THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you should consult an independent professional adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. **The whole of the text of this document should be read and prospective investors should carefully consider the section entitled "Risk Factors" in Part III of this document before taking any action.**

Application has been made for the whole of the ordinary share capital of the Company both issued and to be issued pursuant to the Placing to be admitted to trading on the AIM market of the London Stock Exchange ("AIM"). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached, than to larger or more established companies. AIM securities are not admitted to the official list of the UK Listing Authority.

A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The London Stock Exchange has not itself examined or approved the contents of this document. The rules of AIM are less demanding than those of the Official List of the UK Listing Authority.

EMPYREAN ENERGY PLC

(incorporated in England and Wales under the Companies Act 1985 with registered number 05387837)

Placing
of 7,144,282 Ordinary Shares of 0.2p each at 35p per share with unlisted warrants on the basis of 1 warrant for every 3 Ordinary Shares and Admission to AIM of the Ordinary Shares

Nominated Adviser and Broker

HB-corporate

Share capital immediately following Admission:

Authorised		*Issued and fully paid*	
Amount	Number	Amount	Number
£2,000,000	1,000,000,000	£612,886	30,644,282

The Directors of the Company, whose names appear on page i of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules of the London Stock Exchange ("AIM Rules"). To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

This document is an admission document drawn up in accordance with the AIM Rules in force on 30 June 2005.The London Stock Exchange has confirmed that it will accept this document which contains the information required by the POS Regulations instead of the information required under Annex I-III of Regulation 809/2004. This document does not comprise a prospectus and has not been delivered to the Registrar of Companies in England and Wales.

HB-corporate is acting exclusively for Empyrean Energy plc and for no one else in connection with the matters described herein and will not be responsible to anyone other than Empyrean Energy plc for providing the protections afforded to customers of HB-corporate or for advising any other person on the contents of this document or any matter referred to herin. HB-corporate's responsibilities as the Nominated Adviser and Broker to the Company are owed solely to the London Stock Exchange and are not owed to the Company or to any Director or to any other person, whether in respect of any decision to acquire Ordinary shares in reliance on any part of this document or otherwise. No representation or warranty, express or implied, is made by HB-corporate as to the contents of this document (without limiting the statutory rights of any person to whom this document is issued).

The Placing Shares will, following allotment, rank pari passu in all respects with the Ordinary Shares of the Company now in issue and will have the right to receive all dividends and other distributions hereafter declared made or paid on the Ordinary Shares.

Contents

Directors, Secretary and Advisers

Directors		Patrick Cross *(Non-Executive Chairman)* Frank Brophy *(Technical Director)* Christopher Lambert *(Executive Director)* Thomas Kelly *(Executive Director)* Malcolm James *(Non-Executive Finance Director)*
Company Secretary & Business Address		Jade Styants 28 Eccleston Square London SW1V 1NZ
Registered Office		7 Savoy Court, Strand London WC2R 0ER
Nominated Adviser and Broker		HB-corporate 40 Marsh Wall London E14 9TP
Competent Person		Mr Ian Paton BSc (Hons) M Pet. Eng Valmap Pty Ltd 18 Cookham Road Lathlain Western Australia 6100
Auditors and Reporting Accountants		Chapman Davis LLP 2 Chapel Court London SE1 1HH
Solicitors to the Company	*as to UK Law*	Kerman & Co LLP 7 Savoy Court, Strand London WC2R 0ER
	as to German Law	Freshfields Bruckhaus Deringer Feldmühleplatz 1 40545 Düsseldorf
Solicitors to the Placing		Memery Crystal 44 Southampton Buildings London WC2A 1AP
Principal Bankers		Bank of Scotland St James' Gate 14/16 Cockspur Street London SW1Y 5BL
Registrars		Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

Definitions

The following definitions apply throughout this document unless the context otherwise requires:

"Act"	the Companies Act 1985, as amended;
"Admission"	admission of the Ordinary Shares, issued and to be issued, to trading on AIM becoming effective in accordance with the AIM Rules;
"AIM"	the AIM of the London Stock Exchange;
"AIM Rules"	the rules published by the London Stock Exchange from time to time governing the admission to and operation of AIM;
"ASX"	Australian Stock Exchange;
"BBergG"	the Federal Mining Act of Germany (Bundesberggesetz);
"City Code"	the City Code on Takeovers and Mergers;
"Combined Code"	the Combined Code on corporate governance published in July 2003 by the Financial Reporting Council;
"Company" or "Empyrean"	Empyrean Energy plc a public limited company incorporated in England & Wales with registered number 5387837;
"Competent Person"	Mr Ian Paton BSc (Hons) M Pet. Eng of Valmap Pty Limited;
"Competent Person's Report"	the technical review of the Permit prepared by the Competent Person, a copy of which is reproduced in Part IV of this document;
"CREST"	the computerised settlement system and procedures operated by CRESTCo which facilitate the transfer of title to shares in uncertificated form;
"CREST Regulations"	the Uncertificated Securities Regulations 2001 (SI 2001/3755);
"CRESTCo"	CRESTCo Limited, the operator of CREST;
"Directors" or "Board"	the directors of the Company whose names appear on page i of this document;
"EIA"	the Energy Information Agency a division of the US Government Department of the Environment;
"Farm-in Agreement"	an agreement made on 14 March 2005 between the Company and the Partners, titled Farmout Agreement, pursuant to which the Company is entitled to earn an interest of up to 52% in the Permit, details of which are set out in Part VII of this document;
"FSA"	Financial Services Authority;
"FSMA"	Financial Services and Markets Act 2000;
"Galaxy Energy Corporation"	Galaxy Energy Corporation Inc.;
"Germany"	Federal Republic of Germany;
"HB-corporate"	a division of Hoodless Brennan & Partners plc, which is regulated by the FSA;
"Hills Exploration"	Hills Exploration Corporation a company incorporated in the state of California USA and whose registered office is at 490 Post Street, Suite 1049 San Francisco, California 94102-1301, USA;
"London Stock Exchange"	London Stock Exchange plc;
"Monoco Petroleum"	Monoco Petroleum Inc, a company incorporated in the state of Florida and whose registered office is at 2902 Valley Manor Drive, Kingwood Texas 77339, USA;
"Neues Bergland Permit" or "Permit"	the exploration permit entitled the Neues Bergland Permit, Rheinland-Pfalz, Germany granted by the OBA according to German legislation;

"Nominated Adviser and Broker Agreement"	the conditional agreement relating to the Admission dated 21 July 2005 as described in paragraph 8.2 of Part VIII of this document;
"OBA"	Oberbergamt fur das Saarland und das Land Rheinland-Pfalz – the competent Regional Mining Authority;
"Official List"	the official list of the UKLA;
"Operating Committee"	the Committee established under the Farm-in Agreement to determine work programs and oversee the operator of the programs;
"Operator"	Pannonian International, the operator of the Permit;
"Ordinary Shares"	ordinary shares of 0.2p each in the capital of the Company;
"Partners"	Hills Exploration, Monoco Petroleum, and Pannonian International;
"Pannonian International"	Pannonian International Ltd, a company incorporated under the state of Colorado, USA and whose registered office is at 4101 East Louisiana Avenue, Suite 412 Denver, Colorado 80246, USA;
"Placing"	the placing of the Placing Shares at the Placing Price by HB-corporate pursuant to the Placing Agreement;
"Placing Agreement"	the conditional agreement dated 21 July 2005 between the Company, the Directors, and HB-corporate relating to the Placing, details of which are set out in paragraph 8.1 of Part VIII of this Document;
"Placing Price"	35p per Placing Share;
"Placing Proceeds"	the gross funds which are received under the Placing;
"Placing Shares"	7,144,282 Ordinary Shares to be issued pursuant to the Placing;
"POS Regulations"	the Public Offers of Securities Regulations 1995, as amended, which were in force at 30 June 2005, and which were repealed on 1 July 2005;
"Pre-IPO Placing"	the placing of 8.5 million Ordinary Shares at a price of 20 pence per share during issued and allotted on 4 April 2005;
"Registrar"	Capita Registrars;
"Regulations"	the Uncertificated Securities Regulations 2001;
"Shareholders"	the persons who are registered as holders of the Ordinary Shares from time to time;
"UK"	United Kingdom of Great Britain and Northern Ireland;
"UKLA"	United Kingdom Listing Authority;
"US" or "USA"	the United States of America;
"Warrant Instrument"	the instrument dated 21 July 2005 constituting the Warrants; and
"Warrants"	the Warrants to be issued to placees pursuant to the Placing to subscribe for, in aggregate, 2,381,425 Ordinary Shares at the Placing Price exercisable at any time up to but not including the second anniversary of Admission, a summary of the terms of which is set out in paragraph 3.10 of Part VIII of this document.

Note:

In this document, the symbols "£" and "pence" or "p" refer to pounds and pence sterling respectively, the symbol "€" refers to the Euro, the symbols "US $" refer to United States dollars, and the symbols "AUD $" refer to Australian Dollars.

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Part I — Key Information

OVERVIEW

Empyrean was incorporated in the UK in March 2005 in order to finance energy resource exploration and development projects in geopolitically stable environments.

Empyrean has acquired the rights to earn up to a 52% working interest (subject to meeting further expenditure requirements as per the terms of the Farm-in Agreement and the Permit further details of which are set out in Part VII of this document) in a substantial fractured reservoir natural gas exploration project in the heart of Europe. Investors should be aware that the Company will require a further fund raising before the full 52% interest can be acquired.

The highly prospective area of the Neues Bergland Permit is located close to Frankfurt in the Federal Republic of Germany, which was the fourth largest consumer of natural gas in the world during 2003.

The Permit contains the Pfalzer Anticline which is a 515 square kilometre strucure containing deep coal beds overlaid by shale and sediment. The coal beds are too deep to mine economically but have been estimated by the Competent Person to have generated many hundred Tcf of methane, with a recoverable gas potential of up to 6.2 Tcf in the first drilling prospect alone.

The nearby Saar Anticline contains active coal mines and is located approximately 25 kilometres South West of the Permit area. There have been reports of natural gas leaks above the coal beds on the Saar Anticline but the seams are too near the surface for an effective seal to have been formed. In the case of the Permit area the coal sits far deeper, below 2000 metres, with layers of shale, silt and sandstone above it. Nonetheless the seal is not yet proven and consequently the geological risk associated with the project is not insignificant.

The Company will, by drilling, seek to test the seal on the potential gas reservoir, following which a decision will be made by the Directors whether to continue drilling to determine the commerciality of the Permit by the fourth quarter of 2005 (after spending approximately £2.5 million). In the event that drilling fails to prove seal integrity approximately £1.7 million of the Placing Proceeds would be available to the Company to pursue alternative projects.

Investors should be aware that in the event that drilling does prove seal integrity the Company will require a further fund raising in order to complete the Company's obligations under the Farm-in Agreement to secure the 52% interest in the Permit.

Board Includes:

Frank Brophy: Over 40 years experience as a petroleum geologist in the exploration, development and production of many world class projects. Specific experience includes 4 years as General Manager of the Hanoi operation in North Vietnam, (for French based company Maurel et Prom); Manager International Business Development for Ampolex Limited, Chief Geologist of Elf Aquitaine Australia Limited and Exploration Manager for 5 years with Peko Oil Limited.

Thomas Kelly: Currently a director of ASX listed Lefroy Resources Limited and formerly an Executive Officer of West Australian stockbroking firm DJ Carmichael.

Malcolm James: Played an active role in identifying, exploring, financing and developing a number of projects in Australia, the Former Soviet Union, the Middle East and Asia. On AIM Mr James has been involved, as a director, in the listing of Eureka Mining plc, Caspian Holdings plc and Cordillera Resources plc and he was a founder of Asia Energy plc.

Recoverable Gas Potential

The following information has been extracted from the Competent Person's Report set out in Part IV of this document and shows a summary of the Company's recoverable gas potential. However to make a proper assessment of the recoverable gas potential of the Company, investors should not rely solely on the summary information set out below but should read the whole of this document including the Competent Person's Report set out in Part IV of this document.

Potential Recoverable Gas

Probability, or P factors as they are known, have been assigned to the chance of commercially extracting gas, subsequent to exploration success. According to the Competent Person the assessed potential of exploration success is 1:7.5 to 1:8.5.

P factor	Total recoverable gas
P10 (10% probability)	**6.2 Tcf**
P50 (50% probability)	**1.2 Tcf**
P90* (90% probability)	**350Bcf**

**The P90 case is calculated on a conservative basis over a 20 year period and is envisaged given unforeseen reservoir variability in the development.*

The Competent Person has used a conservative nominal price of US $4.60 per Mcf. Based on the mid-case P50 gas potential of 1.2 Tcf, the first drilling prospect alone (the Glantal Prospect) would yield an NPV (15% discount) of approximately US $500 million to Empyrean.

GLANTAL PROSPECT ILLUSTRATIVE VALUATION

Nominal gas price:	US $4.60 per Mcf	(rising at an nominal 2% per annum)
P50 gas potential:	1.20 Tcf	(mid-case of gas in one of three thrust sheets)
2011 peak gas flow rate:	450 MMcfpd	
NPV (Discount at 15%) of project:	US $962 million	(NPV of 100% of project after tax & assumed royalties of 12.5%)
NPV (Discount at 15%) of project:	US $500 million	(NPV of Empyrean's 52% interest after tax)

The Placing and use of proceeds

The Company is proposing to raise £2.5 million before expenses through a placing by HB-corporate of 7,144,282 Ordinary Shares at the Placing Price. The Company is seeking admission of its Ordinary Shares to trading on AIM in order to provide funding for the exploration and development of the Neues Bergland Permit and to provide the Company with flexibility to enter into further energy resource opportunities in geopolitically stable environments. The Company will be issuing to each subscriber under the Placing 1 Warrant for every 3 Ordinary Shares subscribed for in the Placing. The Directors do not intend to apply for the Warrants to be admitted to trading on AIM.

Licence

The details of the Farm-in Agreement and the Company's participation and rights in relation to the Neues Bergland Permit are detailed in Parts II and VII of this document which should be read in full.

Risk Factors

The exploration and development of oil and natural gas is a highly speculative activity that involves a high degree of financial risk. Your attention is drawn to the risk factors referred to in Part III of this document.

Placing Statistics

Placing Price per Ordinary Share	35p
Number of Ordinary Shares being placed on behalf of the Company	7,144,282
Number of Ordinary Shares in issue immediately following the Placing*	30,644,282
Number of Warrants in issue immediately following the Placing	2,381,425
Market capitalisation of the Company at the Placing Price	£10.7 million
Estimated total proceeds of the Placing	£2.5 million
Estimated net proceeds of the Placing (after deduction of expenses) receivable by the Company	£2.1 million

* assuming no exercise of the Warrants

Expected Timetable of Principal Events

Publication of Admission Document	22 July 2005
Admission effective and dealings in Ordinary Shares to commence on AIM	27 July 2005
CREST accounts credited in respect of Placing Shares by	27 July 2005
Definitive share and Warrant certificates despatched by	3 August 2005

Part II — Information on the Company

INTRODUCTION

Empyrean was incorporated in the UK in March 2005 in order to finance energy resource exploration and development projects in geopolitically stable environments. Empyrean has initially acquired the rights to earn up to a 52% working interest (subject to meeting further expenditure requirements as per the terms of the Permit and Farm-in Agreement, as set out in Part VII of this document) in a substantial fractured reservoir natural gas exploration project in the heart of Europe. The highly prospective area of the Neues Bergland Permit is located close to Frankfurt in the Federal Republic of Germany. The Permit contains the Pfalzer Anticline which is a 515 square kilometre structure containing deep coal beds. The coal beds are too deep to mine economically but have been estimated by the Competent Person to have generated many hundred Tcf of methane since their formation, and there is a recoverable gas potential of up to 6.2 Tcf in the first drilling prospect alone. The Company will attempt to test the seal on the potential gas reservoir, by means of drilling. Following a review of the results a decision will be made by the Directors whether to continue drilling to determine the commerciality of the Permit by the fourth quarter of 2005, (after spending approximately £2.5 million). In the event that drilling fails to prove seal integrity approximately £1.7 million of the Placing Proceeds would be available to the Company to pursue alternative projects.

Investors should be aware that in the event that drilling does prove seal integrity the Company will require a further fund raising in order to complete the Company's obligations under the Farm-in Agreement to secure the 52% interest in the Permit.

BACKGROUND

During 2003 Germany was the sixth largest consumer of energy in the world, and the fourth largest consumer of natural gas. In 2003 Germany imported 75% of its annual natural gas consumption of 3.2 Tcf at an estimated cost of US $14.7 billion, (using a nominal gas price of US $4.60 per Mcf). Germany's national natural gas reserves were estimated at 10.8 Tcf at the start of 2004.

The Directors, who have previous involvement in founding a number of new natural resource businesses such as Caspian Holdings plc, Eureka Mining plc, Altona Resources plc, Braemore Resources plc, Lefroy Resources Limited and Asia Energy plc, formed Empyrean in order to exploit the opportunity provided by the Neues Bergland Permit. Empyrean has entered in to a Farm-in Agreement with three US Partners to explore and develop the Permit for natural gas production. The Company currently holds a 40% working interest in the Permit, though this is subject to the subsequent funding of the first phase of exploration and will increase to a 52% interest following the funding of the second phase. The total funding for both phases will be between £4.9-6.3 million, (€7-9 million). The Permit, which is located in the Rhineland-Pfalz state of western Germany, covers an area of 605 square kilometres and contains the entire Pfalzer Anticline. The Permit sits between the coal beds of the Saar Anticline and the considerable gas consumption market of a major industrial corridor running from Dusseldorf, through Frankfurt to Stuttgart and Munich.

The nearby Saar Anticline is a large feature containing active coal mines located approximately 25 kilometres South West of the Permit area, where there have been reports of natural gas leaks above the coal beds. However these coal seams are too near the surface for an effective seal to have been formed. In the Permit area the coal has been thrust far deeper, below 2000 metres, with layers of shale, silt and sandstone above it.

The Partners in the Permit are Pannonian International, Monoco Petroleum and Hills Exploration. Pannonian International will be the Operator of the drilling and exploration program and is a subsidiary of the Nasdaq listed Galaxy Energy Corporation, which focuses on the development of natural gas projects. Monoco Petroleum and Hills Exploration are both privately owned investment companies active in the identification of early stage oil and gas projects.

Figure 1. Permit Location

GERMAN MARKET

Germany is Europe's largest importer of natural gas importing an estimated 75% of its annual consumption in 2003. In the same year national demand grew approximately 3.5% on the previous year. Germany's reliance on natural gas is relatively high, being estimated as having the sixth largest consumption of energy per annum in the world at 351 million tonnes of oil equivalent, during 2003, but with the fourth largest natural gas consumption estimated at 3.2 Tcf per annum. Over the past decade, natural gas consumption in Germany has increased at an average rate of approximately 1.2% per annum. Natural gas' share of national primary energy is estimated to have increased from 17% in 1991 to 22% in 2002. Consumption of natural gas is forecast to continue rising, primarily for electric power generation and for residential heating. An estimated 46.6% of all apartments (17.5 million) in Germany were heated by natural gas in 2003.

In 2003 Germany produced an estimated 628 Bcf of natural gas and at the beginning of 2004 had estimated natural gas reserves of 10.8 Tcf, some 4.4% lower than the previous year. The growth in the national demand for natural gas is being encouraged by government energy policy which is reducing nuclear generation and phasing out coal fired power stations (as an energy source coal accounted for approximately 30% of primary energy consumption in 1991 and 23% in 2002). The major sources of imported natural gas into Germany are Russia, Norway and the Netherlands, with smaller volumes coming from other locations including the UK and Denmark.

Germany has a comprehensive gas pipeline network with eight major pipelines that connect to local distribution grids, as well as transiting gas to neighbouring countries. Additional pipelines are under consideration to import increased volumes from Sweden and Russia, as well as to export to Poland. The Permit's location is highly advantageous due to its proximity to the market along a major industrial corridor and the existing distribution network of gas pipelines to within 6 kilometres of its boundary, (see Figures 1 & 2).

Figure 2. German gas distribution network

Under European Union Gas Directive 98/30/EC Germany has sought to deregulate its natural gas sector. Yet due to Germany's market dynamics, the country maintains some of the highest electricity and gas prices in Europe. The German market effectively remains highly regulated with the Federal Cartel Office responsible for handling disputes and remedying anti-competitive practices. The German government charges a royalty of between 5% and 10% depending on the volume of production. The national corporate taxation is set at 25%.

