

A close-up photograph of industrial machinery, featuring a prominent red handwheel on a valve. The machinery is made of polished metal and is set against a clear blue sky. The image is positioned on the left side of the cover, with the text overlaid on the right.

exploration discovery production

Europa Oil & Gas (Holdings) plc

Annual Report and Accounts
for the year ended 31 July 2010

Stock Code: EOG

About Us

Europa Oil & Gas (Holdings) plc is an exploration and production company with a European focus. We have core producing oil assets in the UK, along with a wide range of exploration and appraisal projects in various stages of development in the UK, Romania, France and Western Sahara.



Our Mission

To build shareholder value by a combination of production and reserves growth via a geographically focussed and technically driven strategy.



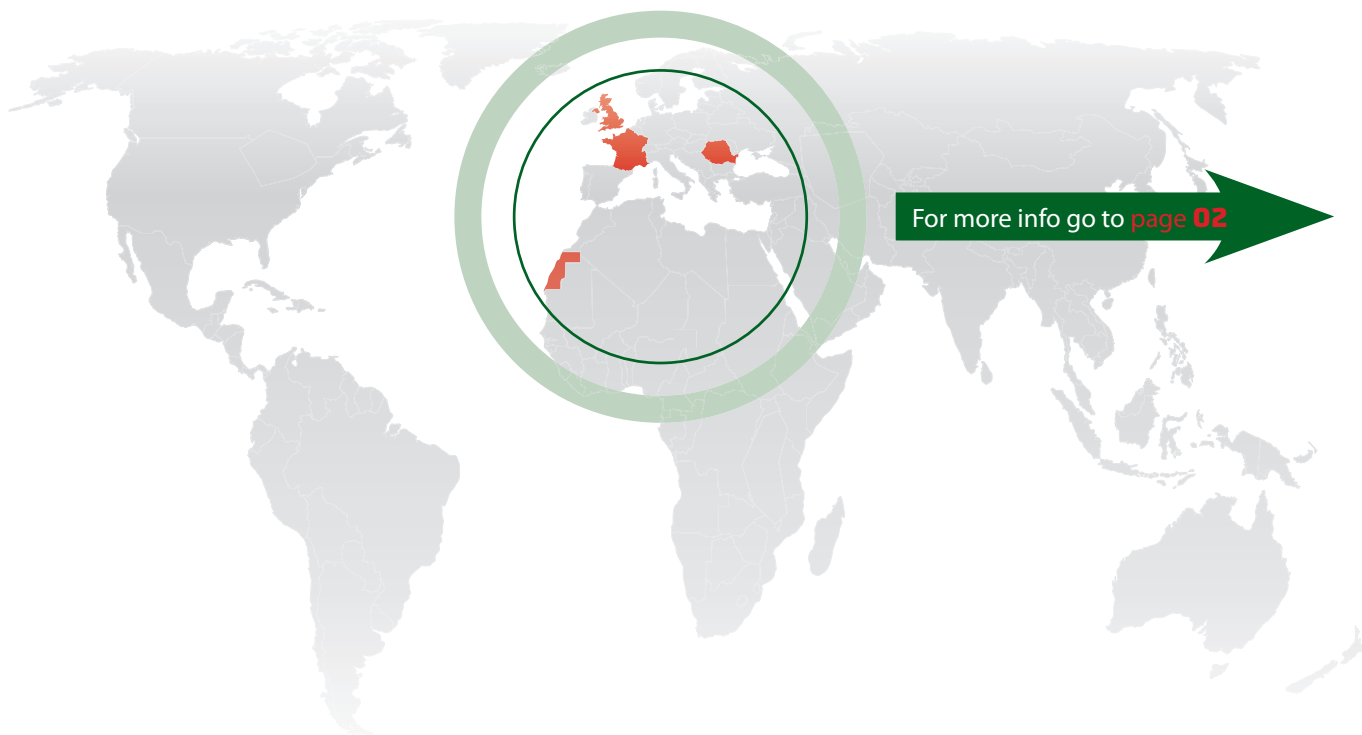
For more info go to www.europaoil.com

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Highlights

Regions of operation



For more info go to [page 02](#)

Operational Highlights

- * Drilled Voitinel Gas Discovery — up to 415bcf gas-in-place on-block (Europa interest 28.75%)
- * Seismic 3D dataset being used to define high impact Berenx well — up to 1.5TCF in-place (Europa interest 100%)
- * Production site and reserves upgrade at West Firsby
- * Drilled Hykeham exploration well
- * Acquired 200 km of new 2D seismic data in Romania in thrust belt oil play
- * Crude oil sales of 64,968 barrels, a decrease of 16% on 2009

Financial Performance

- * Revenue of £3.1 million (2009: £2.9 million)
- * Two fundraisings raised £2,636,000 net of broker commission
- * Relinquished licence in Egypt and took write-off cost of £738,000
- * Other exploration write-downs totalled £270,000
- * Impairment charge for Crosby Warren wellsite £1,012,000

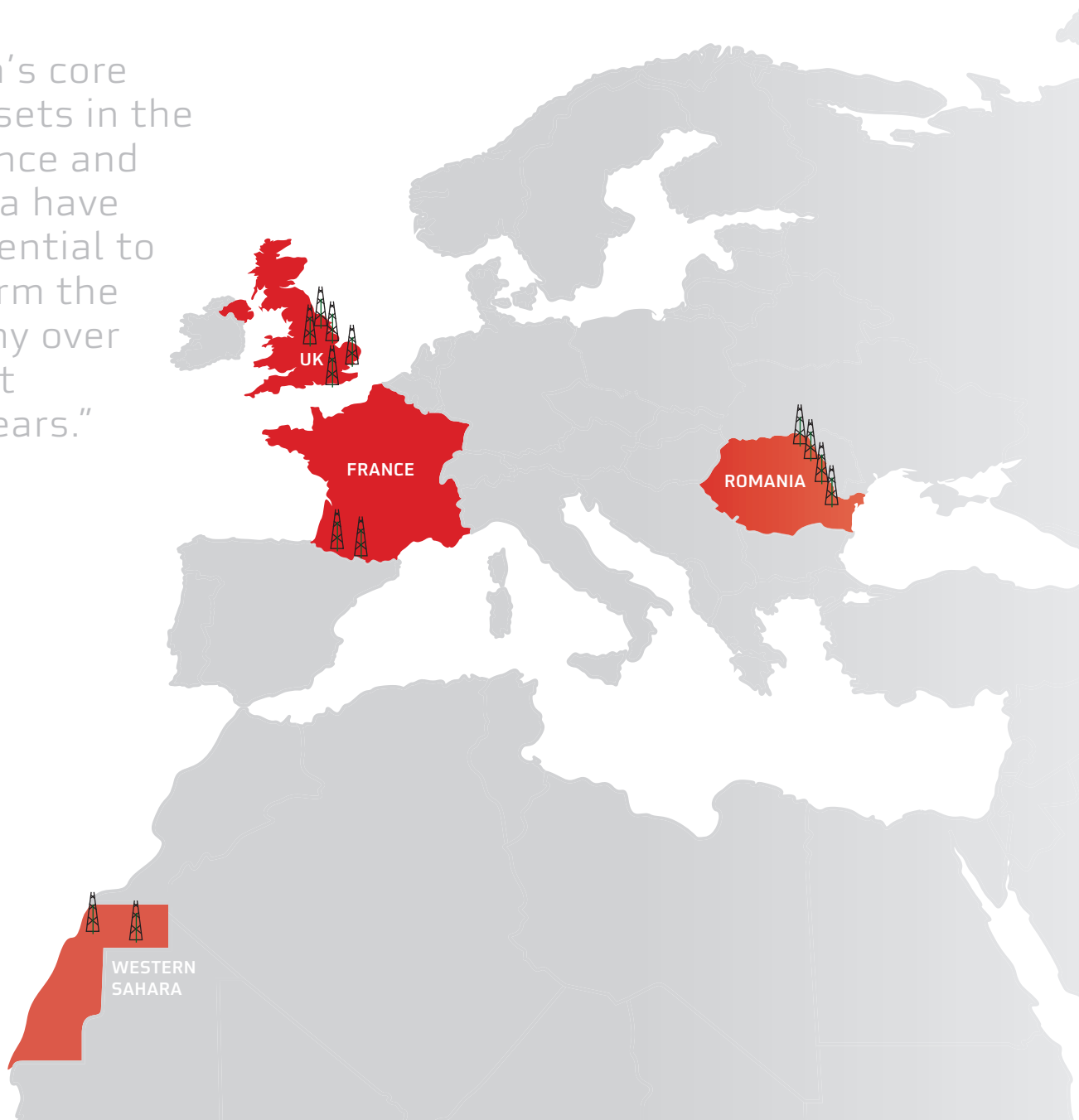
Post Reporting Date Events

- * On 14 October 2010 raised a further £1,452,000 net of broker commission
- * On 18 October 2010 the Barchiz-1 exploration well in Romania was spudded

Europa Oil & Gas At A Glance

Europa's strategy is to develop a wide range of assets — from production through to high impact exploration, within the EU. Current core areas are the UK, France and Romania. Europa operates the majority of its joint ventures from its headquarters near Oxford, UK. Having acquired three seismic surveys and drilled as operator some six wells to date, the Company has an excellent safety and environmental record.

"Europa's core area assets in the UK, France and Romania have the potential to transform the Company over the next three years."



16 ACTIVE PROJECTS

62%

UK Projects

25%

ROMANIA Projects

13%

FRANCE Projects

Europa holds a varied asset portfolio across three EU jurisdictions and in the Western Sahara. These range from oil producing assets, through exciting discoveries at the appraisal stage to exploration projects in established oil and gas plays:

Country	Area	Licence	Field/ Prospect	Operator	Equity	Status
UK	East Midlands	DL003	West Firsby	Europa	100%	Production
		DL001	Crosby Warren	Europa	100%	Production
		PL199/215	Whisby-4	BPEL	65%	Production
		PEDL150	W. Whisby	Europa	75%	Exploration
		PEDL180	Wressle	Europa	50%	Exploration
		PEDL222		Valhalla	50%	Exploration
		PEDL181	Caister	Europa	50%	Exploration
	Weald	PEDL143	Holmwood	Europa	40%	Exploration
	North Sea	Holderness	Offshore UCG	Europa	90%	Exploration
Humber South		Offshore UCG	Europa	90%	Exploration	
France	Aquitaine	Béarn des Gaves	Berenx	Europa	100%	Exploration/Appraisal
		Tarbes V.d'Adour	Osmets/Jacque	Europa	100%	Exploration/Appraisal
Romania	Carpathians	EIII-1 Brodina	Voitinel	Aurelian	28.75%	Exploration/Appraisal
		EIII-3 Cuejdiu		Aurelian	17.50%	Exploration
		EIII-4 Bacau		Aurelian	19%	Exploration
		EPI-3 Brates	Barchiz	MND	20%	Exploration
Western Sahara	Tindouf	Bir Lehlou		Europa	100%	Exploration
	Aaiun	Hagounia		Europa	100%	Exploration

Chairman's Statement

Dear Shareholders,

In the year to 31 July 2010, the Company participated in two exploration wells. A notable success was our participation in the Voitinel discovery in Romania, where dry gas flowed at commercial rates. This discovery opens up an exciting gas play in the Carpathians where two wells on neighbouring licences achieved good sustained flow rates. The detail of this discovery is contained in the Operational Review with the operator estimating a gas in place figure of up to 415 billion cubic feet (Europa interest 28.75%) leading to appraisal drilling in 2011. In addition, 200 km of new 2D seismic has been acquired in the promising Romanian thrust belt oil play.

