

ANNUAL REPORT AND ACCOUNTS

For the period 1 April 2008 to 31 March 2009

Registered Number **05387837**



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COMPANY INFORMATION

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Patrick Cross (Non-Executive Chairman)
Thomas Kelly (Commercial Director)
Frank Brophy (Technical Director)
John Laycock (Finance Director)

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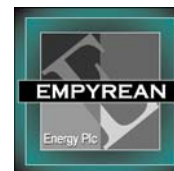
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CHAIRMAN'S STATEMENT

I am pleased to be able to report that Empyrean Energy Plc ("Empyrean" or "the Company") has survived what has been the toughest 12 months since its incorporation. A number of very important decisions were made during some of the most difficult trading conditions the world has seen for a century. These decisions were made decisively to ensure the survival of the company.

The Company completed three capital raisings during the period, with two in particularly challenging circumstances. The challenges were compounded by a freefalling oil price as a result of reduced demand due to the financial crisis. Despite the challenging circumstances Empyrean was able to raise funds at a time when other junior companies were not.

Empyrean also made several decisions to reduce expenses. These were made across all facets of the company and included Directors' remuneration.

A tough decision was made to revert back to Empyrean's original 6% working interest in the Sugarloaf Project in Texas during the drilling of the Weston well on Block B. The decision was made to reduce Empyrean's cost exposure to the Sugarloaf Project as a whole. This defensive move has proved in hindsight to have been the correct decision with subsequent cost overruns occurring on the Weston well.

On a more positive note, the Company had its first Block A well turned to full time production during January 2009, followed by two further Block A wells during February 2009. The early production from these wells is encouraging and we expect production revenue to grow as the remaining drilled wells are turned to sales or re-worked.

In August last year the Board appointed Mr John Laycock as Finance Director, to provide the Board with additional corporate finance and financial risk management expertise, primarily gained within the oil and gas industry.

Empyrean's experienced management team continues to make decisions with the primary aim of unlocking as much value from our existing projects as possible whilst continuing to assess new opportunities. Empyrean cannot embark upon every project that we assess as having the criteria and technical merit that we are looking for, however the Company is laying the foundations for growth and as we grow we hope that the number of opportunities that we can aggressively pursue grows with us. Empyrean remains committed to its transformation into a substantial player in the oil and gas sector by adapting to new circumstances, keeping costs to a minimum, capitalising on our industry contacts and fully exploiting our experience and expertise.

We remind shareholders that we are primarily an oil and gas explorer and now a producer. It is fair to say that Empyrean has been an aggressive explorer and we are very proud of the technical success rate we have achieved. In the short 4 years since we listed on AIM, Empyrean has participated in the drilling of 18 exploratory wells. This is a huge number, by industry standards, for a junior with limited cash resources. Of those wells, all have encountered hydrocarbons, with 11 wells having either produced or are currently in production. The Company expects a further 2 wells will be put onto production in the near future. This equates to a 61% success rate and we expect this to grow to 72% with the 2 further hook-ups to production. The industry wildcat well average success rate is only 8.3%. Not all of these wells were absolute wildcat wells and our success on absolute wildcats of 22% far exceeds the industry average.

We have already made the tough decisions that were appropriate for the tough times. Some of the worst aspects of the downturn have already started to improve and we are confident that the decisions we have made now hold us in good stead for future growth and success.

We thank shareholders for their loyalty and patience as we make every effort to convert our technical success into a commercial success.

Patrick H. Cross

Patrick Cross
Chairman



OPERATIONAL REVIEW

Empyrean continues to maintain its key assets in the USA and Germany. Of the three projects located in the USA, two of the projects which are located in Texas are producing oil and gas to market with increase in produced volumes anticipated in the second half of 2009.

During the last 12 months Empyrean has been involved in a vigorous, full-scale appraisal and development drilling programme focussed on the Sugarloaf Hosston Project involving the Austin Chalk play, onshore Texas. The wells involved are located in Blocks A and B which lie approximately 20 km south of the main producing historical Texas Austin Chalk trend.

Since drilling Sugarloaf-1 in Block B, five wells have been drilled in Block A and three wells in Block B. All wells have had significant hydrocarbon shows recorded while drilling and at present six wells are tied in and producing to market (three in Block A and three in Block B).

Most of the operational activity during the last 12 months has been focussed on the Sugarloaf Hosston Project, with the 9 wells involved being the focus of the following update.

Sugarloaf Hosston Project (Empyrean Interest: 6 - 18%)

The original farm-in Agreement with TCEI gave Empyrean the right to a 6% working interest across the whole of Block B.

The Sugarloaf-1 well was subsequently drilled. Significant gas shows and fluorescence were encountered in what was then considered to be a secondary objective higher in the well, and electric log analysis confirmed the presence of a 92ft gross column of gas in the fractured limestone of the Austin Chalk. As a result, Empyrean entered a second agreement with TCEI for an additional interest in the next 16 wells to follow Sugarloaf-1 on Block B or the adjacent Block A.

To date, a total of eight further wells have been drilled as part of second agreement that followed Sugarloaf-1, five in Block A and three in Block B. All wells have encountered hydrocarbon shows while drilling.

Since May 2008, four wells have been spudded, these being TCEI JV Block A-4, TCEI JV Block A-5, Kowalik-1H and Weston -1H. The operations in progress are as follows.

BLOCK A

TCEI JV Block A-1 (Empyrean Interest: 7.5%)

The TCEI JV Block A-1 well was shut in for pressure build-up measurement during the period 28 May 2008 to 21 November 2008, interspersed with several brief periods of production. The first production to sales was announced on 13 November 2008 when an initial seven day average rate of 2.6 million cubic feet of gas equivalent per day (“mmcfgepd”) was produced from the lateral interval 13,521ft – 14,404ft.

A second stage of perforations was then carried out over the interval 11,805ft – 13,305ft accompanied by acid fracturing of the Austin Chalk.

The well is now flowing from a combined interval of 2,600ft and the latest production figures released to the Texas Railroad Commission showed 5,687 barrels of oil and 18.205 million cubic feet (“mmcf”) of gas produced for the month of March 2009.



OPERATIONAL REVIEW CONTINUED

TCEI JV A-2 (Empyrean Interest: 7.5%)

The TCEI JV Block A-2 well was up until 21 December 2008 used for microseismic monitoring purposes during the fracturing and testing operations of the A-1 well which is located 1.5km to the south.

Operations pertinent to TCEI JV A-2 resumed on 21 December 2008 and perforations were made over six separate intervals between 11,865ft and 11,980ft in the formation underlying the classic Austin Chalk. An acid fracc was then carried out through the perforated intervals, followed by a shut in period of three months for the purpose of measuring reservoir pressure build up.

