Regulatory Story

Empyrean Energy PLC - EME Final Results
Released 13:30 15-Aug-2017

RNS Number : 0599O
Empyrean Energy PLC
15 August 2017

Empyrean Energy PLC / Index: AIM / Epic: EME / Sector: Oil & Gas

15 August 2017

Empyrean Energy PLC ('Empyrean' or 'the Company')

Final Results

Empyrean Energy is pleased to announce its final results for the year ended 31 March 2017.

Highlights

Reporting Period:

- Implemented return of capital to shareholders of 7.9p per share following the Company's sale of its interest in Marathon Oil operated Sugarloaf AMI, Texas
- Set about re-building the Company's exploration portfolio and strategy
- Negotiated and awarded Block 29/11, offshore China

Post reporting period:

- Negotiated a 10% interest in the Duyung PSC, offshore Indonesia
- Secured initial funding for exploration
- Drilled the Mako South-1 well on the Mako prospect at Duyung
- Achieved better than expected reservoir quality, gas saturation, porosity, permeability and flow rates from the Mako South-1 well
- Mako South-1 well flowed at a stabilised rate of 10.9 million cubic feet of gas per day with multi Darcy permeability
- Negotiated a 25-30% working interest in the Sacramento Basin package of projects
- Sacramento Basin package includes the 1Tcf+ potential Dempsey prospect and the 2.4Tcf+ Alvares prospect plus a Dempsey Trend AMI with multiple targets
- High impact Dempsey 1-15 well spudded on 2 August 2017

Empyrean CEO Tom Kelly said, "Empyrean has been completely transformed following successful sale of its interest in the Sugarloaf AMI and the subsequent capital return into an active explorer targeting high impact projects in energy hungry regions close to existing infrastructure. The Board of Directors has placed a heavy emphasis on adding value for shareholders. As a result, our portfolio has been strengthened and we have achieved our first exploration success at Mako in Indonesia. With excellent high impact targets remaining in Indonesia, China and the USA, it is exciting times as we build on this first success with the priority to create value for our shareholders."

Chairman's Statement

I am pleased to report that Empyrean, after a major restructuring of its activities in 2015/6, has successfully embarked on a new era of exploration in 2016/7. In particular it has identified and invested in two new and exciting projects in China and Indonesia along with a package of projects in the USA with significant successes achieved already to date.

The first half of this financial year was dedicated to refinancing and restructuring the Company to return value to shareholders, as promised following the sale of our interest in the Sugarloaf asset in the Eagle Ford Shale, Texas. The complex process resulted in a return of capital payment to shareholders of 7.9p for each ordinary share held. The necessary shareholder and court approvals were given in October 2016 and the capital repayment was distributed in November 2016.

While this work was proceeding the Board continued to evaluate new projects to position the Company for renewed growth and to increase shareholder value. The first tangible result of this effort was manifested by the Company acquiring a permit covering 100% of the exploration rights, under a Geophysical Survey Agreement ("GSA") with the subsequent right to enter a Production Sharing Contract ("PSC") on pre-negotiated terms, for Block 29/11, located in the Pearl River Mouth Basin, offshore China. Under the negotiated terms, the China National Offshore Oil Company ("CNOOC") will have a back in right to 51% of the PSC if a commercial discovery is made following Empyrean entering a PSC.

Securing this opportunity was a major achievement for Empyrean. The permit is for an area of 1800km^2 approximately 200 km SE of Hong Kong, and it contains two key exploration prospects, Jade and Topaz, which have already been identified in 2D seismic surveys. There are a number of additional leads within the Permit area and a large existing producing field immediately to the North of the area and other discoveries to the South and West.

The initial work programme, after purchasing the existing 2D seismic data from CNOOC for basin-focussed geological studies is acquisition of a 500km^2 3D seismic survey over the Jade and Topaz prospects. Whilst Empyrean has 24 months under the GSA to complete the acquisition, processing and interpretation of the 3D seismic data, the acquisition of the 3D seismic survey commenced in earnest in June 2017. These steps were taken to enable sufficient time for the planning and drilling of exploration wells.

Gaz Bisht, who was instrumental in the sourcing of this new project, has extensive experience as a Petroleum Geophysicist and Geologist, as well as ten years' experience of working closely with CNOOC, and has now been appointed to Empyrean's Board of Directors and will continue to work with Empyrean to oversee the technical programme and the future operations.

The Company, as announced 4 April 2017, agreed to acquire from Conrad Petroleum Pte a 10% interest in West Natuna Exploration Ltd, ("WNEL") which holds a 100% Participating Interest in the Duyung Production Sharing Contract ("Duyung PSC") offshore Indonesia. The Duyung PSC includes the Mako Shallow Gas discovery ("Mako") to which a Competent Person's Report attributed 2C resources of 430Bcf recoverable gas. In addition, there are several high impact exploration leads identified via existing 2D and 3D seismic data with exploration potential of 4Tcf of gas and 120mmbbls of oil. The prospects are located close to existing pipeline infrastructure and in shallow water.

The Company participated in the drilling of the Mako South-1 well and announced on 5 July 2017 that the well had exceeded expectations with a stabilised flow rate of 10.9 million cubic feet of gas per day with no contaminants and excellent permeability in the multi Darcy range. A terrific result for the Company's first foray back into exploration.

Lastly, the Company announced the acquisition of a package of projects in the Sacramento Basin, onshore California USA on 15 May 2017 and then increased its interest in those projects on 21 June 2017. The package includes the exciting 1Tcf potential Dempsey Prospect (EME 30%) and the 2.4Tcf potential Alvares Prospect (EME 25%). In addition, Empyrean will have a 30% interest in an area of mutual interest that has a number of prospects already identified. These projects include some existing production, but more importantly the acquisitions include surface infrastructure that allows the Company to convert any early exploration success quickly and effectively into cash flow. At the time of this report the Dempsey 1-15 well was in the process of being drilled.

The Duyung PSC, with the Mako shallow gas discovery flowing pure methane with excellent reservoir characteristics kicking off Empyrean's aggressive exploration campaign and now underpinning value, coupled with the high impact Sacramento Basin assets with near term cash flow potential provide an excellent complement to our investment in the China Block 29/11 in the Pearl River Mouth Basin. Together these projects in Empyrean's newly strengthened portfolio have the potential to provide significant production opportunities in the future and provide great balance. They reflect the Company's new focus on building a strong presence in energy hungry markets with high impact exploration close to existing infrastructure. The Company is excited about its new strategy and high impact exploration portfolios and hopes that shareholders share this excitement.

Patrick Cross
Non-Executive Chairman
14 August 2017

Operational Report

Following the sale of the Company's interest in the Sugarloaf AMI in 2016 and the subsequent return of capital to shareholders, Empyrean has set about adding high potential impact exploration projects in energy hungry regions close to existing markets and infrastructure. The first project added to Empyrean's portfolio was Block 29/11 offshore China. Subsequently, a 10% interest in the Duyung PSC, offshore Indonesia was added via the acquisition of 10% in West Natuna Exploration Limited (that holds 100% of the Duyung PSC). Most recently, the Company acquired a 25-30% working interest in a package of assets in the Sacramento Basin, onshore California.