THE PERMIT

Those parts of the following information that are geologically specific to the Permit area have been extracted from the Competent Person's Report set out in Part IV of this document.

Geology

The area licenced under the Neues Bergland Permit is located within the Saar-Lorraine basin, in the state of Rheinland Pfalz, a coal rich region of Germany. The Permit covers an area of 605 square kilometres and contains a structure known as the Pfalzer Anticline which is approximately 40 kilometres long and 18 kilometres wide. Of particular relevance to the Pfalzer Anticline is the contiguous, larger and geologically similar Saar Anticline. The Saar Anticline is located South West of the Pfalzer Anticline (see Figure 3 below). Both structures were created by wrench faulting and contain multiple thrust faults. Both structures contain thick Carboniferous Westphalian coal beds which have been extensively drilled and mined on the Saar Anticline where they sit close to the surface, but have not been penetrated on the Pfalzer Anticline as the entire structure has been thrust deeper. There have been several occurrences of natural gas leaks in the vicinity of the Saar Anticline, but due to the shallow depth of the coal sequence there is not sufficient strata above to form both traps and seal for gas. Consequently as the geological components of both Anticlines are similar but due to the fact that the coal seams under the Pfalzer Anticline sit deeper there is a possibility of fractured gas reservoirs within the Permit. The effectiveness of the overlaying sedimentary layers as a seal have yet to be proven and in the absence of an effective seal it is unlikely that commercial quantities of gas would be present.

History

There have been no known recorded penetrations of the coal sequences or any gas reservoir on the Pfalzer Anticline. The Gelbes Wasser-1 well in the centre of the structure was first drilled in 1902 to a depth of 1137 metres, subsequently four wells were drilled between 1955 and 1959 near the North Western edge of the

structure by Wintershall AG. Both drilling projects reached the Stephanian rock strata but did not penetrate the deeper Westphalian layers. 66 kilometres of 2D seismic covering most of the Pfalzer Anticline defines a loose 4 kilometre grid over the South-western area of the Permit. The Directors believe that the Permit area would already have been drilled for gas if it was located in the USA or Australia.

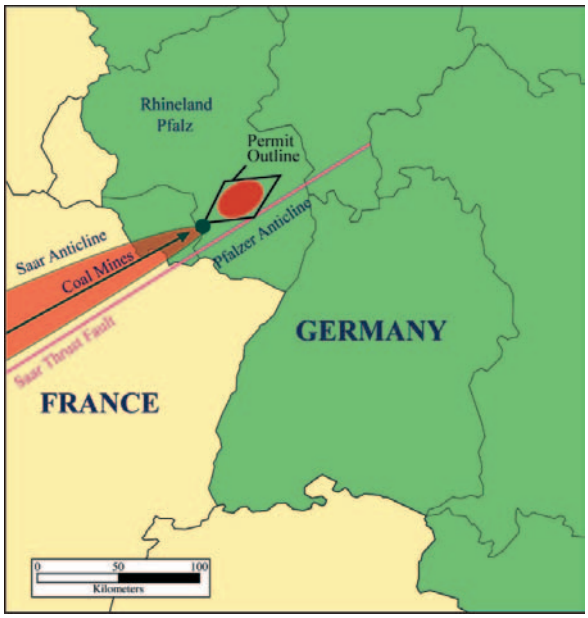

Figure 3. Relative locations of Pfalzer and Saar Anticlines

Reservoir Potential

The target pay zones in the Permit are the fault closures of the thrust plates and other faulted compartments within the Westphalian coal measures. It is anticipated by the Competent Person that the coal measures are formed of high grade anthracites with a collective thickness of 70 metres spread through rock strata over 1500 metres thick. Such high-grade anthracites normally generate significant amounts of free flowing methane (during the process of their compression and formation).

The sandstones and siltstones inter-bedded between the coal measures have a natural ability to store gas with a porosity of 6.25-8.6 %. In addition the Westphalian strata are expected to be heavily fractured, faulted and jointed as discovered during the mining of the nearby Saar Anticline. These geological defects can add an additional porosity bringing the expected porosity of the target reservoir to be in the 5-10% range. In addition increased permeability along faults and fractures can facilitate methane migration towards boreholes.

The Competent Person has estimated that several hundred Tcf of methane would have been produced after the formation of the overlying Stephanian Strata, which could provide an adequate seal. The quality of the seal has not been confirmed however there have been no recorded instances of gas seepages on the Pfalzer Anticline. The lower Stephanain strata contains a large amount of silts and fine grained sediments which have the potential to absorb gas. Consequently it is the impermeability of the top layer of Stephanian sedimentary rock which will need to form the top seal. The integrity of this seal has yet to be established by the Company and its Partners.

Recoverable Gas Potential and Prospects

Empyrean has identified two primary prospects within the Permit area, namely the Glantal and Lautertal Prospects. Following evaluation of previously acquired seismic data and other available geological data, the Directors and the Partners have planned to begin drilling the Glantal Prospect in August 2005. The Lautertal Prospect is at an earlier stage and requires further seismic survey prior to drilling.

Prospect 1: Glantal Prospect

The Glantal Prospect consists of the Westerly thrust sheets in the Pfalzer Anticline. The Permit's first deep exploration well, Glantal-1, is planned for August 2005 to a depth of between 1,940-2,200 metres to test the

seal of the overlying strata and the hydrocarbon potential of three thrust sheets. As the sheets do not directly overlay each other, the well will be deviated to the East. It is possible that the smallest of the three thrust sheets could trap up to 1.2 Tcf of recoverable gas and that all three collectively could trap up to 6.2 Tcf of recoverable gas. Given the possible size of the reservoir and potential amount of recoverable gas the Competent Person and the Directors believe that should the top seal have integrity then even a modest discovery of gas would be commercially viable. Should Glantal-1 fail to prove the integrity of the top seal the Directors would reach an early decision point on whether or not to cease operations on the Permit and focus the Company's resources on alternative project opportunities.

The three thrust sheets to be penetrated by the Glantal-1 well are believed to have significant area in fault. Given an estimated 7% porosity the three thrust sheets are estimated to have the following potential recoverable gas:

Potential Recoverable gas

Glantal Prospect:

Geological Feature	Recoverable gas
Thrust Sheet 1	2.4 Tcf
Thrust Sheet 2	1.2 Tcf
Thrust Sheet 3	2.6 Tcf
Total	**6.2 Tcf**

Probability, or P factors as they are known, have been assigned to the chance of commercially extracting gas, subsequent to exploration success. According to the Competent Person the assessed potential of exploration success is 1:7.5 to 1:8.5.

P factor	Total recoverable gas
P10 (10% probability)	6.2 Tcf
P50 (50% probability)	1.2 Tcf
P90* (90% probability)	350 Bcf

**The P90 case is calculated on a conservative basis over a 20- year period and envisaged given unforeseen reservoir variability in the development.*

Prospect 2: Lautertal Prospect

The Lautertal Prospect lies to the East of the Glantal Prospect and comprises a series of faulted compartments which require further definition by seismic survey. The Lautertal Prospect contains an estimated trap potential of 2 Tcf spread between three different compartments in the Westphalian coal seam. Should the Glantal-1 well prove the integrity of the top seal and substantiate the reservoir quality the Company believes that the exploration expenditure of the Lautertal Prospect would be justified.

Much of the work following the Glantal-1 well is dependent on and subject to the results of the Glantal-1 well. If significant volumes of gas are discovered a large number of further wells would be required for exploitation, and there may also be a requirement for a gas treatment plant. In the event of this situation the Directors will make the appropriate decisions whether to fund such expenditure out of initial cash flows or by way of debt or equity fundraising.

FARM–IN AGREEMENT AND PARTNERS

Pannonian International is a subsidiary of the Nasdaq listed Galaxy Energy Corporation which focuses on natural gas projects. Pannonian, acquired by Galaxy Energy Corporation in 2003, has coal bed methane interests in Romania and in December 2003 licenced the Neues Bergland Permit. The technical team engaged by Pannonian International has over 100 years cumulative experience in the energy sector covering identification, exploration, development and exploitation.

Monoco Petroleum was established in 1986, and is a private investment company in the petroleum sector backed by geologist David Montoya, based in Houston, Texas USA.

Hills Exploration is a private investment company, founded in 1988 by US businessman Austin Hills (also founder of San Francisco based Hills Capital Management, a licenced commodities futures trader) Hills Exploration Corporation has a number of investment interests in the petroleum sector, and has a close working history with Monaco Petroleum, it is based in San Francisco, California, USA.

Farm-in Agreement

The Company has been assigned a 40% working interest in the Permit which was registered by the OBA on 19 May 2005. The terms of the Farm-in Agreement provide that the Company is obliged to spend up to €4.8 million (£3.3 million) for phase 1 of a two phase work program. The Company's working interest in the Permit will increase to 52% upon spending a total amount of €7.0 million (£4.9 million) if the work programs detailed in phase 1 and 2 are complete or a total of €9.0 million (£6.3 million) if the work program detailed in phase 2 is incomplete. If the Company fails to provide the €4.8 million funding commitment to complete phase 1 the Partners can require the Company to re-assign its 40% interest. Following the assignment of the 52% working interest the Company and its Partners will fund all further expenditure on the Permit on a pro-rata basis. During the phase 1 and phase 2 earn in periods the Company has a deemed 51% voting interest in the Operating Committee.

Investors should be aware that in the event that drilling does prove seal integrity the Company will require a further fund raising in order to complete the Company's obligations under the Farm-in Agreement to secure the 52% interest in the Permit.

TERMS OF PERMIT

The Permit is a three year exploration licence which was granted to the Partners on 12 December 2003. The Permit provides an exclusive right to explore for hydrocarbons in the Neues Bergland Permit area, along with the right to erect such structures and operate such machinery as are necessary for the purposes of exploration. An approved operations plan was granted on 28 October 2004 and approval will last for a period of two years.

In order to extract and acquire ownership of any recoverable natural gas that is discovered, the Company and its Partners will require an exploitation licence, to be granted by the OBA under the BBergG. Provisions under the BBergG ensure that, following the discovery of natural gas, the granting of an exploitation licence may be refused primarily only if there has been a change in any of the grounds on which the application for the exploration licence was granted.

Between the grant of the Permit and the date of this document there has been no drilling activity. Pursuant to the relevant German legislation, the BBergG, there exist specific grounds under which, where objective circumstances warrant, the OBA can revoke licences which they have granted (further details of which are set out in Part VII of this document). One of these grounds is in the case where the holders delay the beginning of drilling activities for more than a year after receiving an exploration licence. However the OBA has agreed to extend the allowance for a period of inactivity to 31 December 2005 providing that the Permit has been drilled over four weeks at which point the Permit will continue to remain valid until 12 December 2006.

FINANCIAL RECORD AND ILLUSTRATIVE ASSET VALUATION

The Company and its assets are not yet producing natural gas and consequently profit and loss accounts have not been required to date. Set out in Part VI of this document is an unaudited pro-forma statement of net assets for the Company as at 28 April 2005 which has been extracted without material adjustment from the unaudited accounts of the Company.

In March 2005 the Company raised £1.7 million before expenses by way of a Pre-IPO Placing of 8.5 million Ordinary Shares at a price of 20 pence per share. Of the net proceeds of £1.6 million the sum of £195,000 was used as a deposit for the required drilling rig, the sum of US $750,000 was paid to the Partners and the sum of €1.3 million was placed in a bank deposit (controlled by the Company) account at the request of the OBA.

The Competent Person has used a conservative nominal price of US $4.60 per Mcf. Based on the mid-case P50 gas potential estimation of 1.2 Tcf the Glantal Prospect alone would yield an NPV (15% discount) of approximately US $500 million to Empyrean.

GLANTAL PROSPECT ILLUSTRATIVE VALUATION

Nominal gas price:	US $4.60 per Mcf	(rising at an nominal 2% per annum)
P50 gas potential:	1.20 Tcf	(mid-case of gas in one of three thrust sheets)
2011 peak gas flow rate:	450 MMcfpd	
NPV (Discount at 15%) of project:	US $962 million	(NPV of 100% of project after tax & assumed royalties of 12.5%)
NPV (Discount at 15%) of project:	US $500 million	(NPV of Empyrean's 52% interest after tax)

ACQUISITION STRATEGY

The Company will initially focus its efforts in the Permit area, but the Directors will actively investigate opportunities for the acquisition of strategic energy resource assets in geopolitically stable environments. In the event of significantly attractive assets becoming available the Directors will take the most appropriate route of financing available. The Company is currently evaluating several suitable opportunities. No binding agreements have been reached and these negotiations may not result in any binding agreement being reached.

DIRECTORS & SENIOR MANAGEMENT

The current directors of Empyrean are as follows:

Patrick Cross: Non-executive Chairman (aged 61)

Dr Cross has 37 years experience in corporate finance, organisational structures, marketing and joint venture operations. Having been involved with a large number of international operations, Dr Cross has worked in many locations including South America, Far East, Europe and the United Kingdom. During his career, Dr Cross spent 25 years with British Petroleum Company plc, where he specialised in strategy and business development, and developed close working relationships with government ministers in several countries and with European Union Commissioners. More recent roles include 6 years as Managing Director of BBC World Limited, and before that as President of the Cable and Wireless' operating company in Japan. Dr Cross is a non-executive director of Orca Interactive Limited.

Frank Brophy: Technical Director (aged 62)

Mr Brophy has over 40 years experience as a petroleum geologist in the exploration, development and production of many world class projects. Mr Brophy's roles have seen him involved in operations from many locations around the world including Australia, Asia, Europe, USA and the Middle East. Recent experience includes 4 years as General Manager of the Hanoi operation in North Vietnam, for French based company Maurel et Prom. Mr Brophy's previous positions also include his former role as Manager International Business Development and Manager of International Business Development for Ampolex Limited, Chief Geologist Elf of Aquitaine Australia and Exploration Manager for 5 years with Peko Oil Limited.

Christopher Lambert: Executive Director (aged 46)

Mr Lambert has a strong financial background, predominantly in the city of London. Having trained as a foreign exchange dealer at Dresdner Bank in the late 1970's he moved to Johnson Matthey Bankers to specialise in bullion banking and trading. Over the next 17 years he headed up the London and global trading divisions for Elders Finance Group (Finance Division of Fosters Brewing), The Rural Industries Bank WA, Barclays Bank plc and Prudential Securities (USA). His duties included: managing global dealing operations in the major financial centres around the world, the structuring of corporate and project finance transactions for governments, central banks, industrial companies and mining houses. In 1997 he left the city to work as a consultant for mining houses primarily in Australia. He is the non-executive chairman of Braemore Resources plc and Altona Resources plc.

Thomas Kelly: Executive Director (aged 35)

Mr Kelly has 14 years corporate, finance and investment banking experience. During this period Mr Kelly has had involvement in and been responsible for the financing of numerous listed companies on the ASX and several mergers and acquisitions within the Australian corporate sector. He is currently a director of ASX listed Lefroy Resources Limited and was formerly an Executive Officer of a prominent Western Australian

stockbroking firm DJ Carmichael. Mr Kelly will spend at least three days per week managing the commercial operations of the Company and investigating additional opportunities. He will be based between the UK, Germany and Australia.

Malcolm James: Non-Executive Finance Director (aged 48)

Mr James has 25 years experience in finance. He has played an active role in identifying, exploring, financing and developing a number of world-class projects in Australia, the Former Soviet Union, the Middle East and Asia. To date Mr James has been involved in raising in excess of AUD $2 billion in capital. On AIM Mr James has been involved as a director of Eureka Mining plc, Caspian Holdings plc, Cordillera Resources plc and he was a founder of Asia Energy plc. On the ASX he has had involvement with Lefroy Resources Limited, Peninsula Minerals Limited and Tianshan Gold Limited.

Jade Styants: Company Secretary and Financial Controller (aged 27)

Ms Styants is a Chartered Accountant with experience in corporate accounting for both the resource and manufacturing industries, having worked for major companies such as Anaconda Nickel Limited and Gillette International SARL. To date Ms Styants has been involved in the listing of Caspian Holdings plc and Cordillera Resources plc on the AIM exchange. Ms Styants is also Company Secretary of ASX listed Lefroy Resources Limited and Peninsula Minerals Limited.

REASONS FOR ADMISSION, THE PLACING AND USE OF PROCEEDS

The Company is proposing to raise £2.5 million before expenses through a placing by HB-corporate of 7,144,282 Ordinary Shares at the Placing Price. The Placing is expected to raise approximately £2.1 million net of expenses, the Placing Shares will represent 23.3% of the issued ordinary share capital of the Company following the Placing. The Company is seeking admission of its Ordinary Shares to trading on AIM in order to provide additional funding for the exploration and potential development of the Neues Bergland Permit area and to provide the Company with flexibility to enter into further energy resource opportunities in geopolitically stable environments.

WARRANTS

Pursuant to the terms of the Placing, each placee will be entitled to receive 1 Warrant for every 3 Placing Shares (rounded down to the nearest whole number). Each Warrant grants the holder the right to subscribe for 1 Ordinary Share at the Placing Price, such right to be exercisable at any time prior to the second anniversary of the date of Admission. The Company has not applied for the Warrants to be admitted to trading on AIM. Further details of the terms of the Warrants are set out in paragraph 3.10 of Part VIII of this document.

SHARE OPTIONS

Share Option Incentives

To assist in the incentivisation, retention and recruitment of employees and consultants, the Company intends to put in place one or more share option or other incentive schemes following Admission. All the employees of the Company, including the Directors, will be eligible to participate. Save as may otherwise be approved by Shareholders, the maximum aggregate number of shares that will be made available pursuant to such schemes shall not exceed 7.5% of the issued capital of the Company per annum. It is intended that options granted within 3 months of Admission will have an exercise price of the Placing Price.

HB-corporate Options

Under the terms of the Pre-IPO Placing, HB-corporate was granted an option over 232,500 Ordinary Shares to be issued at a price of 20 pence per share, exercisable at any time up to but not including 25th April 2010. Furthermore under the Placing Agreement the Company has granted HB-corporate a further option to subscribe for 686,828 Ordinary Shares at the Placing Price at any time up until the fifth year following Admission. The aggregate number of Ordinary Shares over which HB-corporate holds options shall not exceed 3% of the issued share capital of the Company as enlarged by the Placing.

DIVIDEND POLICY

Any future decision to declare dividends on Ordinary Shares will be made by the Directors having regard to the financial requirements of the Company to finance growth, the financial condition of the Company and other factors, which the Directors may consider appropriate in the circumstances. The Directors anticipate that future earnings will be retained for the development of its business and do not anticipate the payment of dividends for the foreseeable future.

CREST

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. It is expected that the Ordinary Shares will be admitted to CREST on the day of Admission and therefore settlement of transactions in Ordinary Shares following Admission may take place within the CREST system if any shareholder so wishes. CREST is a voluntary system and shareholders who wish to receive and retain share certificates will be able to do so. Further information is set out in the placing letters used in connection with the Placing.

RESTRICTIONS ON DEALING

The Directors, whose beneficial interests in the Company amount to 4,750,000 Ordinary Shares, representing 20.2% of the issued share capital of the Company prior to the Placing, have, subject to certain exceptions, undertaken to HB-corporate and the Company not to dispose of the Ordinary Shares held at Admission by them or persons connected with them for a period of 12 months following Admission. Furthermore, the Directors have subscribed to an orderly market agreement with HB-corporate for a period of 12 months starting from 12 months following Admission.

Certain other founding shareholders whose beneficial interests in the Company amount to 4,614,167 Ordinary Shares, representing 19.63% of the issued share capital of the Company prior to the Placing, have, subject to certain exceptions, undertaken to HB-corporate and the Company not to dispose of Ordinary Shares held at Admission by them or persons connected with them until after the public announcement, via a regulatory news system, of the results of the drilling of the Glantal-1 well. Furthermore, such founding shareholders have subscribed to an orderly market agreement with HB-corporate for a period of 12 months starting from the public announcement, via a regulatory news system, of the results of the drilling of the Glantal-1 well.

Additionally, HB-corporate has agreed, subject to certain exceptions, not to dispose of any Ordinary Shares (obtained by the exercising of share options) until after the public announcement, via a regulatory news system, of the results of the drilling of the Glantal-1 well.