The well was re-opened on 2 April 2009 to allow 'well intervention operations' including swabbing and flow back.

This is a vertical well which exhibited encouraging hydrocarbon shows during drilling.

TCEI JV Block A-3 (Empyrean Interest 7.5%)

The well was spudded on 24 October 2007 and had significant shows and flares recorded for the entire 2,800ft open hole interval. It had been trying to flow while drilling, despite the fairly high mud weights, to such a degree that it was decided to test the flow potential even before reaching the proposed total measured depth of 17,800ft.

On 14 April 2008 Empyrean was able to announce the initial test results of a significant gas-condensate discovery. Initial flows through a 12/64" choke were measured at 1.9 million cubic feet of gas per day ("mmcfcpd") with 460 barrels of condensate per day. Based on present day prices for gas and condensate this would be equivalent to 6.6 mmcfcpd. This open hole test was conducted without stimulation.

The well was then "shut in" as part of the normal reservoir and production engineering procedure. During the "shut in" period the operator has been finalising the design (based on TCEI JV Block A-1) and construction of production facilities and pipeline connection.

Operations resumed on 4 February 2009 and the well was again opened to flow following a water and surfactant flush of the open hole interval 12,276ft – 15,100ft. On 24 February 2009 Empyrean announced that the A-3 well had commenced flowing to sales, with average flow rates for the 7 days up to and including 21 February 2009 being 4.101 mmcfcpd and 408 barrels of condensate per day.

The latest production figures released to the Texas Railroad Commission showed 3,862 barrels of oil and 42.95 mmcf of gas produced for the month of March 2009.

TCEI JV Block A-4 (Empyrean Interest 7.5%)

TCEI JV Block A-4 is the fifth well in the original 16 well programme and the fourth drilled well located in Block A and is designed to test the same "Upper" zone of the Austin Chalk as the producing Block A wells TCEI JV A-1 and TCEI JV A-3.

The well was spudded on 4 July 2008 and reached total depth of 12,756ft in the vertical pilot hole on 26 July 2008. At least 300ft of gas shows were encountered during this phase of drilling and background readings of 50 units rose to a maximum of 1325 units in some instances.



OPERATIONAL REVIEW CONTINUED

TCEI JV Block A-4 continued...

The horizontal phase terminated at 15,084ft (measured depth) on 7 September 2008. More than 1500ft of gas-condensate pay had been intercepted in the Austin Chalk reservoir and this was considered by the operator to be sufficient to provide a good commercial outcome.

Preparations for production testing commenced at the beginning of October 2008, and on 31 October 2008 it was announced that TCEI JV Block A-4 had flowed initial rates as high as 2.5 mmcf/gpd and 260 barrels of condensate per day, equating to approximately 5.1 mmcf/gpd.

The sales pipeline connection and production facilities were completed, and on 14 February 2009 the well commenced flowing to sales after having been stimulated by an acid fracc. At the time the well achieved average flow rates for the 7 days up to and including 21 February 2009 of 4.101 mmcf/gpd and 408 barrels of condensate per day.

The latest production figures released to the Texas Railroad Commission showed 5,372 barrels of oil and 49.907 mmcf of gas produced for the month of March 2009.

TCEI JV Block A-5 (Empyrean Interest 7.5%)

This vertical well was spudded on 29 September 2008 and reached a total depth of 12,469ft on 27 October 2008. Hydrocarbon shows were encountered during drilling in the traditional Austin Chalk and the underlying fractured Eagleford Shale.

The completion operations consisted of 2 phases. In Phase 1 the Eagleford Shale was perforated over the interval 12,190ft – 12,300ft, fraced and allowed to flow briefly. Initial rates recorded were 1.293 mmcf/gpd and 408 barrels of condensate per day before the well was shut in for 38 days. In Phase 2 the overlying Austin Chalk reservoir was perforated over the interval 12,100ft – 12,160ft and acid fraced on 12 February 2009. The well was briefly allowed to flow recording 1.430 mmcf/gpd and 403 barrels of condensate through a 12/64” choke.

Production tubing has since been run and the well is now completed in both the Austin Chalk and the Eagleford Shale with open ended tubing (no packer) at 12,079ft.

The latest production figures released to the Texas Railroad Commission showed 700 barrels of oil and 2.631 mmcf of gas produced for the month of March 2009.

BLOCK B

Kennedy-1H (Empyrean Interest: 18%)

Kennedy-1H is located 8km to the east of the Sugarkane Field discovery and contains the same primary target, the Austin Chalk.

The well spudded on 17 September 2007 and after “kicking off” from the vertical at 11,845ft, the total depth of 16,750ft (measured depth) was reached on 12 November 2007, being 820ft short of the original proposed measured depth of 17,570ft.



OPERATIONAL REVIEW CONTINUED

Kennedy-1H continued...

A fracing operation was carried out on 14 May 2008. A total of 95,000 lbs of sand and 5182 barrels of fluid were injected under pressure into 4 sets of perforations over an approximate 600ft horizontal interval. Initial flow results of gas condensate and fracc fluid recovery were announced on 25 May 2008.

A second fracing operation was performed on 3 July 2008. An additional 3 sets of perforation intervals, each 3ft long, were interspersed between the original 600ft perforated interval prior to the introduction of 100,000lbs of high strength proppant. The fracing operation was terminated prematurely due to the high pumping pressures encountered and only 50% of the proppant entered the formation.

After cleanup operations, testing of the well resumed on 15 July 2008. The initial, unstabilised rates of 425,000 cubic feet of gas per day (“cfgpd”) and 106 barrels of condensate per day reduced, after intermittent slugging, to 200-300 cfgpd and 46-107 barrels of condensate per day.

Since at least 5,000 barrels of fluid had not been recovered after the fracing operation, a coil tubing unit was mobilised on 18 July 2008 to displace the fluid. Some additional fluid was recovered but the flow rates remained the same. It has been estimated by the operator that the production originated from only 17ft of perforations in the bottom section of the 600ft horizontal section.

On 31 August 2008 it was announced that Kennedy-1H was being shut- in while production and tie-in facilities were completed for eventual connection with the nearby transmission line. Production recommenced on 2 October at a rate of 20,000 cfgpd and 60 barrels of condensate per day.

This is the first time production has originated from the “middle” pay zone of the Austin Chalk (which is still referred to as the upper part of Eagleford Shale by some authors) , and therefore augurs well for recoverable reserve considerations. A decision whether or not to perforate and fracture stimulate the remaining 3,000ft of horizontal section will be made following the analysis of production performance from other wells in the area.