Empyrean retains an interest in the Riverbend Project (10 % WI) located in the Tyler and Jasper counties, onshore Texas and a 58.084% WI in the Eagle Oil Pool Development Project, located in the prolific San Joaquin Basin onshore, Southern California.

China Block 29/11 Project (100% WI)

Block 29/11 is located in the Pearl River Mouth Basin, offshore China. Empyrean is operator with 100% of the exploration right of the Permit during the exploration phase of the project. The initial contractual term is for two years with a work programme commitment of acquisition, processing and interpretation of 500km^2 of 3D seismic data.

In the event of a commercial discovery, and subject to Empyrean first entering a PSC, CNOOC Limited will have a back in right to 51% of the permit.

During the first Quarter of 2017, the operational activities were squarely focused on the acquisition of a 3D seismic survey. The bidding process commenced in January and the survey optimisation process was completed by March 2017.

The survey has been designed to provide full fold 3D seismic coverage over the key exploration prospects, Jade and Topaz.

Block 29/11 (100% WI) - 3D seismic Survey planning

A formal bidding pro forma was created, and three international companies including the China Offshore Services Limited ("COSL") were invited to submit a bid by 20 January 2017. COSL was chosen as the successful bidding party and Empyrean entered into contract negotiations for services in February.

During negotiations, the main technical efforts were orientated towards optimising the technical specifications and outline of the survey, acquisition parameters and operational efficiency. The focus was to acquire optimum survey parameters to cover the main prospects, Jade and Topaz.

During April, a Joint Technical Committee ("JTC") and a Joint Management Committee ("JMC") were formed with the Shenzhen branch of CNOOC Limited to manage the operations in Block 29/11. The first formal meeting was held in Shenzhen where the JMC provided formal approval to the technical and budgetary components of the 3D survey.

The survey commenced on 6 June 2017, and at the time of writing the report, more than 90% of the survey has been completed. The onboard processing of the raw data indicates that the quality of the data is excellent.

Detailed negotiations have been held with the processing department of the COSL for processing the data. The COSL team were successful in demonstrating the required comprehensive processing capabilities. As a result, the Empyrean Board has awarded the processing contract to COSL. All efforts are being aimed for delivering the final processed dataset to Empyrean in Q4 2017.

Empyrean's technical group is also planning to complete the geological work in Q4, 2017 with particular focus on the migration pathways of oil in the basin. This work will then be incorporated with the seismic mapping for finalising the prospective resources and geological risks of the Jade and Topaz prospects.

Duyung PSC, Indonesia (10% WI)

More recently on the 4 April 2017, Empyrean announced that it had entered into a sale and purchase agreement to conditionally acquire up to a 20% shareholding in West Natuna Exploration Ltd ("WNEL") from Conrad Petroleum Pte Ltd ("Conrad Petroleum"). Conrad Petroleum held 100% of WNEL which holds a 100% Participating Interest in the Duyung Production Sharing Contract ("Duyung PSC") in offshore Indonesia and is the operator of the Duyung PSC. On 12 May 2017 it was confirmed that the Shareholder Agreement had been finalised and Empyrean had paid the agreed sum of $US2,000,000 to acquire a 10% holding in WNEL. Empyrean subsequently decided not to increase its interest from 10% to 20% and currently holds a 10% interest in WNEL.

The Duyung PSC covers an offshore permit of approximately 1,100km^2 in the prolific West Natuna Basin. Apart from the existence of numerous prospects and leads, the block contains the Mako shallow gas discovery. According to a recent Competent Person's Report (LEAP Energy 2017), the field has the potential to contain 2C and 3C Resources of 433 Bcf and 646 Bcf of recoverable gas respectively over an area of at least 340 km^2.

The appraisal well Mako South-1 was spudded on 16 June 2017 using a jackup rig located in water depths of 308 ft. The well reached a TD of 1,707 ft on 22 June 2017.

On 5 July 2017, Empyrean was able to announce that the well had flowed methane gas at a stabilised rate of 10.9 million cubic feet per day through a 2 inch choke. The test results demonstrated that the sandstone reservoir is laterally contiguous, and has exceptional permeabilities in the multi Darcy range. Furthermore, there was no pressure depletion during the extended production period. The methane gas observed was close to pure with no contaminants. A sample of core was recovered successfully and is currently undergoing further analysis to assist with the overall assessment of results.

The gas saturation, permeability, overall reservoir quality and flow rates were much better than the operator and Empyrean had expected. As a consequence, preparations are now (July 2017) being finalised to commence a 3D seismic survey in Q4 2017. Its twofold purpose will be to accurately delineate the extent of the gas-filled sandstone reservoir (s) and to aid in locating the best appraisal and development drilling sites.

Multi Project Farm-in in Sacramento Basin, California (25%-30% WI)

Empyrean has made several announcements over the period 15 May-21 June 2017 concerning its recent agreement to farm-in to a package of projects in the Sacramento Basin. The agreement is with the operator Sacgasco Limited, an Australian company focused on natural gas development and production in the Sacramento Basin onshore California.

The farm-in involves participation in two mature, multi Tcf prospects "Dempsey" and "Alvares", and an Area of Mutual Interest named the "Dempsey Trend AMI".

Empyrean will earn a 30% interest in the Dempsey Prospect targeting 1 Tcf of gas by paying US$2,100,000 towards the cost of drilling the Dempsey 1-15 exploration well. These drilling costs have a promoted cap of US$3,200,000 and Empyrean will pay its working interest of 30% towards any additional costs towards Dempsey 1-15, including completion costs. The Dempsey 1-15 well was spudded on 2 August 2017 and is currently drilling ahead at the time of writing this report.

A 25% WI will be earned in the Alvares Appraisal Prospect, by Empyrean paying 33.33% of the costs of the next Alvares appraisal well. The Alvares structure is interpreted by Sacgasco to hold prospective resources of over 2 Tcf of recoverable gas.

Finally, the Dempsey Trend AMI, in which Empyrean will earn a 30% interest, includes at least three large Dempsey style follow up prospects that have already been identified. Empyrean will provide technical assistance to Sacgasco to further mature prospects within the Dempsey Trend AMI and will also have an option to participate in the already identified prospects on the following basis:

- Prospect #1 : EME pays 60% of dry hole cost (i.e. to testing and setting production casing or abandonment) to earn 30% W
- Prospect #2 : EME pays 45% of dry hole cost (i.e. to testing and setting production casing or abandonment) to earn 30% WI
- Prospect #3 : EME pays 45% of dry hole cost (i.e. to testing and setting production casing or abandonment) to earn 30% WI

Riverbend Project (10%)

The Cartwright No1 re-entry well produces gas and condensate from the arenaceous Wilcox Formation.

Production commenced on 13 May 2013, and well head rates rapidly decreased to a monthly production in June 2014 of 2,687 msc.ft of gas and 83 barrels of condensate.

