



EMPYREAN ENERGY PLC

Annual Report and Accounts

For the period 10 March 2005 to 31 March 2006

Registered Number 05387837

Empyrean Energy Plc

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Empyrean Energy Plc

Company information

| | |
|---------------------------------|---|
| Directors | Patrick Cross (Chairman) Frank Brophy (Technical Director) Chris Lambert (Executive Director) Tom Kelly (Executive Director) Malcolm James (Non-Executive Director) |
| Secretary and Registered Office | Jade Styants 7 Savoy Court, Strand London WC2R 0ER |
| Auditors | Chapman Davis LLP 2 Chapel Court London SE1 1HH |
| Nominated Advisor and Broker | HB-corporate 40 Marsh Wall London E14 9TP |
| Solicitors | Kerman & Co LLP 7 Savoy Court, Strand London WC2R 0ER |
| Bankers | Bank of Scotland 14-16 Cockspur Street London SW1Y 5BL |
| Registrars | Capita Registrars Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU |

Empyrean Energy Plc

Chairman's Statement

It is with pleasure that I am able to report on a very successful first year as a listed company.

Empyrean Energy Plc was admitted to AIM on 27 July 2005 having completed a difficult but successful IPO process based on our first project – the Glantal Gas Project in Germany.

Since listing on AIM we have acquired interests in two further projects that fulfil the overall strategy of investing in energy projects within politically stable regions, providing ready access to energy hungry markets. We have also undertaken an additional capital raising to assist the Company with the exploration and development of all three projects.

Our second project, the Eagle Oil Pool Development Project in California, is now at the production testing stage and we are eagerly awaiting the outcome of this testing to determine the production rates.

In keeping with our investment strategy, the Company recently acquired an interest in the Sugarloaf Hosston Prospect (Cretaceous) in Texas. This prospect is a 20,000 acre 4-way closure with multi trillion cubic feet (“TCF”) gas potential in one of the most prolific hydrocarbon provinces in the world. An independent expert has estimated that the Sugarloaf Hosston Prospect could contain a P50 (probability 50% unrisks) reserve of 0.97 TCF gas, with the P10 assessment estimated at 2.3 TCF gas.

In conclusion, I am pleased to report that in its first year of operation, the Company has successfully acquired a portfolio of three strong projects, all in regions free from political risk. Drilling has given strong encouragement with the first two projects gaining enough support from electric log data to necessitate further testing with the third project set to commence drilling in the second half of 2006. The three projects provide the Company with a good balance of risk versus reward, and the Board will continue to look actively for additional attractive opportunities which complement this portfolio and continue to deliver strong capital growth to shareholders.

Patrick Cross
Chairman
26 May 2006

Empyrean Energy Plc

Operations Report

Empyrean Energy Plc (“Empyrean”) has been actively involved in two operations since it was admitted to AIM on the 27th July 2005. The first operation at the Glantal Gas Project located onshore southwest Germany has involved the drilling and appraisal of the Glantal-1 well. The second operation involves the drilling of Eagle North-1 well which is part of the Eagle Oil Pool Development Project located onshore in the prolific oil and gas producing San Joaquin Basin, California. Both operations are still in progress at the time of writing.

Glantal Gas Project

This is the first project entered into by Empyrean. It involves the drilling of the exploration well Glantal-1 in the Neues Bergland permit near Frankfurt in Germany and has the potential of discovering important accumulations of gas measuring in the trillions of c.ft. The operator is Pannonian International Ltd (“Pannonian”) a wholly-owned subsidiary of the US-based Galaxy Energy Corporation. Empyrean has the opportunity to earn a 52% working interest.

The well was spudded on the 29th November 2005. The vertical well was slightly deviated after reaching 650m, as planned, and the angle gradually increased to 30 degrees with a northeast bearing. Electric logs were run prior to the setting of the 7 inch casing at 1022.5 metres in the “Dilsburger” seal.

After some delays due to weather and technical set backs, the Gottelborn Formation, the first of the proposed reservoirs, was intercepted at 1054 metres measured depth (MD).

A total depth of 1687 metres (MD) was reached on the 25th January 2006, 340 metres short of the proposed total depth of 2025 metres. This premature termination was due to the presence of a granitic type igneous rock intercepted at 1632 metres (MD) underlying the sedimentary section.