Work continues on the very prospective Berenx area in France (Europa interest 100%) which has discovered gas accumulations. The Company acquired an existing 3D seismic volume which is being incorporated into our modelling in order to finalise resource numbers prior to securing a drilling partner. The structure, which has a 500m gas column encountered in a 1969 well, has the potential for reserves in excess of one trillion cubic feet.

Turning to the UK, the year saw average daily production of 178 barrels, a decline of 16% on the previous period. Lost production, due to unscheduled well shut-ins at the producing sites, was the main reason for the decline. This is being addressed together with a major upgrade of surface facilities at West Firsby. Workovers on several wells have been undertaken and present daily production is averaging around 200 barrels. The Company's producing assets provided a revenue stream of £3.1 million in the year.

The exploration well at Hykeham in Lincolnshire is currently suspended, having encountered live oil but not having produced commercial quantities. It is thought to have suffered formation damage and the most likely forward plan is to plug and abandon the well whilst further work is undertaken on the remainder of the PEDL150 licence area.

In contrast, a thorough technical review of the West Firsby field has led to an upgrade in 2P reserves of one million barrels, a 250% increase. The drilling of three development wells on the field would lead to a significant increase in production if successful. The first of these wells is planned to be drilled in late 2010 and enables the Company to maintain its production target of 500 barrels of oil per day.

There has been a significant increase in activity in Continental Europe by the oil majors with regard to unconventional resources. Much of this activity has focused on gas shales and extensive prospective acreage has now been licenced. It is clear that the Early Namurian black shales are becoming an interesting focus for UK shale gas potential. The Humber basin, where Europa has a large acreage position, is an area that could hold considerable potential. During 2011 the Company will examine its commercial options in relation to this potential.



Drilling operations in the UK, 2010.



Drilling operations in Romania, October 2010.

The Company acquired two licences to investigate Underground Coal Gasification along the UK East coast near to our conventional assets. This exciting technology has the potential to release up to 80% of the energy contained in the coal and can be made virtually carbon neutral. Again, the Company will be examining its commercial options during 2011.

Operating performance for the year has been impacted by the £1 million impairment write-down and £1 million exploration write-off. This arose from the decision to write-down the carrying value of the Crosby Warren field and write-off exploration costs incurred primarily in Egypt. At Crosby Warren, the relatively low incremental production that the CW2 well has produced since its drilling in 2007 has been a disappointment. Despite several attempts to stimulate the well it has continued to underperform and for this reason the board decided to take the write down. The venture into Egypt was a higher risk/reward play than our other investments. Though we saw some potential, ultimately lack of time, resources and influence within the Egyptian General Petroleum Corporation (EGPC) meant that Europa was unwilling to enter the second phase of the concession and we relinquished the licence. I believe that the exiting of Egypt is a positive step for Europa as it ensures a better focus on the assets in UK, France and Romania.

The lower than expected production and cost of the well workovers put a strain on our cash resources and caused a degree of uncertainty over our ability to fund the 2011 work programme. It was therefore signalled in the Preliminary announcement of the 2010 results that an "Emphasis of Matter — going concern" comment may be included in the auditors' report of this 2010 Annual Report and Accounts. Since the end of the reporting period, the Group raised a further £1.45 million through a share placing. This additional funding gives more confidence in our ability to fund the 2011 programme and removes the need for the "Emphasis of Matter" comment. The directors believe that the Group will remain a going concern for the foreseeable future.

It should be noted that the 2011 appraisal drilling on Voitinel is expected to be funded from future cash flows — but that will be contingent on the increased production anticipated from the West Firsby development well. If that well is not successful then the Company would need to seek alternative funding for Voitinel which could include another issue of equity, or the trading of assets.

Based on the quality of our producing reserves and contingent resources, the directors consider that the future for Europa is very positive.

In April, Sir Michael Oliver retired as Chairman. Dr Erika Syba, co-founder of the Company, resigned as Operations Director with effect from the end of August 2010. I thank both of them for their contributions to the Company and wish them well in their future endeavours.



Bill Adamson
Chairman

Delivering On Our Objectives

For 2011, Europa plans to move ahead on several fronts:

- * Increasing production from the UK onshore through further drilling.
- * Maturing the Voitinel discovery to development status by drilling up to 2 appraisal wells.
- * Planning a high impact exploration/appraisal well on Berenx.
- * Securing further assets through a focused new venture strategy in Europa's core areas.



Voitinel-1 drilling.

Operational Review

UK



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

Production

West Firby and Crosby Warren (100%), Whisby-4 (65%)

The Company holds interests in three producing oilfields in the East Midlands. The main operating base is at the West Firby Field, 15 km north of Lincoln. The production is tankered by road to the refinery at Immingham in North East Lincolnshire. Current 2P reserves are 1.4 mmbbl, having recently been increased due to the identification of additional Zone 1 reserves at West Firby. This resulted from a thorough review of the seismic and well data to calculate revised oil-in-place figures and a detailed review of production history to conclude that significant oil remains in the upper Zone 1 reservoir.

West Firby produces from two wells on a jet pump system at combined rates of up to 105bopd. A programme of site improvements and production optimisation is nearing completion and a new Zone 1 production well is expected to be drilled in late 2010.

At Crosby Warren, in the grounds of the Scunthorpe steelworks, the two production wells operate on traditional beam pumps or nodding donkeys, producing up to 40bopd. All producing and exploration assets are tested annually for possible impairment. In the case of Crosby Warren, the CW2 well, drilled in 2007 has continued to produce relatively small quantities of oil. This led to an overall carrying value for the site which was not supported by the expected future cash flows from existing oil production. As a result, the board took the decision to write-down the book value of the Crosby Warren site from £2,694,000 to £1,682,000, an impairment charge in the Statement of Comprehensive Income of £1,012,000.

At Whisby, just to the west of Lincoln, a well drilled by Europa in early 2003 remains on steady production, currently producing around 88bopd gross (55 bopd net to Europa) on beam pump.

Exploration

NE Lincolnshire (PEDL 180/181 – 50%), Lincoln area (PEDL 150 – 75%), Dorking area (PEDL 143 – 40%)

Europa operates a number of exploration licences in the UK, some with 'ready-to-drill' prospects.

In NE Lincolnshire, PEDL180 and PEDL181 licences contain two prospective areas: the Wressle Prospect and the Caister Horst. The seismic database over these two areas, comprising a mixed 2D/3D vintage dataset, has been reprocessed and work is ongoing to develop drilling locations. Prospect size is in the region of 5 to 8 mmbbl recoverable.

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

The PEDL222 licence (50%), situated to the north of the Whisby Field, does not contain any prospects large enough to warrant drilling. The modest investment to date has been written off and for the remainder of the licence term Europa will assume operatorship to assess resource potential.

In PEDL143 in the Weald Basin, Europa and its partners continue to work to securing planning permission to drill the Holmwood-1 exploration well, south of Dorking. It is hoped permission will be granted late in 2010.

UK continued

Unconventional Resources

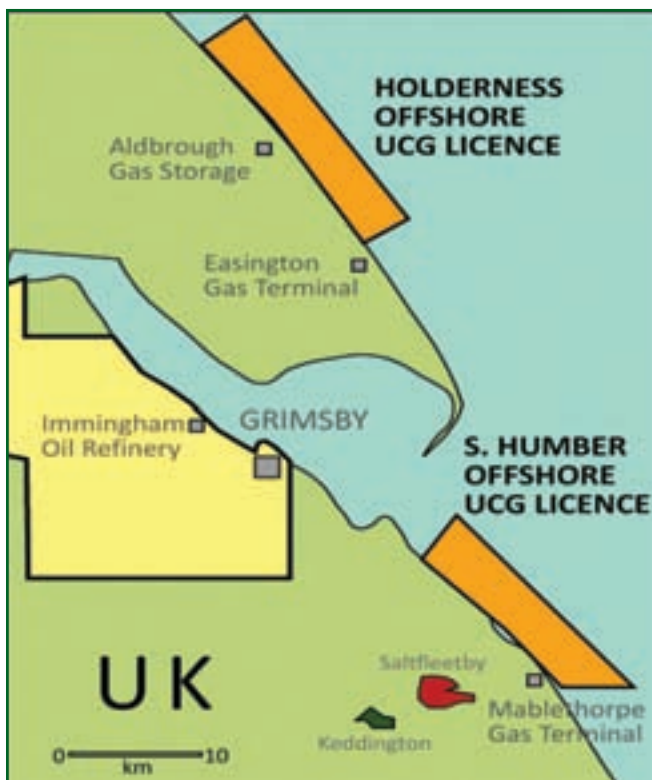
Underground Coal Gasification and Shale Gas

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

Underground Coal Gasification (UCG) is a developing technology that recovers up to 80% of the calorific value of in situ coal by a process of controlled combustion. UCG, when combined with CO₂ storage in the depleted coal seams, creates a source of energy which rivals nuclear for low emissions and has lower unit costs than conventional gas-fired power stations.

With only 30% utilisation rate for the coals, the estimated potential UCG energy resource in these two licence areas is 36x10¹⁵ Joules or 6 billion barrels of oil equivalent.

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



UCG Licence map.

France



Europa holds two exclusive licences in the Aquitaine Basin, adjacent to the world-class Lacq-Meillon gas developments.