Thereafter Cartwright No1 re-entry has been shut in intermittently. The well is now virtually suspended producing only nominal amounts of gas condensate. In the last 12 months only 1,827 msc.ft of gas has been produced with virtually 455 barrels of condensate.

In light of current market conditions, little or no work has been completed on the project in the year and no budget has been prepared for 2017/18 whilst the Company focuses on other projects. As a prudent measure, the Company has decided to fully impair the carrying value of the asset at 31 March 2017.

Eagle Oil Pool Development Project (58.084% WI)

Located in the prolific San Joaquin Basin onshore, southern California.

No appraisal operations were carried out during this period. It is anticipated that, should there be a sustained improvement in the oil price, a vertical well test of the primary objective, the Eocene Gatchell Sand, followed by a horizontal appraisal well, would be the most likely scenario.

In light of current market conditions, little or no work has been completed on the project in the year and no budget has been prepared for 2017/18 whilst the Company focuses on other projects. As a prudent measure, the Company has decided to fully impair the carrying value of the asset at 31 March 2017.

Definitions

2C Contingent resources are quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable. The range of uncertainty is expressed as 1C (low), 2C (best) and 3C (high)

Frank Brophy BSc (Hons)
Technical Director
14 August 2017

Gajendra Bisht M.Sc. (Tech) in Applied Geology
Executive Director (China)
14 August 2017

Statement of Comprehensive Income
For the Year Ended 31 March 2017

		2017	2016
	Notes	US$'000	US$'000

Revenue		**1**	10
Cost of sales			
Operating costs		**(23)**	(28)
Impairment of oil and gas properties	2, 10, 11	**(6,960)**	(6)
Amortisation	2, 11	**(11)**	(12)
Total cost of sales		**(6,994)**	(46)
Gross loss		**(6,993)**	(36)
Administrative expenditure			
Administrative expenses	2	**(2,202)**	(290)
Compliance fees		**(284)**	(518)
Directors' remuneration	5	**(637)**	(577)
Foreign exchange differences		**-**	244
Total administrative expenditure		**(3,121)**	(1,141)
Operating loss		**(10,116)**	(1,177)
Finance income and expense	3	**(3,005)**	(3,836)
Loss from continuing operations before taxation		**(13,121)**	(5,013)
Tax benefit / (expense) in current year	6	**2,839**	(709)
Loss from continuing operations after taxation		**(10,282)**	(5,722)
Profit on discontinued operations net of tax	7	**-**	6,635
(Loss) / profit after taxation		**(10,282)**	913
Total comprehensive (loss) / profit for the year		**(10,282)**	913

Earnings per share from continuing operations (expressed in cents)			
- Basic	8	**(4.62)c**	(2.58)c
- Diluted		**(4.62)c**	(2.58)c
Earnings per share from discontinued operations (expressed in cents)			
- Basic	8	**-**	2.99c
- Diluted		**-**	2.99c

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

Statement of Financial Position
As at 31 March 2017

Company Number: 05387837	Notes	2017 US$'000	2016 US$'000
Assets			
Non-current assets			
Contingent consideration receivable	9	**-**	371
Oil and gas properties: exploration and evaluation	10	**87**	6,842
Oil and gas properties: development and production	11	**57**	156
Total non-current assets		**144**	7,369
Current assets			
Trade and other receivables	12	**65**	17,055
Corporation tax receivable	6	**540**	-

Contingent consideration receivable	9	**554**	-
Cash and cash equivalents		**6,106**	17,473
Total current assets		**7,265**	34,528
Liabilities			
Current liabilities			
Trade and other payables	13	**2,178**	648
Provisions	14	**25**	42
Provision for corporation tax	6	**-**	2,848
Derivative financial liabilities	15	**459**	195
Total current liabilities		**2,662**	3,733
Net current assets / (liabilities)		**4,603**	30,795
Non-current liabilities			
Provision for corporation tax	6	-	750
Deferred tax liability	16	-	709
Total non-current liabilities		-	1,459
Net assets		**4,747**	36,705
Shareholders' equity			
Share capital	18	**754**	710
Share premium		**18,466**	40,250
Share based payment reserve	19	**2,421**	2,946
Retained losses		**(16,894)**	(7,201)
Total equity		**4,747**	36,705

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

Statement of Cash Flows
For the Year Ended 31 March 2017

	Notes	2017 US$'000	2016 US$'000
Cash generated from operating activities - continuing operations		**(1,309)**	(1,253)
Cash generated from operating activities - discontinued operations		**(116)**	6,804
Payment of corporation tax		**(2,007)**	-
Net cash (outflow) / inflow from operating activities	17	**(3,432)**	5,551
Net proceeds from disposal of discontinued operations	7	**-**	60,474
Amounts held in escrow		**16,875**	(16,875)
Purchase of oil and gas properties : exploration and evaluation - continuing operations		**(17)**	(3,212)
Purchase of oil and gas properties: development and production - continuing operations		**(80)**	(8,909)
Net cash inflow for investing activities		**16,778**	31,478
Issue of ordinary share capital		**44**	-
Return of value		**(21,785)**	-
Payment of equity issue costs		**(63)**	-
Proceeds from borrowings		**-**	3,038
Proceeds from hedging		**-**	1,582
Repayment of borrowings		**-**	(25,435)
Finance expenses received/(paid)		**22**	(2,944)
Net cash (outflow) from financing activities		**(21,782)**	(23,759)
Net (decrease)/increase in cash and cash equivalents		**(8,436)**	13,270
Cash and cash equivalents at the start of the year		**17,473**	3,955

Forex on cash held	**(2,931)**	248
Cash and cash equivalents at the end of the year	**6,106**	17,473

Statement of Changes in Equity
For the Year Ended 31 March 2017

	Share capital	Share premium reserve	Share based payment reserve	Retained loss	Total equity
	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 31 March 2015	**710**	**40,250**	**2,946**	**(8,114)**	**35,792**
Profit after tax for the year	-	-	-	913	913
Total comprehensive income for the year	-	-	-	913	913
Balance at 31 March 2016	**710**	**40,250**	**2,946**	**(7,201)**	**36,705**
(Loss) after tax for the year	-	-	-	(10,282)	(10,282)
Total comprehensive loss for the year	-	-	-	(10,282)	(10,282)
Shares issued following exercise of options	44	-	-	-	44
Creation of B shares	21,784	(21,784)	-	-	-
Return of value (cancellation of B shares)	(21,784)	-	-	-	(21,784)
Transfer of expired options	-	-	(589)	589	-
Share based payment expense	-	-	64	-	64
Balance at 31 March 2017	**754**	**18,466**	**2,421**	**(16,894)**	**4,747**

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

Statement of Accounting Policies
For the Year Ended 31 March 2017

Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and Companies Act 2006. The principal accounting policies are summarised below. The financial report is presented in the functional currency, US dollars and all values are shown in thousands of US dollars (US$'000). The financial statements have been prepared on a historical cost basis and fair value for certain assets and liabilities.