CORPORATE GOVERNANCE

The Directors are committed to maintaining high standards of corporate governance. The Directors intend, 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 will operate 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 will meet regularly throughout the year. To enable the Board to perform its duties, each of the Directors will have 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 2 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 will meet at least twice a year. The committee will review the Company's annual and interim financial statements before submission to the Board for approval. The committee will also review regular reports from management and the external auditors on accounting and internal control matters. Where appropriate, the committee will monitor the progress of action taken in relation to such matters. The committee will also recommend the appointment of, and will review 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. It will meet at least three times a year. 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.

TAXATION

Information regarding taxation is set out in paragraph 11 of Part VIII of this document. These details are, however, intended only as a general guide to the current tax position under UK taxation law. If you are in any doubt as to your tax position you should consult an appropriate professional adviser immediately.

Part III — Risk Factors

AN INVESTMENT IN THE COMPANY IS HIGHLY SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK as the Company is a new venture and due to the nature of oil and natural gas exploration. In addition to the usual risks associated with an investment in a business at an early stage of development, the Directors have identified a number of risk factors which they believe should be considered.

Before deciding whether to invest in the Ordinary Shares, prospective investors should consider the risks below, as well as the rest of this document. The value of an investment in the Company could be adversely affected by these risks. This list of risk factors is not exhaustive and there may be additional risks not presently known by the Directors or that the Directors currently deem immaterial which could also have an impact on the Company's business, financial position and operating results. Prospective investors should carefully consider whether investment in the Ordinary Shares is suitable for them in light of the information in this document and their personal circumstances and are advised to consult an independent financial adviser authorised under the Financial Services and Markets Act 2000 and who specialises in advising on the acquisition of shares and other securities before making a decision to invest.

Exploration, production and general operational risks

The exploration for and production of natural gas and other natural resources is speculative and involves a high degree of risk and there is no assurance that expenditures made on future exploration or development activities by Empyrean will result in discoveries of natural gas even, if seal integrity is proven. In particular, the operations of the Company may be disrupted by a variety of risks and hazards which are beyond the control of the Company, including environmental hazards, industrial accidents, occupational and health hazards, technical failures, labour disputes, unusual or unexpected geological formations, flooding, earthquake and extended interruptions due to inclement or hazardous weather conditions, explosions and other accidents. These risks and hazards could also result in damage to, or destruction of wells or production facilities, personal injury, environmental damage, business interruption, monetary losses and possible legal liability.

Drilling oil and gas wells is speculative, may be unprofitable and may result in the loss of your investment. The Company may never discover commercially exploitable gas deposits, and may never produce oil or gas. The nature of reserve quantification studies means that there can be no guarantee that estimates of quantities of natural gas discovered will be available for extraction. Delays in the construction and commissioning of projects or other technical difficulties may result in the Company's current or future projected target dates for production being delayed or further capital expenditure being required. An investment in the Ordinary Shares is suitable only for individuals who are financially able to withstand a complete loss of their investment.

Seal Integrity

The exploration of the Permit area is highly speculative, and in the opinion of the Competent Person the most significant risk is the quality of the top seal. Should there not be an effective top seal in place it is unlikely that natural gas will be present in commercial quantities.

Future Fundraising Requirement

Investors should be aware that in the event that drilling does prove seal integrity the Company will require a further fund raising in order to complete the Company's obligations under the Farm-in Agreement to secure the 52% interest in the Permit. Such a subsequent fundraising would be dependent on prevailing market conditions, and no future guarantee of success in such a fundraising can be made, and therefore the Company may not be able to secure the full 52% interest in the permit.

Exploration licence

The Permit is a three year exploration licence granted on 12 December 2003. Pursuant to the relevant German legislation, the section 12 para. 1 BBergG, there exist specific grounds under which, where special circumstances warrant, the OBA can revoke licences which they have granted (further details of which are set out below). One of these grounds is in the case where the holders delay the beginning of drilling activities for more than a year after receiving an exploration licence. Since the grant of the Permit and the date of this document, there has been no drilling activity. However the OBA has agreed to extend the allowance for a period of inactivity to 31 December 2005 providing that, by that time,the Permit area has been drilled over four weeks to the planned depth of 1,940-2,200 metres, at which point the Permit will remain valid until 12 December 2006. Following the Placing, the

Directors intend to carry out such drilling as is required by the OBA during August to September 2005. Should this target fail to be achieved, the OBA may revoke the Permit (although, if there is a cogent reason why this has not been achieved, the OBA has indicated it may prolong the term for another year). As under any well regulated economic environment, other grounds exist for revocation of licences granted and, in addition to lack of inactivity stated above, other grounds on which the Permit may be revoked include lack of financial resources on the Permit holder or for an overriding public interest. Based on advice which the board of the Company has received, there is no indication that the latter ground could be used to argue for a revocation of the Permit, however the theoretical risk still remains.

Permit Ownership

The Company has been assigned a 40% working interest in the Permit. After providing a minimum of €7.0 million to complete an agreed two phase drilling and seismic program, or after providing a funding commitment of €9.0 million (whether or not the second phase of works has been completed), the Company's working interest in the Permit will increase to 52%. Should the Company fail to provide the required funding, its working interest in the Permit will not increase to 52%. In addition, under the contractual arrangements with the Partners, if there is any default by the Company through its failure to complete phase 1 of the work program or to spend its €4.8 million funding commitment by the required date, the Partners can require the Company to re-assign its 40% working interest.

Exploitation licence

The Permit grants the exclusive right to explore for natural gas in the designated Exploration Area, along with the right to erect such structures and operate such machinery as are necessary for the purposes of exploration. In order to extract and acquire ownership of any natural gas reserves that are discovered the Company will require an exploitation licence. Following the discovery of natural gas the granting of an exploitation licence may only be refused primarily if there has been a change in any of the grounds on which the application for the exploration licence was granted. The Directors and the Partners do not foresee that there would be a change in the grounds of application between the exploration and the exploitation licence. However, as some of the events which constitute grounds are largely out of the said parties' control, the occurrence of circumstances which would prevent the exploitation licence being granted cannot be discounted. For example, the emergence of an overriding public interest that precludes the exploitation of natural gas in the area may allow the refusal of the exploitation licence. Additionally should the Company and its Partners fail to provide sufficient information and detail regarding the existence of gas reserves and proof of the required financial resources for exploitation under section 12 of 1 BBergG the OBA could refuse the granting of an exploitation licence. This could prevent the Company and its Partners from obtaining ownership of the natural gas assets contained in the Permit area.

Increase in drilling costs and the availability of drilling equipment

The oil and gas industry has historically experienced periods of rapid cost increases. Increases in the costs of exploration and development would affect Empyrean's ability to invest in prospects and to purchase or hire equipment, supplies and services. In addition, the availability of drilling rigs and other equipment and services is affected by the level and location of drilling activity around the world. An increase in drilling operations outside of Germany or in other areas of Germany may reduce the availability of equipment and services to Empyrean. The reduced availability of equipment and services may delay its ability to exploit reserves and adversely affect Empyrean's operations and profitability.

Delays in production, marketing and transportation

Various production, marketing and transportation conditions may cause delays in natural gas production and adversely affect Empyrean's business. Drilling wells in areas remote from distribution and production facilities may delay production from those wells until sufficient reserves are established to justify construction of the necessary transportation and production facilities.

Drilling new wells could result in liabilities

There are risks associated with the drilling of oil and natural gas wells, including encountering unexpected formations or pressures, blow-outs, craterings, sour gas releases, fires and spills. Reduced revenues or losses resulting from the occurrence of any of these risks could have a materially adverse effect on Empyrean and

its future results of operations. Empyrean may become subject to liability for pollution, blow-outs or other hazards. The payment of such liabilities could reduce the funds available to Empyrean or could in an extreme case, result in a total loss of its properties and assets. Moreover, there can be no assurance that the Company will be able to maintain adequate insurance in the future at rates that are considered reasonable. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

Scale of Competition

The Company's competitors include the major oil and gas companies and independent oil and gas companies. The oil and gas business is highly competitive in the search for and acquisition of reserves and in the gathering and marketing of oil and gas production and in the recruitment and employment of qualified personnel. The Company's competitors have significantly greater financial, technical and other resources than the Company and are able to devote greater resources to the development of their business.

Oil and gas pricing and demand

The price of and demand for oil and gas is highly dependent on a number of factors, including worldwide supply and demand levels, energy policies, weather, competitiveness of alternative energy sources, global economic and political developments and the volatile trading patterns of the commodity futures markets. Natural gas prices also continue to be highly volatile. Changes in oil and gas prices can impact on the Company's valuation of reserves. International oil and gas prices have fluctuated widely in recent years and may continue to do so in the future. Lower oil and gas prices will adversely affect the Company's revenues, business or financial condition and its valuation of its reserves. In periods of sharply lower commodity prices, the Company may curtail production and capital spending projects and may defer or delay drilling wells because of lower cash flows. In addition, the demand for and supply of oil and gas in Germany and worldwide may affect the Company's level of production.

Decommissioning costs are unknown

Empyrean may become responsible for costs associated with abandoning and reclaiming wells, facilities and pipelines which it uses for production of its oil and gas reserves. Abandonment and reclamation of its current facilities and the costs associated therewith is often referred to as "decommissioning". There are no immediate plans to establish a reserve account for these potential costs in respect of any of its current properties or facilities, rather, the costs of decommissioning are expected to be paid from the proceeds of production in accordance with the practice generally employed in onshore and offshore oilfield operations. Should decommissioning be required prior to economic depletion of Empyrean's current properties or should the estimates of the costs of decommissioning exceed the value of the reserves remaining at any particular time to cover such decommissioning costs, the Company may have to draw on funds from other sources to satisfy such costs. The use of other funds to satisfy such decommissioning costs could have a materially adverse effect on the Company's financial position.

Dependence on key people

Empyrean's success depends in large part on the ability of its executive management team to deal effectively with complex risks and relationships and execute Empyrean's exploration and development plan. The members of the management team contribute to Empyrean's ability to obtain, generate and manage opportunities. Empyrean's prospects also depend upon the continued service of its technical employees and consultants. There can be no assurance that Empyrean's present Directors, advisers, officers, employees, representatives or consultants will remain with Empyrean.

Limited Diversification

Generally, risk is reduced through diversification. Diversification is maximised by drilling a large number of wells over a large area of prospects having different geological characteristics. The Company anticipates drilling a limited number of wells in the relatively limited area of the Pfalzer Anticline. The drilling and development program, therefore, will have only a limited amount of diversification with a correspondingly higher degree of financial risk for investors.

Reliance on third parties

Although Empyrean is providing the majority of the finance for the exploration of the Neues Bergland Permit, it will not be managing the day to day operation of the drilling. Such drilling will be carried out by

independent contractors, working under the auspices of Pannonian International. As such Empyrean will be reliant on the efficiency of a third party for the day to day running of operations.

Foreign currency exchange rates may fluctuate, which can affect financial results

Empyrean intends to sell any gas output pursuant to marketing agreements that are denominated in US dollars. Many of the operational and other expenses incurred by Empyrean are paid in US dollars or in Euros. The assets and liabilities of Empyrean are recorded in Sterling. As a result, fluctuations in the US dollar against the Euro and each of these currencies against Sterling could result in unanticipated fluctuations in the Company's financial position.

Volatility of share price and liquidity

The trading price of the Ordinary Shares may be subject to wide fluctuations in response to a range of events and factors such as variations in operating results, announcements of progress by the Company or its competitors, changes in financial estimates and recommendations by securities analysts, the operating and share price performance of other companies that investors may deem comparable to the Company, the general market perception of the Company and news reports relating to trends in the Company's markets. These fluctuations may adversely affect the trading price of the Ordinary Shares, regardless of the Company's performance. The market price of the Ordinary Shares may not reflect the underlying value of the Company's assets. Investors may therefore realise less than their original investment. Admission to AIM should not be taken as implying that there will be a liquid market for the Ordinary shares. It may be more difficult for an investor to realise his investment on AIM than to realise an investment in a company whose shares are quoted on the Official List.

An investment in the Company may not be suitable for all recipients of this document. Potential investors are accordingly advised to consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on investments of this kind before making any investment decisions.

Part IV — Competent Person's Report

VALMAP

The Directors
Empyrean Energy Plc.
7 Savoy Court ,
London WC2R OER

The Directors
HB-corporate
40 Marsh Wall
London E14 9TP

22 July 2005

Dear Sirs

TECHNICAL REVIEW OF
NEUES BERGLAND PERMIT
RHEINELAND-PFALZ, GERMANY
COMPETENT PERSON'S REPORT

EXECUTIVE SUMMARY

The Neues Bergland Permit, Rheinland-Pfalz onshore Germany, contains the large 515 km^2 Pfalzer anticline. This anticline was formed by deep compressional faulting that has defined two prime prospects within the Pfalzer anticline the Glantal and Lautertal prospects.

The Glantal prospect is a large complex structure in a coal basin geologic setting, onshore Germany. The reservoir targets are faulted Carboniferous coal measures within three thrust sheets. These thrust sheets rely on predominantly fault closure with four-way independent closure in the lowermost thrust sheet. The prospect is covered by a loose grid of seismic and combined with the surface geological mapping is mature for drilling. Previously, the only drilling on the Pfalzer anticline has been bore holes that have not penetrated the Westphalian coal measures reservoir target.

The Glantal-1 well is planned to be drilled in August 2005 to test the thrust sheet traps in the western part of the Pfalzer anticline. It would be drilled to between 1800 to 2200m Total Depth.

The most significant risk appears to be the quality of the top seal as no definitive wire-line logs to verify the quality of the seal have been taken. The lowest 700m of the top seal have been described in prior wells as predominantly fine-grained sediment that are yet to be tested for seal quality. On this basis the geological risk associated with the Glantal prospect is not insignificant.

Reservoir quality is likely to be developed in the target formation due to its highly fractured and faulted nature. However, fault porosity development in fractured reservoirs is known not to be uniformly developed and is likely to vary significantly over the prospect area.

There exists sufficient hydrocarbon source with significant thickness of methane-generating coals developed within the reservoir section. The gas sourced from these coals has probably been generated after the formation of the anticline.

The structure is defined by surface anticline expression and a loose grid of seismic. The northeastern part of the anticline is most poorly covered with seismic but given the surface geology the Greater Pfalzer anticline is most likely to have structural closure integrity.

The trap potential of the Glantal Prospect is large (1.2 to 6.2 Trillion cubic feet).

The upside case (P10) has a trap potential of 6.2 Tcf. The most likely case (P50) has a recoverable trap potential of 1.2 Tcf. This most likely case is deterministically equivalent to the trap potential of the central thrust sheet alone. The commerciality of even a low-side (P90) gas discovery (0.35 Tcf) given closeness to market and an assumed US$4.60/mcf gas price is an estimated US $282 Million (52% Empyrean Energy interest =US$147 Million) NPV at 15% discount rate. Such a 20 year development would require 22 wells with a peak gas rate of 140 million cubic feet per day in 2010.

The Lautertal prospect requires further seismic to mature to drillable status and much of its further exploration risk assessment will depend on the results of the proposed Glantal-1 well.

Part IV — Competent Person's Report

INTRODUCTION

The aim of this report is to provide an independent technical review of the petroleum potential of the Neues Bergland Permit, Rheinland-Pfalz, onshore Germany, Europe. This report was written with the full knowledge that it would be incorporated with the prospectus of Emperean Energy Plc. for raising up to £2.5 million and admission of this company's share capital to trading on AIM.

The key data provided for the review was the Glantal prospect Brochure (main and supplementary) supplied by Pannonian International Ltd and Monoco Petroleum Inc. Key seismic data over the prospect was supplied in both digital and paper format.

The Neues Bergland Permit lies in the Rheineland-Pfalz state of central-west Germany. The permit covers an area of 605 km^2 (149,435 acres). The initial term of the exploration permit is for 3 years beginning December 2003. Given a commercial success, German authorities allow application for 40 year production licences.

Figure 1. Location Map

CREDENTIALS OF INDEPENDENT CONSULTANT

The principal of Valmap Pty Ltd is petroleum consultant Ian Paton. The principal is a qualified petroleum engineer and geoscientist with over 28 years of experience in oil and gas exploration and development and has been involved in exploration and detailed design of Plan of Developments of oil and gas fields in the Middle East, Europe, Americas, Australia and Southeast Asia.

Ian Paton has B.Sc. (Hons.) and M. Pet. Eng qualifications from the University of Western Australia. He is a professional petroleum Engineer and a member of the Society of Petroleum Engineers. Expertise encompasses geoscience, drilling, reservoir and petroleum engineering.

The Principal has no direct or indirect interest in any of the Companies that have interests in the exploration project that is the subject of this report.

LIMITATIONS

In carrying out this review, Valmap Pty Ltd has relied upon confidential information and data provided by Pannonian International Ltd and Monoco Petroleum Inc. which comprised details of the petroleum exploration interpretation reports, basic exploration data, geochemical and other technical reports, and cost and commercial data, supplemented by public domain data as was appropriate. A visit to the Geological Survey of Rheineland-Pfalz in May 2005 has not revealed further data relevant to the assessment of the permit that has not already been supplied by Pannonian International.

Valmap Pty Ltd has no reason to believe that any material facts have been withheld from it, but does not warrant that its inquiries have revealed all of the matters that a more extensive examination might otherwise disclose. The opinions and statements contained in this report are made in good faith and in the belief that such opinions and statements are representative of prevailing physical and economic circumstances.

Valmap Pty Ltd has made a visit in May 2005 to the proposed Glantal-1 well site to assess environmental factors, access and terrain aspects which may affect the logistics of the proposed 2005 exploration. Valmap Pty Ltd has not verified the legal status of tenements reported on in this document nor undertaken any due diligence on any contracts or agreements or any other legal or accounting matters and is not qualified to provide an opinion thereof. Valmap Pty Ltd has not undertaken any due diligence on Native Title, cultural heritage or environmental approval issues, which may impact the proposed appraisal or development programs.

The opinions expressed herein represent Valmap's judgment based upon its evaluation of these issues, the data that has been made available and the company's professional experience in consideration of these matters.

CONTRACT PERMIT TERMS

- Contract is for Neues Bergland Exploration Permit.
- Royalty Agreement.
- Date of Contract: December 12, 2003.
- 3 year exploration term. The following commitments exist in the contract—
  Year 1 - one well (deferred to be drilled by December 12, 2005).
  Year 2 -75 km. seismic program.
  Year 3- one well
- Area of Block: 605 km2 (149,435 acres).
- Royalty: Gas is 5% after payout of expenses. This royalty can be increased to 10% given high gas production rates.
- Corporate German tax rate is 25%.

REGIONAL GEOLOGY

The Neues Bergland Permit lies within the Saar-Lorraine Basin. This basin developed as an inter-montane basin within the greater Variscan fold and thrust belt located in Germany. Limited thickness (200-300m) of Devonian marine platform sediments underlie the Namurian through Stephanian strata that predominate the Saar-Lorraine Basin. The basin fill comprises exclusively continental sediments with a preserved thickness of about 6500m. Deposition started at the Namurian-Westphalian boundary and continued to the late Early Permian times, recording a shift from a humid to a semi-arid climate over about 20 million years during continuous northward drift of the basin. Towards the south, east and west of the basin, sediments of Triassic and Tertiary age cover the large Carboniferous-Permian basin fill.

The Saar-Lorraine Basin is essentially a half-graben which is bounded on the northwestern flank by the large Hunsruck-Taunus fault . This fault has been active from Namurian through Stephanian (latest Carboniferous) and Sakmarian (earliest Permian) times and was reactivated during Cretaceous and Tertiary times. The true basin dimensions are only known from a few boreholes and seismic lines that reveal the asymmetric distribution of sediment thickness and facies (Henk, 1993).

The main basin boundingfault is a southeastward dipping detachment which coincideswith the surface trace of the Hunsruck-Taunus fault atthe northwestern basin margin. The intra-basinal structuralframework comprises NW to SE-trending oblique slip transferfaults and large-scale synclinal and anticlinalstructures running NE to SW sub-parallel to the basin margins.

The Saar-Lorraine Basin subsided rapidly during the Upper Carboniferous (Namurian-Stephanian) and has a largely preserved Namurian to Sakmarian coal-bearing section. Numerous Westphalian and Stephanian coal beds lie in the Basin. The Saar-Lorraine Basin coal-bearing sequence is mined on the Saar anticline and is developed deeper in the subsurface to the northeast of the Saar anticline across the Rheinland-Pfalz and disappears beneath the upper Rhine graben near Frankfurt.

Extrusive and intrusive volcanism and related tectonism affected the Saar-Lorraine Basin during lower Permian times. The youngest strata preserved in the Saar-Lorraine Basin are Triassic continental sandstones.