Appraisal

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

The main focus for Europa is the appraisal of the Berenx gas wells, where a high pressure high temperature well encountered 500m of gross gas shows and mud gas kicks in similar reservoir to the nearby STCF Lacq Field. In mid-2010, Europa took delivery of a reprocessed 3D seismic dataset covering the area between Berenx and Lacq. The initial mapping indicates that the Berenx wells were drilled on the western edge of a sizeable structure which could reservoir in excess of 1 trillion cubic feet of recoverable gas reserve. The proximity (20 km) to the Lacq Field creates a straightforward export route, allowing the gas to be processed in an existing facility with spare capacity.

The forward programme is for detailed mapping of the structure by experienced Aquitaine geoscientists followed by securing joint venture partner(s) for the drilling of an appraisal well for 2011/2012.

Field Redevelopment and associated Exploration

Tarbes Val d'Adour Licence (100%)

This licence contains several oil accumulations, previously produced by Elf but abandoned in 1985 in times of low oil price. Europa commissioned the French Geological Survey to map the potential field redevelopment area of Osmets and Jacque from a reprocessed 2D data set and this work is now complete.

It is hoped that, with a partner, a redevelopment well can be drilled on one of these fields in 2011.

Operational Review continued

Romania



Europa holds interests in four Romanian exploration licences, with non-operated working interests varying from 17.5% to 28.75%. The work programme is moving to a phase of appraisal of a 2009 gas discovery and exploration in the oil play.

Appraisal

The Voitineli Discovery (EPI-1 Brodina Licence — 28.75%)

The 2009 Voitineli-1 exploration well encountered gas in two sandstone intervals at around 1400m and 1650m depth. The deeper of these tested dry gas at flow rates of 3mmscf/d, but appeared to be close to a reservoir boundary, limiting the ability to maintain flow for long periods. A fracture stimulation was undertaken which increased the volume of gas accessed by the well. The Operator, Aurelian, has assessed that approximately 6bcf will be producible from each conventional vertical well in this reservoir.

The Voitineli well was drilled close to the northern edge of the structural trend. However, the play extends far to the south of the well, having been proven by recent wells drilled by Romgaz at Paltinu. One well sustained gas flow rates of 5mmscf/d for one week, indicating that the reservoir in the southern part of the play could be better quality than in the discovery well.

The current resource estimates for the 'Greater Voitineli' play, including the yet undrilled Solca structure, is that up to 290bcf is recoverable (84 bcf net) from gross gas-in-place of 415bcf. It is anticipated that two appraisal wells will be drilled in 2011.

Exploration

The Carpathian Thrust Belt Oil Play

The exploration strategy in the Romanian portfolio is moving away from the small shallow gas play in the eastern part of the licences to explore in the thrust belt oil play that is developed in the western part of all four of Europa's Romanian licences. The US Geological Survey estimates mean undiscovered potential reserves of over 2.9 billion barrels equivalent in the play and Europa's first well targeting this play — Barchiz — is due to be spudded in October 2010.

Barchiz (20%) is situated in the Brates Licence, immediately north of and along trend from the Geamana oilfield (50mmbo reserves). It is a relatively shallow target with a depth of 1,400m and potential for up to 30mmbo gross reserves. A further highly prospective area in the same licence, underneath the existing Tazlaul Mare gas condensate field, is anticipated to be matured for drilling in 2011/12.

In 2010, new seismic data acquisition was undertaken in three of Europa's four licences and the results from this work will drive the exploration activity into 2011 and beyond.



Putna monastery near Voitineli.

Other Areas

Egypt

In December 2009, the Company relinquished its interest in the West Darag concession, onshore Egypt. The decision, driven by the lack of identified drill-ready prospects needed to commit to phase 2 of the concession, resulted in a write-off of the £738,000 investment in Egypt.

Western Sahara (100%)

Tindouf Basin and Aaiun Basin Licences

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

As these licence areas remained in force majeure throughout the year, the board decided to write-down the intangible asset to nil value. Though the investment has been written down, Europa retains its 100% interest in the two blocks.

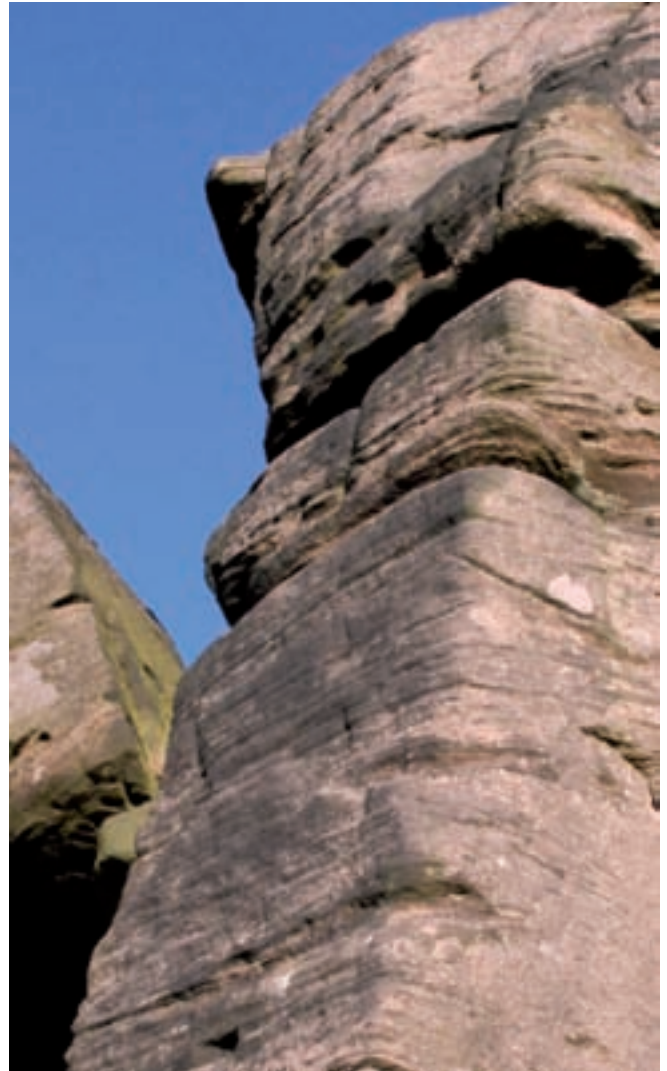
Conclusion

The Company's broad asset base in the EU is a perfect platform for growth — two projects with Company-making potential will lift off in 2011 and the management intend to additionally develop a strong exploration-focused new venture strategy to take the Company to the next level.

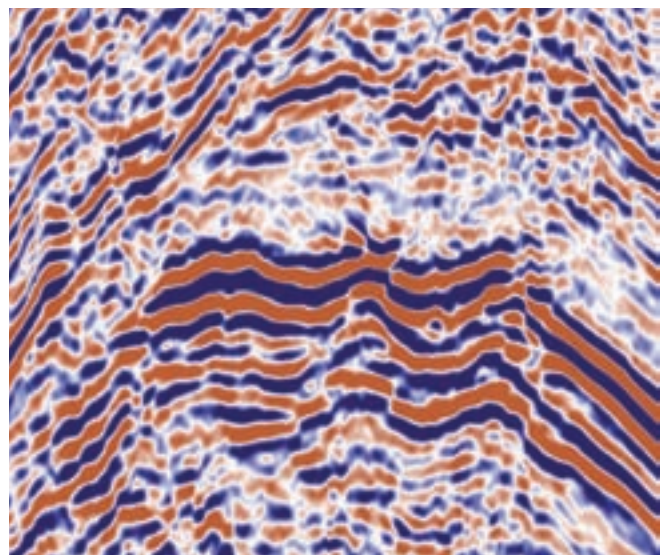


Paul Barrett

Managing Director



Outcrop analogue for East Midlands reservoirs.



Seismic image for Voitinel play.

Financial Review

Results for the year

Group revenue for the year to 31 July 2010 was £3,091,000 (2009: £2,936,000).

The increase in revenue arose from higher crude oil prices, the average price per barrel achieved in the year being \$73.95 (2009: \$62.30). Oil produced and sold during the year amounted to 64,968 barrels or 178bopd (2009: 77,743 barrels or 213bopd). West Firsby production was down by 7,748 barrels due to the June 09 fire and the need to work-over the WF6. Crosby Warren was down by 2,854 barrels as the CW2 well was shut in for the full year. This well has since been worked over and is now back on part time production. Europa's share of revenue from Whisby was down 2,173 barrels as the well followed a normal decline curve. Work is now largely completed at both West Firsby and Crosby Warren sites and average daily production is currently around 200bopd.

The selling price for Europa's UK production is contracted at a small discount to Brent crude price. Average price achieved in the year to 31 July 2010 was \$73.95 per barrel (2009: \$62.30).

A stronger US Dollar in the year to 31 July 2010 meant that some of the reduced Dollar revenue was recovered as the sales were translated to Sterling at an average rate of \$1.5584 (2009: \$1.6533).

The Crosby Warren field sells a very small quantity of gas to the nearby Corus steelworks.

Costs of exploration in Egypt were written off as the licence was relinquished. Costs of exploration in Western Sahara and in the UK PEDL222 block were written down as there are no short-term prospects for drilling. In total, a charge of £1,008,000 was recorded. Furthermore, as a result of an impairment test, the book value of the Crosby Warren site was written down by £1,012,000.

Other cost of sales were higher due to well workovers at Crosby Warren and West Firsby.

Including the exploration write-offs and impairment charge, pre tax loss for the 2010 year was £1,699,000 (2009: profit £376,000).

Taxation

The total tax charge (current and deferred) for the year was £263,000 (2009: £356,000).

Profit after tax

The results for 2010 show a loss after taxation of £1,962,000 (2009: profit £20,000).

Discontinued operations

The anticipated sale of the remaining Ukraine asset has not completed. As it is not material to the Group, the cost of maintaining the asset has been included in Administrative Expenses and the comparative periods have been re-presented for consistency.

Cash flow

Net cash generated from operations was £1,620,000 (2009: £1,591,000). Net cash used in investing activities was higher at £3,297,000 (2009: £1,121,000) and included the Voitinel and Hykeham wells. Net cash from financing activities was higher at £2,083,000 (2009: £277,000) as a result of two share placings which raised a total of £2,653,000 of cash net of broker commission. The net overdraft at the end of the year was £475,000 (2009: £292,000).

Financial risk

Europa's activities are subject to a range of financial risks including commodity prices, liquidity within the business and of counterparties, exchange rates and loss of operational equipment or wells. These risks are managed through ongoing review taking into account the operational, business and economic circumstances at that time.