Nature of business

The Company is a public limited company incorporated and domiciled in England and Wales. The address of the registered office is 200 Strand, London, WC2R 1DJ. The Company is in the business of financing the exploration, development and production of energy resource projects in regions with energy hungry markets close to existing infrastructure. The Company has typically focused on non-operating working interest positions in projects that have drill ready targets that substantially short cut the life-cycle of hydrocarbon projects by entering the project after exploration concept, initial exploration and drill target identification work has largely been completed.

Going concern

The Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future, which is supported by the cashflow forecasts prepared to 30 September 2018 and that it is therefore appropriate to adopt the going concern basis in preparing its financial statements.

Basis of accounting and adoption of new and revised standards

a) New and amended standards adopted by the Company:
There were no new standards effective for the first time for periods beginning on or after 1 April 2016.

b) Standards, amendments and interpretations that are not yet effective and have not been early adopted:
Any standards and interpretations that have been issued but are not yet effective, and that are available for early application, have not been applied by the Company in these financial statements. International Financial Reporting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 31 March 2017:

IFRS 15 'Revenue from Contracts with Customers' was issued by the IASB in May 2014. It is effective for accounting periods beginning on or after 1 January 2018. The new standard will replace existing accounting standards, and provides enhanced detail on the principle of recognising revenue to reflect the transfer of goods and services to customers at a value which the company expects to be entitled to receive. The standard also updates revenue disclosure requirements. At the year end the Company currently has no sales contracts. At the point in time when the Company enters into a sales contract it will assess the impact on the Company.

IFRS 9 was published in July 2014 and will be effective from 1 April 2018. It is applicable to financial assets and financial liabilities, and covers the classification, measurement, impairment and de-recognition of financial assets and financial liabilities together with a new hedge accounting model. The Company is still assessing the impact of IFRS 9.

IFRS 16 'Leases' - IFRS 16 'Leases' was issued by the IASB in January 2016 and is effective for accounting periods beginning on or after 1 January 2019. The new standard will replace IAS 17 'Leases' and will eliminate the classification of leases as either operating leases or finance leases and, instead, introduce a single lessee accounting model. The standard has yet to be endorsed by the EU. The Standard Provides a single lessee accounting model, specifying how leases are recognised, measured, presented and disclosed. The Directors are currently evaluating the financial and operational impact of this standard, however do not consider that it will have a material impact as the Company does not currently have any significant lease arrangements.

Revenue recognition

Revenue is derived from sales of oil and gas to third party customers. Sales of oil and gas production are recognised at the time of delivery of the product to the purchaser which is when the risks and rewards of ownership pass and are included in the statement of comprehensive income as Revenue. Revenue is recognised net of local ad valorem taxes.

Cash and cash equivalents

Cash and short-term deposits in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Tax

The major components of tax on profit or loss include current and deferred tax. Current tax is based on the profit or loss adjusted for items that are non-assessable or disallowed and is calculated using tax rates that have been enacted or substantively enacted by the reporting date. Tax is charged to the income statement, except when the tax relates to items credited or charged directly to equity, in which case the tax is also dealt with in equity.

Deferred tax

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs to its tax base. Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available, against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). The Company has considered whether to recognise a deferred tax asset and has determined that this is not appropriate in line with IAS 12 as the conditions for recognition are not satisfied.

Foreign currencies

Transactions denominated in foreign currencies are translated into US dollars at contracted rates or, where no contract exists, at average monthly rates. Monetary assets and liabilities denominated in foreign currencies which are held at the year-end are translated into US dollars at year-end exchange rates. Exchange differences on monetary items are taken to the Statement of Comprehensive Income. Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the functional currency).

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Oil and gas assets: exploration and evaluation

The Company applies the full cost method of accounting for Exploration and Evaluation ('E&E') costs, having regard to the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources'. Under the full cost method of accounting, costs of exploring for and evaluating oil and gas properties are accumulated and capitalised by reference to appropriate cash generating units ('CGUs'). Such CGUs are based on geographic areas such as a concession and are not larger than a segment.

E&E costs are initially capitalised within oil and gas properties: exploration and evaluation. Such E&E costs may include costs of license acquisition, third party technical services and studies, seismic acquisition, exploration drilling and testing, but do not include costs incurred prior to having obtained the legal rights to explore an area, which are expensed directly to the income statement as they are incurred. Plant, Property and Equipment ('PPE') acquired for use in E&E activities are classified as property, plant and equipment. However, to the extent that such PPE is consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the intangible E&E asset. Intangible E&E assets related to exploration licenses are not depreciated and are carried forward until the existence (or otherwise) of commercial reserves has been determined. The Company's definition of commercial reserves for such purpose is proven and probable reserves on an entitlement basis.

If commercial reserves have been discovered, the related E&E assets are assessed for impairment on a CGU basis as set out below and any impairment loss is recognised in the income statement. The carrying value, after any impairment loss, of the relevant E&E assets is then reclassified as development and production assets within property, plant and equipment and are amortised on a unit of production basis over the life of the commercial reserves of the pool to which they relate. Intangible E&E assets that relate to E&E activities that are not yet determined to have resulted in the discovery of commercial reserves remain capitalised as intangible E&E assets at cost, subject to meeting impairment tests as set out below. E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such indicators include the point at which a determination is made as to whether or not commercial reserves exist. Where the E&E assets concerned fall within the scope of an established CGU, the E&E assets are tested for impairment together with all development and production assets associated with that CGU, as a single cash generating unit. The aggregate carrying value is compared against the expected recoverable amount of the pool. The recoverable amount is the higher of value in use and the fair value less costs to sell. Value in use is assessed generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. Where the E&E assets to be tested fall outside the scope of any established CGU, there will generally be no commercial reserves and the E&E assets concerned will generally be written off in full. Any impairment loss is recognised in the income statement.

Oil and gas assets: development and production

Development and production assets are accumulated on a field-by-field basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the decommissioning asset (see below) and the E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined above. They are presented as oil and gas properties in Note 11. The net book values of producing assets are depreciated on units of production basis. An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of a development or production asset may exceed its recoverable amount. The aggregate carrying value is compared against the expected recoverable amount of the cash generating unit. The recoverable amount is the higher of value in use and the fair value less costs to sell. Value in use is assessed generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. The cash generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped as a single cash generating unit where the cash flows of each field are interdependent.

Assets held for sale and discontinued operations

Assets are classified as held for sale if their carrying value will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met if the sale is highly probable, the asset is available for sale in its present condition, being actively marketed and management is committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification. A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and represents a separate major line of business or geographical area of operations; and is a part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or is a subsidiary acquired exclusively with a view to resale. Non-current assets held for sale and discontinued operations are carried at the lower of carrying value or fair value less costs to sell. Any gain or loss from disposal of a business, together with the results of these operations until the date of disposal, is reported separately as discontinued operations. The financial information of discontinued operations is excluded from the respective captions in the financial statements and related notes for the current and comparative period and disclosed as results from discontinued operations.