Kowalik-1H (Empyrean Interest: 18%)

Kowalik-1H is the third well drilled in Block B and the sixth well of the original 16 well programme. It was spudded on 4 July 2008 and was designed to test the so-called “Upper” pay zone of the Austin Chalk over a 6,000ft horizontal interval. It is located 5 km north of Kennedy-1H and is on trend with the producing wells A-1 and A-3 of Block A.

The vertical pilot hole reached a total depth of 11,970ft on 11 August 2008. The horizontal phase was successfully completed on 22 October 2008 when it was announced that the well had reached a final measured depth 16,483ft (equivalent to approximately 4,600ft of horizontal section). Although the original plan was to penetrate a 6,000ft horizontal section, it was considered technically prudent to stop at this depth. There had been significant gas shows throughout the section, often reading more than 2,000 units with attendant flares on surface.

Testing operations commenced on 3 November 2008. Initial flows measured 937,000 cfgpd and 321 barrels of condensate per day. Interpretations indicate that most of this production comes from approximately 1800ft of the horizontal well through an uncemented, 3 ½” slotted liner.



OPERATIONAL REVIEW CONTINUED

Weston-1H (Empyrean Interest: 6%)

Weston-1H is the fourth well to be drilled in Block B and is located approximately 1.5 km to the east of the Kennedy-1H well. It was designed to test approximately 6,000 ft horizontally the upper part of the Austin Chalk interval.

The well spudded on 2 November 2008. It kicked off as planned at 11,916ft and had 7" casing set at 12,250 ft measured depth on 28 December 2008. Gas readings increased dramatically on entering the Austin Chalk and maximum daily average readings of 3100 units were reported with flares of up to 60 ft in length.

Total depth of 15,797ft was reached on 13 February 2009, after which a 4 ½" liner was cemented to total depth. The original plan was to drill to 18,405ft measured depth and drilling was cut short to reduce risks as several challenges were encountered whilst drilling. This premature termination still meant that approximately 3000ft of horizontal hole lay within the target zone of the Upper Austin Chalk.

The Weston -1H well remains suspended for completion with those operations likely to be a priority part of any farm-out deal concluded.

Glantal Gas Project, Germany (Empyrean Interest 40%)

The project still maintains the multi-TCF potential always quoted, despite the results of the exploration well Glantal-1 drilled and tested in 2006. Before any further drilling can occur, it is essential that the risk of encountering volcanism and its effects be minimised. The Lautertal Prospect has become the next focus of attention. It lies to the northeast of Glantal and will require at least 120-130 km of seismic acquisition and possibly some gravity and aeromagnetic assessment before a drill location is decided upon.

In addition, negotiations have already been instigated to secure tenure of Lautertal which means extending the termination date of the permit.

Eagle Oil Pool Development Project, California, USA (Empyrean Interest 48.5%)

No operations were carried out during the period, however Empyrean is pleased to report that it has concluded negotiations to purchase a further 10% working interest in the project for nominal consideration from Sun Resources Ltd who did not wish to continue in the project.

Currently, Australian Stock Exchange listed operator Victoria Petroleum NL is attempting to sell its USA assets including their 20% interest in Eagle. Empyrean is monitoring these efforts closely and intends to work with the new owners to have a well drilled at Eagle as soon as possible.

Margarita Project, Gulf Coast, Texas, USA (Empyrean Interest 44%)

Empyrean farmed into this 2 phase project in November 2006. It involved the drilling of 6 shallow wells, 4 of which resulted in being producers. At present one well is producing gas and two wells are suspended indefinitely.

Phase 1 drilling had successes at Dos Dedos (gas) and Milagro (oil and gas). Dos Dedos watered out prematurely after 2 months but Milagro, which commenced as a gas producer in April 2007, became oil dominant, peaking at 135 barrels of oil per day in September 2007. Since the end of December 2008 the well has been suspended following a period of intermittent production.



OPERATIONAL REVIEW CONTINUED

Margarita Project, Gulf Coast, Texas, USA continued...

It is considered uneconomic to continue such small monthly production given the present oil price. There is up dip potential but the volumes involved do not warrant exploitation.

Phase 2 gave two gas producers, Dona Carlotta (Heard Heirs) and Agavero (O'Brien Prichett).

Agavero was suspended on 28 December 08 following a period of diminished production rates coupled with pipeline leakages which require substantial expenditure to rectify. The estimated expenditure, combined with diminished revenue, do not justify continuation of the gas production which commenced on 4 October 2007.

Dona Carlotta continues to produce gas at approximately 100 mmcfcpd with no discernible increase in water production which remains a steady 26 barrels of water per day. Production began on 28 July 07 and the field has an estimated life of 3.363 years based on pressure drawdown measurements.

A handwritten signature in black ink, appearing to read 'FJ Brophy'.

FJ Brophy BSc (Hons)
Technical Director
Empyrean Energy Plc
26 May 2009



DIRECTORS' REPORT

The Directors are pleased to present their report on the affairs of the Company, together with the audited financial statements for the period 1 April 2008 to 31 March 2009.

Principal Activities and Business Review

The principal activities of the Company are energy resource exploration and project development in geopolitically stable environments. The developments during the period are detailed in the Chairman's Statement and Operational Review.

Principal Risks and Uncertainties

The Company's activities are carried out principally in North America and Europe. Risk assessment and evaluation is an essential part of the Company's planning and an important aspect of the Company's internal control system. The principal risks and uncertainties are considered to be the following:

Exploration, Development and Production Risks

Exploration and development activities may be delayed or adversely affect by factors outside the Company's control, in particular; climatic conditions; performance of joint venture partners or suppliers; availability, delays or failures in commissioning or installing plant and equipment; unknown geological conditions resulting in uneconomic or dry wells; remoteness of location; failure to achieve estimate capital costs, operating costs, reserves, recovery and production levels; actions of host governments or other regulatory authorities.

Commodity Risk

The demand for, and pricing of, oil and gas is dependent on global and local supply and demand, weather conditions, availability of alternative fuels, actions of governments or cartels and general economic and political developments.

Currency Risk

Although the reporting currency is Sterling (£GBP), the currency most commonly used in the pricing of petroleum commodities and for significant exploration and production costs is US dollar (\$USD), thus creating currency exposure.

General and Economic Risk

As a consequence of activities in different parts of the world the Company may be subject to political, economic and other uncertainties both locally and internationally, including but not limited to inflation, interest rates, market sentiments, equity and financing market conditions.

Financing Risk

Future investment is dependant on having sufficient funds to enable the exploration or development of projects, whether through debt or equity funding.

Market Risk

Securing sufficient and profitable sales contracts to support operations is a key business risk.