During drilling there were increases from time to time in gas readings. There was also a substantial fracture zone identified at 1450 metres when the drill string fell 20cm. The electric logs indicated the presence of at least 20 intervals of porosity and permeability which could be potential gas filled reservoirs.

It was unanimously decided to suspend the well to enable testing at a later date. A 5 inch liner was emplaced and a detailed analysis embarked upon of the various logs which included sophisticated fracture detection logs. These studies have resulted in the identification of four zones which will be tested separately for hydrocarbon content.

At present preparations are being made to carry out those tests with a local workover rig expected by the operator to arrive on site in June 2006.

Should these tests prove successful for hydrocarbon content the initial productivity of the reservoirs will be assessed and on the basis of such assessment the operational committee will consider undertaking artificial fracturing enhancement.

Empyrean Energy Plc

Eagle Oil Pool Development Project

The Eagle-North-1 well is an appraisal of an oil discovery made in the Mary Bellocchi-1 well in 1986. The present operator, Victoria Petroleum N.L., was a participant in the oil and gas discovery at the time and has farmed out part of its interest to Empyrean. The farmin agreement allows Empyrean to earn a 38.5% in the Eagle Oil Pool Development Project by contributing 55% to the total cost of Eagle North-1 which involves testing both a vertical and horizontal section of the well.

The well was spudded on the 11th January 2006 and, after several sidetrack operations, reached the TD of 4,219m on the 16th February 2006. Wireline evaluation of the target Gatchell sands indicated oil saturation over a 21 metre interval from 4,143 metres to 4,164 metres with interpreted net oil pay of 13.4 metres. The wireline log character of the pay was similar to that seen in the Gatchel sands that produced oil at Mary Bellocchi-1 366 metres to the southeast. Despite an increase in the gas and higher homologues while drilling the pay zone, no fluorescence or traces of oil were recorded. This was to be expected as the (oil based) mud was considerably overbalanced and the PDC drill bit used would have pulverised the sands. The 7 inch production casing was set at 4,217 metres and was perforated over intervals 4,142.8 to 4,152.3 and 4,158.3 to 4,163.0 metres. Testing gave only a small amount of oil (400cc of 29 degrees API) and no water. Inadequate penetration and reservoir damage during drilling were interpreted by the operator to have combined to produce this result, for the logs give a different perspective, and the decision was made to continue drilling the horizontal phase through the pay zone as planned.

Technical breakdowns and delays have severely impeded this phase of the operation. Good oil shows however have been encountered through the Gatchell sands. Poorly consolidated sandstones have prevented both the drilling of any further than 4,386 metres (measured depth) or setting the 2 3/8 inch slotted liner as originally planned. Instead, an adjusted testing programme is at present being prepared whereby 72 metres of Lower Bellocchi Gatchell oil sand cased behind the 4 1/2 inch liner and 105 metres of open hole (barefoot completion) out of the base of the 4 1/2 inch liner set at 4,386 metres will be production tested. This makes a total of 177 metres of pay to be tested in the horizontal part of the well bore.

Sugarloaf Hosston Deal

On the 6th April 2006, Empyrean announced that it had entered into a farmin agreement with operators, Texas Crude Energy Inc., to participate in the Sugarloaf Hosston Project located in South Texas, USA.

The prospect covers an area of four way closure of approximately 20,000 acres which could contain several trillion c.ft of gas. Empyrean is earning a 7.5% interest until payout where the interest reverts to a 6% working interest after payout (estimated cost \$US 750,000).

The potential main objective Cretaceous Hosston sands occur at approximately 17,000 feet although secondary targets could occur at shallower depths based on the results of wells in the vicinity. The well is designed to reach a TD of 21,000 feet.

FJ Brophy BSc (Hons)
Technical Director
26 May 2006

Empyrean Energy Plc

Directors' Report

The Directors are pleased to present their report and the audited financial statements of the Company for the period 10 March 2005 to 31 March 2006.

Company Formation

The Company was formed and registered as Empyrean Energy Plc on 10 March 2005, with registration number 05387837.

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 Operations Report.

Results and Dividends

Loss on ordinary activities of the company after taxation amounted to £689,000. Exploration costs of £3,860,000 have been capitalised. The Directors do not propose the payment of a dividend.