Financial assets
Financial assets are recognised at initial recognition at fair value plus, in the case of financial assets not recorded at fair value through profit and loss, transaction costs that are attributable to the acquisition of the financial asset. The Company's financial assets consist of loans and receivables (trade and other receivables, excluding prepayments, and cash and cash equivalents) and financial assets classified as fair value through profit or loss (contingent consideration receivable). Loans and receivables are initially measured at fair value and subsequently at amortised cost. Financial assets designated as fair value through the profit or loss are measured at fair value through the profit or loss at the point of initial recognition and subsequent revalued at each reporting date. Movements in the fair value of derivative financial assets are recognised in the profit or loss in the period in which they occur.

Financial liabilities
All financial liabilities are classified as fair value through the statement of comprehensive income and financial liabilities at amortised cost. The Company's financial liabilities at amortised cost include trade and other payables and its financial liabilities at fair value through the profit or loss include the derivative financial liabilities. Financial liabilities at amortised cost, are initially stated at their fair value and subsequently at amortised cost. Interest and other borrowing costs are recognised on a time-proportion basis using the effective interest method and expensed as part of financing costs in the statement of comprehensive income.
Derivative financial liabilities are initially recognised at fair value of the date a derivative contract is entered into and subsequently re-measured at each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company has not designated any derivatives as hedges as at 31 March 2016 or 31 March 2017.

Share based payments
The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Company's estimate of shares that will eventually vest. Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

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

Impairment of assets
Financial and non-financial assets are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount is based on a calculation of expected future cash flows which includes management assumptions around future production, costs, capital expenditure, inflation and discount rates. (Refer to Note 10 and 11)

Exploration and evaluation expenditure
The Company's policy for E&E expenditure requires an assessment of both the future likely economic benefits from future exploitation or sale and whether the activities are at a stage that permit a reasonable assessment of the existence of reserves. Any such assessment may change as new information becomes available. If after capitalisation, information becomes available suggesting that the recovery of the carrying amount is unlikely, the relevant capitalised amount is written off in the statement of comprehensive income in the period when the new information becomes available. (Refer to Note 10)

Valuation of potential contingent consideration amounts receivable
In order to calculate the fair value of the contingent consideration receivable, the Company makes estimates principally relating to the assumptions used in its option-pricing model as set out in Note 9.

Notes to the Financial Statements
For the Year Ended 31 March 2017

1. Segmental analysis

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

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

Details	Oil and Gas Properties: Exploration and Evaluation		Oil and Gas Properties: Development and Production		Total	
	31 Mar 17 US$'000	31 Mar 16 US$'000	31 Mar 17 US$'000	31 Mar 16 US$'000	31 Mar 17 US$'000	31 Mar 16 US$'000
Revenue from continued operations	**-**	-	**1**	10	**1**	10
Revenue from discontinued operations	**-**	-	**-**	6,205	**-**	6,205
Profit/(loss) on sale of discontinued operations	**-**	246	**-**	1,329	**-**	1,575
Cost of sales of continued operations	**(6,871)**	(6)	**(123)**	(40)	**(6,994)**	(46)
Cost of sales of discontinued operations	**-**	(141)	**-**	(780)	**-**	(921)
Tax expense on discontinued operations	-	(18)	-	(205)	-	(223)
Segment result	**(6,871)**	81	**(122)**	6,519	**(6,993)**	6,600
Unallocated corporate expenses					**(3,121)**	(1,142)
Operating profit					**(10,116)**	5,458
Finance income and expense					**(3,005)**	(3,836)
Profit/(loss) before taxation					**(13,121)**	1,622
Tax benefit/(expense) in current year					**2,839**	(709)
Profit after taxation					**(10,282)**	913
Total comprehensive profit for the financial year					**(10,282)**	913
Segment assets	**87**	7,003	**611**	17,407	**698**	24,410
Unallocated corporate assets					**6,711**	17,487
Total assets					**7,409**	41,897

Details	Oil and Gas Properties: Exploration and Evaluation		Oil and Gas Properties: Development and Production		Total	
	31 Mar 17 US$'000	31 Mar 16 US$'000	31 Mar 17 US$'000	31 Mar 16 US$'000	31 Mar 17 US$'000	31 Mar 16 US$'000
Segment liabilities	**148**	130	**189**	303	**337**	433
Unallocated corporate liabilities					**2,325**	4,759
Total liabilities					**2,662**	5,192

	2017 US$'000	2016 US$'000

2. Operating (loss)/profit

The operating (loss)/profit is stated after charging:		
Audit and tax fees (UK advisors)	**(99)**	(64)
Consideration shares for Block 29/11 offshore China	**(1,740)**	-
Impairment of oil and gas properties	**(6,960)**	(6)
Amortisation	**(11)**	(12)
	(8,810)	(82)

Auditor's Remuneration

Amounts paid to BDO LLP and their associates in respect of both audit and non-audit services:		
Fees payable to the Company's auditor for the audit of the Company annual accounts	**34**	59
Fees payable to the Company's auditor and its associates in respect of:		
- Other services relating to taxation	**65**	5
	99	64

	2017 US$'000	2016 US$'000
3. Finance income and expense		
Revaluation gain on contingent consideration receivable	**183**	232
Interest received / receivable	**25**	-
Net effective of de-recognition and re-recognition of derivative financial liability	**289**	-
Finance income	**497**	232
Fair value movement on derivative liability	**(552)**	-
Share based payment	**(64)**	-
Acceleration of costs due to repayment of Macquarie Bank loan facility	**-**	(606)
Foreign exchange differences	**(2,883)**	-
Interest paid/payable	**(3)**	(2,112)
Fees associated with finance facility	**-**	(1,350)
Finance expense	**(3,502)**	(4,068)
Total finance income and expense	**(3,005)**	(3,836)

4. Share based payments

During the year ended 31 March 2017, there were no options were granted to Directors or the Company Secretary. These are disclosed in detail under Note 18.

5. Directors' emoluments

	Fees and salary		Bonus payment		Social security contributions		Short-term employment benefits (Total)	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Non-Executive Directors:								
Patrick Cross	**24**	41	**-**	-	**2**	4	**26**	45
John Laycock	**14**	25	**-**	-	**1**	3	**15**	28

Frank Brophy[2]	**43**	154	**-**	-	**-**	-	**43**	154
Executive Director:								
Thomas Kelly[1]	**290**	337	**282**	-	**-**	-	**572**	337
	371	557	**282**	-	**3**	7	**656**	564

[1] Services provided by Apnea Holdings Pty Ltd. [2] Services provided by F J Brophy Pty Ltd for technical services.

The average number of Directors was 4 during 2017 and 2016. The highest paid director received US$572,000 (2016: US$337,000).