Key Performance Indicators

The current business of the Company is fundamentally exploration, together with development and initial production with focus on the successful delivery of investment to enable the Company to progress to a larger operational business. The Company intends to provide detailed analysis and comparison of production; cash flows from operations; operating costs per barrel of oil equivalent and realised oil and gas prices per barrel in the 2010 Annual report.



DIRECTORS' REPORT CONTINUED

Financial Review

The loss for the year on ordinary activities of the Company after taxation amounted to £1,494,000 (2008: £1,153,000).

The Company generated a turnover of £724,000 (2008: £525,000) from oil and gas sales derived from its Margarita and Sugarloaf prospects in Texas. This was offset by cost of sales which includes amortisation of the oil and gas properties of £646,000 (2008: £254,000).

The Company incurred administrative expenses of £754,000 (2008: £419,000), which is exclusive of share based payment expenses of £404,000 (2008: £329,000).

Net exploration costs for the year of £5,531,000 (2008: £4,217,000) have been capitalised. Exploration expenditure impairment write off totalling £168,000 (2008: £830,000), with additional impairment write downs made to oil and gas properties of £300,000 (2008: nil).

Continued production success at the Sugarloaf prospects resulted in oil and gas properties of £6,973,000 (2008: £590,000) being re-classified from exploration expenditure.

Dividends

The Directors do not propose the payment of a dividend.

Directors and Directors' Interests

The Directors who served during the year to 31 March 2009 had, at that time, the following beneficial interests in the securities of the Company:

	31 March 2009		31 March 2008	
	Number of ordinary shares	Number of options over ordinary shares	Number of ordinary shares	Number of options over ordinary shares
Patrick Cross	340,000	600,000	-	800,000
Thomas Kelly ¹	4,500,000	4,800,000	3,500,000	2,500,000
Frank Brophy ²	1,000,000	4,000,000	-	3,500,000
John Laycock (appointed 20/08/08)	-	200,000	n/a	n/a

(1) On 2 April 2009, Thomas Kelly acquired a further interest through the purchase of 2,000,000 ordinary shares, pursuant to the placing announced on 25 March 2009.

(2) On 2 April 2009, Frank Brophy acquired a further interest through the purchase of 166,666 ordinary shares, pursuant to the placing announced on 25 March 2009.

Other than those items disclosed above, there have been no changes in Directors' interests since the year-end. For further details on options held by Directors, refer to Note 5 of the Financial Statements.

Directors' Remuneration

The Company's policy on remuneration of directors is to attract, retain and motivate the best people, recognising they are key to the ongoing success of the business, but to avoid paying more than is necessary for that service.



DIRECTORS' REPORT CONTINUED

Details of the Directors' emoluments and of payments made for professional services rendered are set out in Note 5 to the Financial Statements.

Employment Policies

The Company is committed to promoting policies which ensure that high calibre employees are attracted, retained and motivated, to ensure the ongoing success of the business. Employees and those who seek to work within the Company are treated equally regardless of sex, marital status, creed, colour, race or ethnic origin.

Management Incentives

To assist in the incentivisation, retention and recruitment of employees and consultants, the Company issued share options to each of the Directors during the period as part of this scheme. Details of these options are set out in Note 5 to the Financial Statements.

Insurance

The Company maintains liability insurance for the Directors and officers of the Company.

Substantial shareholdings

On 14 May 2009 the following were registered as being interested in 3% or more of the Company's ordinary share capital, inclusive of Directors holdings above 3%:

	14 May 2009	
	Ordinary shares of £0.002 each	% of issued share capital
TD Waterhouse Investor Services	11,382,942	11.84%
Barclays Stockbrokers Limited	10,564,448	10.99%
Halifax Share Dealing	9,105,541	9.47%
Squaregain	6,501,082	6.76%
Thomas Kelly	6,500,000	6.76%
Wills & Co Stockbrokers	4,003,932	4.16%
WH Ireland	2,933,334	3.05%

Share Capital

Information relating to shares issued during the period is given in Note 14 to the Financial Statements.

Charitable and Political Donations

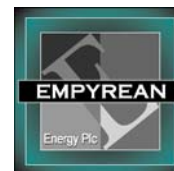
During the period there were no charitable or political donations.

Treasury Policy

The Company finances its operations through equity investment and holds its cash as a liquid resource to fund the Company's financial commitments. Decisions regarding the management of these assets are approved by the Board.

Payment of Suppliers

The Company's policy is to settle terms of payment with suppliers when agreeing terms of business, to ensure that suppliers are aware of the terms of payment and to abide by them. It is usual for suppliers to be paid within 28 days of receipt of invoice.



DIRECTORS' REPORT CONTINUED

Post Balance Sheet Events

Material post balance sheet events are set out in Note 18 to the Financial Statements.

Going Concern

The Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing its financial statements.

Auditors

The auditors, Chapman Davis LLP, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the annual general meeting.

Control Procedures

The Board has approved financial budgets and cash forecasts. In addition, it has implemented procedures to ensure compliance with accounting standards and effective reporting.

Environment, Health and Safety

The Company is committed to conducting its operations in a responsible manner that protects the health and safety of employees, contractors and the public and minimises the impact on the environment. To accomplish this the Company is committed to ensuring compliance with all applicable legislation and standards; ensure an effective management team is in place and that all personnel and contractors are aware of their health, safety and environmental responsibilities; creation of a safe and healthy working environment; identify, evaluate and control the risks and impact associated with all company activities; monitor, evaluate and report health, safety and environmental performance; seek to achieve continuous improvement in health, safety and environmental performance.

Corporate Governance

The Directors are committed to maintaining high standards of corporate governance. The Directors have established procedures, so far as is practicable, given the Company's size, to comply with the Combined Code as modified by the recommendations of the Quoted Companies Alliance. The Company has adopted and operates a share dealing code for directors and senior employees on substantially the same terms as the Model Code appended to the Listing Rules of the UK Listing Authority.

The Board

The Board meets regularly throughout the year. To enable the Board to perform its duties, each of the Directors has full access to all relevant information and to the services of the Company Secretary. If necessary the non-executive directors may take independent professional advice at the Company's expense.

The Board currently includes two non-executive directors. The Board has delegated specific responsibilities to the committees described below.

The audit committee

The audit committee comprises Patrick Cross and John Laycock, and is chaired by John Laycock. Thomas Kelly was previously a committee member but stepped down on 20 August 2008 when John Laycock was appointed to the board and the committee. During the year the audit committee met twice. The committee reviews the Company's annual and interim financial statements before submission to the Board for approval. The committee also reviews regular reports from management and the external auditors on accounting and internal control matters. When appropriate, the committee monitors the progress of action taken in relation to such matters. The committee also recommends the appointment of, and reviews the fees of, the external auditors.