Directors and Directors Interests

The Directors who served during the period to 31 March 2006 had, at that time, and at the date of their respective appointment, the following beneficial interests in the shares of the Company:

| | 31 March 2006 | Date of appointment | 31 March 2006 | Date of appointment |
|--|---------------------------|------------------------|---|------------------------|
| | Number of ordinary shares | | Number of options over ordinary shares | |
| Patrick Cross (appointed 8 June 2005) | - | - | 500,000 | - |
| Frank Brophy (appointed 18 March 2005) | - | - | 1,000,000 | - |
| Christopher Lambert (appointed 18 March 2005) | 750,000 | 750,000 | - | - |
| Thomas Kelly (appointed 15 March 2005) | 3,500,000 | 3,500,000 | - | - |
| Malcolm James (appointed 10 March 2005) | 500,000 | 500,000 | - | - |
| Alwyn Davey (appointed 10 March 2005 and resigned 15 March 2005) | - | - | - | - |

For further details on options held by Directors, refer to note 6. None of the Directors hold warrants in the Company.

There have been no changes in Directors' interests in shares since the year-end.

Empyrean Energy Plc

Substantial shareholdings

On 31 March 2006 the following were registered as being interested in 3% or more of the Company's ordinary share capital other than Directors holdings as previously disclosed:

| | 31 March 2006 | | 27 April 2006 | |
|--|--------------------------------|------------------------------------|--------------------------------|------------------------------------|
| | Ordinary shares of £0.002 each | Percentage of issued share capital | Ordinary shares of £0.002 each | Percentage of issued share capital |
| JP Morgan Asset Management Limited | 3,785,350 | 10.8% | 3,785,350 | 10.8% |
| Societe Prive de Gestion de Patrimoine | 2,919,046 | 8.33% | 2,919,046 | 8.33% |
| RAB Special Situations (Master) Fund Limited | 1,783,333 | 5.09% | 1,783,333 | 5.09% |
| Majadie Investments Plc | 1,241,429 | 3.54% | 1,241,429 | 3.54% |

Share Capital

Information relating to shares issued during the period is given in note 12 to the financial statements.

Charitable and Political Donations

During the period there were no charitable or political donations.

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. There are no trade creditors as at 31 March 2006.

Post Balance Sheet Events

Material post balance sheet events are set out in note 19 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.

Empyrean Energy Plc

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.

Remuneration

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

Details of directors' emoluments and of payments made for professional services rendered are set out in note 6 to the financial statements.

Management Incentives

To assist in the incentivisation, retention and recruitment of employees and consultants, the Company issued share options to two of the directors during the period as part of this scheme. Details of these options are set out in note 6 to the financial statements.

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 UKLA.

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 Malcolm James, is chaired by Patrick Cross and met twice during the period ended 31 March 2006. 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.

The remuneration committee

The remuneration committee is made up of Patrick Cross and Malcolm James and chaired by Patrick Cross. The remuneration committee met twice during the period ended 31 March 2006. 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.

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.

Empyrean Energy Plc

Statement of Directors' Responsibilities

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.

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 Alternative Investment Market.

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

Patrick Cross
Chairman
26 May 2006

Empyrean Energy Plc

Report of the Independent Auditors to the members of Empyrean Energy Plc

We have audited the financial statements for the period ending 31 March 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement and the related Notes.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities included within the Directors' Report.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Auditing Standards issued by the Auditing Practices Board. 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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 transactions is not disclosed.

We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

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, the Chairman's Statement and the Operations Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit Opinion

We conducted our audit in accordance with international auditing 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 judgements 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 of the state of affairs of the Company as at 31 March 2006 and of the loss and cash flows of the Company for the period 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, 26 May 2006

Empyrean Energy Plc

Income Statement for the period ended 31 March 2006

| | Note | 2006 £'000 |
|--|------|---------------------|
| Administrative expenses | | <u>(760)</u> |
| Operating loss | 2 | (760) |
| Interest receivable | 3 | 71 |
| | | <u> </u> |
| Loss on ordinary activities before taxation | | (689) |
| Taxation on loss on ordinary activities | 4 | - |
| | | <u> </u> |
| Loss for the financial year | 13 | <u><u>(689)</u></u> |
| Loss per share expressed in pence per share | | |
| - Basic | 7 | (2.5)p |

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.

