



ANNUAL REPORT AND ACCOUNTS

For the period 1 April 2010 to 31 March 2011

Registered Number **05387837**



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COMPANY INFORMATION

Directors	Patrick Cross (Non-Executive Chairman) Thomas Kelly (Chief Executive Officer) Frank Brophy (Technical Director) John Laycock (Finance Director)
Secretary and Registered Office	Amanda Wilton-Heald 200 Strand London WC2R 1DJ
Principal Administrative Office	Suite 33, 22 Railway Road Subiaco WA 6008 Australia PO Box 1905 Subiaco WA 6904 Australia Phone: +61 (0)8 9388 8041 Fax: +61 (0)8 9388 8042 Email: enquiries@empyreanenergy.com
Auditors	Chapman Davis LLP 2 Chapel Court London SE1 1HH
Nominated Adviser and Broker	Shore Capital & Corporate Ltd Bond Street House 14 Clifford Street London W1S 4JU
Solicitors	Kerman & Co LLP 200 Strand London WC2R 1DJ
Registrars	Capita Registrars Bourne House 34 Beckenham Road Beckenham, Kent BR3 4TU



CHAIRMAN'S STATEMENT

Once again I am pleased to report that Empyrean Energy plc ("the Company") has had a successful year operationally, and has continued to grow both in revenue and the number of wells that it has participated in. In addition most of the wells it has participated in are already producing gas and condensate, and most importantly revenues. In a key development, independent petroleum consultants Netherland Sewell & Associates, Inc. ("NSAI") completed an independent reserves estimate for Empyrean's interest in the Sugarloaf project (the "Project"). The report confirmed management's robust value of the Project. The Directors believe the Project has the proven potential to generate significant cash flows for the Company for years to come.

In summary, and as announced on 9 March 2011 the report showed that net future revenues to Empyrean's interest in the Sugarloaf project alone would, according to NSAI total US\$179.7 million.

The following reserve allocations have been made by NSAI:

- Total proved (1P) reserves – 608,050 bbls of crude oil condensate, 2.72 billion cubic feet ("Bcf") of natural gas net to Empyrean and Net Present Value of future net revenue, before income taxes, discounted at 10% ("NPV(10)") of US\$24.6 million
- Total proved plus probable (2P) reserves – 1,324,014 bbls of crude oil condensate, 5.98 Bcf of natural gas net to Empyrean and NPV(10) of US\$46.7million
- Total proved plus probable plus possible (3P) reserves – 2,612,129 bbls of crude oil condensate, 11.99 Bcf of natural gas net to Empyrean and NPV(10) of US\$77.6 million

Importantly, due to the way that 1P, 2P and 3P reserves are defined and calculated in the report, as and when further wells are successfully drilled and brought into production it will result in 3P or possible reserves moving into 1P and 2P or proven and probable reserve categories on the assumption that the expert uses the same definitions and calculations for any future report. As this occurs, and assuming there are no significant changes to other assumptions in the reserve model, there will be an increase in the NPV (10) figures for both the proven and probable categories.

As at the time of printing this annual report, at least eight new wells have been spudded since the date of the reserve assessment. Of those new wells, at least four have already gone into production. Management believe that this is a significant and positive move forward for the momentum of the project.

Elsewhere, Empyrean maintains a blend of exploration and production assets that management believe has excellent potential for future success. We have stable production and a number of development well locations at our Hercules Project. We have some operational/ technical challenges at the Riverbend Project but Directors believe that, if successfully managed, the project could yield good returns. In addition, we have the potential upside in a large working interest in the Eagle Oil Pool Development Project. We will continue to do our best to enhance the value of these projects and to look for additional opportunities. The technical report by the Technical Director which follows provides full details on all our above projects.

Other key developments include the appointment in November 2010 of Shore Capital and Corporate Limited as Nominated Adviser ("NOMAD") to the Company, and Shore Capital Stockbrokers Limited as broker to the Company.



CHAIRMAN'S STATEMENT CONTINUED

In October 2010, principally to fund its share of the Sugarloaf Development Programme, Empyrean obtained interim financing by way of a convertible loan facility of £2,500,000 with Apnea Holdings Pty Ltd, of which £1,500,000 has been drawn down to meet the Company's share of the costs to date.

In March 2011, Mr Tom Kelly, the Commercial Director, was appointed to the role of Chief Executive Officer on the Board of the Company. This appointment was made in recognition of the breadth of the roles that he was already fulfilling, including commercial and financial negotiations as well as actively marketing the Company and PR activities.