DIRECTORS' REPORT CONTINUED

The remuneration committee

The remuneration committee is made up of Patrick Cross and John Laycock, and is chaired by John Laycock. Frank Brophy was previously a committee member but stepped down on 20 August 2008 when John Laycock was appointed to the board and the committee. The remuneration committee met twice during the period ended 31 March 2009. It is responsible for reviewing the performance of the Executive Directors and for setting the scale and structure of their remuneration, paying due regard to the interests of shareholders as a whole and the performance of the Company.

Directors' Responsibilities for the Financial Statements

Company law in the United Kingdom requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Profit or Loss of the Company for that period. In preparing those financial statements, the Directors are required to:

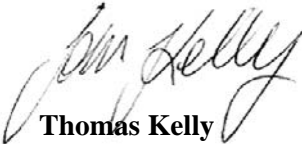
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business;
- so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware, and the directors have taken all the steps that they ought to have taken as directors' in order to make themselves aware of any relevant audit information and to establish that the Company's auditor are aware of that information.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities. They are also responsible for ensuring that the annual report includes information required by the AIM Listing Rules.

The maintenance and integrity of the Company's website is the responsibility of the Directors. The work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

By order of the Board


Thomas Kelly
Commercial Director
26 May 2009

Independent Auditors Report to the Shareholders of Empyrean Energy Plc

We have audited the financial statements of Empyrean Energy Plc for the year ended 31 March 2009, which comprise the Income Statement, the Balance Sheet, Cash Flow Statement, Statement of Changes in Equity, Statement of Accounting Policies and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, Chairman's Statement, the Operational Review and the Statement of Directors' Responsibilities. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

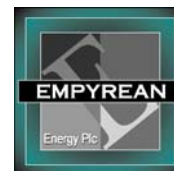
- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of affairs of the company as at 31 March 2009 and of its loss for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Chapman Davis LLP

Chartered Accountants and Registered Auditors

London

26th May 2009



INCOME STATEMENT
for the year ended 31 March 2009

	Notes	2009 £'000	2008 £'000
Revenue		724	525
Cost of Sales			
Operating costs (excludes oil and gas properties and exploration expenditure impairment)		(35)	(38)
Amortisation - oil and gas properties	9	(611)	(216)
Total cost of sales		(646)	(254)
Gross Profit		78	271
General and administrative expenses		(754)	(419)
Share based payments (directors & employees)	4	(332)	(329)
Share based payments (consultants)		(72)	-
Exploration expenditure impairment	8	(168)	(830)
Oil and gas properties impairment	9	(300)	-
Operating loss	2	(1,548)	(1,307)
Interest received	3	54	154
Loss on ordinary activities before taxation		(1,494)	(1,153)
Taxation on loss on ordinary activities	6	-	-
Loss for the financial year		(1,494)	(1,153)
Loss per share expressed in pence per share			
- Basic	7	(2.53)p	(2.30)p

All financial results presented are from continued operations.

No dividends were proposed or paid during the period.

A separate Statement of Recognised Income and Expense is not required.

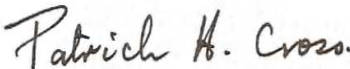
The accompanying accounting policies and notes form an integral part of these financial statements.




BALANCE SHEET
as at 31 March 2009

	Notes	2009 £'000	2008 £'000
Assets			
Non-current assets			
Intangible assets	8	7,630	9,240
Oil and gas properties	9	6,436	374
Plant and equipment	10	1	1
		14,067	9,615
Current assets			
Trade and other receivables	11	413	351
Cash and cash equivalents		291	1,510
		704	1,861
Liabilities			
Current liabilities			
Trade and other payables	12	(43)	(422)
		(43)	(422)
Net current assets			
		661	1,439
Net assets			
		14,728	11,054
Shareholders' equity			
Share capital	14	132	101
Share premium		17,621	12,816
Share based payments reserve		975	770
Retained loss		(4,000)	(2,633)
Total equity			
		14,728	11,054

The Financial Statements on pages 16 to 32 were approved by the Board of Directors on 26 May 2009 and were signed on its behalf by:


Chairman


Director

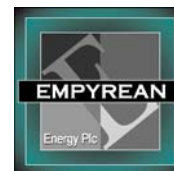
The accompanying accounting policies and notes form an integral part of these financial statements.



CASH FLOW STATEMENT
for the year ended 31 March 2009

	Notes	2009 £'000	2008 £'000
Net cash inflow / (outflow) from operating activities	13	122	(117)
Return on Investments			
Interest received		54	154
Net cash inflow from returns on investments		54	154
Capital expenditure			
Purchase of tangible fixed assets		(1)	-
Purchase of intangible fixed assets		(6,072)	(3,748)
Net cash outflow for capital expenditure		(6,073)	(3,748)
Financing			
Issue of ordinary share capital		4,985	332
Expenses relating to share issues		(307)	-
Net cash inflow from financing		4,678	332
Decrease in net cash		(1,219)	(3,379)
Cash and cash equivalents at the start of the year		1,510	4,889
Cash and cash equivalents at end of the year		291	1,510

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



STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2009

	Share capital account	Share premium reserve	Share based payment reserve	Retained loss	Total equity
	£'000	£'000	£'000	£'000	£'000
As at 31 March 2007	99	12,486	441	(1,480)	11,546
Share capital issued	2	330	-	-	332
Share based payments	-	-	329	-	329
Loss for the year	-	-	-	(1,153)	(1,153)
As at 31 March 2008	101	12,816	770	(2,633)	11,054
Share capital issued	30	5,040	-	-	5,070
Cost of shares issued	-	(306)	-	-	(306)
Share based payments	1	71	205	127	404
Loss for the year	-	-	-	(1,494)	(1,494)
As at 31 March 2009	132	17,621	975	(4,000)	14,728

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



STATEMENT OF ACCOUNTING POLICIES for the year ended 31 March 2009

The financial statements of Empyrean Energy Plc for the year ended 31 March 2009 were authorised for issue by the Board on 26 May 2009 and the balance sheets signed on the Board's behalf by Mr Patrick Cross and Mr Thomas Kelly.

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The principal accounting policies are summarised below. They have all been applied consistently throughout the year.

The financial report is presented in Sterling and all values are shown in pounds (£).

Basis of accounting

These financial statements have been prepared under the historical cost convention, modified for certain items carried at fair value, in accordance with International Financial Reporting Standards and International Financial Reporting Interpretations Committee ("IFRIC") and with those parts of the Companies Act, 1985 applicable to companies reporting under IFRS.

IASB and IFRIC have issued the following standards and interpretations, which have not been applied as they have an effective date after the date of these financial statements:

IFRS 3 Business Combinations - revised January 2008 (Effective 1 July 2009)

IAS 27 Consolidated and Separate Financial Statements - revised January 2008 (Effective 1 July 2009)

There is not expected to be any material impact on the adoption of the above standards.