Commodity price and currency

The board has considered the use of financial instruments to hedge oil price and US Dollar exchange rate movements. To date, the board has not hedged against price or exchange rate movements, but intends to regularly review this policy.

Sales revenue is generated primarily in US Dollars and these funds are matched where possible against expenditures within the business. However, most capital and operating expenditures are Euro and Sterling denominated which results in a currency exposure. US Dollar receipts have been used to purchase Euros and Sterling.

Liquidity

Detailed cash forecasts are prepared frequently and reviewed by management and the board.

The Group's production provides a monthly inflow of cash and is the main source of working capital and project finance. Additional cash is available from a £1 million multi-currency facility and a £1 million term loan provided by Europa's bankers. The principal interest rate risk for the Group is the interest charge arising from utilisation of this facility.

On 10 September 2009 the Company issued 12,500,000 shares at 14p, raising £1,693,000 net of broker commission. On 26 April 2010 and 4 May 2010 the Company issued a further 3,892,857 and 3,250,000 shares respectively at 14p, raising in total £943,000 net of broker commission.

In connection with the April and May issue of new shares, the Company granted 357,142 options at 14p to Astaire Securities plc. The shares are exercisable at any time up to 26 April 2012.

On 14 October 2010, after the reporting date for these accounts, the Company issued 13,360,810 shares at 11.5p raising a further £1,452,000 net of broker commission.

In 2005, the Company issued 39,999,998 ordinary shares of 1p at a nil premium in exchange for the entire shareholding of Europa Oil & Gas Limited. This gave rise to the merger reserve at 31 July 2010 of £2,868,000 (2009: £2,868,000).

Exploration, drilling and operational risk

The business of exploration and production of oil and gas involves a high degree of risk. Few properties that are explored are ultimately developed into producing oil and gas fields.

Significant expenditure is required to establish the extent of oil and gas reserves through seismic surveys and drilling and there can be no certainty that oil and gas reserves will be found. The exploration and development of oil and gas assets may be curtailed, delayed or cancelled by unusual or unexpected geological formation pressures, oceanographic conditions, hazardous weather conditions or other factors.

There are numerous risks inherent in drilling and operating wells, many of which are beyond the Company's control. The Group's operations may be curtailed, delayed or cancelled as a result of environmental hazards, industrial accidents, occupational and health hazards, technical failures, shortage or delays in the delivery of rigs and/or other equipment, labour disputes and compliance with governmental requirements.

Drilling may involve unprofitable efforts, not only with respect to dry wells, but also to wells which, though yielding some oil or gas, are not sufficiently productive to justify commercial development. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs.

Appropriate insurance cover is obtained annually for all of Europa's exploration, development and production activities.

Accounting policies

The Group has not made any material changes to its accounting policies in the year to 31 July 2010.



Phil Greenhalgh
Finance Director

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 July 2010.

Principal activities

The principal activity of the Group is investment in oil and gas exploration, development and production. The Group's assets and activities are located in the United Kingdom, France and Romania. The board has considered and will continue to consider investments in Europe.

Business review

A detailed review of the Group's business and prospects is set out in the Chairman's statement and Operational review. The Financial review and Corporate governance statement detail the risks to which the Group is exposed and how these risks are managed with the oversight of the board and the Audit Committee. The directors consider that the combination of production and exploration activities is a key strength of the Group. All activities are closely managed from the head office.

Results for the year and dividends

The Group loss for the year after taxation was £1,962,000 (2009 profit: £20,000). The directors do not recommend the payment of a dividend (2009: £nil).

Policy and practice on payment of suppliers

The Group's policy on payment of suppliers is to settle amounts due on a timely basis taking into account the credit period given. At 31 July 2010, the Group had 65 days of purchases outstanding (2009: 47 days) and the Company had 16 days of purchases outstanding (2009: 83 days).

Directors and their interests

On 8 April 2010, JMY Oliver resigned from the board and W Adamson was appointed. ES Syba resigned from the board with an effective date of 31 August 2010.

The directors' interests in the share capital of the Company at 31 July were:

	Number of ordinary shares		Number of ordinary share options	
	2010	2009	2010	2009
CW Ahlefeldt-Laurvig ¹	25,002,442	23,252,442	—	—
PA Barrett & ES Syba ²	17,655,071	16,832,929	—	—
RJHM Corrie ³	37,500	37,500	500,000	500,000
P Greenhalgh	250,000	100,000	1,875,000	1,250,000
JMY Oliver	—	—	—	200,000
W Adamson	50,000	—	250,000	—

¹ CW Ahlefeldt-Laurvig holds shares through HSBC Global Custody Nominee (UK) Limited.

² PA Barrett is the registered owner of 6,967,044 shares and the beneficial owner of 1,831,399 shares held in a self invested personal pension (SIPP). ES Syba is the registered owner of 7,623,732 shares and the beneficial owner of 1,232,896 shares held in a SIPP. As they are married to each other, the holding of the other, is deemed to be part of their own.

³ RJHM Corrie's wife has a 50% interest in R.T. Property Investments Limited which owns 50,000 shares and Corrie Limited, of which Mr Corrie is a director, owns 12,500 shares.

Share options are exercisable: one third after 18 months, a further third after 30 months and the balance after 42 months, from the date of grant. W Adamson was granted options on 17 April 2010 which are exercisable at 14 pence per share. RJHM Corrie and P Greenhalgh were granted 500,000 and 1,250,000 options respectively on 8 May 2008 exercisable at 20 pence per share. P Greenhalgh was granted a further 625,000 options on 23 October 2009 exercisable at 16 pence per share..

Director’s interests in transactions

No director had, during the year or at the end of the year, other than disclosed below, a material interest in any contract in relation to the Group’s activities except in respect of service agreements.

In 2009, CW Ahlefeldt-Laurvig provided services as a petroleum engineer on a consultancy basis at a cost of £2,000. No such services were provided in 2010.

Subject to the conditions set out in the Companies Act 2006, the Company has arranged appropriate Directors’ and Officers’ insurance to indemnify the directors against liability in respect of proceedings brought by third parties. Such provisions remain in force at the date of this report.

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 directors took the opportunity to raise £1,693,000 of new equity financing in September 2009, and a further £943,000 in April 2010 — both figures net of broker commission. On 14 October 2010, after the reporting date of these accounts, the directors raised a further £1,452,000 net of broker commission. The directors consider that the capital structure is appropriate for the current needs of the Group. Furthermore, after making enquiries, the directors have formed a judgement at the time of approving the financial statements that the additional capital raised on 14 October 2010 alongside the Group’s current forecast cash generation enables the Group to remain a going concern for the foreseeable future. This is based on correspondence with the Group’s bankers, the performance of its existing oil production, and the spread of its prospective resources.

The funding of the 2011 work programme and specifically the appraisal drilling on Voitinell is expected to be funded from future cash flows — but that will be contingent on the increased production anticipated from the West Firsby development well. If that well is not successful then the Company would need to seek alternative funding for Voitinell which could include another issue of equity, bank funding or the trading of assets.

Further details on the Group’s capital structure are included in Notes 22 and 26.

Accounting policies

A full list of accounting policies is set out in Note 1 to the financial statements.

Disclosure of information to the auditors

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

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

Auditors

A resolution to reappoint the auditors, BDO LLP will be proposed at the next Annual General Meeting.

On behalf of the board 25 October 2010



P Greenhalgh
Finance Director

Statement of Directors' Responsibilities

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 prepared the Group and have elected 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 Group and Company and of the profit or loss of the Group 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; and
- 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.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Corporate Governance Statement

The Combined Code on Corporate Governance as issued by the Financial Reporting Council is not mandatory for companies on AIM; however, the directors support the principles and are applying the requirements where they are considered appropriate to the size and nature of the Group. Where practice differs from the Code, the board will explain to shareholders why it considers it is in the Group's best interest not to have applied the Code. The board will consider on a regular basis changes to those areas in which there is not full compliance.

The board

The board consists of three non-executive and two executive directors.

The role of chairman is held by a non-executive and the role of Managing Director is held by an executive director. This creates a clear distinction and division of responsibilities at the head of the Group.

The board is responsible to the shareholders of the Company for all significant financial and operational issues which include strategy, reviewing and approving budgets, ensuring adequate cash resources, approval of capital expenditure and acquisition and divestment opportunities. Matters for consideration at formal meetings are clearly laid out. A record is kept of proceedings and any decisions taken.

Each director retires and stands for re-election by shareholders at least once every three years. All directors are subject to election by shareholders at the first opportunity following their appointment.

All directors have full access to management and employees, the Company Secretary and independent professional advice in order to execute their duties.

During the year, the board held 11 meetings (2009: nine). All directors were able to attend other than RJHM Corrie on two occasions. JMY Oliver attended the seven meetings up until his resignation and W Adamson attended the four meetings following his appointment. The board intends to meet at least six times a year.

The non-executive directors hold, either directly or through beneficial interest, ordinary shares and options. The Company believes that this serves to align non-executives with shareholders and does not adversely affect their independence.

Remuneration Committee

The Remuneration Committee consists of the three non-executive directors and is chaired by W Adamson. This committee aims to meet at least twice a year. It is responsible for establishing and developing the Group's policy on director and senior management remuneration and contracts.

The board as a whole decides on the remuneration and contracts of the non-executive directors.

No director is involved in deciding their own remuneration.

Nomination Committee

The directors do not consider it appropriate to appoint a Nomination Committee given the size of the Group. The need for a Nomination Committee will be kept under regular review by the board.

Audit Committee

The Audit Committee consists of the three non executive directors and is chaired by RJHM Corrie who took over the role from CW Ahlefeldt-Laurvig at the end of the year. The committee aims to meet three times a year. The Group's auditors and executive directors attend meetings by invitation. For at least one meeting, or part thereof, the committee meets the auditors without executive board members present.

The Audit Committee is responsible for reviewing the annual and interim accounts, annual audit, accounting policies, internal control and compliance procedures, and decision making processes, particularly with regard to the management of risk.

During the year the committee considered the need for an internal audit function. Given the nature and current size of the Group, it is not considered appropriate to have a dedicated internal audit function.

Internal control

The directors are responsible for the process and system of internal controls and reviewing their effectiveness. The process and system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Internal controls along with business risks were monitored during the course of the year.

Communication with shareholders

The Company provides information to shareholders about the Group's activities in the annual report and accounts and the interim report. This is complemented with information available through regulatory announcements of the London Stock Exchange and the Company's website at www.europaoil.com. Shareholders may register on the website to receive news releases issued by the Group directly to their email. Shareholders are encouraged to attend the Annual General Meeting at which directors are introduced and available for questions.