In closing, the Company continues to seek to meet the challenges of discovering oil and gas in what has always been a high risk/ high reward industry. Since listing, Empyrean has been involved in at least six different discoveries of hydrocarbons – three of those discoveries are still in production. At Sugarloaf, the Company's principal project, management's valuation has been underpinned by independent assessors and we believe that we will see revenue from that project for many years to come. As a small and growing company we have had to be nimble and creative to meet the continuing challenges of matching our larger partners financially on the rapid pace of development that can ensue from a major discovery. We continue to meet these challenges despite rapidly changing markets and sentiment. The Company has secured a broad portfolio of projects, operated by some of the USA's major oil and gas exploration and development companies. Management believe that the growth – both in revenues and in the number of wells that it has participated in – will continue in the next twelve months, and that the Company will continue the process of converting technical success into commercial success.

Patrick H. Cross.

Patrick Cross
Chairman
24 May 2011



OPERATIONAL REVIEW

Empyrean continues to be an active participant in five separate projects in USA. Four of the projects are located onshore Texas and one onshore California. The wells in the Sugarloaf Project (Blocks A and B), the Riverbend Project and the Hercules Project (all based in Texas) are all at present producing gas and condensate to market.

The Sugarloaf Project, in particular, has been the scene of a re-invigorated programme of re-entry, fracing and development drilling in Block B. This increase in tempo has come as a direct result of the farmin of Hilcorp Energy Company ("Hilcorp") which replaced Texas Crude Energy Inc. ("TCEI") as operator of Block B. Since the drilling of Rancho Grande 168-1 in April 2010, the third and final of the obligatory Hilcorp farmin wells, Empyrean has been a participant in the successful drilling of a further twelve wells to date (April 2011). Following the Hilcorp farmin, Empyrean now participates with a 3% working interest ("WI") in most wells drilled in Block B, save Kowalik- 1R in which it has a 10.2% WI. The only variance from the 3% is where a well is located partly on the border of Empyrean's acreage and partly on adjoining acreage that Empyrean does not participate in.

In Block A, Empyrean has maintained its 7.5% WI in the four producing wells operated by Conoco-Phillips, and is currently involved in no further development drilling there.

The third and fourth projects are Riverbend and Hercules in which Empyrean maintains a 10% WI. Both projects are operated by Krescent Energy Partners II, LP of Houston Texas ("Krescent"). Empyrean farmed into the projects in 2009 and each has resulted in the discoveries and development of potentially economically viable gas-condensate and gas fields.

The fifth project, the Eagle Oil Pool Development Project in California in which Empyrean maintains a 48.5% WI, requires additional seismic acquisition prior to any further appraisal drilling. The results of a drilling campaign at present being evaluated in an adjacent area will influence both the seismic programme layout and the eventual geological objectives. Until results of the adjacent well are known, the primary objective at Eagle North will remain the oil-bearing, Lower Mary Bellocchi Gatchell sands.

Sugarloaf Project

Block B

Hilcorp has followed the drilling of its three obligatory farmin development wells, Easley-1, Morgan-1H and Rancho Grande- 1, with twelve additional wells to date. Drill time to Total Depth ("TD") and time lost due to technical malfunction have been drastically reduced by Hilcorp. The time taken to reach the total measured depth ("MD"), depending on which well, has varied between 16 days (May Unit – 1H) and 33 days (Urrutia – 1H).

The perforating, staged fracing procedure and completion techniques have been more prolonged and sophisticated procedures than those previously employed. Consequently, the post drilling operations have generally accounted for more than 60% of the total cost of the completed well. It is anticipated that the Block B portion of the Sugarkane Field will require at least 280 wells in total to ensure effective development.



OPERATIONAL REVIEW CONTINUED

Although the primary objective formation has remained unchanged in Block B wells, an adjustment to the geological nomenclature needs clarification. Where once the original objective reservoir, the Austin Chalk, had been divided (by some authors) into "Upper", "Middle" and "Lower", the lower two divisions are now incorporated into the lithologically distinct Eagle Ford Shale. The Eagle Ford Shale is a Lower Cretaceous, organic-rich, shaley limestone which directly underlies the traditional Upper Cretaceous Austin Chalk for which it is considered to be the hydrocarbon source rock. All wells so far drilled in Block B, with the exception of Kowalik-1H and Weston -1H which produce from the Austin Chalk, are now considered to be producing from the Eagle Ford Shale which depends in great part on fracture (as opposed to matrix) porosity and permeability for its function as a reservoir.

The fourteen, post-farmin Block B wells spudded up until May 2011, and their results, are described in the following:

Kowalik - 1R (10.2% WI) was spudded on 9 July 2010, and drilled to a TD of 18,132 ft MD (measured depth). Fracing was performed along 14 intervals of an approximate 6,500 ft horizontal section. An obstruction in the casing required remedial treatment prior to the installation of production tubing. Commercial production¹ commenced on 11 December 2010. On 28 February 2011 it was announced that the well had already produced 90.2 mmscf (million standard cubic feet) of gas and 28,825 bbls (barrels) of condensate, equating to 731 boe/d (barrels of oil equivalent per day).