Going concern

The financial statements have been prepared on a going concern basis.

Revenue Recognition

Net revenues from crude oil and natural gas sales are recognised when the oil and gas has been lifted and payment received from a third-party purchaser. The Company uses the entitlement method to account for its revenue from sales of condensate and gas production, which is presented in the accounts as net of production expenditure incurred prior to the product receipt by a third-party purchaser.

Finance Revenue

Finance Revenue is recognised as interest accrues.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less any allowance for any uncollectible amounts.



STATEMENT OF ACCOUNTING POLICIES CONTINUED

for the year ended 31 March 2009

Deferred tax

Current tax assets and liabilities for the current and prior periods are measured as the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance sheet date.

No deferred tax asset has been recognised because there is insufficient evidence of the timing of suitable future profits against which they can be recovered.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at contracted rates or, where no contract exists, at average monthly rates. Monetary assets and liabilities denominated in foreign currencies which are held at the year-end are translated into sterling at year-end exchange rates. Exchange differences on monetary items are taken to the Income Statement.

Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the company prior to the end of the financial year that are unpaid and arise when the company becomes obliged to make future payments in respect of the purchase of these goods and services.

Tangible fixed assets

Tangible fixed assets are included in the balance sheet at cost, less accumulated depreciation and any provision for impairment. Tangible fixed assets are depreciated on a straight line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives.

Office systems, equipment and furniture: 2.5 - 6 years

Intangible Fixed Assets

- exploration and development expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are expensed as incurred and treated as exploration and evaluation expenditure. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against the profit in the year in which the decision to abandon the area is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward the exploration and development costs in relation to that area of interest.

- oil and gas properties

Investments in unevaluated properties and development projects are not reclassified from exploration and development expenditure to oil and gas properties, until commercial production associated with the projects can be determined or until impairment occurs. The capitalised costs of intangible oil and gas assets are subject to amortisation when they are determined to have commercial production, at which point the capitalised costs plus the estimated future costs to develop the underlying commercial reserves are amortised using the unit-of-production method using total estimated reserves.



STATEMENT OF ACCOUNTING POLICIES CONTINUED

for the year ended 31 March 2009

Judgements and estimates

The Group makes judgements and assumptions concerning the future that impact the application of policies and reported amounts. The resulting accounting estimates calculated using these judgements and assumptions will, by definition, seldom equal the related actual results but are based on historical experience and expectations of future events. The judgements and key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are discussed below.

- impairment of assets

Financial and non-financial assets are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount is based on a calculation of expected future cash flows which includes management assumptions and estimates of future performance.

- share-based payments

Certain Directors of the Company receive remuneration in the form of equity-settled share-based payment transactions, whereby services are rendered in exchange for rights over shares (“equity-settled transactions”).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using the Black-Scholes pricing model, further details of which are given in Note 5 to the Financial Statements.

The cost of equity-settled transactions with parties other than employees is measured at the fair value of the services received at the date of receipt, with a corresponding increase in equity.

Financial instruments

The Company’s financial assets consist of current account or short-term deposits at variable interest rates, loans and other receivables.

Any interest earned is accrued and classified as interest.

Trade and other receivables are stated at cost.

The Company’s financial liabilities consist of trade and other payables. All are non-derivative assets. The trade and other payables are stated at cost.



NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2009

1. Turnover and Segmental Analysis

The primary segmental reporting format is determined to be the geographical segment according to the location of the asset. The Directors consider the Company to have a single business being the exploration for, development and production of oil and gas properties.

There are three geographical segments being Continental Europe and North America which are involved in the exploration for, development and production of oil and gas properties, and the United Kingdom which is where the registered office is located.

	UK (£'000)	Continental Europe (£'000)	North America (£'000)	Total (£'000)
2009				
Oil and gas revenue	-	-	724	724
Cost of sales	-	-	(646)	(646)
Gross Profit	-	-	78	78
Interest Received	54	-	-	54
General and administrative	(754)	-	-	(754)
Share based payments	(404)	-	-	(404)
Exploration expenditure impairment	-	-	(168)	(168)
Oil and gas properties impairment	-	-	(300)	(300)
Operating Expenses	(1,158)	-	(468)	(1,626)
Loss on Ordinary Activities (before tax)	(1,104)	-	(390)	(1,494)
Exploration expenditure	-	2,793	4,837	7,630
Oil and gas properties	-	-	6,436	6,436
	-	2,793	11,273	14,066
2008				
Oil and Gas Revenue	-	-	525	525
Cost of Sales	-	-	(254)	(254)
Gross Profit	-	-	271	271
Interest Received	154	-	-	154
General and administrative	(419)	-	-	(419)
Share Based Payments	(329)	-	-	(329)
Exploration Impairment Write off	-	-	(830)	(830)
Operating Expenses	(748)	-	(830)	(1,578)
Loss on Ordinary Activities (before tax)	(594)	-	(559)	(1,153)
Exploration expenditure	-	2,770	6,470	9,240
Oil and gas properties	-	-	374	374
	-	2,770	6,844	9,614



NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2009

2. Operating Loss

The operating loss is stated after charging:

	2009	2008
	£'000	£'000
Auditors' remuneration – audit services	13	13
– other services	6	-
Depreciation (Note 10)	1	3
Amortisation Exploration Expenditure (Note 9)	611	216
Exploration Expenditure Impairment (Note 8)	168	830
Oil and Gas Properties Impairment (Note 9)	300	-
Directors' emoluments (Note 5)	255	90
Directors' share based payments (Note 5)	297	301
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3. Interest Receivable

	2009	2008
	£'000	£'000
Bank interest received	54	154
	<hr/>	<hr/>

4. Staff Costs (including Directors)

The Company had no employees during the year, other than Directors.

	2009	2008
	£'000	£'000
Equity settled share based payments (directors & employees)	332	329
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The Company's equity-settled share based payments comprise incentive options granted to the Company's Directors. The amount and details of share options subject to equity-settled share based payments are set out in Note 14.

Options were issued to Directors and Employees on 26 June 2008 and 31 March 2009. The fair value of the options issued has been fully expensed during the year, based on a Black-Scholes model.

Under this model options issued on 26 June 2008 assumed a risk free rate of 4.25% and expected volatility of 60%. The value per option was 23.21 pence. Options issued on 31 March 2009 assumed a risk free rate of 1.98% and expected volatility of 65%. The value per option was 1.3 pence. There are no performance measures attached to either option issue.