	2017 US$'000	2016 US$'000

6. Taxation

	2017 US$'000	2016 US$'000
UK corporation tax charge at 20%	**-**	-
US corporation tax (benefit)/charge at 35% - current	**(288)**	2,848
US corporation tax charge at 35% - non-current	**-**	750
Total corporation tax (receivable)/payable	**(288)**	3,598

Factors affecting the tax charge for the year

	2017 US$'000	2016 US$'000
Loss from continuing operations	**(13,121)**	(5,013)
Profit on discontinued operations	**-**	6,858
Add back: contingent consideration receivable revaluation	**183**	
(Loss)/profit on ordinary activities before tax	**(12,938)**	1,845
(Loss)/profit on ordinary activities at US rate of 35% (2016: 35%)	**(4,528)**	646
Expenses not deductible for tax purposes	**326**	80
Income not taxable	**-**	(551)
Deferred tax previously unrecognised on capital allowances	**-**	(18,555)
Deferred tax previously recognised on losses	**-**	15,180
Tax profit on sale of assets	**-**	16,496
Excess of capital allowances	**-**	709
Over provision in prior year	**(1,382)**	-
Release of tax liability on first contingent consideration payment (Note 7)	**(750)**	-
Current year losses offset against prior year project disposal	**441**	-
Deferred tax asset not recognised	**3,054**	
Utilisation of tax losses brought forward	**-**	(13,073)
	(2,839)	932
Analysed as:		
Tax (benefit)/charge on continuing operations	**(2,839)**	709
Tax (benefit)/charge on discontinued operations	**-**	223
Tax (benefit)/charge in current year	**(2,839)**	932

7. Discontinued operations

In February 2016, the Company disposed of its working interest the Sugarloaf AMI project, for a cash consideration of US$61,500,000. In March 2016, the Company disposed of its working interest the Sugarloaf Block A project, for a consideration of US$538,000. The consideration shown below is stated after immaterial purchase price adjustments.

The post-tax gain on disposal of discontinued operations was determined as follows:

	2017 US$'000	2016 US$'000
Consideration received	-	61,464
Costs of disposal	-	(851)
Net consideration	-	60,613
Net assets disposed:		
Oil and gas properties: exploration and evaluation	-	(4,784)
Oil and gas properties: development and production	-	(54,254)
	-	(59,038)
Gain on disposal of discontinued operations	-	1,575

Results of discontinued operations

Revenue	-	6,205
Cost of sales	-	(922)
Tax expense	-	(223)
Gain on disposal of discontinued operations	-	1,575
Profit on discontinued operations after taxation	-	6,635
Proceeds from disposal of discontinued operations		
Gain on disposal of discontinued operations	-	1,575
Oil and gas properties: exploration and evaluation	-	4,784
Oil and gas properties: development and production	-	54,254
Amounts held in escrow (Note 11)	-	(16,875)
Contingent consideration receivable before revaluation	-	(139)
Proceeds from disposal of discontinued operations	-	43,599

Contingent consideration

Under the terms and conditions of the PSA for Sugarloaf AMI, the Company is entitled to certain additional amounts if the conditions are met. The conditions for receipt are described below:

- If the average New York Mercantile Exchange strip price of light sweet crude oil (WTI) for the calendar period of 1 January 2016 until 30 June 2016 or 1 July 2016 until 31 December 2016 exceeds US$55.00 per barrel (the "First Contingency"), then CEP II shall pay to the Company an additional US$1,000,000 for every whole dollar in excess of US$55.00 per barrel (collectively, the "First Contingent Payment"); provided, however, the First Contingent Payment shall not exceed US$5,000,000;

- If the average New York Mercantile Exchange strip price of light sweet crude oil (WTI) for the calendar period of 1 January 2017 until 30 June 2017 or 1 July 2017 until 31 December 2017 exceeds US$60.00 per barrel (the "Second Contingency"), then CEP II shall pay to the Company an additional US$1,000,000 for every whole dollar in excess of US$60.00 per barrel (collectively, the "Second Contingent Payment") provided the Second Contingent Payment shall not exceed US$5,000,000. If there is no First Contingency Payment, this shall not preclude a Second Contingent Payment if the Second Contingency is met.

The contingent consideration amounts that are potentially receivable are linked to the underlying oil price which is outside of the Company's control, are settled at a date in the future. As such, the right to receive these amounts therefore represents a financial asset and has been treated as fair value through the profit or loss. As such the Company has estimated the fair value of the contingent consideration at the date that the sale completed using a Black Average (Asian) Model. The fair value of the contingent consideration at the date that the sale completed which has been included within the overall calculation of the gain arising on disposal of Sugarloaf AMI. Details of the inputs and assumptions used are disclosed in Note 9. The first contingency payment was not received and hence expired.

	2017	**2016**

8. Earnings per share

The basic earnings per share is derived by dividing the profit/(loss) after taxation for the year attributable to ordinary shareholders by the weighted average number of shares in issue being 222,770,839 (2016: 221,833,853).

	2017	**2016**
<u>Earnings per share from continuing operations</u>		
Loss after taxation from continuing operations	**(US$10,282,000)**	(US$5,722,000)
Earnings per share - basic	**(4.62)c**	(2.58)c
Loss after taxation from continuing operations adjusted for dilutive effects	**(US$10,282,000)**	(US$5,722,000)
Earnings per share - diluted	**(4.62)c**	(2.58)c
<u>Earnings per share from discontinued operations</u>		
Profit after taxation from discontinued operations	-	US$6,635,000
Earnings per share - basic	-	2.99c

Profit after taxation from discontinued operations adjusted for dilutive effects	-	US$6,635,000
Earnings per share - diluted	-	2.99c

For the current financial year the exercise of the options would be anti-dilutive. As such the diluted earnings per share is the same as the basic loss per share. In the prior year, these options and warrants were dilutive and the weighted average number of dilutive shares were 252,770,839. Details of the potentially issuable shares that could dilute earnings per share in future periods is set out in Notes 15 and 18.

	2017 US$'000	2016 US$'000
9. Contingent consideration receivable		
Financial asset recorded at fair value through profit or loss:		
Opening balance	**371**	-
Additions	**-**	139
Revaluation of contingent consideration receivable (Note 3)	**183**	232
	554	371

The balance represents the fair value of contingent consideration amounts attached to the sale of Sugarloaf AMI during the year. The first contingency payment was not received and hence expired. Further details on contingent consideration are given in Note 7. The fair value of the contingent consideration receivable was initially measured at the effective date of the sale, being 19 February 2016 and were subsequently remeasured at 31 March 2016 and 31 March 2017. The fair value is measured using a Black Average (Asian) Model with the following inputs:

Fair value assumptions	At 31 March 2017	At 31 March 2016	At 19 February 2016
Spot price	US$50.60	US$38.34	US$29.64
Expected volatility	50 -day historical	720 -day historical	720 -day historical
Risk-free interest rate	0.901% to 1.056%	0.385% to 0.538%	0.385% to 0.538%

The expected volatility is based on the 50-day historical standard deviation of the log daily returns from WTI oil. The valuation is sensitive to changes in the volatility applied. Sensitivity analysis is provided below:

Volatility applied	Total (US$'000)	Impact on Income statement (US$'000)
50 day historical (as used)	371	-
15%	84	59
25%	583	273
50%	1,673	407

	2017 US$'000	2016 US$'000
10. Oil and gas properties: exploration and evaluation		
Balance brought forward	**6,842**	11,132
Additions	**116**	3,067
Reclassified to oil and gas properties: development and production (Note 11)	**-**	(2,526)
Impairment[1]	**(6,871)**	(47)
Discontinued operations	**-**	(4,784)
Net book value	**87**	6,842

[1] In light of current market conditions, little or no work has been completed on the Riverbend or Eagle Oil projects in the year and no substantial project is forecast for either project in 2017/18 whilst the Company focusses on other projects. Whilst the Company maintains legal title, as a prudent measure, the Company has decided to fully impair the carrying value of the asset at 31 March 2017.