Report of the Independent Auditors

Independent auditors' report to the members of Europa Oil & Gas (Holdings) plc

We have audited the financial statements of Europa Oil & Gas (Holdings) plc for the year ended 31 July 2010 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Company Statement of Financial Position, the Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Statement of Cash Flows, and the related Notes 1 to 26. The financial reporting framework that has been applied in the preparation of both the Group financial statements and the parent Company financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 July 2010 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Group financial statements have been prepared in accordance with the requirements of the Companies Act 2006;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions 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.

Matters on which we are required to report by exception

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

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

BDO LLP

Anne Sayers, Senior Statutory Auditor

For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
25 October 2010

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

Consolidated Statement of Comprehensive Income

for the year ended 31 July 2010

	Note	2010 £000	2009 £000
Revenue	2	3,091	2,936
Other cost of sales		(1,836)	(1,694)
Exploration write-off	11	(1,008)	(297)
Impairment of producing fields	12	(1,012)	—
Total cost of sales		(3,856)	(1,991)
Gross (loss)/profit		(765)	945
Administrative expenses		(709)	(545)
Finance income	7	37	224
Finance expense	8	(262)	(248)
(Loss)/profit before taxation	3	(1,699)	376
Taxation	9	(263)	(356)
(Loss)/profit for the year attributable to the equity shareholders of the parent	10	(1,962)	20
Other comprehensive income			
Exchange gains arising on translation of foreign operations		56	373
Total comprehensive (loss)/income for the period attributable to the equity shareholders of the parent		(1,906)	393

	Note	Pence per share	Pence per share
(Loss)/earnings per share (eps) attributable to the equity shareholders of the parent			
Basic eps	10	(2.60)p	0.03p
Diluted eps	10	(2.60)p	0.03p

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

as at 31 July 2010

	Note	2010 £000	2009 £000
Assets			
Non-current assets			
Intangible assets	11	9,751	7,473
Property, plant and equipment	12	4,504	5,554
Total non-current assets		14,255	13,027
Current assets			
Inventories	14	38	15
Trade and other receivables	15	587	469
Current tax asset		335	—
Cash and cash equivalents		4	4
Total current assets		964	488
Total assets		15,219	13,515
Liabilities			
Current liabilities			
Trade and other payables	16	(1,797)	(900)
Current tax liabilities		(2)	(588)
Derivative	16	(55)	(40)
Short-term borrowings	17	(900)	(767)
Total current liabilities		(2,754)	(2,295)
Non-current liabilities			
Long-term borrowings	17	(352)	(772)
Deferred tax liabilities	18	(3,240)	(2,651)
Long-term provisions	19	(1,395)	(1,137)
Total non-current liabilities		(4,987)	(4,560)
Total liabilities		(7,741)	(6,855)
Net assets		7,478	6,660
Capital and reserves attributable to equity holders of the parent			
Share capital	20	822	626
Share premium	20	7,132	4,692
Merger reserve	20	2,868	2,868
Foreign exchange reserve	20	408	352
Retained deficit	20	(3,752)	(1,878)
Total equity		7,478	6,660

These financial statements were approved by the board of directors and authorised for issue on 25 October 2010 and signed on its behalf by:



P Greenhalgh
Finance Director

Company registration number 5217946

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 July 2010

	Attributable to the equity holders of the parent					
	Share capital	Share premium	Merger reserve	Foreign exchange reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000
Balance at 1 August 2008	626	4,692	2,868	(21)	(1,994)	6,171
Total comprehensive income for the year	—	—	—	373	20	393
Share based payment	—	—	—	—	96	96
Balance at 31 July 2009	626	4,692	2,868	352	(1,878)	6,660

	Share capital	Share premium	Merger reserve	Foreign exchange reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000
	Balance at 1 August 2009	626	4,692	2,868	352	(1,878)
Total comprehensive income/(loss) for the year	—	—	—	56	(1,962)	(1,906)
Share based payment	—	—	—	—	88	88
Issue of share capital (net of issue costs)	196	2,440	—	—	—	2,636
Balance at 31 July 2010	822	7,132	2,868	408	(3,752)	7,478

The accompanying notes form part of these financial statements.

Company Statement of Financial Position

as at 31 July 2010

	Note	2010 £000	2009 £000
Assets			
Non-current assets			
Property, plant and equipment	12	382	384
Investments	13	3,312	3,312
Loans to Group companies	15	7,217	3,976
Total non-current assets		10,911	7,672
Current assets			
Other receivables	15	49	19
Cash and cash equivalents		21	297
Total current assets		70	316
Total assets		10,981	7,988
Liabilities			
Current liabilities			
Trade and other payables	16	(461)	(100)
Current tax liabilities		—	—
Derivative	16	(55)	(40)
Short-term borrowing	17	(21)	(20)
Total current liabilities		(537)	(160)
Non-current liabilities			
Long-term borrowings	17	(252)	(272)
Total non-current liabilities		(252)	(272)
Total liabilities		(789)	(432)
Net assets		10,192	7,556
Equity			
Share capital	20	822	626
Share premium	20	7,132	4,692
Merger reserve	20	2,868	2,868
Retained earnings	20	(630)	(630)
Total equity		10,192	7,556

These financial statements were approved by the board of directors and authorised for issue on 25 October 2010 and signed on their behalf by:



P Greenhalgh
Finance Director

Company registration number 5217946

The accompanying notes form part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31 July 2010

	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Total equity £000
Balance at 1 August 2008	626	4,692	2,868	(831)	7,355
Total comprehensive income for the year	—	—	—	105	105
Share based payment	—	—	—	96	96
Balance at 31 July 2009	626	4,692	2,868	(630)	7,556

	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Total equity £000
Balance at 1 August 2009	626	4,692	2,868	(630)	7,556
Total comprehensive loss for the year	—	—	—	(88)	(88)
Share based payment	—	—	—	88	88
Issue of share capital (net of issue costs)	196	2,440	—	—	2,636
Balance at 31 July 2010	822	7,132	2,868	(630)	10,192

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 July 2010

	Note	2010 £000	2009 £000
Cash flows from operating activities			
(Loss)/profit after tax		(1,962)	20
Adjustments for:			
Share based payments	21	73	96
Depreciation	12	498	576
Exploration write-off	11	1,008	297
Impairment of property, plant and equipment	12	1,012	—
Finance income	7	(37)	(224)
Finance expense	8	262	248
Taxation expense	9	263	356
(Increase)/decrease in trade and other receivables		(66)	187
(Increase)/decrease in inventories		(23)	1
Increase in trade and other payables		592	34
Cash generated from operations		1,620	1,591
Income taxes paid		(597)	(180)
Net cash from operating activities		1,023	1,411
Cash flows from investing activities			
Purchase of property, plant and equipment		(222)	(191)
Purchase of intangible assets		(3,075)	(930)
Net cash used in investing activities		(3,297)	(1,121)
Cash flows from financing activities			
Proceeds from issue of share capital (net of issue costs)		2,653	—
Proceeds from long-term borrowings		—	1,000
Repayment of borrowings		(469)	(585)
Finance costs		(101)	(138)
Net cash from financing activities		2,083	277
Net (decrease)/increase in cash and cash equivalents		(191)	567
Exchange gain on cash and cash equivalents		8	160
Cash and cash equivalents at beginning of year		(292)	(1,019)
Cash and cash equivalents at end of year		(475)	(292)
Cash and cash equivalents comprises:			
Cash		4	4
Multi-currency facility	17	(479)	(296)
Net cash and cash equivalents		(475)	(292)

The accompanying notes form part of these financial statements.

Company Statement of Cash Flows

for the year ended 31 July 2010

	Note	2010 £000	2009 £000
Cash flows from operating activities			
(Loss)/profit after tax		(88)	105
Adjustments for:			
Share based payments		88	86
Depreciation	12	18	34
Finance income		(168)	(320)
Finance expense		112	94
(Increase)/decrease in trade and other receivables		(39)	23
Increase in trade and other payables		360	17
Net cash from operating activities		283	39
Cash flows from investing activities			
Purchase of property, plant and equipment		(16)	(12)
Movement on loan to Group companies		(3,164)	656
Net cash (used in)/from investing activities		(3,180)	644
Cash flows from financing activities			
Proceeds from issue of share capital (net of issue costs)		2,653	—
Repayment of borrowings		(19)	(535)
Finance costs		(26)	(79)
Net cash from/(used in) financing activities		2,608	(614)
Net (decrease)/increase in cash and cash equivalents		(289)	69
Exchange gain on cash and cash equivalents		13	97
Cash and cash equivalents at beginning of year		297	131
Cash and cash equivalents at end of year		21	297

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

1 Accounting policies

General information

Europa Oil & Gas (Holdings) plc is a Company incorporated and domiciled in England and Wales with registered number 5217946. The address of the registered office is 11 The Chambers, Vineyard, Abingdon OX14 3PX. The Company's administrative office is at the same address.

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

Basis of accounting

The consolidated 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 2010.

Future changes in accounting standards

The IFRS financial information has been drawn up on the basis of accounting standards, interpretations and amendments effective at the beginning of the accounting period. The IASB and IFRIC have issued the following standards and interpretations:

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

The following were amendments to published standards and interpretations to existing standards effective in the year and adopted by the Group.

		Effective date (periods beginning on or after)
IAS 1	Amendment — Presentation of financial statements: a revised presentation	1 Jan 2009
IAS 23	Amendment — Borrowing costs	1 Jan 2009
IFRS 2	Amendment — Share based payment: vesting conditions and cancellations	1 Jan 2009
IFRS 7	Amendment — Improving Disclosures about Financial Instruments	1 Jan 2009
	Improvements to IFRSs (2009)	1 Jan 2009
IAS 27	Amendment — Consolidated and separate financial statements	1 July 2009
IFRS 3	Revised — Business combinations	1 July 2009

New Standards effective in the year relevant to the Group:

IFRS 8	Operating Segments	1 Jan 2009
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The adoption of IFRS 8 and the amendment to IAS 1 and IFRS 7 affected the presentation and disclosure of the financial statements. The amendment to IAS 23 and IFRS 2 did not have any financial effect in the year, however the accounting policies of the Group have been updated to reflect the required amendments. The revision to IFRS 3 would affect the presentation and disclosure of future business combinations completed in the period, the accounting policies have been updated to reflect the required change.