In addition 1,250,000 options exercisable at 40 pence and 250,000 options exercisable at 35 pence, expired on 31 December 2008, resulting in a write back of £126,807 to equity.



NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2009

5. Directors' Emoluments

	Executive Salary		Options Issued	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Non-Executive Directors:				
Patrick Cross	35	30	26	27
John Laycock (<i>Appointed 20/08/08</i>)	20	n/a	3	n/a
Malcolm James (<i>Resigned 03/07/07</i>)	-	6	-	-
Executive Directors:				
Frank Brophy ⁽¹⁾	100	71	129	137
Thomas Kelly ⁽²⁾	100	71	139	137
Total	255	178	297	301

⁽¹⁾ Services provided by F J Brophy Pty Ltd

⁽²⁾ Services provided by Apnea Holdings Pty Ltd

No pension benefits are provided for any Director.

Directors' Share Options

The terms of the share option interests of Directors in office during the year ended 31 March 2009 were as follows:

	Grant Date	Options held 31 March 08	Options granted during year	Options expired during year	Options held 31 March 09	Exercise Price	Expiry
Patrick Cross	31/10/05	250,000		250,000	-	35p	31/12/08
	31/10/05	250,000		250,000	-	40p	31/12/08
	28/06/07	200,000			200,000	50p	28/06/10
	27/02/08	100,000			100,000	25p	27/02/11
	26/06/08	-	100,000		100,000	25p	27/02/11
Thomas Kelly	31/03/09	-	200,000		200,000	4p	31/03/12
	20/10/06	1,000,000			1,000,000	50p	20/10/09
	28/06/07	1,000,000			1,000,000	50p	28/06/10
	27/02/08	500,000			500,000	25p	27/02/11
	26/06/08	-	500,000		500,000	25p	27/02/11
Frank Brophy	31/03/09	-	1,800,000		1,800,000	4p	31/03/12
	31/10/05	1,000,000		1,000,000	-	35p	31/12/08
	20/10/06	1,000,000			1,000,000	50p	20/10/09
	28/06/07	1,000,000			1,000,000	50p	28/06/10
	27/02/08	500,000			500,000	25p	27/02/11
John Laycock	26/06/08	-	500,000		500,000	25p	27/02/11
	31/03/09	-	1,000,000		1,000,000	4p	31/03/12
	31/03/09	-	200,000		200,000	4p	31/03/12
		6,800,000	4,300,000	1,500,000	9,600,000		



NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2009

6. Taxation

	2009	2008
	£'000	£'000
Current year taxation		
UK corporation tax at 28% (2008: 30%) on profits for the year	-	-
Factors affecting the tax charge for the year		
Loss on ordinary activities before tax	(1,494)	(1,153)
Loss on ordinary activities at the UK standard rate of 28% (2008: 30%)	(418)	(346)
Effect of tax benefit of loss carried forward	418	346
Current year taxation	-	-

No deferred tax asset has been recognised because there is insufficient evidence of the timing of suitable future profits against which they can be recovered.

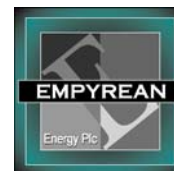
Tax losses of approximately £3,160,000 (2008: £2,070,000) are available to be claimed going forward, which are inclusive of the exploration expenditure and oil & gas properties impairment total write off of £1,298,000 (2008: £830,000).

7. Loss Per Share

The basic loss per share is derived by dividing the loss for the year attributable to ordinary shareholders by the weighted average number of shares in issue.

	2009	2008
Loss for the year	£1,494,000	£1,153,000
Weighted average number of Ordinary shares of £0.002 in issue	58,847,344	50,242,755
Loss per share – basic (pence)	2.53	2.30
Weighted average number of Ordinary shares of £0.002 in issue inclusive of outstanding options	65,650,213	56,084,626

As the inclusion of the potential ordinary shares would result in a decrease in the loss per share they are considered to be anti-dilutive and, as such, a diluted loss per share is not included.



NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2009

8. Intangible Assets

Exploration expenditure

	2009	2008
	£'000	£'000
Cost		
Balance brought forward	9,240	6,443
Additions	5,531	4,217
At 31 March	<u>14,771</u>	<u>10,660</u>
Reclassified - Oil and Gas Properties	(6,973)	(590)
Exploration Expenditure Impairment ⁽¹⁾	(168)	(830)
	<u>(7,141)</u>	<u>(1,420)</u>
Net Book Value		
At 31 March	<u>7,630</u>	<u>9,240</u>

⁽¹⁾ During the period ended 31 March 2009, exploration expenditure of £168,000 (2008: £830,000) was written off due to impairment. The impairment primarily relates to the Dos Dedos well at the Margarita prospect, Texas which has resulted in a £166,000 (2008:£305,000) exploration impairment due to the well watering out. In addition, £2,000 (2008: £525,000) was written down for a residual payment on the Bondi Prospect, Texas which was plugged and abandoned in February 2008.

Exploration expenditure by project area (£'000)

Areas of Interest	Cost at 31 March 08	Additions	Written Off	Reclassified as Oil & Gas Property	Net Book Value at 31 March 09
Germany:					
Glantal	2,770	23	-	-	2,793
USA:					
Eagle Oil	2,739	-	-	-	2,739
Sugarloaf Hosston	3,380	5,506	-	(6,788)	2,098
Margarita	351	-	(166)	(185)	-
Texon	-	2	(2)	-	-
Total	9,240	5,531	(168)	(6,973)	7,630



NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2009

9. Oil and Gas Properties

	2009	2008
	£'000	£'000
Net Book Value		
Balance brought forward	374	-
Reclassification of exploration costs (Note 8)	6,973	590
Oil and Gas Properties Impairment ⁽¹⁾	(300)	-
Amortisation	(611)	(216)
At 31 March	6,436	374

⁽¹⁾ During the period ended 31 March 2009, £300,000 (2008: nil) was written off due to impairment relating to the Milagro and Agavero wells at the Margarita prospect in Texas, after diminished production resulted in each well being suspended. The operator considers it uneconomic to continue with either of these wells.