Luna -1H (3%WI) was spudded on 7 August 2010, and drilled to a TD of 17,550 ft MD. Approximately 5,000 ft of horizontal section was fraced in 14 stages. Production commenced on 16 November 2010 and 11 days later the well was producing 1,859 mscf/d (thousand standard cubic feet per day) and 690 bbls/d on a restricted choke.

May Unit - 1H (3%WI) was spudded on 7 September 2010 and drilled to a TD of 17,550 ft MD, providing approximately 5,000 ft of horizontal section within the reservoir. A 16 stage fracc over a 4,800 ft section was successfully completed and production commenced on 5 November 2010. After 30 days the well had produced 56 mmscf of gas and 17,000 bbls of condensate.

Urrutia - 1H (3% WI) was spudded on 10 September 2010 and drilled to a TD of 17,411 ft MD. 19 stages of perforation and fracing operations were performed over an interval of approximately 4,400 ft of horizontal reservoir section. Production commenced on 12 December 2010 and after 30 days the well had produced 53 mmscf of gas and 19,395 bbls of condensate, equating to 830 boe/d.

Direct Assets - 1H (%WI) was spudded on 30 September 2010 and drilled to a TD of 17,600 ft MD providing 5,000 ft of horizontal section. Some remedial work was required when an isolation plug became stuck following the completion of the 10th stimulation stage.

The well finally commenced production on 27 January 2011 and had produced after 30 days a total of 40.6 mmscf of gas and 13,939 bbls of condensate equating to 690 boe/d.



OPERATIONAL REVIEW CONTINUED

Gilley -1H (3% WI) was spudded on 20 November 2010 and reached a TD of 16,969 ft MD on 12 December 2010, with casing securing 4,200 ft of horizontal reservoir section. A failed casing connection joint was detected after the completion of the first 3 stages of the fracing operation. Material and rig availability have resulted in time losses and pre-production operations have still to be completed.

Hollman – 1H (3%WI) was spudded on 23 January 2011 and reached a TD of 17,570 ft MD on 8 February 11 with approximately 4,800 ft of horizontal section. The well commenced production on 7 March 2011, 43 days only after spud date, and after 30 days had produced 58.8 mmscf of gas and 17,875 bbls of condensate.

Buehring – 1H (3%WI) was spudded on 16 February 2011 and reached a TD of 17,386 ft MD on 9 March 2011. The well commenced production on 8 April 2011 and after 30 days had produced 21.84 mmscf of gas and 17,406 bbls of condensate.

The following six wells are in various stages of drilling or completion and will be placed on production once the operations have been completed:

Jordan – 1H (3%WI) was spudded on 28 January 2011 and reached a TD of 16,472 ft MD on 15 of February 2011. Fracing operations were commenced on 16 May 2011. The well has yet to be placed on production.

PMT – 1H (3%WI) was spudded on 14 February 2011 and reached a TD of 18,200 ft MD on 17 March 2011. The well has been successfully fracture-stimulated and is being cleaned up to flare.

Davenport – 1H (3%WI) was spudded on 4 April 2011 and reached a TD of 18,220 ft MD on 23 April 2011.

Best Fenner - 1H (3%), was spudded on 8 April 2011 and reached a TD of 18,020 ft on 27 April 2011.

Turnbull -6 (1.02%WI) was spudded on 30 April 2011 and on 19 May 2011 was drilling ahead at 11,428 ft MD.

Best Huth – 1H (0.58% WI) was spudded on 2 May 2011. It lies across the Sugarloaf and Longhorn AML boundaries and therefore has a blended WI of 0.58%WI. It is the fourteenth post-farmin well to be spudded.

Note:

¹ Flow rates cited in the respective wells have been regulated (ie reduced) by using restricted choke settings. This is the usual procedure employed to improve decline curves and Estimated Ultimate Recoveries.

Riverbend Project (10%WI)

The original attempt to re-enter the highly pressured Austin Chalk reservoir of Quinn 3-H was unsuccessful, as was the production test of the secondary objective, the Saratoga Formation, in the shallower part of the well.



OPERATIONAL REVIEW CONTINUED

A second well, **Cartwright No1**, having the same objectives as at Quinn 3-H and located 3.3 miles to the northeast, was spudded on 29 May 2010. It reached a TD of 14,844 ft MD. On 5 November 2010 it was announced that during 6 day flow test production rates varied between 1.4 and 6 mmscf/d. The flows fluctuated and were unstable due to the suspected presence of drilling mud and solids lost to the reservoir during drilling (and possibly fracturing operations). The well has been opened to the pipeline since 8 November 2010 producing at variable rates of up to 1.5 mmscf/d. A coiled tubing operation to clear the 3 ½ inch slotted liner of any remnant obstructions was unsuccessful. Plans are being formulated to re-enter the well in an attempt to remove the debris.