	2017 US$'000	2016 US$'000
11. Oil and gas properties: development and production		
Balance brought forward	**156**	47,788
Additions	**1**	6,263
Reclassified from oil and gas properties: exploration and evaluation (Note 10)	**-**	2,526
Movement in Oil and gas decommissioning asset	**-**	(469)
Amortisation	**(11)**	(1,698)
Impairment	**(89)**	-
Discontinued operations	**-**	(54,254)
Net book value	**57**	156

Project	Operator	Working Interest	2017 Carrying Value US$'000	2016 Carrying Value US$'000
Exploration and evaluation				
Riverbend	Huff Energy	10%	**-**	1,918
Eagle Oil Pool Development	Strata-X	58.084%	**-**	4,924
China Block 29/11	Empyrean Energy	100%*	**87**	-
			87	6,842
Development and production				
Falks Gas	Talisman Energy / Statoil	0.418%	**57**	156
			57	156

In the event of a commercial discovery, and subject to the Company entering PSC, CNNOC Limited will have a back in right to 51% of the permit.

	2017 US$'000	2016 US$'000
12. Trade and other receivables		
Trade and other receivables	**-**	161
Amounts held in escrow (Note 7)	**-**	16,875
Accrued revenue	**-**	5
Prepayments	**51**	-
VAT receivable	**14**	14
Total trade and other receivables	**65**	17,055

At 31 March 2017, the Company had US$Nil (2016: US$16.875m) restricted cash held in escrow as the amounts had been received during the year ended 31 March 2017.

	2017 US$'000	2016 US$'000
13. Current trade and other payables		
Trade payables	**396**	495
Other payables	**1,738**	-
Accrued expenses	**44**	153

Total trade and other payables	**2,178**	648

Other payables relates to an amount agreed to be paid to Topaz Energy Pty Ltd in relation to the introduction of the opportunity and successful award of the Permit to Empyrean. Under the terms of the agreement, the Company agreed that Topaz Energy Pty Ltd would receive consideration of either 70,000,000 ordinary shares of 0.2p each in Empyrean or £1,391,390 in cash, which was equivalent to the value of the consideration shares at the volume weighted average price in the 5 days leading up to the date of award of the permit (1.9877p).

	2017 US$'000	**2016 US$'000**

14. Provisions

Current provisions

Provision for annual leave	**25**	42
Total current provisions	**25**	42

Non-current provisions

Opening balance	**-**	**477**
Reversal of decommissioning provision following sale of assets	**-**	**(477)**
Total non-current provisions	**-**	**-**

15. Derivative financial liabilities

Opening balance	**195**	428
Revaluation (Note 3)	**205**	-
Extinguishment following substantial modification	**(400)**	-
Recognition of modified derivative financial liability	**111**	-
Revaluation gain (Note 3)	**348**	(233)
Closing balance	**459**	195

Derivative financial liabilities represent the fair value of 15,000,000 options granted to Macquarie Bank and linked to the extension of a now repaid loan facility held with Macquarie Bank. The options were granted on 27 July 2015 and are referred to as the Tranche 4 options. At the date of grant these were considered to fall outside of the scope of IFRS 2 and unlike Tranches 1-3 (refer to Note 18) were not accounted for as a share based payment. The Macquarie Bank loan facility was repaid in 2016 but the options did not expire at that point.

During the year, the Company modified the exercise price of the options. This was deemed to be a substantial modification under IAS 32 and IAS 39. The value of the derivative financial liability was extinguished at that point and the fair value of the modified options recognised at the date that they were granted. As a financial liability at fair value through the profit or loss these were revalued at the year end. The fair value is measured using a Black-Scholes Model with the following inputs:

Fair value of share options and assumptions

	31 March 2017	**15 December 2016 (date of modification)**	**31 March 2016**
Grant date	27 July 2015	27 July 2015	27 July 2015
Expiry date	26 July 2019	26 July 2019	26 July 2019
Share price	£0.039	£0.020	£0.053
Exercise price	£0.021	£0.100	£0.100
Volatility	83%	50%	50%
Option life	2.33	2.61	3.32
Expected dividends	-	-	-

Risk-free interest rate (based on national government bonds)	0.12%	0.12%	0.61%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the expected remaining life of the options.

	2017 US$'000	2016 US$'000
16. Deferred tax		
Balance at beginning of year	**709**	3,375
Income statement (credit)/charge	**(709)**	(2,666)
Balance at end of year	**-**	709
Comprising:		
Deferred tax liability	**-**	709
	-	709

The deferred tax assets and liabilities are offset to determine the amounts stated in the Consolidated Statement of Financial Position when the taxes can legally be offset and will be settled net. Deferred taxation comprises:

	2017 Recognised	2017 Unrecognised
Deferred tax liability:		
Oil and gas properties	-	-
	-	-
Deferred tax asset:		
Tax losses	-	-
	-	-
Net deferred taxation liability/(asset)	**-**	**-**

	2016 Recognised	2016 Unrecognised
Deferred tax liability:		
Oil and gas properties	709	-
	709	-
Deferred tax asset:		
Tax losses	-	(270)
	-	(270)
Net deferred taxation liability/(asset)	**709**	**(270)**

Deferred tax assets of US$Nil (31 March 2016: US$Nil) have been recognised in respect of tax losses and to be utilised by future taxable profits generated by operations in the US. The unrecognised deferred tax asset represents losses at a UK company level (2017: US$1,851,000; 2016: US$1,500,000). The Company does not expect to pay tax in the UK as all profits are generated in the US branch and subject to tax in that jurisdiction. The Company claims double tax treaty relief for those taxable profits in the UK.

	2017 US$'000	2016 US$'000
17. Reconciliation of net profit/(loss) before taxation to operating cash flows		

Net (loss)/profit before taxation	**(13,121)**	1,845
Gain on sale of assets	**-**	(1,575)
Amortisation - oil and gas properties	**11**	1,698
(Profit)/loss on hedging liability	**-**	(1,676)
Revaluation gain on contingent consideration receivable	**(183)**	(232)
Finance costs	**531**	4,068
Forex gain	**2,883**	(244)
Impairment - oil and gas properties	**6,960**	47
Share based payments	**(225)**	-
Decrease in trade receivables	**115**	1,516
(Increase)/decrease in trade payable	**(386)**	124
(Decrease)/increase in provisions	**(17)**	(20)
Net cash inflow from operating activities	**(3,432)**	5,551

18. Called up share capital

Issued and fully paid

Ordinary shares of 0.2p each		
Opening balance (number: 221,833,853)	**710**	710
Exercise of options (number: 18,000,000)	**44**	-
Closing balance (number: 239,833,853)	**754**	710
Ordinary B shares of 7.9p each		
Opening balance (number: nil)	**-**	-
New shares issued (number: 221,833,853)	**21,784**	-
Cancellation/return of value	**(21,784)**	-
Closing balance (number: nil)	**-**	-

The Companies Act 2006 (as amended) abolishes the requirement for a company to have an authorised share capital. Therefore the Company has taken advantage of these provisions and has an unlimited authorised share capital.