10. Plant and Equipment

Office Equipment

	2009	2008
	£'000	£'000
Cost		
Balance brought forward	12	12
Additions	1	-
Disposal	(11)	-
At 31 March	2	12
Depreciation		
Balance brought forward	11	8
Charge for the year	1	3
Disposals	(11)	-
At 31 March	1	11
Net Book Value		
At 31 March	1	1



NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2009

11. Trade and Other Receivables

	2009	2008
	£'000	£'000
Trade and other receivable	6	177
Prepayments	402	167
VAT receivables	5	7
	<hr/>	<hr/>
Total Receivables	413	351

12. Trade and Other Payables

	2009	2008
	£'000	£'000
Trade and other payables	28	398
Accruals	15	24
	<hr/>	<hr/>
Total Payables	43	422

13. Reconciliation of Operating Loss to Operating Cash Flows

	2009	2008
	£'000	£'000
Operating loss	(1,494)	(1,307)
Decrease in receivables	(94)	(186)
Decrease in prepayments	(8)	(28)
Increase / (decrease) in accrued liabilities	(24)	7
Share based payments – directors & employees	332	329
Share based payments – consultants	72	-
Depreciation	1	3
Oil and gas properties amortisation	611	216
Exploration expenditure impairment	168	830
Oil and gas properties impairment	300	-
Increase in accounts payable	14	19
	<hr/>	<hr/>
Net cash outflow from operating activities	122	(117)



NOTES TO THE FINANCIAL STATEMENTS CONTINUED for the year ended 31 March 2009

14. Called Up Share Capital

The authorised share capital of the Company and the called up and fully paid amounts at 31 March 2009 were as follows:-

	2009	2008
Authorised		
1,000,000,000 ordinary shares of 0.2p each	2,000,000	2,000,000
Issued and fully paid		
66,157,792 (2008: 50,546,291) ordinary shares of 0.2p each	132,316	101,093

On 13 June 2008, 8,969,976 fully paid ordinary shares of 0.2p each were placed for cash at a price of £0.50 per share.

On 27 November 2008, a further 3,333,335 fully paid ordinary shares of 0.2p each were placed for cash at a price of £0.15 per share.

On 17 December 2008, 476,190 fully paid ordinary shares of 0.2p each were issued on a non-cash basis under the terms of a service agreement. The service agreement is for the provision of institutional investor relations.

On 31 March 2009, 2,832,000 fully paid ordinary shares of 0.2p each were placed for cash to Directors and management at a price of £0.03 per share, under an arrangement whereby Directors and management agree to take 30% of their current remuneration in equity for 12 months in equal instalments, following the placing. These new shares are subject to an orderly market arrangement with Blue Oar Securities for a period of 12 months.

Share Options and Warrants

The following equity instruments have been issued by the Company and have not been exercised at 31 March 2009:

	Number options	Exercise Price	Vesting Date	Expiry Date	Value per option (pence)
Incentive options	2,200,000	50 pence	20/10/06	20/10/09	13.07
Incentive options	2,450,000	50 pence	28/06/07	28/06/10	11.16
Incentive options	1,225,000	25 pence	26/06/08	27/02/11	5.07
Incentive options	1,225,000	25 pence	27/02/08	27/02/11	23.21
Incentive options	3,700,000	4 pence	31/03/09	31/03/12	1.30

During the year 1,250,000 options exercisable at 40 pence and 250,000 options exercisable at 35 pence, expired on 31 December 2008.



NOTES TO THE FINANCIAL STATEMENTS CONTINUED for the year ended 31 March 2009

15. Commitments

As at 31 March 2009, the Company had no material capital commitments.

16. Related Party Transactions

On 31 March 2009 the Directors and management agreed to take 30% of their current remuneration in equity for the following 12 months in equal instalments. The total amount of £84,960, of which £70,200 is attributed to Directors, will be deducted from Directors and managements remuneration. The equity was converted at 3p on 31 March 2009 for a total of 2,832,000 new ordinary shares. These new shares are subject to an orderly market arrangement with Blue Oar Securities for a period of 12 months.

Other than those disclosed above and in Note 5 there were no other related party transactions during the year.

17. Financial instruments

The Board of Directors determine, as required, the degree to which it is appropriate to use financial instruments to mitigate risk. Current the Company's principal financial instruments comprise cash. Together with the issue of equity share capital, the main purpose of these is to finance the Company's operations. The Company has other financial instruments such as short-term receivables and payables which arise directly from normal trading.

The Company has not entered into any derivative of other hedging instruments.

The main risk affecting the groups financial instruments are interest rate risk, foreign currency risk and liquidity risk, which are discussed below.

Throughout the period ending 31 March 2009 no trading in financial instruments was undertaken.

There is no material difference between the book value and fair value of the Company cash balances, short-term receivables and payables.

Interest rate risk

The Company finances its operations through the use of cash deposits at variable rates of interest for a variety of short-term periods, depending on cash requirements. These rates are reviewed regularly and the best rate obtained in the context of the Company's needs.

Short-term receivables and payables are not exposed to interest rate risk.

Currency risk

The Company has potential currency exposures in respect of items denominated in foreign currencies comprising transactional exposure in respect of operating costs and capital expenditure incurred in currencies other than the functional currency of operations.

At times the Company may hold cash deposits in foreign currency to meet needs of commitments required for international operations.



NOTES TO THE FINANCIAL STATEMENTS CONTINUED for the year ended 31 March 2009

Liquidity risk

The Company's policy throughout the year has been to ensure that it has adequate liquidity by careful management of its working capital. Amount held at bank amounted to £ 291,000 (2008: £ 1,510,000).

Capital

In managing its capital, the Company's primary objective is to maintain a sufficient funding base to enable the Company to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, through new share issues, the Company considers not only its short-term position but also its long-term operational and strategic objectives.

18. Post Balance Sheet Date Events

On 2 April 2009, the Company allotted 30,000,001 ordinary shares pursuant to a three tranche placement which raised £900,000 as announced on 19 March 2009, 20 March 2009 and 25 March 2009. The proceeds from the placing will contribute towards further development and the Sugarloaf project in Texas, USA and for general working capital.

On 5 May 2009 the Company announced that it has entered into arrangements with operator Texas Crude Energy Inc, to seek a farmout of up to half of the Company's interest in Block B of the Sugarloaf Project. Empyrean will join some of the other joint venture partners to contribute equity to this joint farmout effort to attract a significant E&P company or investor. It is envisaged that the incoming party will earn equity by carrying the farmout parties including Empyrean through a drilling and well stimulation work program in a timely fashion. A successful farmout and subsequent aggressive work program will generate significant momentum for the project, as well as allow the leasehold acreage position to be managed proactively.

On 6 May 2009 the Company announced that the operator of Block A, Conoco Phillips, has reported production figures for the month of March 2009 to the TRRC. The production figures show production from the Block A-1 well, Block A-3 well, Block A-4 well and the Block A-5 well as provided below. It is believed that the fifth well, the Block A-2 well is presently awaiting production facilities. It is not known how many days production this represents for each well.

The following table shows the total production summary for each of the individual wells:

Well Name	Oil Production (Barrels)	Gas Production (Cubic Feet)
A-1	5,687	18,205,000
A-3	3,862	42,950,000
A-4	5,372	49,907,000
A-5	700	2,631,000
TOTALS	15,621	113,693,000