Hercules Project (10%WI)

BP America A-740#1 well was completed as a producer in the Upper Wilcox Formation and commenced production to sales on 4 September 2010. A compressor was installed which enabled the rate to be increased initially to an average of 634 mscf/d and 26.24 bbls/d. These rates have steadily increased and at the beginning of December 2010 the well was producing at rates of 1,069 mscf/d and 48 bbls/d. At least 3 offsets have been identified by the operator as probable future drilling locations.

Eagle Oil Pool Development Project (48.5%WI)

The participants in the Eagle Oil Pool Development Project have been awaiting the results of a well being tested on acreage immediately adjacent to the Eagle Oil Pool Development Project acreage. The well being tested is known to be testing additional potential productive formations to the Gatchell Sands that were the target of the Eagle North-1 well. The Eagle North-1 well encountered oil at the time of drilling and a valid test of the well was never completed due to mechanical failure of the perforating guns and a subsequent unsuccessful operation to remove the bottom hole assembly and perforating guns from the hole. The results of the testing on the neighbouring acreage may influence the design of any future seismic programme and the geological objectives.

A handwritten signature in black ink, appearing to read 'FJ Brophy', written over a light blue grid background.

FJ Brophy BSc (Hons)
Technical Director
Empyrean Energy Plc
24 May 2011



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 2010 to 31 March 2011.

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 affected 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 dependent on having sufficient funds to enable the exploration or development of projects, whether through debt or equity funding.



DIRECTORS' REPORT CONTINUED

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 2012 Annual Report.

Financial Review

The loss for the year on ordinary activities of the Company after taxation amounted to £5,428,000 (2010: £4,266,000).

The Company generated revenue of £811,000 (2010: £310,000) from oil and gas sales derived from its Sugarloaf prospects in Texas. This was offset by cost of sales of £733,000 (2010: £800,000) which includes amortisation of the oil and gas properties.

The Company incurred administrative expenses of £527,000 (2010: £540,000), which is exclusive of exploration and oil and gas properties expenditure impairment write off totalling £4,312,000 (2010: £3,237,000).

Net exploration costs for the year of £4,371,000 (2010: £2,418,000) have been capitalised.

Continued production success at the Sugarloaf prospects resulted in oil and gas properties of £2,965,000 (2010: £594,000) being re-classified from exploration expenditure.

Dividends

The Directors do not propose the payment of a dividend.



DIRECTORS' REPORT CONTINUED

Directors and Directors' Interests

The Directors who served during the year to 31 March 2011 had, at that time, the following beneficial interests in the securities of the Company:

	31 March 2011		31 March 2010	
	Number of ordinary shares	Number of options over ordinary shares	Number of ordinary shares	Number of options over ordinary shares
Patrick Cross	340,000	1,150,000	540,000	400,000
Thomas Kelly	8,500,000	12,200,000	8,500,000	3,800,000
Frank Brophy	1,333,333	7,450,000	1,166,666	3,000,000
John Laycock	400,000	950,000	200,000	-

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.

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.

Insurance

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



DIRECTORS' REPORT CONTINUED

Substantial shareholdings

On 17 May 2011 the following were registered as being interested in 3% or more of the Company's ordinary share capital, inclusive of Directors holdings above 3%:

	17 May 2011	
	Ordinary shares of £0.002 each	% of issued share capital
TD Waterhouse Investor Services	28,989,952	15.89%
Barclayshare Nominees Limited	23,962,794	13.14%
HSDL Nominees Limited	12,473,846	6.83%
LR Nominees Limited	12,145,660	6.66%
Thomas Kelly	8,500,000	4.66%
James Capel (Nominees) Limited	8,193,311	4.49%
Dartington Portfolio Nominees Limited	6,108,000	3.35%

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.

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.



DIRECTORS' REPORT CONTINUED

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.

By order of the Board

A handwritten signature in black ink, appearing to read 'Tom Kelly', written in a cursive style.

Thomas Kelly
Chief Executive Officer
24 May 2011



CORPORATE GOVERNANCE REPORT

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 executive directors and 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. 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.

The Remuneration Committee

The Remuneration Committee is made up of Patrick Cross and John Laycock, and is chaired by John Laycock. The Remuneration Committee met twice during the year ended 31 March 2011. 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.

Internal Control

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has established a continuous process for identifying, evaluating and managing the Company's significant risks. This process involves the monitoring of all controls including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from senior management and professional advisors to ensure any significant weaknesses are promptly remedied and to indicate a need for more extensive monitoring.