1 Accounting policies (continued)

Standards, interpretations and amendments to published standards effective in the year but which are not relevant to the Group:
International Accounting Standards (IAS/IFRS)

		Effective date (periods beginning on or after)
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 Oct 2008
IFRS 1 and IAS 27	Amendments — Cost of an Investment in a subsidiary, jointly controlled entity or associate	1 Jan 2009
IFRS 2	Amendment — Vesting conditions and cancellations	1 Jan 2009
IAS 32 and 1	Amendments — Puttable financial instruments and obligations arising on liquidation	1 Jan 2009
IFRIC 15	Agreements for the Construction of Real Estate	1 Jan 2009
IFRIC 9 and IAS 39	Amendments — Embedded derivatives	30 June 2009
IAS 39	Amendment — Recognition and measurement: Eligible hedged items	1 July 2009
IFRIC 17	Distributions of Non-cash assets to owners	1 July 2009
IFRIC 18	Transfers of assets from customers	1 July 2009
IFRS 1	First-time adoption of international accounting standards	1 July 2009

Standards, interpretations and amendments, which are effective for reporting periods beginning after the date of these financial statements:
International Accounting Standards (IAS/IFRS)

		Effective date (periods beginning r after)
IFRS 1	Additional exemptions for first-time adopters	1 Jan 2010
IFRS 2	Amendment — Group cash-settled share based payment transactions	1 Jan 2010
	Improvements to IFRSs (2009) generally	1 Jan 2010
IAS 32	Amendment — Classification of rights issues	1 Feb 2010
IFRIC 19*	Extinguishing financial liabilities with equity instruments	1 Apr 2010
IFRS 1	Amendment — first-time adopters of IFRS	1 July 2010
IAS 24	Revised — Related party disclosures	1 Jan 2011
IFRIC 14	Amendment to IFRIC 14 — IAS 19 Limit on a defined benefit asset	1 Jan 2011
	Minimum funding requirements and their interaction	
	Improvements to IFRSs (2010)* generally	1 Jan 2011
IFRS 9*	Financial instruments	1 Jan 2013

The above standards, interpretations and amendments will not significantly affect the Group's results or financial position. The adoption of IFRS 9 will eventually replace IAS 39 in its entirety and consequently may have a material effect on the presentation, classification, measurement and disclosures of the Group's financial instruments.

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

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its material subsidiary undertakings drawn up to 31 July 2010. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Notes to the Financial Statements continued

1 Accounting policies (continued)

Intra Group balances are eliminated on consolidation. Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. The Group is engaged in oil and gas exploration, development and production through unincorporated joint arrangements. The Group accounts for its share of the results and net assets of these joint arrangements — see below.

Going concern

After making enquiries, the directors have formed a judgement at the time of approving the financial statements that the additional capital raised on 14 October 2010 (Note 26) alongside the Group's current forecast cash generation enables the Group to remain a going concern for the foreseeable future. This is based on correspondence with the Group's bankers, the performance of its existing oil production, and the spread of its prospective resources.

The funding of the 2011 work programme and specifically the appraisal drilling on Voitinel is expected to be funded from future cash flows — but that will be contingent on the increased production anticipated from the West Firsby development well. If that well is not successful then the Company would need to seek alternative funding for Voitinel which could include another issue of equity, bank funding or the trading of assets.

Revenue recognition

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

Non-current assets

Oil and gas interests

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

Pre-production assets

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

Production assets

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

Impairment tests

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

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

Property, plant and equipment

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

1 Accounting policies (continued)

Non-current assets (continued)

Depreciation — production assets

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.

Furniture and computers are depreciated on a 25% per annum straight-line basis.

Leasehold buildings are depreciated on a 2% per annum straight-line basis.

Reserves

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

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

Future decommissioning costs

A provision for decommissioning is recognised in full at the point that the Group has an obligation to decommission an appraisal, development or producing well. A corresponding non-current asset (included within producing fields in Note 12) 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 interest expense.

Taxation

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

Deferred income taxes are calculated using the balance sheet liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group 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 Group are assessed for recognition as deferred tax assets.

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

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

Notes to the Financial Statements continued

1 Accounting policies (continued)

Foreign currency

The Group and Company prepare their 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 items or on translating 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 "Forex 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 (Holdings) plc is domiciled in the UK, which is its primary economic environment and the Company's functional currency is Sterling. The Group's current operations are based in the UK, Ukraine, Romania, France, and Western Sahara, and the functional currencies of the Group's entities 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 Group and Company in Sterling.

The Group 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 Group becomes a party to the contractual provisions of the instrument. The Group and Company classify financial assets into loans and receivables, which comprise trade and other receivables and cash and cash equivalents. The Group 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 Group 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 Group, 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 17.

1 Accounting policies (continued)

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

Fair value through profit or loss

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

Other financial liabilities

Include the following items:

Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the 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

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

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the statement of comprehensive income over the period of the lease. All other 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.

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

Defined contribution pension schemes

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

Inventories

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

Notes to the Financial Statements continued

1 Accounting policies (continued)

Joint arrangements

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

Share based payments

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

All equity-settled share based payments are ultimately recognised as an expense in the 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 Group's significant accounting judgements and critical accounting estimates are set out in these financial statements and include:

Accounting judgements:

- Discontinued operations (Note 6)
- Carrying value of intangible assets (Note 11)

Accounting estimates:

- Carrying value of property, plant and equipment (Note 12)
- Decommissioning provision (Note 19)
- Share based payments (Note 21)
- Financial instruments (Note 22)

2 Business segment analysis

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

The Group operated in four principal operating segments of business being the production and exploration activity in the United Kingdom, the exploration activity in Romania, the exploration activity in France and exploration activity in North Africa. Activities are reported to Management on this basis. The reporting on these investments to Management focuses on revenue, operating costs and capital expenditure. The impact of such criteria is discussed further in the Chairman's Statement, Operational Review and Financial Review of this annual report.

Segmental statement of comprehensive income for the year ended 31 July 2010

	UK £000	Romania £000	France £000	North Africa £000	Total £000
Continuing operations					
Revenue	3,091	—	—	—	3,091
Other cost of sales	(1,836)	—	—	—	(1,836)
Exploration write-off	(87)	—	—	(921)	(1,008)
Impairment of producing fields	(1,012)	—	—	—	(1,012)
Cost of sales	(2,935)	—	—	(921)	(3,856)
Gross profit/(loss)	156	—	—	(921)	(765)
Administrative expenses	(642)	(35)	—	(32)	(709)
Finance income	37	—	—	—	37
Finance costs	(245)	(17)	—	—	(262)
Loss before tax	(694)	(52)	—	(953)	(1,699)
Taxation	(263)	—	—	—	(263)
Loss for the year	(957)	(52)	—	(953)	(1,962)

Segmental statement of financial position as at 31 July 2010

	UK £000	Romania £000	France £000	North Africa £000	Total £000
Total non-current assets	6,756	7,191	308	—	14,255
Total current assets	757	207	—	—	964
Total assets	7,513	7,398	308	—	15,219
Total non-current liabilities	(4,521)	(466)	—	—	(4,987)
Total current liabilities	(2,754)	—	—	—	(2,754)
Total liabilities	(7,275)	(466)	—	—	(7,741)
Other segment items					
Capital expenditure	1,896	987	169	245	3,297
Depreciation	498	—	—	—	498
Share based payments	93	—	—	(5)	88

Notes to the Financial Statements continued

2 Business segment analysis (continued)

Segmental statement of comprehensive income for the year ended 31 July 2009

	UK £000	Romania £000	France £000	North Africa £000	Total £000
Continuing operations					
Revenue	2,936	—	—	—	2,936
Other cost of sales	(1,694)	—	—	—	(1,694)
Exploration write-off	(297)	—	—	—	(297)
Cost of sales	(1,991)	—	—	—	(1,991)
Gross profit	945	—	—	—	945
Administrative expenses	(450)	(79)	—	(16)	(545)
Finance income	213	11	—	—	224
Finance costs	(232)	(16)	—	—	(248)
Profit/(loss) before tax	476	(84)	—	(16)	376
Taxation	(356)	—	—	—	(356)
Profit/(loss) for the year	120	(84)	—	(16)	20

Segmental statement of financial position as at 31 July 2009

	UK £000	Romania £000	France £000	North Africa £000	Total £000
Total non-current assets	6,408	5,941	139	539	13,027
Total current assets	292	196	—	—	488
Total assets	6,700	6,137	139	539	13,515
Total non-current liabilities	(4,560)	—	—	—	(4,560)
Total current liabilities	(2,123)	(172)	—	—	(2,295)
Total liabilities	(6,683)	(172)	—	—	(6,855)
Other segment items					
Capital expenditure	652	(227)	91	146	662
Depreciation	576	—	—	—	576
Share based payments	88	—	—	8	96

100% (2009: 100%) of the total revenue relates to UK based customers. Of this figure, one single customer (2009: one) commands more than 10% of the total.

In Romania a 2008 creditor balance was written off in 2009 causing a reduction in intangible assets.

3 Profit for the year is stated after charging:

Profit from continuing operations:

	Note	2010 £000	2009 £000
Depreciation		498	576
Staff costs including directors	5	920	764
Exploration write-off	11	1,008	297
Impairment of property, plant and equipment	12	1,012	—
Fees payable to the auditor for the Company audit		5	25
Fees payable to the auditor for the audit of subsidiaries		11	56
Operating leases		36	36

Fees payable to the auditor were over accrued in 2009 and the 2010 figure is net of a credit in the Company of £10,000 and in the subsidiary of £24,000.

The Company has taken advantage of the exemption provided under Section 408 of the Companies Act 2006 not to publish its individual statement of comprehensive income and related notes. The loss dealt with in the financial statements of the parent Company is £88,000 (2009 profit: £105,000).

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

	2010 £000	2009 £000
W Adamson (from 8 April 2010)	13	—
CW Ahlefeldt-Laurvig	18	18
PA Barrett	125	123
RJHM Corrie	18	18
P Greenhalgh	109	111
JMY Oliver (to 8 April 2010)	12	18
ES Syba	233	73
	528	361
CW Ahlefeldt-Laurvig for service as petroleum engineer	—	2

ES Syba resigned from the Company effective 31 August 2010 and included in the above is an amount of £159,000 in compensation for loss of office. As a result, ES Syba was the highest paid director in the year with total salary plus pension of £244,000 (2009: highest paid director received salary and pension of £142,000).

Directors' pensions

	2010 £000	2009 £000
PA Barrett	19	19
P Greenhalgh	16	16
ES Syba	11	11
	46	46

The above charge represents premiums paid to money purchase pension plans during the year.

