>(Inishkea)<br>Limited<br>£000 | Europa<br>Oil & Gas<br>(New<br>Ventures)<br>Limited<br>£000 | Total<br>£000 |
|---------------------------------|---|---|--|---|---------------|
| Provision at 1 August 2017      | -   | -   | -  | 7   | 7             |
| Increase in the year            | -   | -   | -  | -   | -             |
| Provision at 31 July 2018       | -   | -   | -  | 7   | 7             |
| Opening adjustments under IFRS9 | 118   | 246   | 25   | -   | 389           |
| Movement in the year            | 235   | 58  | 382  | 10  | 685           |
| <b>Provision at 31 Jul 2019</b> | <b>353</b>  | <b>304</b>  | <b>407</b>   | <b>17</b>   | <b>1,081</b>  |

## 23 Capital commitments and guarantees

On the UK licences PEDL299 (Hardstoft) and PEDL343 (Cloughton) there is a commitment to acquire seismic and Europa's share of combined cost is expected to be £1.25 million.

If the Company 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 12.

## 24 Operating lease commitments

The Company 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 on two months' notice. The annual cost is currently £21,000 (2018: £20,000) increasing 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 (2018: £20,000).

Future minimum lease payments are as follows:

|                  | 2019<br>£000 | 2018<br>£000 |
|------------------|--------------|--------------|
| Less than 1 year | 5            | 5            |

## 25 Related party transactions

The Company received services from its parent Europa Oil & Gas (Holdings) plc to the value of £1,456,000 (2018: £1,256,000). 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:

|                                 | 2019<br>£000  | 2018<br>£000  |
|---------------------------------|---------------|---------------|
| Europa Oil & Gas (Holdings) plc | 16,517        | 14,988        |
| Europa Oil & Gas (UK) Ltd       | 20            | 20            |
|                                 | <b>16,537</b> | <b>15,008</b> |
| Comprising:                     |               |               |
| Loans (note 17)                 | <b>16,537</b> | <b>15,008</b> |

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

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At the end of the year the Company was owed the following amounts by subsidiaries (net of provisions):

|   | 2019       | 2018       |
|---|------------|------------|
|   | £000       | £000       |
| Europa Oil & Gas (Ireland West) Limited | 174        | 176        |
| Europa Oil & Gas (Ireland East) Limited | 150        | 368        |
| Europa Oil & Gas (Inishkea) Limited     | 200        | 37         |
| Europa Oil & Gas (New Venture) Limited  | 8          | -          |
| <b>Total</b>                            | <b>532</b> | <b>581</b> |

### 26 Post reporting date events

A Public Inquiry into the proposed development of the Wressle oil field in the East Midlands was held in November 2019. North Lincolnshire Council presented no evidence at the inquiry, which was held in Scunthorpe to consider Egdon's appeal against the refusal of planning consent by the Council's Planning Committee for the development of the Wressle Field ('the Appeal'). As a result, the Wressle Development Public Inquiry, which commenced on 5 November 2019 and included a site visit, lasted three days rather than the scheduled six days. Due to the Planning Inspectorate purdah arising from the UK general election, Egdon expects a verdict on the Appeal post the election date of 12 December 2019, potentially before the end of the year.

### 27 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.