Empyrean Energy Plc

Balance Sheet as at 31 March 2006

| | Note | 2006 £'000 |
|-----------------------------|------|---------------|
| Assets | | |
| Non-current assets | | |
| Intangible assets | 8 | 3,860 |
| Plant and equipment | 9 | <u>7</u> |
| | | <u>3,867</u> |
| Current assets | | |
| Other receivables | 10 | 239 |
| Cash at bank | | <u>3,210</u> |
| | | <u>3,449</u> |
| Liabilities | | |
| Current liabilities | | |
| Other payables | 11 | <u>(123)</u> |
| | | <u>(123)</u> |
| Net current assets | | |
| | | <u>3,326</u> |
| Net assets | | |
| | | <u>7,193</u> |
| Shareholders' equity | | |
| Ordinary shares | 12 | 70 |
| Share premium | 13 | 7,665 |
| Other reserves | 13 | 147 |
| Retained loss | 13 | <u>(689)</u> |
| Total equity | | |
| | | <u>7,193</u> |

The financial statements on pages 11 to 22 were approved by the Board of Directors on 26 May 2006 and were signed on its behalf by:

Chairman

Director

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

Empyrean Energy Plc

Cash Flow Statement for the period ended 31 March 2006

| | Note | 2006 £'000 |
|---|------|---------------|
| Net cash outflow from operating activities | 15 | (769) |
| Return on Investments | | |
| Interest received | | 71 |
| Net cash inflow from returns on investments | | 71 |
| Capital expenditure | | |
| Purchase of tangible fixed assets | | (12) |
| Purchase of intangible fixed assets | | (3,854) |
| Net cash inflow for capital expenditure | | (3,866) |
| Financing | | |
| Issue of ordinary share capital | | 8,146 |
| Expenses relating to share issues | | (372) |
| Net cash inflow from financing | | 7,774 |
| Increase in net cash | 16 | 3,210 |

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

Empyrean Energy Plc

Statement of Accounting Policies for the period ended 31 March 2006

The principal accounting policies are summarised below. They have all been applied consistently throughout the period.

Basis of accounting

These financial statements have been prepared under the historical cost convention in accordance with International Financial Reporting Standards and IFRIC interpretations and with those parts of the Companies Act, 1985 applicable to companies reporting under IFRS.

Turnover

The Company had no turnover during the period.

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.

Exploration and development expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. 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 costs in relation to that 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.

Empyrean Energy Plc

Statement of Accounting Policies for the period ended 31 March 2006

Deferred tax

Deferred tax is provided on a full provision basis on all timing differences which have arisen but not reversed at the balance sheet date.

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.

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.

Going concern

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

Empyrean Energy Plc

Notes to the Financial Statements for the period ended 31 March 2006

1. Turnover and Segmental Analysis

The Company had no turnover during the period.

All the administration costs were incurred by the Company in the United Kingdom

Capitalised exploration, evaluation and development expenditure can be analysed by the following geographical segments:

| | 2006 £'000 |
|--------------------|-----------------------------|
| Continental Europe | 2,027 |
| North America | 1,833 |
| | <hr/> |
| | 3,860 |
| | <hr/> |

2. Operating Loss

The operating loss is stated after charging:

| | 2006 £'000 |
|---|-----------------------------|
| Auditors' remuneration – audit services | 5 |
| – other services | 3 |
| Depreciation (note 9) | 3 |
| Directors' emoluments (note 6) | 88 |
| | <hr/> |

Auditors' remuneration for non-audit services provided during the period amounting to £3,000 relates to the provision of general accounting services. A further charge of £15,000 relates to the provision of an accountant's report for the purpose of the Company's AIM Admission Document and was charged to the share premium account as part of share issue expenses.