Notes to the Financial Statements continued

4 Directors' emoluments (continued)

Directors' share based payments

	2010	2009
	£000	£000
W Adamson	3	—
RJHM Corrie	15	25
P Greenhalgh	54	61
	72	86

The above represents the accounting charge in respect of stock options with vesting periods during the year. No share options were exercised during the period (2009: none).

5 Employee information

Average number of employees including directors

	2010	2009
	Number	Number
Management and technical	10	13
Field exploration and production	13	15
	23	28

Figures include average of 12 staff (2009: 15) based in Ukraine terminated in 2010.

Staff costs

	2010	2009
	£000	£000
Wages and salaries	694	524
Employer's costs	87	78
Pensions	66	66
Share based payment	73	96
	920	764

Total staff costs for the Company were £729,000 (2009: £552,000).

6 Loss on disposal of investment and discontinued operations

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

7 Finance income

	2010 £000	2009 £000
Exchange rate gains	37	224

8 Finance expense

	2010 £000	2009 £000
Bank interest payable	85	88
Loan interest payable	6	19
Interest on tax payment	4	—
Unwinding of discount on decommissioning provision (Note 19)	85	79
Exchange rate losses	52	16
Bank charges	15	6
Interest rate swap fair value charge (Note 22)	15	40
	262	248

9 Taxation

	2010 £000	2009 £000
Current tax (credit)/charge	(326)	406
Deferred tax charge/(credit) (Note 18)	589	(50)
	263	356

UK corporation tax is calculated at 30% (2009: 30%) of the estimated assessable profit for the year. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

	2010 £000	2009 £000
(Loss)/profit on ordinary activities per the accounts	(1,699)	376
Tax reconciliation		
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2009: 30%)	(510)	113
Losses carried forward not recognised for deferred tax	866	68
Expenses not deductible for tax purposes	2	10
Supplementary taxation of Ring Fence profits	(102)	175
Adjustment re prior year	7	(10)
Total tax charge	263	356

Notes to the Financial Statements continued

10 Earnings per share

Basic earnings per share (EPS) has been calculated on the loss or profit after taxation divided by the weighted average number of shares in issue during the period. Diluted EPS uses an average number of shares adjusted to allow for the issue of shares, on the assumed conversion of all in the money options.

The Company's average share price for the year to 31 July 2010 was 14.6p resulting in a dilution of 26,020 shares.

The Company's average share price for the year to 31 July 2009 was lower than the exercise price of the share options in issue. Therefore the share options in issue had no dilutive effect and there is no difference between the basic and diluted earnings per share. Additional shares were issued subsequent to the year end, these are detailed in Note 26.

The calculation of the basic and diluted (loss)/earnings per share is based on the following:

	2010	2009
	£000	£000
(Losses)/earnings		
(Loss)/profit after tax	(1,962)	20
Weighted average number of shares		
for the purposes of basic eps	75,520,873	62,563,730
for the purposes of diluted eps	75,546,893	62,563,730

11 Intangible assets

	2010	2009
	£000	£000
At 1 August	7,473	7,241
Additions	3,286	529
Exploration write-off	(1,008)	(297)
At 31 July	9,751	7,473

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

	2010	2009
	£000	£000
Romania	7,191	5,874
Egypt	—	434
France	308	139
Western Sahara	—	105
UK PEDL143 (Holmwood)	186	177
UK PEDL150 (SW Lincoln)	1,904	588
UK PEDL180 (NE Lincs)	63	52
UK PEDL181	99	63
UK PEDL222 (Torksey area)	—	41
Total	9,751	7,473

11 Intangible assets (continued)

	2010	2009
	£000	£000
Exploration write-off		
Egypt	738	—
Western Sahara	184	—
UK PEDL222	55	—
UK PEDL180/181 pre licence costs	31	—
UK East Irish sea block 109/5	—	297
At 31 July	1,008	297

In December 2009, the Company relinquished its interest in the West Darag concession, onshore Egypt. The decision, driven by the lack of identified drill-ready prospects needed to commit to phase 2 of the concession, resulted in a write-off of the investment in Egypt.

As the licence areas in Western Sahara remained in force majeure throughout the year, the board decided to write-down the intangible asset to nil value.

With a lack of identified prospects in the PEDL222 concession, the board also decided to write down the investment to nil value.

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

12 Property, plant and equipment**Property, plant and equipment — Group**

	Furniture and computers £000	Leasehold building £000	Producing fields £000	Total £000
Cost				
At 1 August 2008	27	437	7,213	7,677
Additions	12	—	122	134
At 31 July 2009	39	437	7,335	7,811
Additions	16	—	444	460
At 31 July 2010	55	437	7,779	8,271
Depreciation and depletion				
At 1 August 2008	6	52	1,623	1,681
Charge for year	9	25	542	576
At 31 July 2009	15	77	2,165	2,257
Charge for year	10	8	480	498
Impairment	—	—	1,012	1,012
At 31 July 2010	25	85	3,657	3,767
Net book value				
At 31 July 2010	30	352	4,122	4,504
At 31 July 2009	24	360	5,170	5,554
At 31 July 2008	21	385	5,590	5,996

Notes to the Financial Statements continued

12 Property, plant and equipment (continued)

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

The carrying value of each producing field was tested for impairment. As a result, the board decided to write down the value of the Crosby Warren field by £1,012,000.

Property, plant and equipment — Company

	Furniture and computers £000	Leasehold building £000	Total £000
Cost			
At 1 August 2008	27	437	464
Additions	12	—	12
At 31 July 2009	39	437	476
Additions	16	—	16
At 31 July 2010	55	437	492
Depreciation			
At 1 August 2008	6	52	58
Charge for the year	9	25	34
At 31 July 2009	15	77	92
Charge for year	10	8	18
At 31 July 2010	25	85	110
Net book value			
At 31 July 2010	30	352	382
At 31 July 2009	24	360	384
At 31 July 2008	21	385	406

The leasehold building was depreciated at 2% (2009: 2%). An impairment of £17,000 was recorded to reflect loss in market value of the property in 2009. No such adjustment was required for 2010. The loss in value in 2009 was assessed by an expert familiar with the local property market and was charged to administrative expenses in the Statement of comprehensive income. The property loan of £273,000 (2009: £292,000) described in Note 17 is secured against this building.

13 Investments — Company

Investment in subsidiaries

	2010	2009
	£000	£000
At 1 August	3,312	3,303
Current year additions	—	9
31 July	3,312	3,312

The Company's investments at the reporting date in the share capital of unlisted companies include 100% of Europa Oil & Gas Limited (this company undertakes oil and gas exploration, development and production) and 100% of Europa Oil & Gas (West Firsby) Limited (this company is non-trading). These two companies are registered in England and Wales.

The results of the two companies have been included in the consolidated accounts. Europa Oil & Gas Limited owns 100% of the ordinary share capital of each of: Europa Oil & Gas Resources Limited (this UK company undertakes exploration in the area of underground coal gasification); Europa Oil & Gas SRL registered in Romania; Europa Nafta & Gas Ukraine registered in Ukraine and Malopolska Oil & Gas Company Sp.z.o.o., registered in Poland. The result of the Polish company has not been consolidated on the grounds that it is not material to the Group.

Additions to the cost of investments represents the net value of options over the shares of the Company issued to employees of subsidiary companies less any lapsed, unvested options.

14 Inventories — Group

	2010	2009
	£000	£000
Oil in tanks	38	15

15 Trade and other receivables

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Current trade and other receivables				
Trade receivables	232	164	—	—
Other receivables	276	220	18	2
Prepayments	79	85	31	17
	587	469	49	19
Non-current other receivables				
Owed by Group undertakings	—	—	7,217	3,976

Group other receivables includes a VAT debtor in Romania. Loans to subsidiaries are interest free and are repayable on demand but currently have no planned repayment date.

Notes to the Financial Statements continued

16 Trade and other payables

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Trade payables	1,214	455	215	62
Other payables	223	381	—	—
Accruals	360	64	246	38
	1,797	900	461	100
Interest rate swap	55	40	55	40

Group other payables includes advances received from partners on projects in UK. More information on the interest rate swap is included in Note 22.

17 Borrowings

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

The multi-option facility was replaced with a multi-currency facility in August 2010 which can be utilised in either Sterling or foreign currency via an overdraft. At 31 July 2010 this facility was drawn to £479,000 (2009: £297,000). On the new facility there were no guarantees outstanding (2009: £475,000). The facility is available until 31 October 2010 when both the multi-currency facility and term loan are expected to be renegotiated. The term loan is repayable in ten quarterly instalments. At 31 July 2010 it was drawn to £500,000 of which £400,000 was classified as short-term.

A loan of £273,000 (2009: £292,000) secured against the Abingdon property is repayable over 13 years.

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Loans repayable in less than 1 year				
Multi-currency facility	479	297	—	—
Term loan	400	450	—	—
Property loan	21	20	21	20
Total short-term borrowing	900	767	21	20
Loans repayable in 1 to 2 years				
Term loan	100	400	—	—
Property loan	21	21	21	21
Total loans repayable in 1 to 2 years	121	421	21	21
Loans repayable in 2 to 5 years				
Term loan	—	100	—	—
Property loan	66	65	66	65
Total loans repayable in 2 to 5 years	66	165	66	65
Loans repayable after 5 years				
Property loan	165	186	165	186
Total loans repayable after 5 years	165	186	165	186
Total long-term borrowing	352	772	252	272

18 Deferred tax — Group**Recognised deferred tax liability:**

	2010	2009
	£000	£000
As at 1 August	2,651	2,701
Charged/(credited) to statement of comprehensive income	589	(50)
At 31 July	3,240	2,651

The Group has a net deferred tax liability of £3,240,000 (2009: £2,651,000) arising from accelerated capital allowances.

Unrecognised deferred tax asset:

	2010	2009
	£000	£000
Accelerated capital allowances	(1,298)	(1,194)
Trading losses	2,500	1,845
Net deferred tax asset	1,202	651

The Group has a net deferred tax asset of £1,202,000 (2009: £651,000), which arises mainly in relation to overseas trading losses of £11.8 million and Holding Company losses of £0.5 million, that have not been recognised in the accounts as the timing of the utilisation of the losses is considered uncertain.

19 Long-term provision — Group

	2010	2009
	£000	£000
As at 1 August	1,137	1,058
Charged to statement of comprehensive income	85	79
Added to intangible non-current assets	173	—
At 31 July	1,395	1,137

The addition during the year is the decommissioning provision for the Hykeham well.