Wrench faulting during the late Sakmarian resulted in formation of a series of anticlinal features, some of which were thrusted. These include the Saar and Pfalzer anticlines both of which have low-angle listric faults at depth. The crest of the Saar anticline has been eroded whilst the Pfalzer anticline has not been truncated by the Stephanian angular unconformity.

The Saar anticline developed immediately on-trend and to the southwest of the Pfalzer anticline is geologically similar to the Pfalzer anticline but differs in the fact it was buried more deeply and is totally unmined. The Glantal Prospect is located on the southwestern portion of the Pfalzer anticline.

The thick Westphalian coal sequences are well developed at the Saar and Pfalzer anticlines. It is estimated that a minimum of 180m of Westphalian coal seams are developed at the Pfalzer anticline. These thick Westphalian coal sequences are thickest along the crest of the Saar anticline where they have been extensively drilled and mined. They have not been penetrated in the Pfalzer anticline.

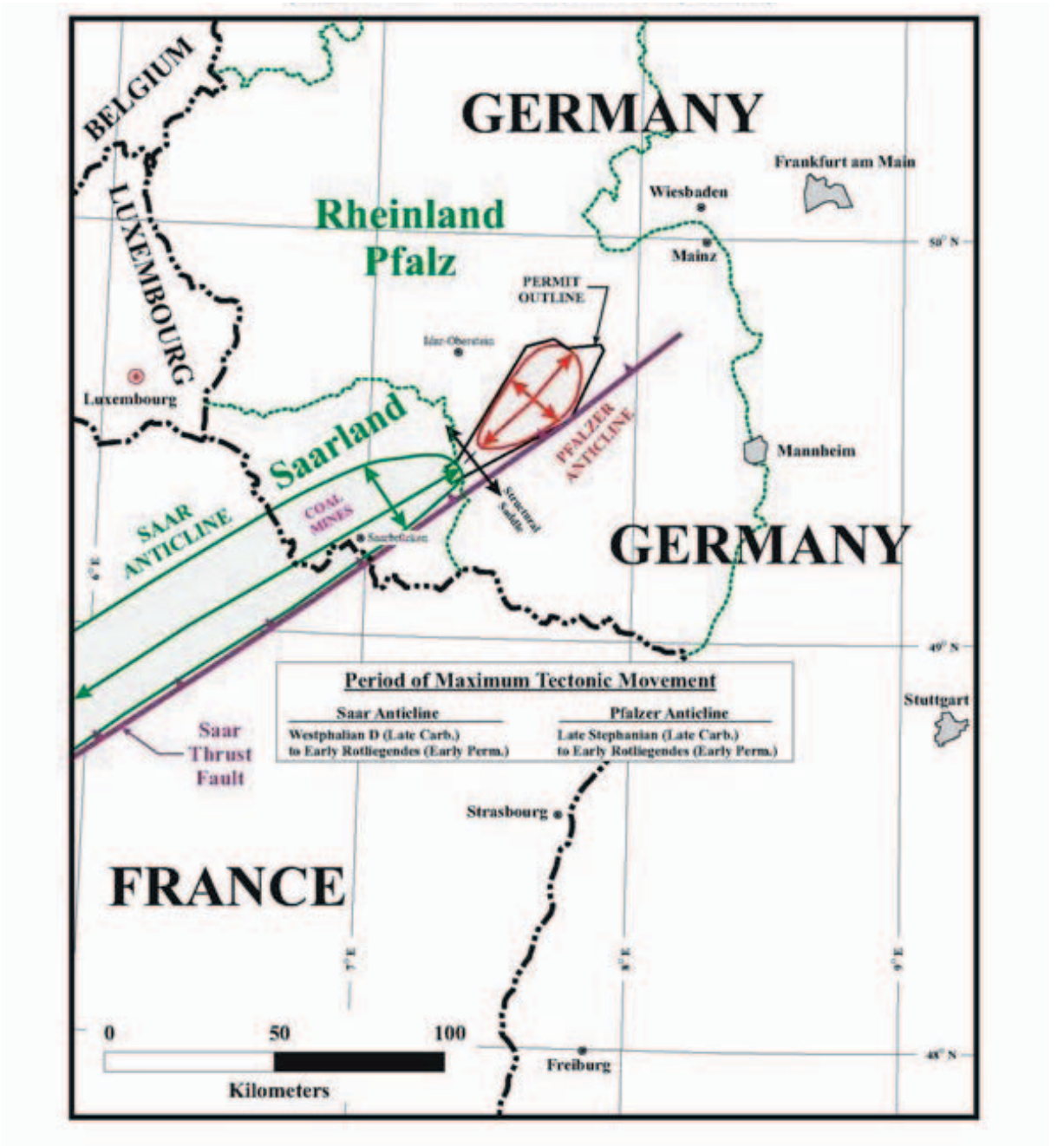

Figure 2. Geographical relationship between the Saar and Pfalzer anticlines

STRATIGRAPHY

The oldest sedimentary rocks of the Neues Bergland Permit are Devonian marine platform carbonates. These are overlain by substantial thickness of coal-bearing Carboniferous and Permian sediments. This regional stratigraphy is represented in the Figure 3 below.

The main focus of the stratigraphic sequence in the Saar-Lorraine Basin represented in the Neues Bergland Permit is the Upper Carboniferous sedimentary section. This sequence comprises the source, seal and reservoir section of the Glantal Prospect. The Upper Carboniferous comprises the Westphalian and Stephanian geologic stages (320 to 300 Ma.). These are largely fluvio-deltaic clastics which are readily separated from the mainly marine platform limestones of the underlying Visean. Marker horizons within the Upper Carboniferous consist of cineritic tonsteins- the result of volcanic ash-falls. These have proven particularily important in establishing correlations between the paralic coalfields and intermontane basins such as Saar-Lorraine, where marine bands do not occur. Such marine bands do exist in the British Upper Carboniferous coalfields. The Westphalian sedimentary thickness in the Pfalzer is expected to be similar to

that encountered at the Saar anticline. Depositional conditions in the Westphalian were similar in both anticlinal areas and similar coal thicknesses are expected. Westphalian strata – sandstones, siltstones, shales and coals – are typically thin-bedded in the Saar anticline and are hard and brittle with low porosity. Rocks of this type should fracture easily and extensively with the compressional tectonics associated with the development of the Pfalzer anticline.

Lava flows are common in the Permian of the Saar-Lorraine Basin. Two volcanic intrusions pierce the central and northeastern anticlinal culminations of the Stephanian outcrop area (Figure 4) in the Pfalzer anticline. Seismic interpretation shows the western volcanic exposure to be a small laccolith at depth below two volcanic dykes. The eastern volcanic outcrop is also expected to be a laccolith. Gravity and magnetic data support this interpretation. The alteration zones around these Permian intrusions are narrow and not expected to affect the integrity of the Glantal prospect. Large Permian intrusions outcrop on the flanks of the northeasterly extension of the Pfalzer anticlinal trend.

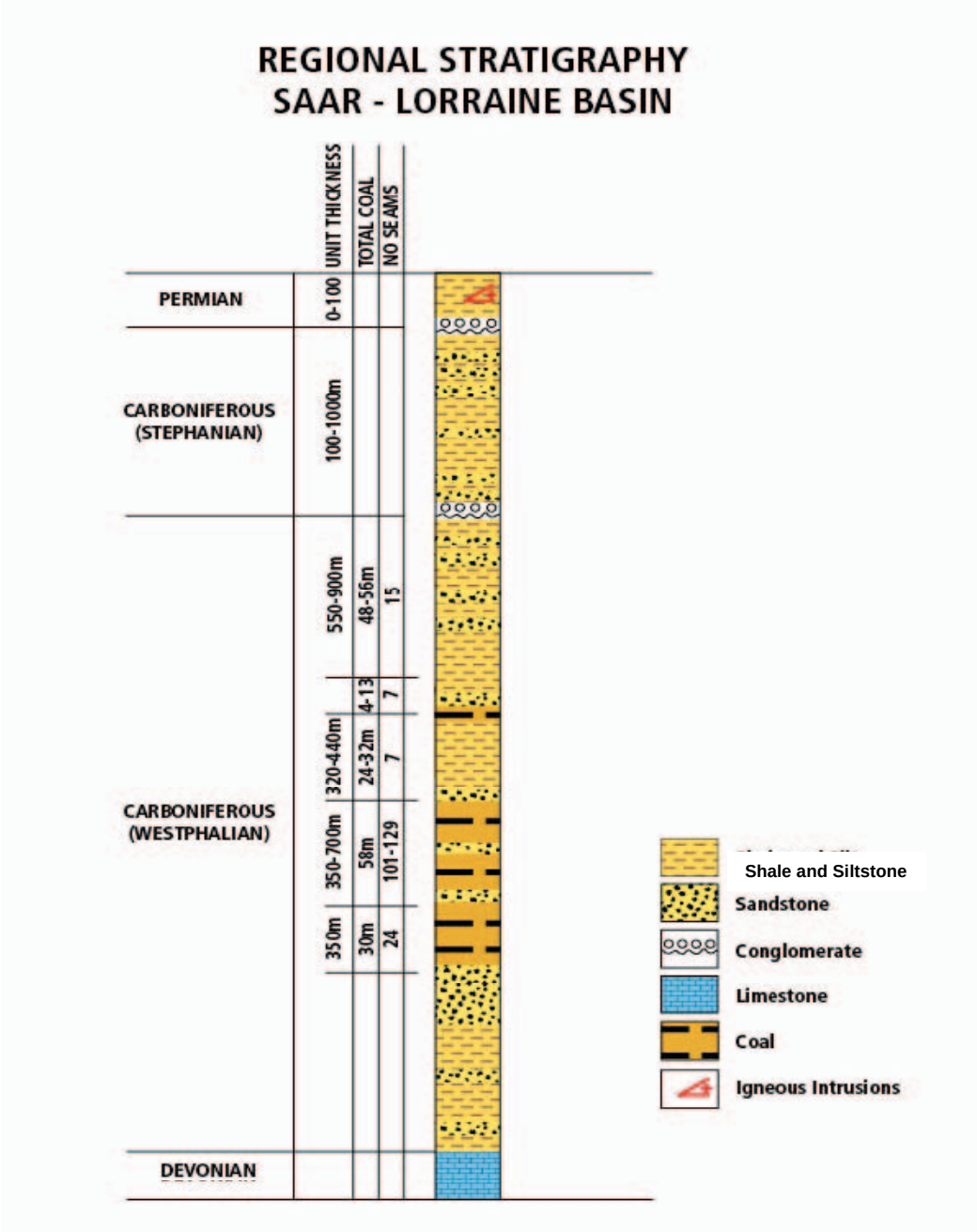

Figure 3. Regional Stratigraphy of the Glantal prospect area.

PREVIOUS EXPLORATION

The Saar anticline lies 25 km on-trend to the southwest of the Pfalzer anticline. The Saar anticline has been extensively drilled and mined. It is from this prior activity that the coal geology is extensively known. Similar development of the coal-bearing sequence is developed more deeply buried at the Pfalzer anticline.

There is no penetration of the coal-bearing Westphalian sequence on the Pfalzer anticline. One core hole has been drilled in 1902 on the Pfalzer anticline- Gelbes Wasser-1. This well was drilled to 1137m. The Total Depth of this well was in the Stephanian and did not penetrate the target Westphalian coal-bearing sequence. Four wells were drilled by Wintershall AG between 1955 to 1959 on the outer northwest flank of the Pfalzer anticline. These wells confirmed strong northwesterly dips consistent with their structural position on the anticline. The Stephanian section penetrated in these wells indicate fine grained red-bed facies with the Glantal-1 objective Westphalian coal measures section not penetrated in these wells.

Some 66 km of 2D seismic has been previously acquired in the Permit. The vintage of this seismic is 1976-1977 and is of fair quality. This seismic defines a loose 4 km grid over the southwestern part of the Pfalzer anticline (Figure 4.) over the Glantal prospect.

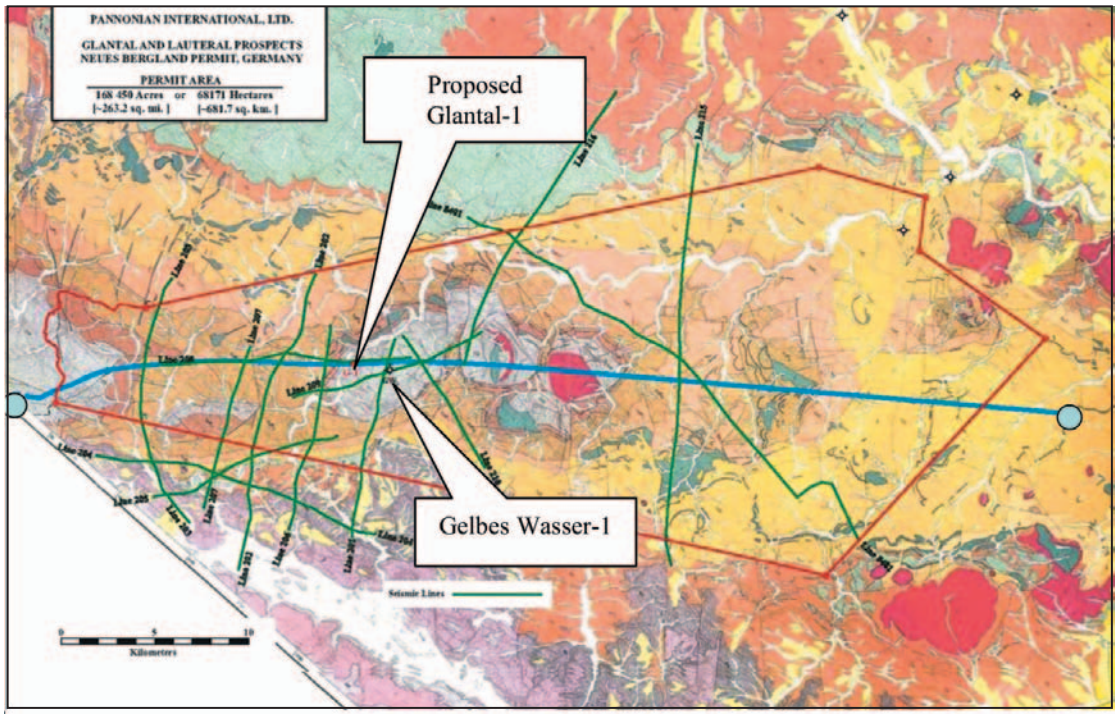

Figure 4. Permit Area and seismic superimposed on surface geology.

EXPLORATION POTENTIAL OF PERMIT - PROSPECTS

The Neues Bergland Permit covers the extent of the Pfalzer anticline. This anticline is about 40 km long and 18 km wide- an area of 515 km2. The Permit areal extent is 605 km2 and is orientated to cover the northeast-southwest trending Pfalzer anticline.

The Pfalzer anticline has an estimated 1500 m of vertical closure. The anticline is defined by surface geologic mapping and loose 4 km grid of seismic on its western flank. Both the seismic and surface mapping have defined a faulted complex of thrust sheets at depth within the greater anticlinal closure. From this faulted complex contained within the greater Pfalzer anticline two prospects have been defined - the Glantal and Lautertal prospects.

The Glantal prospect is defined as those westerly located thrust sheets in the greater Pfalzer anticline. The Lautertal Prospect covers the fault compartments encompassing the eastern part of the Pfalzer anticline.

The Glantal prospect will be the target of the first deep exploration well in the permit planned in 2005. This Glantal-1 well is to target several thrust sheets in the western part of the permit. The extent of these thrust sheets are shown in Figure 6. The Glantal-1 well is planned to be deviated in the subsurface with a well path orientated to the east as to intersect three of these thrust sheets as they lie in an imbricate attitude and thus

not wholly overlying each other. Glantal has a loose seismic grid and it is from the seismic definition that the Glantal-1 well has been designed. Given success at Glantal-1 further seismic will be required to properly define the detailed extent and complexity of the Glantal thrust closures. If only one of the thrust closures contains hydrocarbons this seismic can be targeted to cover preferentially the areal extent of that thrust closure. The Glantal thrust sheets could trap up to 6.2Tcf of recoverable gas. If only one of these thrust sheets contains gas then some 1.2Tcf could be contained in the smallest of these thrust sheet traps.

The Lautertal Prospect is that area to the east of the Glantal Prospect covering the remainder of the area of the Pfalzer anticline and is defined at depth by a series of faulted compartments. These faulted compartments are poorly defined seismically and an extensive seismic acquisition program is required to define the complex of faulted compartments. Should Glantal-1 prove the integrity of the top seal to the greater anticline and substantiate the reservoir quality the exploration risk of the Lautertal Prospect would be then constrained. Further evaluation of the Lautertal Prospect could then be reasonably planned. The Lautertal prospect contains an estimated trap potential of 2 Tcf of recoverable gas in at least three separate structural compartments in the Westphalian coal seam reservoir target.

The Glantal prospect ranks ahead of Lautertal in structural maturity and its drilling will do much to evaluate the greater potential of the permit. For this reason the Glantal prospect is the focus of the technical evaluation contained in this report.

PETROLEUM GEOLOGY OF THE GLANTAL PROSPECT

1.1 STRUCTURE

The Glantal prospect is located in the southwestern portion of the greater Pfalzer Anticline. The greater Pfalzer anticline is defined in-part by surface geological mapping (Figure 4). Seismic data indicates the anticline is subject to overthrust faulting. These thrust sheets comprise 3 imbricate plates of Westphalian coal measures together with the deeper folded coal measures of the anticline itself.

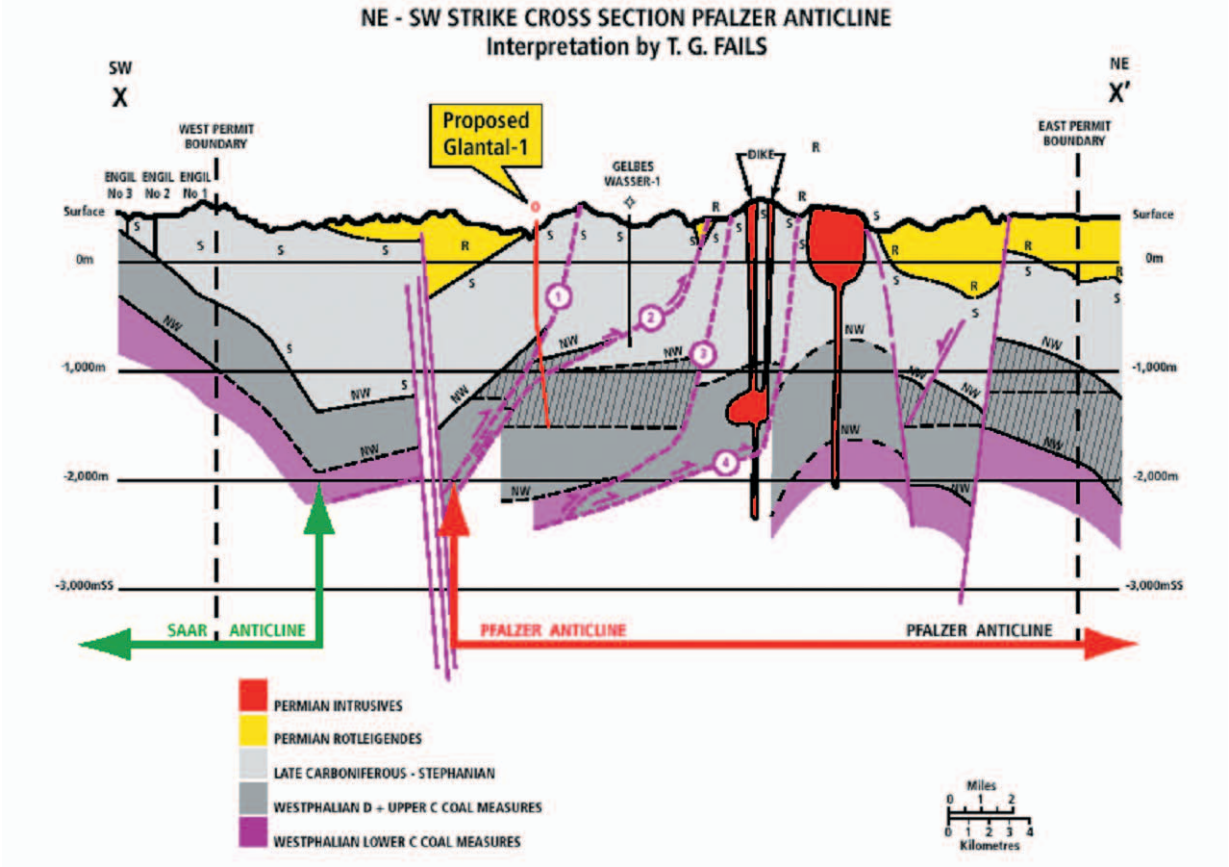

Figure 5 . Northeast-southwest cross-section through the Glantal prospect and Pfalzer Anticline. See figure 4 for location of X-X' cross-section

Two of the upper thrust sheets to be penetrated by the proposed slant drill hole Glantal-1 will be locally fault closed with the lower thrust sheet having independent four-way dip closure as well as greater fault closure.