Relationship with Shareholders

The Board attaches a high importance to maintaining good relationships with shareholders and seeks to keep the fully updated on the Company's performance, strategy and management. In addition the Board welcomes as many shareholders as possible to attend its general meeting and encourages open discussion after formal proceedings.



STATEMENT OF DIRECTORS' REPSONSIBILITIES

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 and comply with the Companies Act 2006.

The maintenance and integrity of the Company's website is the responsibility of the Directors. 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.

In so far as each of the directors is aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

A handwritten signature in black ink, appearing to read 'Tom Kelly', written in a cursive style.

Thomas Kelly
Chief Executive Officer
24 May 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EMPYREAN ENERGY PLC

We have audited the financial statements of Empyrean Energy Plc for the year ended 31st March 2011 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31st March 2011 and of the loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006;and

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Rowan J. Palmer (Senior statutory auditor)

For and on behalf of Chapman Davis LLP, Statutory Auditor

*Chartered Accountants
Chapman Davis LLP
2 Chapel Court
London SE1 1HH*

24th May 2011



STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 March 2011

	Notes	2011 £'000	2010 £'000
Revenue		811	310
Cost of Sales			
Operating costs (excludes oil and gas and exploration expenditure impairment)		(16)	(42)
Amortisation - oil and gas properties	9	(717)	(758)
Total cost of sales		(733)	(800)
Gross Profit / (Loss)			
		78	(490)
Expenditure			
General and administrative expenses		(527)	(540)
Share based payments (directors & employees)	4	(619)	-
Exploration expenditure impairment	8	(2,520)	(3,237)
Oil and gas properties impairment	9	(1,792)	-
Total expenditure		(5,458)	(3,777)
Operating Loss			
	2	(5,380)	(4,267)
Interest	3	(48)	1
Loss on ordinary activities before taxation			
		(5,428)	(4,266)
Income tax expense	6	-	-
Loss for the financial year			
		(5,428)	(4,266)
Other comprehensive income			
Share based payments reversal		619	-
Total comprehensive loss for the year			
		(4,809)	(4,266)
Attributable to			
Equity shareholders of the Company		(4,809)	(4,266)
Loss per share (expressed in pence)			
- Basic and diluted	7	(3.03)p	(3.65)p

All financial results presented are from continuing operations. The accompanying accounting policies and notes form an integral part of these financial statements.



**STATEMENT OF FINANCIAL POSITION
as at 31 March 2011**

	Notes	2011 £'000	2010 £'000
Assets			
Non-current assets			
Intangible assets	8	4,825	6,217
Oil and gas properties	9	7,054	6,320
Plant and equipment	10	-	-
		<hr/>	<hr/>
		11,879	12,537
Current assets			
Trade and other receivables	11	727	33
Cash and cash equivalents		611	254
		<hr/>	<hr/>
		1,338	287
Liabilities			
Current liabilities			
Trade and other payables	12	(1,820)	(34)
		<hr/>	<hr/>
		(1,820)	(34)
Net current assets/(deficiency)			
		<hr/>	<hr/>
		(482)	253
Net assets			
		<hr/>	<hr/>
		11,397	12,790
Shareholders' equity			
Share capital	14	365	244
Share premium		23,150	19,862
Share based payments reserve		668	662
Retained loss		(12,786)	(7,978)
		<hr/>	<hr/>
Total equity		<hr/>	<hr/>
		11,397	12,790

The Financial Statements were approved by the Board of Directors on 24 May 2011 and were signed on its behalf by:

Patrick H. Cross

Chairman

John Kelly

Director

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



STATEMENT OF CASH FLOWS
for the year ended 31 March 2011

	Notes	2011 £'000	2010 £'000
Net cash (outflow) from operating activities	13	(175)	(203)
Return on Investments			
Interest received		2	1
Net cash inflow from returns on investments		2	1
Capital expenditure			
Purchase of tangible fixed assets		-	(44)
Purchase of intangible fixed assets		(4,386)	(2,119)
Net cash outflow for capital expenditure		(4,386)	(2,163)
Financing			
Issue of ordinary share capital		3,612	2,456
Expenses relating to share issues		(196)	(128)
Proceeds from borrowings		1,500	-
Net cash inflow from financing		4,916	2,328
Increase / (decrease) in net cash		357	(37)
Cash and cash equivalents at the start of the year		254	291
Cash and cash equivalents at end of the year		611	254