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

Notes to the Financial Statements continued

20 Called up share capital

	2010 £000	2009 £000
Authorised		
150,000,000 ordinary shares of 1p each	1,500	1,500
Allotted, called up and fully paid		
82,206,587 ordinary shares of 1p each (2009: 62,563,730)	822	626

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

On 10 September 2009 the Company issued 12,500,000 shares at 14p, raising £1,693,000 net of broker commission. On 26 April 2010 and 4 May 2010 the Company issued a further 3,892,857 and 3,250,000 shares respectively at 14p, raising in total £943,000 net of broker commission. Further shares were issued post year end as detailed in note 26.

In 2005, the Company issued 39,999,998 ordinary shares of 1p at a nil premium in exchange for the entire shareholding of Europa Oil & Gas Limited. This gave rise to the merger reserve at 31 July 2010 of £2,868,000 (2009: £2,868,000).

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
Merger reserve	Reserve created on issue of shares on acquisition of subsidiaries in prior years
Foreign exchange reserve	Reserve arising on translation of foreign subsidiaries
Retained earnings	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.

21 Share based payments

There are 3,382,142 ordinary 1p share options outstanding (2009: 3,550,000). These are held by certain members of the board, (W Adamson 250,000; RJH M Corrie 500,000; and P Greenhalgh 1,875,000), employees of the Group (400,000) and Astaire Securities plc (357,142).

Of the outstanding options, the 357,142 granted to Astaire Securities plc on 26 April 2010 are exercisable at any time up to 26 April 2012. The remaining 3,025,000 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.

The fair value of the various options was determined using a Black Scholes Merton model, and the inputs used to determine these values are detailed in the table below:

Grant date	11 Nov 2004	1 Dec	8 May 2006 2008	23 Oct	17 Apr 2009 2010	26 Apr 2010
Number of options	160,000	80,000	1,750,000	785,000	250,000	357,142
Share price at grant	32.5p	21.5p	21.5p	13.3p	14p	14.2p
Exercise price	25p	25p	20p	16p	14p	14p
Volatility	40%	50%	50%	60%	70%	70%
Dividend yield	nil	nil	nil	nil	nil	nil
Risk free investment rate	4.80%	4.90%	4.42%	2.74%	2.82%	1.28%
Option life (years)	6.25	6.25	6	6	5	1.5
Fair value per share	16.76p	10.16p	10.96p	6.58p	7.79p	4.37p

Volatility has been based on the Company's share price volatility since flotation.

Based on the above fair values the charge arising from employee share options was £73,000 (2009: £96,000).

21 Share based payments (continued)

In the year 1,392,142 options were granted; 360,000 were forfeited and 1,200,000 expired. No options were exercised (2009: nil).

	2010 Number of options	2010 Average exercise price	2009 Number of options	2009 Average exercise price
Outstanding at the start of the year	3,550,000	22.25p	3,750,000	22.4p
Granted	1,392,142	15.13p	—	—
Forfeited	(360,000)	22.22p	—	—
Expired	(1,200,000)	25p	(200,000)	25p
Outstanding at the end of the year	3,382,142	18.35p	3,550,000	22.25p
Exercisable at the end of the year	823,332	21.46p	1,613,334	25p

22 Financial instruments

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

Credit risk

The Group is exposed to credit risk as all crude oil production is sold 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 2010 trade receivables were £232,000 (2009: £164,000) representing one month of oil revenue (2009: one month). The fair value of trade receivables and payables approximates to their carrying value because of their short maturity. Any surplus cash is held on deposit with Royal Bank of Scotland. The maximum credit exposure in the year was £344,000 (2009: £400,000).

The Company exposure to credit risk is negligible.

Liquidity risk

Though the Group has the benefit of a regular revenue stream, there is still a need for bank financing. The Company has in place a £1 million flexible multi-currency facility and a £1 million term loan with its bankers. The multi-currency facility can be utilised in either Sterling or foreign currency via an overdraft. The term loan is repayable in ten quarterly instalments.

Included within short-term borrowings is an overdraft of £479,000 (2009: £297,000) which has been utilised under the multi-option facility. An amount of £500,000 is owed at 31 July 2010 (2009: £950,000) on the term loan.

Notes to the Financial Statements continued

22 Financial instruments (continued)

The Group and Company monitor their levels of working capital to ensure it can meet liabilities as they fall due. The following table shows the contractual maturities of the Group's financial liabilities, all of which are measured at amortised cost.

As explained in Note 1, the funding of the 2011 work programme and specifically the appraisal drilling on Voitinel is expected to be funded from future cash flows — but that will be contingent on the increased production anticipated from the West Firsby development well. If that well is not successful then the Company would need to seek alternative funding for Voitinel which could include another issue of equity, bank financing or the trading of assets.

	Trade and other payables £000	Short-term borrowings £000	Long-term borrowings £000
At 31 July 2010			
6 months or less	1,687	689	—
6–12 months	110	211	—
1–2 years	—	—	121
2–5 years	—	—	66
Over 5 years	—	—	165
Total	1,797	900	352
At 31 July 2009			
6 months or less	604	554	—
6–12 months	296	213	—
1–2 years	—	—	421
2–5 years	—	—	165
Over 5 years	—	—	186
Total	900	767	772

Trade and other payables do not normally incur interest charges. There is no difference between the fair value of the trade and other payables and their carrying amounts. Borrowings bear interest at variable rates, except for the property loan of £273,000 (2009: £292,000) which was swapped for a fixed rate of interest.

Interest rate risk

The Group has interest bearing liabilities as described in Note 17. The £1 million multi-currency facility and £1 million term loan are secured over the assets of Europa Oil & Gas (Holdings) plc and Europa Oil & Gas Limited. Interest is charged on the multi-currency facility at base rate plus 3% and on the term loan at LIBOR plus 3.25%.

A loan of £273,000 (2009: £292,000) is secured over a long lease property and is repayable over 13 years. At the time of the purchase of the property in 2007, the Company considered it prudent to enter into an interest rate swap which fixed the interest rate for the life of the loan (until May 2022) at 7.02%. The fair value of the swap at 31 July was £55,000 (2009: £40,000) and this has been recorded as a current liability of the Company. The table below shows the sensitivity of the swap to changes in interest rates. There would be a corresponding charge or credit to the statement of comprehensive income.

Fair value of swap

Long-term forward Sterling base rate	2010 £000	2009 £000
1%	63	71
3%	37	40
5%	11	11

The fair value of the interest rate swap has been based on an estimate provided by the Company's bankers which meets the definition of tier 2 disclosures under the provisions of International Financial Reporting Standard 7 "Financial Instruments: Disclosures".

22 Financial instruments (continued)

Commodity price risk

The selling price of the Group'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 Group's Profit/(Loss) Before Taxation (PBT) to such movements in oil price. There would be a corresponding increase or decrease to net assets. There is no commodity price risk in the Company.

Oil price	Month	Price	PBT	Price	PBT
		2010	2010	2009	2009
		\$/bbl	£000	\$/bbl	£000
Highest	April 2010	83.40	(1,313)	111.28	2,720
Average		73.95	(1,699)	62.30	423
Lowest	Sept 2009	66.10	(2,034)	39.35	(663)

Foreign exchange risk

The Group'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 Group's PBT to similar movements in US Dollar exchange. There would be a corresponding increase or decrease to net assets.

US Dollar	Month	Rate	PBT	Rate	PBT
		2010	2010	2009	2009
		\$/£	£000	\$/£	£000
Highest	Oct 2009	1.6478	(1,874)	1.9355	(11)
Average		1.5584	(1,699)	1.6533	423
Lowest	May 2010	1.4459	(1,467)	1.4331	867

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

	2010	2009
	£000	£000
Currency		
Euro	(481)	(42)
US Dollar	676	915
Total	195	873

Capital risk management

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

23 Capital commitments and guarantees

As at 31 July 2010 the Group had contractual commitments to drill two wells in Romania and to acquire seismic in the UK.

We estimate that our share of costs for these wells and other exploration activities over the next year is approximately £2 million. This commitment is expected to be met from cash generated from production and borrowings referred to in Note 17.

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

Notes to the Financial Statements continued

24 Operating lease commitments

Europa Oil & Gas Limited pays an annual site rental for the land upon which the West Firsby and Crosby Warren oil field facilities are located. The West Firsby lease runs until September 2022 and can be determined upon giving two months notice. The annual cost is currently £17,000 and increases annually in line with the retail price index. The Crosby Warren lease runs until December 2022 and can be determined on three months notice. The annual cost is currently £20,000 and is reviewed every five years, the next review being later in 2010.

25 Related party transactions

Key management are those persons having authority and responsibility for planning, controlling and directing the activities of the Group. In the opinion of the board, the Group's and the Company's key management are the directors of Europa Oil & Gas (Holdings) plc. Information regarding their compensation is given in Note 4.

During 2009, CW Ahlefeldt-Laurvig provided services as a petroleum engineer on a consultancy basis at a total cost of £2,000. There were no such services provided in the year to 31 July 2010.

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

	2010	2009
	£000	£000
Europa Oil & Gas Limited	906	677
Europa Oil & Gas SRL	24	38
Total	930	715

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

	2010	2009
	£000	£000
Europa Oil & Gas Limited	5,700	2,735
Europa Oil & Gas SRL	1,493	1,241
Europa Oil & Gas Resources Limited	24	—
Total	7,217	3,976

26 Post reporting date events

On 14 September 2010 ES Syba provided a £90,000 loan to the Company. The loan is repayable on 15 February 2011 together with £5,000 of interest.

On 14 October 2010 the Company announced the placing of 13,360,810 new shares at 11.5p, raising £1,452,000 net of fees. The total issued share capital following the placing is 95,567,397 ordinary shares of 1p each.

On 18 October 2010 the Company announced the spud of the Barchiz-1 exploration well in Romania. The Barchiz-1 well, situated in the EPI-3 Brates Concession (Europa 20%), is scheduled to take approximately 30 days to drill to an estimated final total depth of 1,400 metres.

Directors and Advisers

Company registration number	5217946
Registered office	11 The Chambers Vineyard Abingdon OX14 3PX
Directors	W Adamson — Non-executive Chairman CW Ahlefeldt-Laurvig — Non-executive RJHM Corrie — Non-executive PA Barrett — Managing Director P Greenhalgh — Finance Director
Secretary	P Greenhalgh
Banker	Royal Bank of Scotland plc 1 Albyn Place Aberdeen AB10 1BR
Solicitor	Charles Russell LLP 7600 The Quorum Oxford Business Park North Oxford OX4 2JZ
Auditor	BDO LLP 55 Baker Street London W1U 7EU
Nominated adviser and broker	finnCap Limited 4 Coleman Street London EC2R 5TA
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