This is shown in Figure 6. The proposed drill depth of the Glantal-1 well is 2200m (-1925m SS) which would test the petroleum potential of three thrust sheets. The upper two thrust plates are 175m and 300m thick with the third and deeper thrust sheet being thicker and can be tested by up to 900m of the borehole. The well would be deviated below 700m with the entire target formation being Westphalian coal measures.

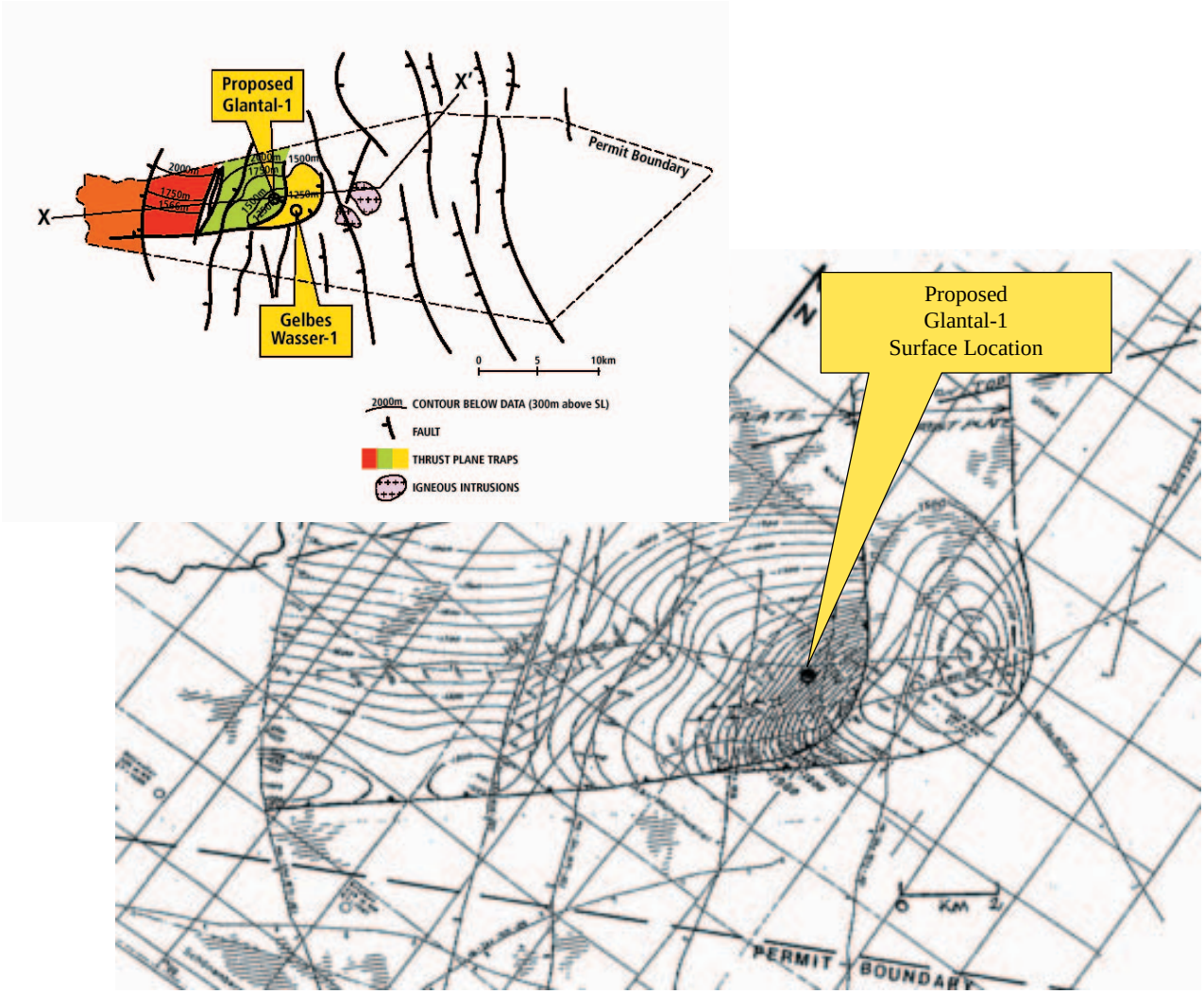

Figure 6. Depth Structure Map of Stephanian-Westphalian contact (Holzer Conglomerate). The second thrust plate is completely hidden by first thrust plate contour map. CI= 50m

1.2 RESERVOIR

The Glantal prospect trap is a series of three thrust plates of Westphalian coal measures. Several hundred meters of Stephanian shales, siltstones and sandstones overlie the Westphalian coal measures reservoir target.

The Glantal prospect appears to overlie 70 m or more of semi-anthracite and anthracite coals in Westphalian coal measures strata about 1500 m thick. Coals of these ranks generate enormous volumes of methane, but the coalbeds are not suitable for coalbed methane (CBM) completions and production because of high coal densities and therefore, little, if any, coal permeability. CBM coals have methane gas adsorbed on the surface of the coal particles and gas is freed only after the pressure of the reservoir is reduced sufficiently to liberate this gas. This is usually achieved by pumping water from the reservoir before any gas is produced. CBM reservoirs have generally low gas flows of less than 1MMcfpd. The Glantal prospect target reservoirs are expected to contain gas trapped in fractures that will flow freely at high rates (5+ MMcfpd) when tested. No water is expected to be produced from these reservoirs until late in the life of the field.

Sandstones in strata interbedded with these coalbeds have measured porosities of up-to 8.6% and low permeabilities. The geologic map (surface geology) of the Pfälzer anticline, obtained from the Geologische

Landesamt Rheinland-Pfalz, shows the anticline to be heavily faulted by numerous normal and a few thrust faults, as is the nearby Saar anticline; the latter is displaced to the southeast above a single underlying thrust fault. Seismic data that describe the Pfälzer anticline at depths below the surface show that the Stephanian and Westphalian coal measures strata on the northwestern half of the anticline are cut by four, possibly five, southeasterly-verging thrust faults that structurally displace the base Stephanian to Westphalian contact surface. Close examination of published information shows that Westphalian strata of the Saar anticline are heavily faulted, fractured and jointed. The fractured sandstones, siltstones and interbedded coalbeds are broken into fragments of various sizes and shapes, from a few centimeters to several meters across that occur within the large fault-bounded blocks where the coals are mined.

Because of the multiple thrust faults, the Pfälzer anticline strata is expected to be even more heavily fractured and faulted than on the Saar anticline, where fault and fracture occurrences are well known from information obtained during mining operations, and from detailed underground studies by geologists. It is likely that the numerous joints, fractures and faults breaking the lower Stephanian and upper Westphalian rocks will add additional porosity to that of the sandstones and siltstones on both anticlines. Fractures can add 2% to 4% porosity to the 6.25%-8.6% matrix porosities of the Stephanian and upper Westphalian sandstones and siltstones. As such, total matrix plus fracture porosities of the Westphalian reservoir target are expected to be in the 5-10% range. The resulting fracture-enhanced reservoir is heavily compartmentalized and will be capable of trapping large volumes of methane. Permeabilities along faults and fractures will be increased as well, thus facilitating methane migration along them to the boreholes that will deliver methane to the surface.

The Saar anticline wells provide a detailed description of the Westphalian coal measure sequence. The conglomerates and sandstones and siltstones of the Westphalian coal measures are very clayey, with the dominant grainsize being siltstone. Sandstones in the coal measures are invariably tight and often well-cemented. Porosity and permeability of the sandstones are very low -porosities vary from 1-7% and permeability from 0.005-1 mD.

The coal measure reservoir objective would thus rely on fracture permeability to deliver gas into the well bore. Small-scale fracturing and faulting is evident in the Saar anticline mines and wells. Given the thrusted nature of the Westphalian reservoir widespread fracturing of the reservoir section is expected. The Palm Valley gas field in Central Australia is one such fractured gas field with which the author is familiar. The sandstones reservoirs of Palm Valley Field are fluviatile and are heavily fractured due to thrust faulting that formed the greater anticline. In the Glantal prospect the reservoir target are coal measures with both the coal measures and sandstones expected to form fractured reservoir in communication. The age of the Palm Valley reservoir is Silurian whilst that of the Glantal prospect is Permo-Carboniferous. The Petrel gas field in offshore Bonaparte basin of Australia is in fact Permian reservoir with fracture porosity in several reservoirs. Typically such reservoirs exhibit 3% to 5% effective fracture porosity. The deliverability of these reservoirs can be good if the network of fracturing is extensive as is shown by some of the very large flow test results from the Palm Valley and Petrel fields. But they can also show variability in fracture regions and thus deliverability over the field.

The presence of intruded volcanics defined by aeromagnetic signature is sufficiently distant from the Glantal prospect as not to be a serious risk to the prospect viability.

1.3 SEAL

The Glantal prospect Westphalian coal bed target reservoirs are overlain by seven hundred meters of Stephanian strata. The Gelbes Wasser-1 core hole through the Stephanian seal near the Glantal Prospect showed the lower 700m to be predominantly fine-grained sediments. No wireline logs were taken over the Gelbes Wasser-1 well and thus it is difficult to be definitive about the quality of the top seal at Glantal. The top two thrust sheets of the Glantal prospect also require lateral seal to be provided from the lower 500m of Stephanian sediments.

There is indirect evidence that the Stephanian is an effective seal with no gas seepage evident over the Glantal prospect. However, the effectiveness of the top seal to the Glantal prospect remains the most significant risk to the entrapment of a commercial gas accumulation. As the thief' potential of the thin sands in the lower 700m of Stephanian section has not been definitively evaluated by modern drilling and wireline logging.

1.4 PETROLEUM CHARGE

Significant coal beds are well-developed in the Westphalian target reservoirs in Glantal. From correlation with the Saar anticline wells it is estimated that 180 m of coal beds are developed in the thrust sheet sequence at Glantal.

These coals are also expected to be high grade anthracites which have generated significant quantities of methane during their formation. It has been estimated that significant volumes of methane- many hundreds of Tcf , has been generated in the formation of these anthracite coals. The entrapment of only 10% of this volume would yield a many Tcf discovery at Glantal.

The generation of commercial volumes of methane appears a low risk feature of the Glantal trap. The generation of the methane gas from the higher rank maturation of the coals would have taken place after the development of the Stephanian seal and formation of the greater anticline. Thus timing of generation appears not to be a significant risk.

1.5 PROSPECT RISK ASSESSMENT AND TRAP VOLUME POTENTIAL

The thrust sheets to be penetrated at Glantal have significant area in fault and independent closure.

The Glantal deviated well is to penetrate and test three thrust sheet plays with the following trap potential assuming a most likely 7.5% porosity-

Thrust Sheet 1- area of 64.5 sq kms; 93m of average net pay; 2.4 Tcf Recoverable
Thrust Sheet 2- area of 44.9 sq kms; 62m of average net pay; 1.2 Tcf Recoverable
Thrust Sheet 3- area of 98 sq kms ; 62m of average net pay; 2.6 Tcf Recoverable
Four-way dip closure trap potential in Thrust Sheet 3 is 0.35 Tcf

TOTAL Recoverable gas Potential (P10)- 6.2 Tcf

TOTAL Recoverable Most Likely (P50) gas Potential- 1.2 Tcf

Prospect risk is assessed on the following cumulative trap risk elements-

Structure – A larger anticline is developed but only partly covered by adequate seismic and the structure is complicated by complex faulting.
Assessed risk weighting = 0.6

Reservoir – Complex phases of tectonism and cleated coal would likely see development of significant fault porosity within the coals and other sediments of the Westphalian target reservoir.
Assessed risk weighting = 0.6

Seal – Quality of vertical and lateral seal has not been definitively proven. This remains the highest risk
Assessed risk weighting = 0.5

Source – Significant generation of methane from the thick anthracite coals is of low risk.
Assessed risk weighting = 0.75

Given the above risk weightings the assessed potential of exploration success is 1:7.5 to 1:8.5.

WELL OPERATION AND FORWARD PROGRAM ASSESSMENT

The Glantal-1 well is to be drilled to a depth of 2200 to 2500m (up to -2225mSS). It would be a deviated well to intersect several Westphalian objective thrust sheets. These thrust sheets are not aligned vertically but are offset thus necessitating the requirement for a deviated well to test these multiple objectives.

The well bore is prognosed to enter the first objective at the Stephanian-Westphalian boundary at 1100 m (RT) or -825mSS. Thrust faults are expected to be entered at 1200m (-925mSS) and 1500m (-1225mSS) depths. The geologic prognosis for the Glantal-1 well is shown in Figure 7.

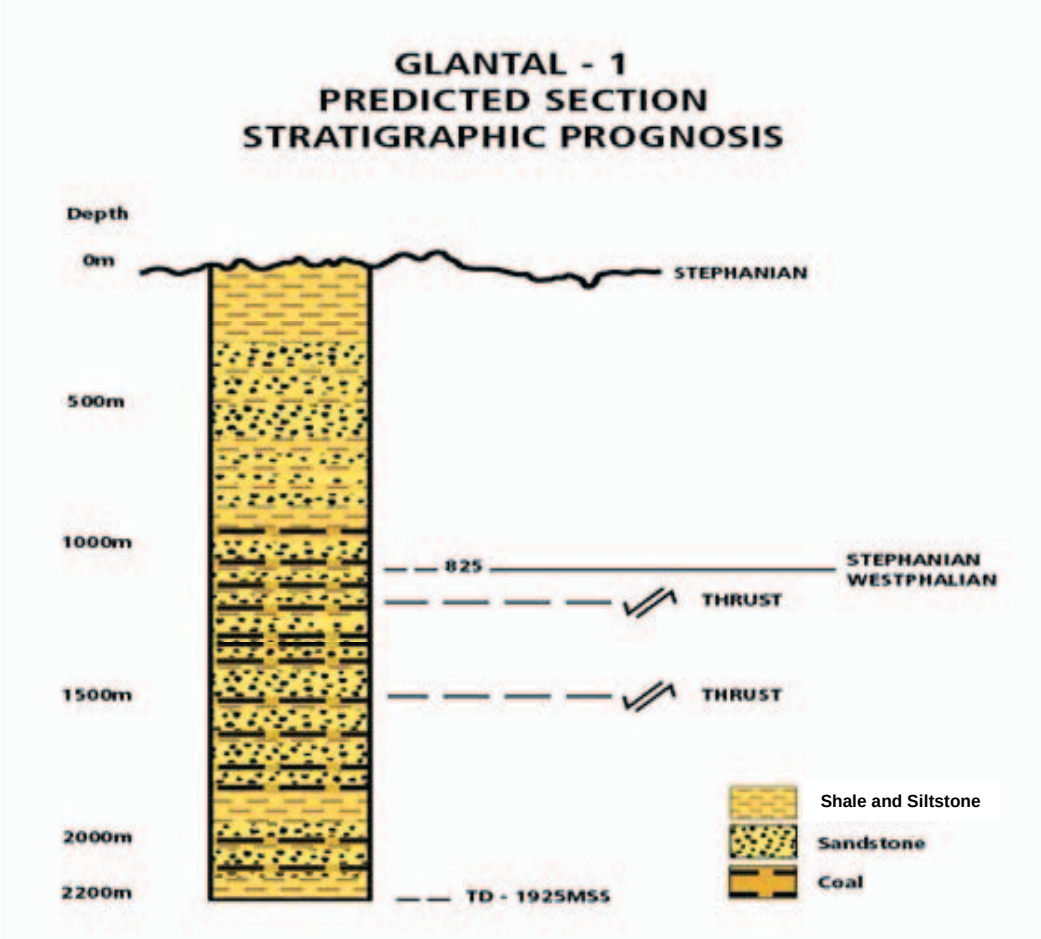

Figure 7. Glantal-1 Predicted Section

In the drilling of the well several casing strings will be employed to ensure the safe and efficient drilling of the well. These casing strings would include- 13 3/8" conductor, 9 5/8" surface casing set at approximately 300m and 7" casing at near the base of the Stephanian at approximately 1000-1050m (RT). Given success a 5" production liner would be set to Total Depth. The well will be evaluated with modern electric logging techniques.

The estimated dry well cost is approximately US$ 2.3 MM. Completion and testing of a successful well is likely to cost a further US$ 0.4 MM.

In reviewing the planning for the proposed well it is the author's opinion that the drilling contractor is experienced and capable of undertaking an efficient drilling program. The drilling contract has been completed and signed with the contractor. The drilling rig to be employed is a 120 Ton SMG unit that has the horsepower to drill and case to the proposed Total Depth. This rig is under current refurbishment before resuming operations in the second half of 2005. The rig and contactor facilities and personnel were visited by Valmap Pty. Ltd. in May 2005 and found all to be well advanced for the 2005 drilling campaign. Availability of this rig is such that the well could spud between August and November 2005. The variation in spud date is dependent on the drilling unit completing commitments on prior contracts and being mobilized to the Glantal-1 well site.

Environmental, landholder and necessary government approvals appear to have all been completed. It is suggested that Empyrean Energy Plc seek legal counsel to confirm the validity of these approvals. It is expected that no operational issues would involve any delay in spud date given release of the drilling unit from prior contracts. Joint Venture partner and operator of the Glantal-1 well, Pannonian International Ltd. has an experienced German resident manager.

Fractured reservoirs such as those expected at Glantal can be completed open-hole or with slotted-liner. Open-hole completion has the advantage of limiting formation damage. This method of completion is preferred at Glantal but does depend upon borehole integrity. Should borehole integrity problems be

evident upon drilling then slotted-liner completion would be an option. These slotted liners would be set with inflatable packers and would enable liner to be set without cement and thus minimizing well bore damage to the fractured reservoir. This is a common completion practice for slant or deviated wells. The operator for the Glantal-1 well is prepared for completion of the well with the above options.

Given commercial or encouraging flows of gas in Glantal-1 an appraisal well is planned on the Glantal gas pool discovery to prove further gas reserves for possible development. This well would be likely drilled in Year 2 of the Permit. It would be drilled as a deviated well from the Glantal-1 drilling pad. About 75 km of new 2D seismic would be acquired before the drilling of the appraisal well in order to optimize the subsurface structural interpretation of the reservoir. Given successful appraisal and completion of a second well in the field , initial testing and construction of a pipeline for sale of test gas would be a viable option to be undertaken. From this early production data and testing full scale development planning would begin.

The permit commitment and expected program exploration capital budget expenditure to meet this commitment is outlined below-

Year	Period	Commitment	Proposed Program	Proposed Budget $USMM*
Year1	12/12/03-11/12/04	Combined with year 2	Combined with year 2	
Year2	12/12/04-11/12/05	1 well and 75 kilometers of 2D seismic	1 well and 75 kilometers of seismic	5.00
Year3	12/12/05-11/12/06	1 well	1 well	3.69

* 1GB£=US$1.90

FIELD ANALOGUES

There are many examples of fractured reservoirs in the world with some of the worlds largest oil and gas fields contained in such reservoirs. Many of these fields are carbonate reservoirs but there remain significant shale, sandstone and coal fractured reservoirs that provide worldwide analogies to the postulated fractured reservoir in the coal bearing sequence in the Westphalian at the Glantal prospect in Germany. Such analogous fields include- Anschutz Ranch East-USA, Barque Rotliegand-UK, Cedar Hill-USA, Clair-UK, Clipper Rotliegand-UK, Palm Valley- Australia , Mereenie – Australia, Pecos Slope- USA, Powder River Basin CBM- USA, Red Oak – USA and Scotia- Australia. The Cedar Hill, Powder River and Scotia Fields are within fractured coal seams whilst the others are within fractured sandstone reservoirs.

The Glantal prospect has the reservoir target of fractured Carboniferous coal measures of interbedded sands, shales, siltstones and coals. The Palm Valley and Mereenie gas fields of the Amadeus Basin of Australia are analogous fractured reservoirs. The author has been involved in their development and a brief review of these fields outlined below provides a useful insight into the nature of such reservoirs that are expected at Glantal.