3. Interest Receivable

| | 2006 £'000 |
|--------------------------|-----------------------------|
| Bank interest receivable | 71 |
| | <hr/> |

Empyrean Energy Plc

Notes to the Financial Statements for the period ended 31 March 2006

4. Taxation

| | 2006 |
|--|--------------|
| | £'000 |
| Current year taxation | |
| UK corporation tax at 30% on profits for the period | - |
| Factors affecting the tax charge for the period | |
| Loss on ordinary activities before tax | (689) |
| Loss on ordinary activities at the UK standard rate of 30% | (207) |
| Effect of tax benefit of loss carried forward | 207 |
| Current period taxation | - |

5. Staff Costs (including Directors)

The Company had no employees during the year.

| | 2006 |
|-------------------------------------|--------------|
| | £'000 |
| Equity-settled share-based payments | 127 |

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 12.

The fair value of these options has been fully expensed during the period, based on a Black-Scholes model, assuming a risk free rate of 4.7% and expected volatility of 60%. The value per option ranges from 8 pence to 9 pence. There are no performance measures attached to the options.

Empyrean Energy Plc

Notes to the Financial Statements for the period ended 31 March 2006

6. Directors' Emoluments

| | Income statement | 2006 £'000 Intangible assets | Total |
|------------------------------------|---------------------|---------------------------------------|-------|
| Non-Executive Directors: | | | |
| Patrick Cross | 24 | - | 24 |
| Malcolm James | 16 | - | 16 |
| Executive Directors: | | | |
| Frank Brophy ⁽¹⁾ | 16 | 8 | 24 |
| Christopher Lambert ⁽²⁾ | 16 | 24 | 40 |
| Thomas Kelly ⁽³⁾ | 16 | 8 | 24 |
| Total | 88 | 40 | 128 |

- 1) Services provided by F J Brophy Pty Ltd
- 2) Services provided by Walkerton Plc
- 3) Services provided by Apnea Holdings Pty Ltd

No pension benefits are provided for any Director.

The Executive Directors are remunerated for consulting services provided to the Company in relation to its exploration operations as disclosed above. These payments are capitalised to licences and deferred exploration costs (note 8).

Directors' Share Options

On 2 November 2005, Patrick Cross was allocated options over 250,000 shares at an exercise price of 35 pence per share with an expiry date of 31 December 2008, and options over 250,000 shares at an exercise price of 40 pence per share with an expiry date of 31 December 2008.

On 2 November 2005, Frank Brophy was allocated options over 1,000,000 shares at an exercise price of 35 pence per share with an expiry date of 31 December 2008.

7. Loss Per Share

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

| | |
|---|-------------|
| Loss for the period | £(689,000) |
| Weighted average number of Ordinary shares of £0.002 in issue | 27,310,455 |
| Loss per share – basic | (2.5) pence |
| Weighted average number of Ordinary shares of £0.002 in issue inclusive of outstanding options | 27,917,129 |

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

Empyrean Energy Plc

Notes to the Financial Statements for the period ended 31 March 2006

8. Intangible Assets

Licences and deferred exploration costs

| | £'000 |
|-----------------------|---------------------|
| Cost | |
| Additions | 3,860 |
| At 31 March 2006 | <u>3,860</u> |
| Amortisation | - |
| Net Book Value | |
| At 31 March 2006 | <u><u>3,860</u></u> |

At 31 March 2006 the Directors undertook an impairment review of the licences and deferred exploration costs, as a result of which, no provisions were deemed to be required.

9. Plant and Equipment

| | Office Equipment £'000 |
|-----------------------|---------------------------------------|
| Cost | |
| Additions | 10 |
| At 31 March 2006 | <u>10</u> |
| Depreciation | |
| Charge for the period | 3 |
| At 31 March 2006 | <u>3</u> |
| Net Book Value | |
| At 31 March 2006 | <u><u>7</u></u> |

10. Other Receivables

| | 2006 £'000 |
|-------------------|-----------------------|
| Other receivables | 239 |
| | <u>239</u> |

Empyrean Energy Plc

Notes to the Financial Statements for the period ended 31 March 2006

11. Other Payables

| | 2006 £'000 |
|----------|-----------------------|
| Accruals | 123 |
| | <hr/> |
| | 123 |
| | <hr/> |

12. Called Up Share Capital

The authorised share capital of the Company and the called up and fully paid amounts at 31 March 2006 were as follows:-

| | 2006 |
|--|------------------|
| Authorised | |
| 1,000,000,000 ordinary shares of 0.2p each | <u>2,000,000</u> |
| Issued and fully paid | |
| 35,038,671 ordinary shares of 0.2p each | <u>70,077</u> |

The Company was incorporated on 10 March 2005 with an authorised share capital of £2,000,000 divided into 200,000,000 ordinary shares of 1p each, of which 2 shares were issued fully paid to the subscribers to the Memorandum of Association of the Company.