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 2011

	Share capital account	Share premium reserve	Share based payment reserve	Retained loss	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2009	132	17,621	975	(4,000)	14,728
Share capital issued	112	2,344	-	-	2,456
Cost of shares issued	-	(128)	-	-	(128)
Share based payments reversal	-	25	(313)	288	-
Comprehensive loss for the year	-	-	-	(4,266)	(4,266)
Balance at 31 March 2010	244	19,862	662	(7,978)	12,790
Share capital issued	121	3,492	-	-	3,613
Cost of shares issued	-	(197)	-	-	(197)
Share based payments	-	(7)	625	1	619
Loss for the year	-	-	-	(5,428)	(5,428)
<u>Other comprehensive income</u>					
Share based payments reversal	=	=	(619)	619	=
Comprehensive loss for the year	-	-	(619)	(4,809)	(5,428)
Balance at 31 March 2011	365	23,150	668	(12,786)	11,397

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



STATEMENT OF ACCOUNTING POLICIES for the year ended 31 March 2011

The financial statements of Empyrean Energy Plc for the year ended 31 March 2011 were authorised for issue by the Board on 24 May 2011 and the Statement of Financial Position 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 the functional currency, Sterling and all values are shown in thousands of pounds (£'000).

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 the Companies Act 2006.

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 title has passed to a third-party purchaser.

Finance Revenue

Finance Revenue is recognised as interest accrues.

Cash and cash equivalents

Cash and short-term deposits in the Statement of Financial Position 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.

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 end of financial year date.



STATEMENT OF ACCOUNTING POLICIES CONTINUED

for the year ended 31 March 2011

Deferred tax continued...

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 Statement of Comprehensive Income.

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 Statement of Financial Position 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.



STATEMENT OF ACCOUNTING POLICIES CONTINUED

for the year ended 31 March 2011

Intangible Fixed Assets Continued...

- 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.

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. 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, 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 and a convertible loan (of which no equity element has been included). All are non-derivative assets. The trade and other payables are stated at cost.



STATEMENT OF ACCOUNTING POLICIES CONTINUED
for the year ended 31 March 2011

New standards and interpretations not yet adopted

The adoption of new standards, where relevant, has had no impact on the reported results nor the financial position of the Company. Those which may have a significant effect on the financial statements are:

- IFRS 9 'Financial instruments' issued in December 2009. This addresses the classification and measurement of financial assets. The standard is not applicable until 1 January 2013. The impact of this new standard is currently being assessed;
- Revised IAS 24 'Related party disclosures', issued in November 2009. This standard supersedes IAS 24 'Related party disclosures' issued in 2003. The revised IAS 24 is required to be applied from January 2011. The impact of this new standard is currently being assessed;
- Improvements to International Financial Reporting Standards 2010 were issued in May 2010. The dates vary standard by standard but most are effective 1 January 2011.

1. 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 is one geographical trading segment being North America which is involved in the exploration for, development and production of oil and gas properties. The Company's registered office is located in the United Kingdom.

2. Operating Loss

The operating loss is stated after charging:

	2011	2010
	£'000	£'000
Auditors' remuneration – audit services	20	15
– other services	1	6
Depreciation (Note 10)	-	-
Amortisation Exploration Expenditure (Note 9)	717	758
Exploration Expenditure Impairment (Note 8)	2,520	3,237
Oil and Gas Properties Impairment (Note 9)	1,792	-
Directors' emoluments (Note 5)	244	244
Directors' share based payments (Note 5)	572	-
	<hr/> <hr/>	<hr/> <hr/>

3. Interest

	2011	2010
	£'000	£'000
Bank interest received	2	1
Interest payable	(50)	-
	<hr/> <hr/>	<hr/> <hr/>



**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2011**

4. Staff Costs (including Directors)

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

	2011 £'000	2010 £'000
Equity settled share based payments (directors & employees)	619	-

The Company's equity-settled share based payments comprise incentive options granted to the Company's Directors.

During the year ended 31 March 2011, the following options were issued to Directors and Employees:

Personnel	Number of Options	Exercise Price	Expiry Date	Value £'000
Patrick Cross	500,000	£0.06	28 May 2013	£7
	650,000	£0.08	30 April 2014	£27
John Laycock	500,000	£0.06	28 May 2013	£7
	650,000	£0.08	30 April 2014	£26
Thomas Kelly	4,400,000	£0.06	28 May 2013	£64
	6,000,000	£0.08	30 April 2014	£243
Frank Brophy	2,450,000	£0.06	28 May 2013	£36
	4,000,000	£0.08	30 April 2014	£162
Other Employees	1,225,000	£0.06	28 May 2013	£15
	800,000	£0.08	30 April 2014	£32

In addition 2,150,000 options exercisable at 50 pence expired on 28 June 2010 and 2,450,000 options exercisable at 25 pence expired on 27 February 2011, resulting in a write back of £619,000 to equity.



NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2011

5. Directors' Emoluments

	Fees and Salary Paid		Options Issued	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Non-Executive Directors:				
Patrick Cross	38	38	34	-
John Laycock	6	6	33	-
Executive Directors:				
Frank Brophy ⁽¹⁾	100	100	198	-
Thomas Kelly ⁽²⁾	100	100	307	-
Total	244	244	572	-

⁽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.



NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2011

5. Directors' Emoluments Continued...

Directors' Share Options

The terms of the share option interests of Directors in office during the year ended 31 March 2011 were as follows:

	Grant Date	Options held 31 Mar 10	Options granted during year	Options expired / expired during year	Options held 31 Mar 11	Exercise Price (£)	Expiry
Patrick Cross	28/06/07	200,000	-	(200,000)	-	£0.50	28/06/10
	27/02/08	100,000	-	(100,000)	-	£0.25	27/02/11
	26/06/08	100,000	-	(100,000)	-	£0.25	27/02/11
	31/03/09	-	-	-	-	£0.04	31/03/12
	28/05/10	-	500,000	-	500,000	£0.06	28/05/13
	23/03/11	-	650,000	-	650,000	£0.08	30/04/14
Thomas Kelly	20/10/06	-	-	-	-	£0.50	20/10/09
	28/06/07	1,000,000	-	(1,000,000)	-	£0.50	28/06/10
	27/02/08	500,000	-	(500,000)	-	£0.25	27/02/11
	26/06/08	500,000	-	(500,000)	-	£0.25	27/02/11
	31/03/09	1,800,000	-	-	1,800,000	£0.04	31/03/12
	28/05/10	-	4,400,000	-	4,400,000	£0.06	28/05/13
	23/03/11	-	6,000,000	-	6,000,000	£0.08	30/04/14
Frank Brophy	20/10/06	-	-	-	-	£0.50	20/10/09
	28/06/07	1,000,000	-	(1,000,000)	-	£0.50	28/06/10
	27/02/08	500,000	-	(500,000)	-	£0.25	27/02/11
	26/06/08	500,000	-	(500,000)	-	£0.25	27/02/11
	31/03/09	1,000,000	-	-	1,000,000	£0.04	31/03/12
	28/05/10	-	2,450,000	-	2,450,000	£0.06	28/05/13
	23/03/11	-	4,000,000	-	4,000,000	£0.08	30/04/14
John Laycock	31/03/09	-	-	-	-	£0.04	31/03/12
	28/05/10	-	500,000	(200,000)	300,000	£0.06	28/05/13
	23/03/11	-	650,000	-	650,000	£0.08	30/04/14
Total		7,200,000	19,150,000	(4,600,000)	21,750,000		



NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2011

6. Taxation

	2011	2010
	£'000	£'000
Current year taxation		
UK corporation tax at 26% (2010: 28%) on profits for year	-	-
Factors affecting the tax charge for the year		
Loss on ordinary activities before tax	(5,428)	(4,266)
Loss on ordinary activities at the UK standard rate of 26% (2010: 28%)	(1,411)	(1,994)
Effect of tax benefit of loss carried forward	1,411	1,994
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 £10,148,000 (2010: £6,056,000) are available to be claimed going forward, which are inclusive of the exploration expenditure and oil & gas properties impairment total write off of £7,549,000 (2010: £3,237,000).

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.

	2011	2010
Loss for the year	£5,428,000	£4,266,000
Weighted average number of Ordinary shares of £0.002 in issue	179,142,679	116,865,556
Loss per share – basic (pence)	3.03	3.65
Weighted average number of Ordinary shares of £0.002 in issue inclusive of outstanding options	380,396,054	125,065,556

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 2011

8. Intangible Assets

Exploration expenditure

	2011	2010
	£'000	£'000
Carrying value		
Balance brought forward	6,217	7,630
Additions	4,093	2,418
At 31 March	<u>10,310</u>	<u>10,048</u>
Reclassified - Oil and Gas Properties	(2,965)	(594)
Exploration Expenditure Impairment	(2,520)	(3,237)
	<u>(5,485)</u>	<u>(3,831)</u>
Net Book Value	<u>4,825</u>	<u>6,217</u>

9. Oil and Gas Properties

	2011	2010
	£'000	£'000
Net Book Value		
Balance brought forward	6,320	6,436
Reclassification of exploration costs (Note 8)	2,965	594
Additions	278	48
Oil and Gas Properties Impairment	(1,792)	-
Amortisation	(717)	(758)
At 31 March	<u>7,054</u>	<u>6,320</u>



NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2011

10. Plant and Equipment

Office Equipment

	2011	2010
	£'000	£'000
Cost		
Balance brought forward	-	1
Additions	-	-
Disposal	-	(1)
At 31 March	-	-
Depreciation		
Balance brought forward	-	1
Charge for the year	-	-
Disposals	-	(1)
At 31 March	-	-
Net Book Value		
At 31 March	-	-