Palm Valley and Mereenie Field Analogues

The Amadeus Basin is a large (170 000 km2), arcuate, elongate, under explored Proterozoic basin in Central Australia. Structurally the Amadeus is an inverted extensional salt basin, currently exhibiting very strong compressional features (fold and thrust belt) and type 2 & 3 fractured reservoirs. It has two producing fields, Mereenie which is Australia's largest onshore oil field (200+MMbo), and Palm Valley field with ultimate recoverable gas estimated at 747 Bcf (854 PJ). The Palm Valley gas field is highly fractured and the Mereenie oil and gas field exhibits matrix porosity and contribution from fractures.

Two distinct fracture swarms occur over the Mereenie and Palm Valley fields- fold related fractures and regional fractures. Swarms of regional fractures are seen from surface photography. Fracture swarms are spaced at 300-500m at Palm Valley and 1000-1300m at the Mereenie anticline.

The nearby Palm Valley gas field is about 150 km east of Mereenie and sends sales gas from 11 gas wells to Alice Springs via a 134 km pipeline. Palm Valley also supplies gas to Darwin via the same pipeline as Mereenie. Palm Valley incorporates field boost compression.

Palm Valley is a Type 2 fractured reservoir with an interconnected fracture network that accesses the low permeability matrix of approximately 0.1 mD. Wells that do not effectively inter-connect with this fracture network are uneconomic. Hence the mapping and interpretation of the nature and interconnectivity of the fracture swarm is an important aspect of the development planning of the field. Mereenie is a Type 3

fractured reservoir where the fractures assist the matrix flow in relatively high permeability (approximately 10 mD) and porosity (approximately 8%) of the intervals of the reservoir. Naturally fractured sweet spots within the Mereenie reservoir have significant production impact when appropriately targeted.

Palm Valley has been on production since 1983, and provides gas for electricity generation in the Northern Territory, mainly in Alice Springs and Darwin. The field is well into its production tail after over 20 years of production with current production of 0.42 MMm3 (14.8 MMcf) of gas per day from 11 wells. Production from the Magellan-operated gas field totalled 157 Mm3 (5.6 Bcf) during the 2003–2004 year, a 7% decline from the previous year. Gas deliverability is being maintained by the use of compression to counteract the natural production decline of the gas reservoir.

Production peaked at 9.14 Bcf for the year in 1991 with wells averaging 6.4 MMcf/d. The gas is piped to sale via a 219mm outside diameter (9" interior diameter) pipeline at 7000 kPa.

The Palm Valley Gas Field is a good analogy to the Glantal prospect as both are a compressive thrust faulted anticlines with clastic reservoir sequences. The nature of the structural deformation and thus resultant faulting is expected to be similar. Matrix porosity and permeability are expected to be low at Glantal as is seen in Palm Valley (although porosity is expected to be a little higher at Glantal). The reservoir at Glantal is expected at a similar depth to Palm Valley and is likely normally pressured.

ECONOMIC VIABILITY

The Glantal well is designed to test the trap potential of three thrust sheets in the Glantal prospect within the very large Pfalzer anticline. The P50 potential of the Glantal prospect is assessed to be 1.2Tcf of recoverable gas with a total gas potential of 6.2Tcf of recoverable gas (P10).

The State royalty arrangement is 5% to 10% on natural gas production payable after after payout of expenses. The German corporate taxation rate is 25%.

Economic analysis for the development of a 1.2 Tcf recoverable gas field has been undertaken. This is the success (P50) case given only one of the three thrust sheet sheets proves to contain recoverable gas. Such a gas field at Glantal would require an estimated 75 wells to develop over a period of 20 years. A gas price of US$ 4.60/mcf was assumed to be increase by a nominal 2% each year for the twenty year period. The plateau gas rates for each well were similar to those experienced at Palm Valley of 6.5-7 MMcfpd. This scenario would lead to a peak gas rate of 450MMcfpd in 2011. NPV (discount rate at 15%) after tax of such a project would be approximately US$962 MM (52% Empyrean Energy net interest= US$500 million).

Economic analysis for the development of a more modest 350 Bcf of Sales gas over 20 years was also undertaken. This corresponds to the P90 case in the Glantal development. Such a case would be envisaged given unforeseen reservoir variability in the development. This reservoir variability phenonomen has been seen in the development of the fractured Palm Valley gas field which has an estimated ultimate recoverable volume of about 800 Bcf. A 350 Bcf development case would correspond to a field involving 22 production wells with plateau gas rates from each well similar to those experienced at Palm Valley of 6.5-7 MMcfpd. This scenario would lead to a peak gas rate of 140 MMcfpd in 2010. Such sales would lead to gas revenue after royalty of US$725 MM over 20 years for a 52% equity interest. Development, operating and administrative costs over the same period are expected to be in the vicinity of US$174MM. The estimated NPV (15% discount rate) is US $282 Million after tax (52% Empyrean Energy net interest =US$147 million).

Thus, the discovery and development of a low side 350Bcf gas field at Glantal would yield attractive returns. Facility costs are relatively low given significant nearby industry and pipeline infrastructure located within 15 km to the east of the Glantal well. The natural gas pipeline system in Germany has a total length of 98,000 km with underground storage facilities.

Natural gas in Germany is the fossil fuel with the highest growth rate. In the last ten years consumption has increased by almost one-third. In 2002, natural gas held a share of almost 22% of primary energy consumption. This equates to around 940 billion kWh.

All forecasts on German energy consumption predict continued growth in the significance of natural gas on the German energy market. This assumes continued competitiveness vis-à-vis other energies. As the competitive price level is subject to constant fluctuations, supply contracts contain price adjustment clauses that maintain a balance between the gas price and the price of competing energies for the entire duration of the contract.

In most cases, price adjustment clauses are referred to fuel oil, reflecting the competitive situation. Such fuel oil clauses peg the development of gas prices to the development of fuel oil prices.

Over the past few years, dependence on natural gas imports has continued to rise.
In 2002, 82% of the volumes required were imported. The most important producing nation is Russia (31%) followed by Norway: there has been a substantial rise in the significance of Norwegian gas supplies for Germany.

Since the mid-90s, natural gas has been the key energy for heating. In 2002, more than 17 million dwellings, or approximately 46% of the housing stock, were heated by natural gas.

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For and on behalf of Valmap Pty Ltd

Ian Paton
Director

Part V — Accountants' Report on the Company

The following is the full text of a report on Empyrean Energy Plc from Chapman Davis LLP, the Reporting Accountants, to the Directors of Empyrean Energy Plc and HB-corporate.

Chapman Davis LLP
CHARTERED ACCOUNTANTS

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2 CHAPEL COURT LONDON SE1 1HH

The Directors
Empyrean Energy Plc
7 Savoy Court
Strand
London WC2R 0ER

and

The Directors
HB-corporate
40 Marsh Wall
London E14 9TP

22 July 2005

Dear Sirs,

EMPYREAN ENERGY PLC (THE "COMPANY")

Introduction

We report in connection with the proposed placing of ordinary shares of the Company to raise a minimum of £2.5 million ("the Placing") and admission of the ordinary share capital of the Company to trading on the AIM Market operated by the London Stock Exchange Plc and this report has been prepared for inclusion in the Admission Document dated 22 July 2005 drawn up in accordance with the AIM Rules in force on 30th June 2005, the London Stock Exchange having confirmed that it will accept said Admission Document which contains the information required by the Public Offers of Securities Regulations 1995 instead of the information required under Annex I-III of Regulations 809/2004 ("Admission Document").

The Company was incorporated on 10th March 2005 with Company Number 5387837 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 16th March 2005 the ordinary share capital of the Company was subdivided into 1,000,000,000 Ordinary Shares of £0.002 each.

On 23rd March 2005 certain persons subscribed for and were allotted an aggregate of 14,999,990 Ordinary Shares, fully paid for cash at par value. On 4th April 2005, 8,500,000 ordinary shares were issued and allotted fully paid for cash at 20p each, thereafter the Registrar of Companies issued a certificate entitling the Company to do business under the provisions of Section 117 of the Companies Act 1985 (as amended).

On 25th April 2005 options were granted to Hoodless Brennan & Partners Plc over 232,500 ordinary shares of £0.002 each with an exercise price of 20p and a vesting period of 5 years.

Other than entering into agreements to pay certain expenses and costs in connection with Admission and the payment into escrow of the initial consideration of US $750,000 to the Partners, Pannonian International Limited, Monoco Petroleum Inc. and Hills Exploration Corporation, pursuant to the terms of the Farm-In Agreement by which the company is entitled to be assigned a 40% working interest in the exploration permit, no material contracts or transactions have been entered into.

The Company has not traded, prepared any financial statements for presentation to members, incurred neither profit nor loss and has neither declared nor paid dividends or made any other distributions since the date of incorporation. Other than referred to in the preceding paragraph there have been no other transactions other than the allotment of shares described below and the execution of the material contracts referred to in Parts VII and VIII of the Admission Document. Accordingly, no profit and loss account information is presented in this report.

Basis of preparation

The financial information set out below has been extracted from financial records of the Company for the period ended 28th April 2005, no adjustments being considered necessary. No audited financial statements have been prepared for submission to members in respect of any period since incorporation.

Responsibility

The financial records are the responsibility of the Directors of the Company ("Directors"). The Directors are also responsible for the contents of the Admission Document which this report is included.

It is our responsibility to compile the financial information set out below from the Company's financial records and to make a report in accordance with paragraph 45 of Schedule 1 to the Public Offers of Securities Regulations 1995, as amended, which were in force at 30th June 2005 and which were repealed on 1st July 2005, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statement of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the financial records and whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information set out below gives, for the purpose of the Admission Document, a true and fair view of the state of affairs of the Company as at 28th April 2005.

BALANCE SHEET **As at 28th April 2005**

	Notes	£
Fixed assets		
Project acquisition costs	2	400,984
Current assets		
Cash at bank and in hand		1,264,680
Net Assets		1,665,664
Capital and reserves		
Called up share capital	3	47,000
Share premium	4	1,618,664
Shareholders' Funds		1,665,664

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

The principal accounting policies, which have been consistently applied in the Company's financial information throughout the period under review, are as follows:

Basis of accounting

The financial information has been prepared under the historical cost convention and in accordance with applicable International Financial Reporting Standards.

Project acquisition costs

Project acquisition costs incurred are carried forward to the extent that they are expected to be recouped through successful development. These costs, together with exploration, evaluation and development costs are subject to an annual impairment review.

2. Fixed Assets – Project Acquisition Costs £400,984

This represents the payment into escrow of the initial consideration of US $750,000 paid to the Partners, Pannonian International Limited, Monoco Petroleum Inc. and Hills Exploration Corporation, pursuant to the terms of the Farm-In Agreement by which the company is entitled to be assigned a 40% working interest in the exploration permit.

3. Share capital	**As at 28th April 2005**
	£
Authorised:	
1,000,000,000 ordinary shares of £0.002 each	2,000,000
Allotted, called up and fully paid:	
23,500,000 ordinary shares of £0.002 each	47,000

The Company was incorporated on 10th March 2005 with Company Number 5387837 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 16th March 2005 the ordinary share capital of the Company was subdivided into 1,000,000,000 Ordinary Shares of £0.002 each.

On 23rd March 2005 certain persons subscribed for and were allotted an aggregate of 14,999,990 Ordinary Shares, fully paid for cash at par value. On 4th April 2005, 8,500,000 ordinary shares were issued and allotted fully paid for cash at 20p each.

4. Share premium

Premium on shares issued during the period amounted to £1,683,000. Expenses of issue attributable to this premium amounting to £64,336 have been deducted.

5. Share Options

On 25th April 2005 options were granted to Hoodless Brennan & Partners Plc over 232,500 ordinary shares of £0.002 each with an exercise price of 20p and a vesting period of 5 years.

Nature of financial information

The financial information presented above in respect of the period ended 28th April 2005 does not constitute statutory accounts for that period.

Consent

We consent to the inclusion of this report in the Admission Document dated 22 July 2005 and accept responsibility for this report for the purposes of paragraphs 45 of Schedule 1 to the Public Offers of Securities Regulations 1995, as amended, which were in force at 30th June 2005 and which were repealed on 1st July 2005.

Yours faithfully,

Chapman Davis LLP
Chartered Accountants

Part VI — Proforma Statement of Net Assets

Chapman Davis LLP
CHARTERED ACCOUNTANTS

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and

The Directors
HB-corporate
40 Marsh Wall
London E14 9TP

22 July 2005

Dear Sirs,

PRO FORMA STATEMENT OF NET ASSETS

We report on the *pro forma* statement of net assets as set out in this Part VI of the Admission Document dated 22 July 2005, which has been prepared, for illustrative purposes only, to provide information about how the proposed placing might have affected the financial information presented.

Responsibilities

It is the responsibility solely of the Directors of Empyrean Energy Plc to prepare the *pro forma* statement of net assets.

It is our responsibility to form an opinion on the *pro forma* statement of net assets and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the *pro forma* statement of net assets beyond that owed to those to whom the reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on *pro forma* financial information pursuant to the Listing Rules" issued by the Auditing Practices Board. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the *pro forma* statement of net assets with the Directors of Empyrean Energy Plc.

Opinion

In our opinion:

(i) the *pro forma* statement of net assets has been properly compiled on the basis stated;

(ii) such basis is consistent with the accounting policies of Empyrean Energy Plc; and

(iii) the adjustments are appropriate for the purposes of the *pro forma* statement of net assets as disclosed.

Yours faithfully,

Chapman Davis LLP
Chartered Accountants

UNAUDITED PROFORMA STATEMENT OF NET ASSETS

	Empyrean Energy Plc Per Accountants' Report as at 28th April 2005	Net Proceeds of the Placing (Note 2)	Proforma
	£'000	£'000	£'000
Fixed Asset			
Project acquisition costs	401	—	401
Current Assets			
Cash at bank and in hand	1,265	2,080	3,345
Total Net Assets	1,666	2,080	3,746

Notes:

1. The pro forma statement of net assets has been prepared by the Company to illustrate the effect of the minimum proceeds of the Placing. Save for the adjustments outlined in Note 2 no account has been taken of any trading or transactions since 28th April 2005.

2. The net proceeds of the Placing are based on the gross proceeds of £2.5 million less estimated expenses payable by the Company for the Placing and Admission of approximately £420,000.

Part VII — Permit and Farm-in Agreement

1. The Permit

The Permit is a three year exploration licence which was granted to the Partners on 12 December 2003 in the ratio of 50/25/25 (with Pannonian taking a 50% share). Under the provisions of the BBergG, a Permit holder is granted an exclusive right to explore for hydrocarbons. In this case, the Permit is to explore for gas in the area of the Permit as identified by map references (the Neues Bergland area), along with the right to erect such structures and operate such machinery as are necessary for the purposes of exploration.

Pursuant to the BBergG, the Permit holders are required to seek approval for their work program (a further step required before exploration mining operations may be granted in Germany, where an application must be made detailing the size, technical execution and duration of the activities planned). Approval of the Partners' operations plan was granted on 28 October 2004 and approval will last for a period of two years.

In order to extract and acquire ownership of any natural gas reserves that are discovered, the Partners and the Company will require an exploitation licence, to be granted by the OBA under the BBergG. Provisions under the BBergG ensure that, following the discovery of natural gas, the granting of an exploitation licence may be refused primarily only if there has been a change in any of the grounds on which the application for the exploration licence was granted.

Between the grant of the Permit and the date of this document there has been no drilling activity. Pursuant to the relevant German legislation, the BBergG, there exist specific grounds under which, where objective circumstances warrant, the OBA can revoke licences which they have granted (further details of which are set out in Part III of this document). One of these grounds is in the case where the holders delay the beginning of drilling activities for more than a year after receiving an exploration license. However the OBA has agreed to extend the allowance for a period of inactivity to 31 December 2005 providing that the Permit has been drilled over four weeks at which point the Permit will continue to remain valid until 12 December 2006.

The Permit is transferable to third parties under the BBergG, either in whole or in part, both transfers being subject to a similar administrative consent procedure. Where transfer is in part only, third parties may be brought in to participate under the licence. Such is the situation in this case. The change to the Permit holders was duly noted by OBA on 19 May 2005, such that the working interests of the parties are now 40% (the Company) 30% (Pannonian International) with the other Partners each holding a 15% interest.

2. Farm In Agreement

The Farm-In Agreement was entered into between the Partners and the Company on 14 March 2005, pursuant to which the Company has the opportunity to acquire a working interest in the Permit of up to 52%. The principal terms of the agreement as as follows:

2.1. on the initial payment of US $750,000 to the Partners ("the Initial Consideration") and the placing of €1.3 million on a deposit account in satisfaction of a term of the Permit, the Company is entitled to be assigned a 40% working interest in the Permit. These conditions have been satisfied;

2.2. as part of the further consideration for the assignment of the 40% working interest, the Company is contractually obliged to provide €4.8 million (£3.3 million) for the drilling of Glantal-1 to complete phase 1 of an agreed two phase drilling and seismic program. This sum is inclusive of the €1.3 million sum referred to in paragraph 2.1 above;

2.3. after providing a total amount of €7.0 million (£4.9 million) minimum funding to complete phase 1 and 2 (or an aggregate of €9.0 million (£6.3 million), to realise the completion of phase 1 and partial completion of phase 2), the Company's working interest in the Permit will increase to 52%;

2.4. there is a default provision whereby if there is any default by the Company through its failure to complete phase 1 of the work program or to pay its €4.8 million funding commitment by the required date, the Partners can require the Company to re-assign its 40% working interest;

2.5. the Parties will negotiate the terms of and enter into an operating agreement ("Joint Operating Agreement") on the basis of the 2002 AIPN Model Form, and until such agreement is finalised they will undertake the obligations of that Model Form. In either case, there will be incorporated (or, as the case may be, deemed incorporated) the following provisions:

2.5.1. the entity which will be designated to conduct the operations under the Permit will be Pannonian International and may only be removed with a three-quarter majority;

2.5.2. there will be a committee of three representatives, one of whom will be from the Company. Other than for matters requiring unanimous consent, decisions shall be made by votes representing 66 2/3% or more of the working interest. The Company shall be deemed to hold 51% of the working interest during both Phase 1 and Phase 2 on all matters except for issues affecting the obligations of the Company under the Farm-in Agreement;

2.5.3. unanimous consent will be needed (i) to drill more than four exploration wells before 31 December 2006 or (if two or more exploration wells are successful) before all infrastructure is in place; (ii) a decision to drill more than four wells during 2007; (iii) a decision to drill more than six wells during 2008;

2.5.4. the Joint Operating Agreement will also contain a provision that, where any party decides to go non-consentual on any portion of exploration and development, it will suffer a penalty of 400%;

2.5.5. all costs arising under the Joint Operating Agreement (and under the Permit) to enable the work under Phase 1 to be completed will be for the account of the Company, save that the Company will not be required to make available more than €4.8 million. Where the additional 12% interest is to be acquired by the Company under the Farm-In Agreement, the Company should also make available the additional costs under the Joint Operating Agreement to complete Phase 2 (which shall not be more than the sums set out in paragraph 2.3 of this Part VII above);

2.6. there are warranties from both the Partners and the Company, essentially, on the part of the Partners, in relation to the enforceability of the Permit and its interest therein. On the part of the Company, warranties are given that the Company is able to raise sufficient funds and has the technical competence to undertake the work;

2.7. each party is responsible for its own tax obligations and there is a cross-indemnity, where the German Government imposes joint and several liability on the parties; and

2.8. the agreement is subject to English Law and all disputes are settled through arbitration in London in accordance with the terms of the Arbitration Rules of the American Arbitration Association.

Part VIII — Additional Information

1. The Directors

1.1 The Directors, whose names appear on page i of this Prospectus, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and there is no omission likely to affect the import of such information.

2. The Company

2.1 The Company is registered in England and Wales, having been incorporated on 10 March 2005 under the Act with registered number 5387837 as a public company limited by shares. The liability of members is limited. The principal legislation under which the Company operates is the Act.

2.2 The registered office of the Company is 7 Savoy Court, Strand, London WC2R 0ER.

2.3 As at the date hereof, the Company does not have any subsidiary undertakings within the meaning of section 736 of the Act.

3. Share Capital

3.1 The Company was incorporated with a share capital of £2,000,000 divided into 200,000,000 ordinary shares of 1p each of which 2 were issued, fully paid, to the subscribers to the Memorandum of Association of the Company.