On 16 March 2005 the authorised share capital of the Company was subdivided into 1,000,000,000 ordinary shares of 0.2p each.

On 23 March 2005 a further 14,999,990 ordinary shares of 0.2p were allotted at par value, fully paid.

On 4 April 2005 a further 8,500,000 ordinary shares of 0.2p were issued and allotted at a price of 20p per share.

On 27 July 2005 on admission to AIM, 7,144,282 new ordinary shares of 0.2p were placed at a price of 35p per share.

On 24 February 2006 a further 778,568 shares were allotted on conversion of warrants held over ordinary shares of 0.2p at a price of 35p per share.

On 28 February 2006 a further 2,539,350 ordinary shares of 0.2p were placed at a price of £1.30 per share.

On 31 March 2006 a further 157,143 shares were allotted on conversion of warrants held over ordinary shares of 0.2p at a price of 35p per share.

On 31 March 2006 a further 686,828 shares were allotted on exercise of options over ordinary shares of 0.2p at a price of 35p per share.

On 31 March 2006 a further 232,500 shares were allotted on exercise of options over ordinary shares of 0.2p at a price of 20p per share.

Empyrean Energy Plc

Notes to the Financial Statements for the period ended 31 March 2006

12. Called Up Share Capital (continued)

Share Options and Warrants

The following equity instruments have been issued by the Company and have not been exercised at 31 March 2006:

| | Number of ordinary shares | Exercise price | Expires |
|-------------------|------------------------------|-------------------|------------------|
| Incentive options | 1,250,000 | 35 pence | 31 December 2008 |
| Incentive options | 250,000 | 40 pence | 31 December 2008 |
| IPO Warrants | 1,445,714 | 35 pence | 27 July 2007 |

13. Reserves

The movements on reserves during the period were as follows:

| | Share premium £'000 | Other Reserves £'000 | Retained Loss £'000 |
|--|---------------------------|----------------------------|---------------------------|
| Premium on shares issued during the period | 8,076 | - | - |
| Share issue expenses | (411) | - | - |
| Equity-settled share-based payments | - | 127 | - |
| Equity-settled share issue expenses | - | 20 | - |
| Retained loss for the period | - | - | (689) |
| As at 31 March 2006 | 7,665 | 147 | (689) |

14. Movement on Equity Shareholders' Funds

| | 2006 £'000 |
|-------------------------------------|---------------|
| Loss for the period | (689) |
| Proceeds from share issue | 8,146 |
| Share issue expenses | (411) |
| Equity-settled share-based payments | 147 |
| Closing equity shareholders' funds | 7,193 |

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Notes to the Financial Statements for the period ended 31 March 2006

15. Reconciliation of Operating Loss to Operating Cash Flows

| | 2006 £'000 |
|--|-----------------------------|
| Operating loss | (760) |
| Increase in debtors | (243) |
| Increase in accrued liabilities | 104 |
| Other non-cash charges | 127 |
| Depreciation | <u>3</u> |
| Net cash outflow from operating activities | <u><u>(769)</u></u> |

16. Analysis and Reconciliation of Net Funds

| | As at 10 March 2005 £'000 | Cash flow for the period £'000 | As at 31 March 2006 £'000 |
|--------------------------|--|---|--|
| Cash in hand and at bank | <u>-</u> | <u>3,210</u> | <u>3,210</u> |

17. Commitments

As at 31 March 2006, the Company had no material capital commitments.

18. Related Party Transactions

The Executive Directors are remunerated for consulting services provided to the Company in relation to its exploration operations as disclosed in note 6. These payments are capitalised to licences and deferred exploration costs

There were no other related party transactions during the period.

19. Post Balance Date Events

Acquisition of Sugarloaf Hosston

On 6 April 2006 the Company entered into a farm-in agreement with local Houston based operator/explorer Texas Crude Energy Inc to participate in the Sugarloaf Hosston Prospect located in South Texas, USA. Full details of the participation are contained in the Operations Report.