11. Trade and Other Receivables

	2011	2010
	£'000	£'000
Trade and other receivable	146	-
Accrued revenue	557	-
Prepayments	23	22
VAT receivables	1	11
Total Receivables	727	33



NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2011

12. Trade and Other Payables

	2011	2010
	£'000	£'000
Trade payables	235	13
Accruals	35	21
Finance facility	1,500	-
Interest payable	50	-
	<hr/>	<hr/>
Total Payables	1,820	34

The total amount of the finance facility is £2,500,000 of which £1,500,000 has been drawn down in the form of a secured convertible loan. The convertible loan is able to be converted into equity on or before 31 December 2011. Interest of 9% pa accrues daily on the convertible loan. Refer to Note 14.

13. Reconciliation of Operating Loss to Operating Cash Flows

	2011	2010
	£'000	£'000
Operating loss	(5,380)	(4,267)
Increase in receivables	(678)	-
Decrease / (increase) in prepayments	(1)	78
Increase / (decrease) in accrued liabilities	14	6
Share based payments – directors & employees	619	-
Share based payments – consultants	-	-
Depreciation	-	-
Oil and gas properties amortisation	717	758
Exploration expenditure impairment	2,520	3,237
Oil and gas properties impairment	1,792	-
Increase / (decrease) in accounts payable	222	(15)
	<hr/>	<hr/>
Net cash outflow from operating activities	(175)	(203)



NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2011

14. Called Up Share Capital

The authorised share capital of the Company and the called up and fully paid amounts at 31 March 2011 were as follows:-

	2011	2010
Authorised		
1,000,000,000 ordinary shares of 0.2p each	2,000,000	2,000,000
Issued and fully paid		
182,424,460 (2010: 122,224,460) ordinary shares of 0.2p each	364,849	244,449

On 12 April 2010, 17,250,000 fully paid ordinary shares of 0.2p each were placed for cash at a price of £0.06 per share.

On 21 April 2010, 35,000,000 fully paid ordinary shares of 0.2p each were placed for cash at a price of £0.06 per share.

On 23 April 2010, a further 7,750,000 fully paid ordinary shares of 0.2p each were placed for cash at a price of £0.06 per share.

On 10 March 2011, 200,000 fully paid ordinary shares of 0.2p each were issued pursuant to an exercise of options by a director, at an exercise price of £0.06 per share.

Share Options

The following equity instruments have been issued by the Company and have not been exercised at 31 March 2011:

	Number options	Exercise Price	Vesting Date	Expiry Date	Value per option (pence)
Incentive options	3,700,000	4 pence	31/03/09	31/03/12	1.30
Incentive options	9,075,000	6 pence	28/05/10	28/05/13	1.41
Incentive options	12,100,000	8 pence	23/03/11	30/04/14	2.39
TOTAL	24,875,000				

Convertible Loan

The total amount of the finance facility is £2,500,000 of which £1,500,000 has been drawn down in the form of a secured convertible loan. The convertible loan is able to be converted into equity on or before 31 December 2011. Interest of 9% pa accrues daily on the convertible loan. Refer to Note 12.



NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2011

15. Commitments

As at 31 March 2011, the Company had no material capital commitments.

16. Related Party Transactions

On 21 October 2010 the Company entered into a convertible loan facility agreement for £2,500,000 with Apnea Holdings Pty Ltd, a company associated with Director Thomas Kelly.

The unsecured Loan facility supersedes past loan facilities and can be drawn down by the Company as required and will be due for repayment by 31 December 2011. Interest is payable on drawn down funds at a rate of 9% per annum, accruing daily and payable on the repayment date.

In the event of an equity capital raising between 31 March 2011 and 31 December 2011, the loan facility, in proportion to the amount drawn down and not repaid together with any accrued interest, becomes either repayable or convertible at the lender's discretion at any time prior to the repayment date. The loan would be convertible at the placing price of the fundraising.

At the date of this report, £1,500,000 in drawdown's had been made against the facility. Interest has been accrued in accordance with the agreement. Apnea Holdings Pty Ltd received a fee of £49,000 (2010: £51,000) for the costs associated with the placement during the year.

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. Currently the Company's principal financial instruments comprise cash and the convertible loan. 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 or other hedging instruments.

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

Throughout the period ending 31 March 2011 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.



NOTES TO THE FINANCIAL STATEMENTS CONTINUED for the year ended 31 March 2011

17. Financial instruments Continued...

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.

In addition, the convertible loan finance facility incurs an interest rate of 9% per annum, accruing daily.

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.

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 £611,000 (2010: £254,000).

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

There were no significant events post balance date.