3.2 By resolution of the shareholders passed on 16 March 2005, the following resolutions were passed:

3.2.1 the Company's ordinary share capital was subdivided from 200,000,000 ordinary shares of 1p each into 1,000,000,000 ordinary shares of 0.2p each;

3.2.2 the Directors were generally and unconditionally authorised for the purposes of section 80 of the Act to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £1,999,999.98 provided that such authority shall expire at the commencement of the Annual General Meeting next held after the passing of the resolution and that the Company may before such expiry make offers or agreements which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers or agreements notwithstanding that the authority conferred hereby has expired. In the resolution the expression "relevant securities" and references to the allotment of relevant securities shall bear the same respective meanings as in section 80 of the Act. All the authorities and powers previously conferred under Section 80 of the Act were revoked provided that such revocation did not have retrospective effect;

3.2.3 subject to the passing of the Resolution referred to in paragraph 3.2.2 of this Part VIII above, the Directors were empowered pursuant to section 95 of the Act to allot equity securities (as defined below) for cash pursuant to the authority conferred by the resolution referred to in paragraph 3.2.2 above as if section 89(1) of the Act did not apply to any such allotment provided that the authority contained in this paragraph shall expire at the commencement of the Annual General Meeting next held after the passing of the resolution. The Company was permitted by the resolution before its expiry to make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred thereby has expired. In the resolution the expression "equity securities" and references to the allotment of equity securities bear the same respective meanings as in section 94 of the Act. All the authorities and powers previously conferred under Section 95 of the Act were revoked, provided that such revocation shall not have retrospective effect.

3.3 On 23 March 2005, the Company issued and allotted 14,999,990 Ordinary Shares, fully paid, at par value and on 4 April 2005 issued and allotted a further 8,500,000 Ordinary Shares fully paid at 20p.

3.4 On Admission the Company intends to allot a further 7,144,282 Ordinary Shares for cash at 35p per share pursuant to the Placing.

3.5 The authorised and issued share capital of the Company as it will be immediately following Admission are as follows:

	Authorised		Issued and fully paid	
	Amount	Number	Amount	Number
Ordinary Shares of 0.2p each	£2,000,000	1,000,000,000	£612,886	30,644,282

3.6 The Ordinary Shares will rank pari passu in all respects including the right to receive all dividends and other distributions declared, made or paid on the Ordinary Shares from the date of this document.

3.7 Following Admission, the Ordinary Shares may be held in either certificated or uncertificated form.

3.8 Save as disclosed in this document:

3.8.1 no share or loan capital of the Company has been issued or is proposed to be issued;

3.8.2 no person has any preferential subscription rights for any share capital of the Company;

3.8.3 save in connection with the Placing, the Share Option Plan (a summary of which is contained in paragraph 7) and the HB-corporate Option Agreement (referred to in paragraph 8), no share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option; and

3.8.4 save for commissions payable pursuant to the Placing Agreement (further details of which are set out in paragraph 8.1 of this Part VIII), no commissions, discounts, brokerages or other special terms have been granted by the Company since its incorporation in connection with the issue or sale of any share or loan capital of the Company.

3.9 The Ordinary Shares have not been admitted to dealings on any recognised investment exchange or other trading facility nor has any application for such admission been made, and it is not intended to make any other arrangements for dealings in the Ordinary Shares on any such exchange.

3.10 1 Warrant is being issued to each subscriber for every 3 Ordinary Shares (rounded down to the nearest whole number) subscribed for under the Placing. Each Warrant entitles the holder to subscribe for one Ordinary Share at the Placing Price. The Warrants are exercisable for a period of 2 years from Admission. The Warrants are freely transferable in whole (and not in part). The Warrant will be transmissible on death as if it comprised of ordinary shares in accordance with Articles of Association of the Company. The Warrant Instrument contains provisions dealing with the consequences of an offer being made for the Company (in which case the Company may specify a number of days during which the holder must exercise the Warrant after which it will automatically lapse) and also with alterations to the share capital which may result in the number of Ordinary Shares which are the subject of the Warrant being amended. Ordinary Shares issued pursuant to the exercise of the Warrants will rank pari passu in all respects from their date of issue with the existing Ordinary Shares then in issue, but will not rank for any dividends or other distributions for which the record date is a date prior to their allotment. The Company will apply to the London Stock Exchange and any other stock exchange upon which the Ordinary Shares are listed or admitted to dealing for the Ordinary Shares issued pursuant to the Warrants to be admitted to trading on AIM or dealing on any other relevant stock exchange. The Company is obliged to keep available for issue sufficient unissued and unencumbered Ordinary Shares free of pre-emptive rights in order to satisfy in full all Warrants as and when they may be exercised. The total number of Warrants to be issued under the placing is 2,381,425.

4. Memorandum and Articles of Association

4.1 In this paragraph 4, references to the "Statutes" are references to the Act and every other Act for the time being in force concerning companies and affecting the Company.

4.2 The principal objects of the Company are set out in full in clause 4 of the Memorandum of Association and include carrying on the business of a general commercial company.

4.3 The Articles of Association of the Company (the "Articles") contain, inter alia, provisions to the following effect:

4.3.1 Voting rights

Subject to any rights or restrictions as to voting attaching to any shares on a show of hands every member who is present in person shall have one vote and, on a poll, every member present in person or by proxy shall have one vote for every share of which he is the holder.

4.3.2 Dividends

Subject to the provisions of the Act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the Members, provided that no dividend shall exceed the amount recommended by the Board.

Except as provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid. Except as otherwise provided by the rights attached to shares, all dividends shall be apportioned and paid proportionately according to the amounts paid up on the shares during any portion of the period in respect of which the dividend is paid.

Subject to the provisions of the Act, the Board may pay interim dividends and also any fixed rate dividend, if it appears to the Board to be justified by the profits of the Company available for distribution. If the Board acts in good faith, it is not liable to holders of shares with preferred rights for any loss arising from the payment of interim dividends on other shares. No dividend or other monies payable in respect of a share shall bear interest against the Company unless otherwise provided by the rights attached to the share. There are no fixed dates on which entitlements to dividends arise.

4.3.3 Variation of rights

If at any time the share capital is divided into different classes of shares the rights attached to any class of shares may be varied or abrogated with the consent in writing of the holders of three fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the issued shares of that class, but not otherwise. The special rights attaching to any class of shares will not unless otherwise expressly provided by the terms of issue thereof be deemed to be varied by the creation or issue of further shares ranking pari passu therewith or subordinate thereto.

4.3.4 Return of capital

On a winding up of the Company, with the sanction of an extraordinary resolution, and subject to any provision sanctioned in accordance with the Act and any other sanction required by the Insolvency Act 1986, the liquidator may divide amongst the Members in specie the whole or any part of the assets of the Company in such manner as he may determine or vest the whole or any part of the assets in trustees upon such trusts for the benefit of the Members as he, with like sanction, determines. No member shall be compelled to accept any shares on which there is a liability.

4.3.5 Transfer of shares

Shares in the Company may be transferred by instrument of transfer in any usual or common form, or in such other form as shall be approved by the Board. The instrument of transfer will be signed by or on behalf of the transferor who is deemed to remain holder of the share until the name of the transferee is entered in the Register provided that if the share is not fully paid the instrument of transfer shall also be executed by or on behalf of the transferee. The Board may, in its absolute discretion and without giving any reason, refuse to register a transfer of any share that: is not fully paid (provided that where any such shares are admitted to the Official List of the UK Listing Authority such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis), relates to more than one class of share, is in favour of more than four joint holders as transferees or is subject to restriction, is in favour of a minor, bankrupt or person of mental ill health, in the case of shares held in certificated form if it is not lodged duly stamped (if necessary) at the Registered Office or at such other place as the Board may appoint and accompanied by the certificate for the shares to which it relates (where a certificate has been issued in respect of the shares) and such other evidence as the board may require to show the right of the transferor to make the transfer, in the case of shares held in uncertificated form, in any other circumstances permitted by the Uncertificated Securities Regulations 2001 ("the Regulations") or where the Board is obliged or entitled to refuse to do so as a result of any failure to comply with a notice under section 212 of the Companies Act 1985 (as amended). There is no fee for registration of a transfer. If the Board refuses to register a transfer it shall, in the case of shares held in certificated form, within two months after the date on which the transfer was lodged and in the case of shares held in uncertficated form, within two months after the date on which the relevant operator instruction was received by or on behalf of the Company. Notwithstanding the provisions of the Articles, title to any shares in the Company may also be evidenced and transferred without a written instrument in accordance with statutory regulations made from time to time under section 207 of the Companies Act, 1989 or under any regulations having similar effect.

4.3.6 Failure to disclose interests in shares

If any person interested in shares of the Company fails to comply with any notice given by the Company ("Information Notice") requiring him to indicate his interest in shares that person may be served with a "Disenfranchisement Notice" meaning that he will have no right to attend or vote at general meetings or separate meetings of a class of shares of the Company. The Disenfranchisement Notice may be withdrawn on compliance with the Information Notice.

4.3.7 Borrowing powers

The Directors may exercise all the powers of the Company including the power as set out in the memorandum of association of the Company to borrow or raise money and to mortgage or charge its undertaking, property, assets, and uncalled capital or any part thereof subject to the provisions of the Statutes (as defined therein) and to create or issue debentures, and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party, without any limitation as to the amount.

4.3.8 Alteration of share capital

The Company may from time to time, by ordinary resolution, increase its share capital, consolidate and divide all or any of its share capital into shares of a larger nominal amount than its existing shares, sub-divide (subject to the Act) its shares (or any of them) into shares of smaller amounts, determine that, as between the shares resulting from such a sub-division, any of them may have any preference or advantage as compared with the others, cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled. Subject to the Act, the Company may by special resolution reduce its share capital, any capital redemption reserve, share premium account or other distribution reserve in any manner.

Subject to the Act and the requirements of the UK Listing Authority or the London Stock Exchange, the Company may purchase its own shares (including redeemable shares).

4.3.9 Issue of shares

The Directors may, subject to the provisions of the Act and the Articles of Association, allot, grant options over or otherwise dispose of the un-issued shares in the capital of the Company to such persons, on such terms and conditions and at such times as they may determine.

4.3.10 Directors

(i) Save as set out in the Articles, a director shall not vote at a meeting of the Board on any resolution of the Board concerning a matter in which he has an interest otherwise than by virtue of his interest in shares, debentures or other securities of, or otherwise through, the Company or in respect of which he has any duty which conflicts with his duty to the Company but shall be entitled to vote on certain resolution including any of the following:

- the giving of any guarantee, security or indemnity in respect of money lent by him at the request of the Company or any debt of the Company of which he has assumed responsibility;
- the subscribing or agreeing to subscribe for of the purchasing of any shares of the Company;
- any contract concerning any company in which he is interested.

(ii) The ordinary remuneration of the directors who do not hold executive office for their services (excluding amounts payable under any other provisions of the Articles described below) shall be determined by the Board. Any director who is appointed to any executive office shall be entitled to receive such extra remuneration as the Board may determine.

(iii) The directors may be paid by the Company all travelling, hotel and other expenses properly incurred in attending meetings of the directors or committees of the Board or general meetings or otherwise in connection with the discharge of their duties.

(iv) Directors may be appointed by the Company by ordinary resolution or by the Board. A director appointed by the Board holds office only until the next annual general meeting when he shall retire but shall then be eligible for re-election. A director so retiring is not taken into account in determining the directors who are to retire by rotation at the meeting.

(v) At every annual general meeting of the Company, one third of the directors will retire and be eligible for re-election.

(vi) The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors and unless so fixed shall be two.

(vii) A director shall not require a share qualification.

(viii) The directors are not required to retire under any age limit.

(ix) The number of directors shall not be less than two but shall not be subject to any maximum.

4.3.11 Notices

A member whose registered address is not within the United Kingdom and who has not provided the Company with an address within the United Kingdom to which notices may be sent shall not be entitled to receive any notice from the Company.

5. Directors' and Others' Interests

5.1 The interests (all of which are beneficial unless otherwise stated) of the Directors and their immediate families and the persons connected with them (within the meaning of Section 346 of the Act) which have been notified to the Company pursuant to Sections 324 and 328 of the Act or are required to be disclosed in the Register of Directors' Interests pursuant to Section 325 of the Act in the issued share capital of the Company and the existence of which is known to, or could with reasonable due diligence be ascertained by, any Director as at the date of this document are as follows:

Name	Number of Ordinary Shares	Percentage of issued share capital before the Placing	Percentage of issued share capital following the placing
Patrick Cross	Nil	Nil	Nil
Frank Brophy	Nil	Nil	Nil
Christopher Lambert	750,000	3.19%	2.45%
Thomas Kelly	3,500,000	14.89%	11.42%
Malcolm James	500,000	2.13%	1.63%
Total:	4,750,000	20.21%	15.50%

5.2 Save as disclosed above, none of the Directors nor any member of their respective immediate families nor any person connected with the Directors (within the meaning of Section 346 of the Act) has any interest, whether beneficial or non-beneficial, in any share capital of the Company.

5.3 There are no outstanding loans granted or guarantees provided by the Company to or for the benefit of any of the Directors.

5.4 Save as otherwise disclosed in this document, no Director has any interest, whether direct or indirect, in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company taken as a whole and which was effected by the Company since its incorporation and which remains in any respect outstanding or unperformed.

5.5 Save as disclosed in paragraph 5.1 of this Part VIII, above, and as set out below, the Directors are not aware of any person who is as at the date of this document or who will, immediately before Admission, be interested (within the meaning of the Act) directly or indirectly in 3% or more of the issued share capital of the Company or who directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

	At the date of this document		At Admission	
Name	Number of Ordinary Shares	Percentage of issued share capital	Number of Ordinary Shares	Percentage of issued share capital
Rubicon Master Fund	2,250,000	9.57%	3,052,857	9.96%
JP Morgan Asset Management Limited	nil	nil	2,700,000	8.81%
Societe Prive de Gestion de Patrimoine	1,500,000	6.38%	2,414,285	7.88%
Willetts Bay Pty Ltd	1,400,000	5.96%	1,400,000	4.57%
RAB Special Situations (Master) Fund Limited	1,250,000	5.32%	1,650,000	5.38%
Kate Frayne	816,667	3.48%	816,667	2.66%
Michael Frayne	816,667	3.48%	816,667	2.66%
Sarah Bartley	790,417	3.36%	790,417	2.58%
David Bartley	790,416	3.36%	790,417	2.58%

5.6 In addition to the directorships in the Company, the Directors hold or have held the following directorships within the five years immediately prior to the date of this document:

Name	Current Directorships	Past Directorships
Patrick Cross	HFH Associates Limited ORCA Interactive Limited	BBC World Limited BBC World Distribution Limited BBC Worldwide Limited European Channel Management Limited European Channel Broadcasting Limited BBC Worldwide (Singapore) Private Limited BBC Worldwide Japan KK BBC World Distribution (Japan) Limited Worldwide Channel Investments (Australia) Pty Limited BBC World (Australia) Pty Ltd BBC Worldwide (India) Private Limited BBC World (Singapore) Private Limited
Christopher Lambert	Braemore Resources plc Altona Resources plc Simply Overseas Property Limited	Robert Leech & Partners (Lingfield) Limited Grosvenor Holdings plc
Frank Brophy	FJBrophy & Assoc Pty Limited Tomahawk Energy Limited	Golden Gate Petroleum Limited
Malcolm James	Eureka Mining plc Caspian Holdings plc Cordillera Resources plc Resource & Capital Management Pty Limited Tianshan Goldfields Limited Peninsula Minerals Limited Lefroy Resources Limited Cue Energy Plc Summit Resources Plc Belize Oil Pty Limited	Minara Resources Limited – Alternative director (previously Anaconda Nickel Limited) Siberia Mining Corporation Limited Hibernia Gold Limited

Name	Current Directorships	Past Directorships
Thomas Kelly	Lefroy Resource Limited Apnea Holdings Pty Limited Syzygy Holdings Pty Limited Belize Oil Pty Limited Royal Harry Gold Mines NL	

5.7 Save as disclosed above, none of the Directors has:

5.7.1 any unspent convictions in relation to indictable offences;

5.7.2 had any bankruptcy order made against him or entered into any voluntary arrangements;

5.7.3 been a director of a company which has been placed in receivership, compulsory liquidation, creditors voluntary liquidation, administration, been subject to a company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director of that company or within the 12 months after he ceased to be a director of that company;

5.7.4 been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;

5.7.5 been the owner of any assets or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within 12 months after he ceased to be a partner in that partnership;

5.7.6 been publicly criticised by an statutory or regulatory body (including recognised professional bodies); or

5.7.7 been disqualified by a court from acting as a director of any company or from acting in the management or conduct of affairs of a company.

6. Directors Service Contracts and Emoluments

6.1 Each of Mr Lambert, Mr Kelly and Mr Brophy have each entered into a service contract with the Company dated 26 May 2005 relating to the provision of services within the United Kingdom for Mr Lambert and outside of the United Kingdom in respect of Mr Kelly and Mr Brophy. Each Director has also entered into a letter of appointment as a director of the Company relating to the performance of their duties as directors of the Company within the United Kingdom. The principal terms of these agreements, which are principally the same for all of them save as specified below, are as follows:

6.2 Under the terms of the service contract:

6.2.1 Mr Lambert and Mr Kelly terms of the appointment is for 18 months from the date of Admission and is subject to termination on 6 months' notice thereafter;

6.2.2 Mr Brophy terms of the appointment is for 24 months from the date of Admission and is subject to termination on 12 months' notice thereafter;

6.2.3 The positions and responsibilities of each are as follows:

- Mr Lambert is appointed as Executive Director
- Mr Kelly is appointed as Executive Director
- Mr Brophy is appointed as Technical Director

6.2.4 Their respective annual salaries are as follows:

- Mr Lambert: £60,000 based on the provision of his services for an average of 5 days per week
- Mr Kelly: £36,000 based on the provision of his services for an average of 3 days per week
- Mr Brophy: £36,000 based on the provision of his services for an average of 3 days per week

6.2.5 The Director is also entitled to discretionary participation in such share option or incentive scheme or schemes as may be set up by the Company, to participate at the Company's expense in such permanent health insurance scheme as may be set up by the Company;

6.2.6 The Director is required to devote such of his time to the performance of his duties as is reasonably required;

6.2.7 The Director is subject to certain restrictive covenants including 12 months post termination against (i) competing with the business of the Company (ii) solicitation of customers, clients and agents and (iii) solicitation of employees; and

6.3 The terms of the letters of appointment are substantially the same as for the Non-Executive Director as described in paragraph 6.4 below, save that the term of the appointment of each is the same as for their respective service contracts.

6.4 Dr Cross and Mr James each have a letter of appointment the terms of which are as follows:

6.4.1 the term of the appointment is for 18 months from the date of Admission and is subject to termination on 6 months' notice thereafter;

6.4.2 continuation of the appointment is contingent on satisfactory performance and re-election at annual general meetings of the Company in accordance with the Memorandum and Articles of Association;

6.4.3 the annual fee for Dr Cross is £30,000 and for Mr James is £24,000;

6.4.4 the Non-Executive Directors are entitled to be reimbursed on a monthly basis, reasonable expenses normally incurred in connection with his duties and where appropriate this includes the cost of independent legal advice; and

6.4.5 the Non-Executive Directors are expected to attend all Board meetings and to participate if required, as a member of the Remuneration and Audit Committees.

6.5 The aggregate remuneration paid and benefits in kind to be granted to the Directors for the current financial year under the arrangements proposed to be put in place following Admission is estimated to be £186,000.

7. Summary of Provisions of Share Option Plan

To assist in the incentivisation, retention and recruitment of employees and consultants, the Company intends to put in place one or more share option or other incentive schemes following Admission. All the employees of the Group, including the Directors, will be eligible to participate. Save as may otherwise be approved by Shareholders, the maximum aggregate number of shares that will be made available pursuant to such schemes shall not exceed 7.5% of the issued capital of the Company from time to time. It is intended that options granted within 3 months of Admission will have an exercised price of the Placing Price.

8. Material Contracts

In addition to the Permit and the Farm-In Agreement, the terms of which are summarised in Part VII above, the following contracts, not being contracts entered into in the ordinary course of business of the Company, have been entered into by the Company and are or may be material:

8.1 Placing Agreement

By an agreement dated 21 July 2005 and made between the Company and its directors and HB-corporate, the Company authorises and instructs HB-corporate to procure subscribers for the Placing Shares carrying the rights to receive 1 Warrant for every 3 Placing Shares. The agreement is subject to the fulfilment of various conditions precedent, including a condition that Admission takes place on or prior to 27 July 2005 (or such other later date as HB-corporate may agree).

Under the agreement, HB-corporate is irrevocably appointed as agent for the Company for the purposes of the Placing and procuring placees by the distribution of Placing Letters and copies or proofs of the Admission Document. HB-corporate shall use its reasonable endeavours to procure the placees for all the Placing Shares but the agreement imposes no obligation on HB-corporate to underwrite any of the Placing Shares or to subscribe for any of the Placing Shares.

As consideration for the services offered by HB-corporate under the Agreement, the Company agreed to pay a corporate finance fee of £100,000 (less any amounts were had been paid under the terms of the Engagement Letter, a commission (on the terms hereafter specified) ("the Commission") (in addition to which VAT shall be payable) and the issue of the Options referred to in paragraph 8.3 below).

Subject to 3 provisos, the Commission payable is an amount equal to up to 5% of the aggregate value of the Placing Shares at the Placing Price, the exceptions being that no commission is payable in respect of any placees not procured by HB-corporate and the commission payable for shares subscribed by RAB Capital shall be 2.5% of the amount equal to the value of the Placing Shares at the Placing Price.

The Company and the Directors give warranties to HB-corporate, *inter alia*, in relation to the Placing Shares and the working capital of the Company. Warranties are given for the benefit of HB-corporate for itself and as trustees for the Placees, and liability under the warranties expires on the publication of the final results for the year ending 31 March 2006. In addition, liability of the directors is limited in accordance with a formula, which, in most cases, relates to the level of each director's salary and shareholding where applicable. In addition, the Company and the Directors give an indemnity to HB-corporate for all claims or actions made against HB-corporate under, inter alia, the allotment of the Placing Shares. The liability of the Company is unlimited.

The Agreement also included an undertaking by the Directors to HB-corporate not to dispose of shares beneficially owned by them, save in certain agreed situations for a period of one year following Admission and thereafter for a period of 12 months not to dispose of his shares, save with HB's consent.

8.2 Nominated Adviser and Broker agreement

An agreement dated 21 July 2005 made between the Company (1) and HB-corporate (2) and the Directors (3) ("the Nominated Adviser and Broker Agreement") under which the Company has appointed HB-corporate as nominated adviser and broker to the Company. The Nominated Adviser and Broker Agreement is conditional on Admission to AIM and lists the scope of the engagement. A fee of £35,000 per annum is payable by the Company in consideration for the services. The Company and the Directors have given certain undertakings to HB-corporate to comply with its obligations under, inter alia, the AIM Rules and a warranty to comply with their obligations under the Agreement. The Agreement also contains indemnities given by the Company and the Directors to indemnify HB-corporate for any loss occasioned by it, where it has acted in accordance with its obligations under the agreement. The agreement is for an initial period of 12 months (with HB-corporate reserving the right to terminate at any time on the occurrence of certain specified events). The initial term, (and provided the agreement has not been terminated) will continue to run, unless and until terminated by either party on 90 days written notice.

8.3 HB-corporate Option Agreements

8.3.1 By an agreement dated 25 April 2005 made between the Company (1) and HB-corporate (2) conditional on Admission, the Company has granted to HB-corporate an option to subscribe for up to 232,500 Ordinary Shares exercisable in whole or in part at 20p per share. The option is exercisable in whole or in part by notice in writing to the Company given at any time, and from time to time, up to the fifth anniversary of the date of grant (i.e. from 25 April 2005). The number of Ordinary Shares that are the subject of the option and/or the exercise price is in each case subject to adjustment in the event of any capitalisation issue, sub-division, consolidation or reduction of capital and any further issue of Ordinary Shares made pro rata to the holders of Ordinary Shares on such terms, in the absence of agreement between the Company and HB-corporate, as the auditors of the Company shall determine as being fair and reasonable.

8.3.2 In accordance with the obligation referred to in in paragraph 8.1 above, an agreement dated 21 July 2005 made between the Company (1) and HB-corporate (2) pursuant to which, conditional on Admission, the Company has granted to HB-corporate an option to subscribe for up to 686,828 Ordinary Shares exercisable in whole or in part at the Placing Price per share. The option is exercisable in whole or in part by notice in writing to the Company given at any time, and from time to time, up to the fifth anniversary of the date of Admission. The number of Ordinary Shares that are the subject of the option and/or the exercise price is in each case subject to adjustment in the event of any capitalisation issue, sub-division, consolidation or reduction of capital and any further issue of Ordinary Shares made pro rata to the holders of Ordinary Shares on such terms, in the absence of agreement between the Company and HB-corporate, as the auditors of the Company shall determine as being fair and reasonable.

Save as disclosed above, there are no contracts (other than contracts entered into in the ordinary course of business) which have been entered into by the Company since its incorporation and which are or may be material.

9. Litigation

There are no legal or arbitration proceedings (nor, to the knowledge of the Directors, any proceedings which are pending or threatened by or against the Company) which may have or have had during the 12 months immediately preceding the date of this document a significant effect on the financial position of the Company.

10. Working Capital

The Directors are of the opinion that, having made due and careful enquiry, the working capital available to the Company will, upon receipt of the Placing Proceeds from the date of Admission, be sufficient for its present requirements, that is, for at least the next 12 months from the date of Admission.

11. Taxation

The following paragraphs are intended as a general guide only for shareholders who are resident and ordinarily resident in the United Kingdom for tax purposes, holding Ordinary Shares as investments and not as securities to be realised in the course of a trade, and are based on current legislation and HM Customs & Revenue practice. Any prospective purchaser of Ordinary Shares who is in any doubt about his tax position or who is subject to taxation in a jurisdiction other than the UK should consult his own professional adviser immediately.

11.1 Taxation of Chargeable Gains

For the purposes of UK tax on chargeable gains, the issue of Ordinary Shares pursuant to the Offer will be regarded as an acquisition of a new holding in the share capital of the Company.

To the extent that a shareholder acquires Ordinary Shares allotted to him, the Ordinary Shares so allotted will, for the purpose of tax on changeable gains, be treated as acquired on the date of allotment. The amount paid for the Ordinary Shares will constitute the base cost of a shareholder's holding; for individuals and certain trustees the amount paid for the Ordinary Shares subscribed may be eligible for taper relief.

If a Shareholder disposes of all or some of his Ordinary Shares, a liability to tax on chargeable gains may, depending on his circumstances, arise.

11.2 Loss Relief

If an investor is an individual or an investment company, relief for losses incurred by that investor on disposal of the Ordinary Shares may be available under Sections 573 to 576 of the Income and Corporation Taxes Act 1988, against income of the same or prior year, or carried forward and set against gains in future tax years.

The relief should be available provided the Company and the investor satisfy the relevant statutory requirements.

11.3 Inheritance Tax

Unquoted Ordinary Shares representing minority interests in trading companies such as the Company potentially qualify for 100 % business property relief which gives up to 100 % exemption from Inheritance Tax. Therefore, where an investor makes a lifetime gift of shares or dies while still owner of the shares, no inheritance tax will be payable in respect of the value of the shares, provided certain conditions are met. The main condition is that the investor held the shares for two years before the date of transfer or death.

11.4 Stamp Duty and Stamp Duty Reserve Tax

No stamp duty or stamp duty reserve tax ("SDRT") will generally be payable on the issue of the Ordinary Shares.

Stamp duty and SDRT treatment will be as follows:

- in relation to the Placing Shares, no liability to stamp duty or SDRT will arise on their issue or on the issue of definitive share certificates by the Company (provided that the Placing Shares are not issued to, or to a nominee or agent for, a person whose business is or includes the provision of clearance services or issuing depository receipts);
- the transfer of Ordinary Shares outside the CREST system will generally be liable to stamp duty on the instrument of transfer at the rate of 0.5 % of the amount or value of the consideration given (rounded up to the nearest multiple of £5). Stamp duty is normally the liability of the purchaser or transferee of the Ordinary Shares. An agreement to transfer Ordinary Shares will generally be subject to SDRT at

0.5 % of the agreed consideration. If, however, within the period of six years of the date of the agreement or, in the case of a conditional agreement, the date on which it becomes unconditional, an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any liability to SDRT will be repaid or cancelled. SDRT is normally the liability of the purchaser or transferee of the Ordinary Shares;

- no stamp duty or SDRT will arise on a transfer of Ordinary Shares into CREST for conversion into uncertified form, unless such transfer is made for a consideration in money or money's worth, in which case a liability to stamp duty or SDRT will arise, usually at the rate set out above;
- a transfer of Ordinary Shares effected on a paperless basis within CREST will generally be subject to SDRT at the rate of 0.5% of the amount or value or the consideration. CREST is obliged to collect SDRT from the purchaser of the Ordinary Shares on relevant transactions settled within the system; and
- where Ordinary Shares are issued or transferred: (i) to, or to a nominee for, a person whose business is or includes the provision of clearance services; or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty (in the case of a transfer only to such persons) or SDRT may be payable at a rate of 1.5% of the amount or value of the consideration payable or, in certain circumstances, the value of the Ordinary Shares or, in the case of an issue to such persons, the issue price of the Ordinary Shares.

Special rules apply to certain categories of person including intermediaries, market makers, brokers and dealers, and persons connected with depositary arrangements and clearance services.

11.5 Dividends and Other Distributions

Dividends paid by the Company will carry an associated tax credit of one-ninth of the cash paid. Shareholders resident in the UK receiving such dividends will be liable to income tax on the aggregate of the dividend and associated tax credit at the ordinary rate (10%) or the upper rate (32.5%).

The effect will be that taxpayers who are otherwise liable to pay tax at only the lower rate or basic rate of income tax will have no further liability to income tax in respect of such a dividend. Higher rate taxpayers will have an additional tax liability (after taking into account the tax credit) of 22.5% of the aggregate of the individual and associated tax credit. Individual shareholders whose income tax liability is less than the tax credit will not be entitled to claim a repayment of all or part of the tax credit associated with such dividends.

A UK resident corporate shareholder should not be liable to corporation tax or income tax in respect of dividends received from the Company unless that company is carrying on a trade of dealings in shares. UK corporate shareholders holding 10% or more of the Company's share capital may be entitled to claim relief against UK corporation tax in respect of the Company's underlying tax.

Trustees of discretionary trusts are liable to account for income tax at the rate applicable to trusts on the trust's income and are required to account for tax at a special rate, currently 32.5%.

Persons who are not resident in the UK should consult their own tax advisers on the possible application of such provisions and on what relief or credit may be claimed for any such tax credit in the jurisdiction in which they are resident.

11.6 General Taxation Information

These comments are intended only as a general guide to the current tax position in the UK as at the date of this document. The comments assume that Ordinary Shares are held as an investment and not as an asset of financial trade.

If you are in any doubt as to your tax position, or are subject to tax in a jurisdiction other than the UK, you should consult your professional adviser.

Part VIII — Additional Information

12. General

12.1 In the Directors' opinion, the minimum amount which must be raised by the Company pursuant to the Placing in order to provide the sums required pursuant to paragraph 21(a) of Schedule 1 to the POS Regulations is £2.5 million comprising:

Issue expenses and commissions	£420,000
Working Capital	£2,080,000

12.2 The total proceeds which will be raised by the Placing are £2.5 million and the net proceeds after deduction of expenses, excluding VAT, are estimated at £2.1 million.

12.3 The accounting reference date of the Company is 31 March and the first audited accounts will be made up to 31 March 2006.

12.4 The expenses of and incidental to the Admission, including registration and London Stock Exchange fees, professional fees and the costs of printing and distribution, are estimated to amount to approximately £295,000 (excluding VAT) together with £125,000 of commissions, including a commission to Eden Group Plc of £15,670, all of which will be payable by the Company.

12.5 Save as disclosed in this document, no person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has:

12.5.1 received, directly or indirectly, from the Company within 12 months preceding the date of this document; or

12.5.2 entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission any of the following:

(i) fees totalling £10,000 or more; or

(ii) securities in the Company with a value of £10,000 or more; or

(iii) any other benefit with a value of £10,000 or more at the date of Admission.

12.6 The financial information contained in Part V of this document does not constitute full statutory accounts as referred to in Section 240 of the Act.

12.7 HB-corporate has given and not withdrawn its written consent to the issue of this document with the inclusion of its name and references to its name in the form and context in which it appears.

12.8 Chapman Davis LLP have given and have not withdrawn their written consent to the inclusion of their reports in Parts V and VI of this document and have stated that they have not become aware, since the date of any report, of any matter affecting the validity of those reports at that time.

12.9 Valmap has given and not withdrawn its written consent to the issue of this document with the inclusion of the Competent Person's Report and references to its name in the form and context in which it appears.

12.10 Save as set out in this document, the Directors are not aware of any exceptional factors that have influenced the Group's activities.

12.11 The Placing has not been underwritten or guaranteed by any person.

12.12 Save as set out in this document, no commission is payable by the Company to any person in consideration of his agreeing to subscribe for securities to which this document relates or of his procuring or agreeing to procure subscriptions for such securities.

12.13 No paying agent has been appointed by the Company.

12.14 The Placing Shares will be issued at 35p per share, a premium of 34.8p per Ordinary Share above nominal value.

12.15 Save as disclosed in this document, no payment (including commissions) or other benefit has been or is to be paid or given to any promoter of the Company.

12.16 Save as disclosed in this document, there are no patents or other intellectual property rights, licences or particular contracts which are, or may be, of fundamental importance to the business of the Company.

12.17 Save as disclosed in this document, there are no investments in progress which are significant.

13. Availability of Admission Document

Copies of this document will be available free of charge to the public at the offices of HB-corporate during normal business hours on any weekday (Saturdays and public holidays excepted) for a period of at least one month from Admission.

22 July 2005

Glossary of Technical Terms

2D Seismic	seismic that is run, acquired and processed to yield a two dimensional picture of the subsurface;
3D Seismic	seismic that is run, acquired and processed to yield a three dimensional picture of the subsurface;
accumulation	an occurrence of trapped hydrocarbons;
anticline	a fold or arch, away from which, strata dip in opposite directions;
Anthracite	is considered the most valuable of coals, being the most highly metamorphosed variety and containing more fixed carbon than any other coal form and the lowest amount of volatile matter, giving it the greatest heat value;
appraisal well	the drilling phase of petroleum operations that immediately follows successful exploratory drilling. During appraisal, delineation wells might be drilled to determine the size of the oil or gas field and how to develop it most efficiently;
BTU	british thermal unit;
Carboniferous	represents those rocks deposited during the Carboniferous period age 370 to 290 million years ago, during the Paleozoic Era;
CBM or coal bed methane	methane generated by anaerobic bacterial activity within coal that is trapped (adsorbed) onto microscopic surfaces within the coal by hydrostatic pressure. The methane is only free to flow once the hydrostatic pressure is lowered sufficiently by pumping water from the reservoir;
closure	the property of a structure whereby it has a closing contour;
coal	combustible rock containing more than 50 per cent by weight and more than 70 per cent by volume of carbonaceous material;
coal seam	a stratum or bed of coal;
compressional tectonics	the squeezing together of strata usually in a horizontal direction;
exploration permit	a licence issued by a legitimate government or government designated body giving certain exclusive authority to explore a designated area for hydrocarbons;
exploitation permit	a licence issued by a legitimate government or government designated body giving certain exclusive authority to extract and vend hydrocarbons from a designated area;
fault	a break or planar surface in brittle rock across which there is observable displacement. Depending on the relative direction of displacement between the rocks, or fault blocks, on either side of the fault, its movement is described as normal, reverse or strike-slip. According to terminology derived from the mining industry, the fault block above the fault surface is called the hanging wall, while the fault block below the fault is the footwall;
fracture	a crack or surface of breakage within rock not related to foliation or cleavage in metamorphic rock along which there has been no movement. A fracture along which there has been displacement is a fault. Fractures can enhance permeability of rocks greatly by connecting pores together;
fault	a break in rock strata continuity with strata remaining parallel but displaced relative to one another on either side;

hydrocarbon	a naturally occurring organic compound comprising hydrogen and carbon. Hydrocarbons can be as simple as methane (CH4), but many are highly complex molecules, and can occur as gases, liquids or solids. The most common hydrocarbons are natural gas, oil and coal;
laccolith	an igneous intusive body of equant dimensions;
matrix	the finer grained, interstitial particles that lie between larger particles or in which larger particles are embedded in sedimentary rocks such as sandstones and conglomerates;
methane	the clean burning components of natural gas produced by the anaerobic activity of bacteria classified at methanogens;
natural gas	a naturally occurring mixture of hydrocarbon gases that is highly compressible and expansible. Methane (CH4) is the chief constituent of most natural gas (constituting as much as 85% of some natural gases);
NPV	net present value;
operator	the company that serves as the overall manager of a drilling project. As far as the drilling contractor and service companies are concerned, the designated operator is paying for the entire operation, and the operator is responsible for recouping some of that expense from the partners;
pay zones	a geological formation containing commercial quantities of recoverable hydrocarbons;
P10, P50, P90	10 percent probability; 50 percent probability or most likely case; 90 percent probability;
permeability	the ability, or measurement of a rock's ability, to transmit fluids, typically measured in darcies or millidarcies (mD);
Permian	the geological period from 250 to 290 million years ago;
porosity	the percentage of pore volume or void space, or that volume within rock that can contain fluids;
reservoir	a subsurface body of rock having sufficient porosity and permeability to store and transmit fluids;
RT	rotary table of drilling rig;
Sakmarian	the geological period from 269 to 290 million years ago;
seal	a relatively impermeable rock, commonly shale, anhydrite or salt, that forms a barrier or cap above and around reservoir rock such that fluids cannot migrate beyond the reservoir;
seismic	energy waves, in the frequency range of approximately 1 to 100 Hz. used to interpret the composition, fluid content, extent and geometry of rocks in the subsurface, can also be used as a noun to refer to a vertical section of seismic data consisting of numerous adjacent traces acquired sequentially;
source	a rock rich in organic matter which, if heated sufficiently, will generate oil or gas;
Stephanian	the geological period from 290 to 306 million years ago;
stratigraphy	classification of stratified rocks according to lithology, chemical or mineralogical composition and sequence boundaries;
Tertiary	the geological period from 2 to 65 million years ago;

thrust fault	type of reverse fault in which the fault plane has a very shallow dip, typically much less than 45°. The hanging wall fault block moves up the fault surface relative to the footwall. Thrust faults can occur in areas of compression of the Earth's crust;
trap	a configuration of rocks suitable for containing hydrocarbons and sealed by a relatively impermeable formation through which hydrocarbons will not migrate;
wellhead	the system of spools, valves and assorted adapters that provide pressure control of a production well;
Westphalian	the geological period from 306 to 316 million years ago;
wireline log	a continuous measurement of formation properties with electrically powered instruments to infer properties and make decisions about drilling and production operations;
working interest	a working interest in an oil and gas concession, permit or field that includes an obligation to pay a proportionate share of all costs, royalties, taxes and other charges and the right to receive a proportional share of production and production revenue; and
work program	an agreed schedule of exploration operations and expenditure submitted during the application for an exploration permit.

Measurements

cf	cubic feet	Bbl	barrel being equal to 42 fluid gallons
Mcf	thousand cubic feet	Bbls	barrels
MMcf	million cubic feet	MBbls	thousand barrels
Bcf	billion (thousand million) of cubic feet;	MMbls	million barrels
Tcf	trillion (thousand billion) of cubic feet;	Cfpd	cf per day;
CM	cubic metres	Mcfpd	Mcf per day;
MCM	thousand cubic metres	MMcfpd	MMCf per day;
BCM	billion cubic metres		

Conversion

The following table sets forth standard conversions from Standard Imperial Units to the International System of Units (or metric units):

To Convert From	To	Multiply By
Boe	Mcf	6
Mcf	Cubic metres	28.174
Cubic metres	Cubic feet	35.494
Bbls	Cubic metres	0.159
Cubic metres	Bbls	6.290
Feet	Metres	0.305
Metres	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621

Foreign Currency

Based on the closing exchange rate for 20 July 2005 the following table shows the value of Sterling when converted to the following currencies:

£ Sterling	Foreign Currency
1.00	US $1.728
0.578	US $1
1.00	€ 1.437
0.696	€ 1
1.00	AUD $2.296
0.436	AUD $1

Maps and Diagrams

All maps and diagrams within this document are for illustrative purposes only and may not be to scale.

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