At the General Meeting Empyrean Energy Plc held on 19 October 2016, shareholders of the Company approved a resolution, subject to the confirmation of the High Court of Justice in England and Wales (the "Court"), that the issued share capital of the Company be reduced by way of a return of value to shareholders. Each ordinary shareholder received one B share with a nominal value of 7.9p per share. Following Court approval, all B shares were cancelled and amounts returned to shareholders through cash payment.

Share options

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2017	**Number of options 2017**	**Weighted average exercise price 2016**	**Number of options 2016**
Outstanding at the beginning of the year	£0.040	59,400,000	£0.040	59,400,000
Adjustment during the year[(1)]	£0.002	3,000,000	-	-
Exercised during the year	£0.002	(18,000,000)	-	-
Expired during the year	£0.080	(14,400,000)	-	-
Outstanding at the end of the year	£0.030	**30,000,000**	£0.040	59,400,000

The options outstanding at 31 March 2017 have an exercise price in the range of £0.021 to £0.041 (2016: £0.08 to £0.12) and a weighted average remaining contractual life of 0.64 years (2016: 0.83 years).

(1) During the year the Company sought to reprice the 15,000,000 Tranche 1 Financier options. The exercise price was set at a price lower than the par value of the shares. As a consequence the Company was required to gain shareholder approval for the necessary capitalisation from reserves. Under the arrangement, if the holder of options wished to exercise these options prior to shareholder approval been granted then the options could be exercised at an exercise price of £0.002 and would convert into a greater number of 18,000,000 shares.

Details of share options outstanding at 31 March 2017 are as follows:

Option Class	**Financier options (Tranche 2)**	**Financier options (Tranche 3)**
Grant Date	19 July 2012	25 March 2013
Options awarded	15,000,000	15,000,000
Exercise price (£)	£0.021	£0.041
Expiry date	19 July 2017	25 March 2018

Details of share options outstanding at 31 March 2016 are as follows:

Option Class	**Director and Company Secretary options**	**Financier options (Tranche 1)**	**Financier options (Tranche 2)**	**Financier options (Tranche 3)**
Grant Date	2 March 2012	19 July 2012	19 July 2012	25 March 2013
Options awarded	14,400,000	15,000,000	15,000,000	15,000,000
Exercise price (£)	£0.08	£0.08	£0.10	£0.12
Expiry date	19 July 2016	19 July 2017	19 July 2017	25 March 2018

On 15 December 2016 the Company modified a number of the outstanding share options by changing the exercise price of the options. The incremental fair value of the share options immediately prior to and after the modification were measured by reference to the fair value of share options and a charge of US$64,000 taken directly to the income statement as all options were already fully vested at the time of the modification. The estimate of the fair value of the options was measured based on the Black-Scholes model. The inputs to those calculations were:

Fair value of share options and assumptions	**At modification**		**After modification**	
	Tranche 2	**Tranche 3**	**Tranche 2**	**Tranche 3**
Grant date	19 July 2012	25 March 2013	19 July 2012	25 March 2013
Expiry date	19 July 2016	25 March 2018	19 July 2016	25 March 2018
Share price	£0.020	£0.020	£0.020	£0.020
Exercise price	£0.100	£0.120	£0.021	£0.041
Volatility	50%	50%	50%	50%
Option life	0.60	1.27	0.60	1.27
Expected dividends	-	-	-	-
Risk-free interest rate (based on national government bonds)	0.12%	0.12%	0.12%	0.12%

The expected volatility is based on the historic volatility of the share price (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. There are no market conditions associated with the share options.

19. Related party transactions

There were no related party transactions during the year ended 31 March 2017 other than those payments made in regards to Director remuneration disclosed in Note 5 and the following:

On 13 March 2017 the Company announced that Apnea Holdings Pty Ltd ("Apnea"), a company which is wholly-owned by Tom Kelly, CEO of Empyrean, on that date purchased options (the "Options") in respect of 63,000,000 ordinary shares of 0.2p each in in the Company ("Ordinary Shares") from a third party not connected with the Company (the "Seller"). The Company announced that, on 10 March 2017, it received notice from Apnea that it intended to exercise its option in relation to 18,000,000 Ordinary Shares at an exercise price of 0.2 pence each. Accordingly, the Company issued and allotted 18,000,000 Ordinary Shares (refer to Note 18).

20. Financial instruments

The Company's operations expose it to a number of financial risks. The Board of Directors determine, as required, the degree to which it is appropriate to use financial instruments to mitigate risk. The Company's financial assets comprise derivative financial assets and trade and other receivables. The Company's financial liabilities comprise of derivative financial liabilities, trade and other payables. It is the Directors' opinion that the carrying value of all of the Company's financial assets and financial liabilities approximates to their fair value. The principal financial risks relate to:

Liquidity risk

The Company's policy throughout the year has been to ensure that it has adequate liquidity by careful management of its working capital. The following table details the remaining contractual maturity for the non-derivative liabilities of the Company. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows including rates for loan liabilities and cash deposits on actual contractual arrangements. The Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future, which is supported by the cashflow forecasts prepared to 30 September 2018 and that it is therefore appropriate to adopt the going concern basis in preparing its financial statements.

	Less than 6 months	6 months to 1 year	1 to 6 years	Total
	US$'000	US$'000	US$'000	US$'000
Trade and other payables (2017)	**2,178**	**-**	**-**	**2,178**
Trade and other payables (2016)	648	-	-	648

Capital

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

Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) *Cash & cash equivalents, accounts receivable, accounts payable and accrued expenses*

The fair value of cash & cash equivalents, accounts receivable, accounts payable and accrued expenses is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. As at 31 March 2017 and 31 March 2016, the fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximated their carrying value due to their short term to maturity.

Sugarloaf AMI contingent consideration (financial asset carried at fair value through profit or loss)

The fair value of the contingent consideration is calculated using a Black Average (Asian) Model. Measurement inputs include price of WTI oil on measurement date, threshold price required under the terms of the sale agreement, expected volatility (based on the historical 720-day standard deviation of the log daily returns from WTI oil), expected period, and the risk-free interest rate (based on government bonds).

Details of the inputs and assumptions are provided in Note 9.

(ii) *Derivatives*

Options (derivative financial liability)

The fair value of the options is calculated using a Black-Scholes Model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of incentive stock options that vest. Refer to Note 15.

	31 March 2017 Carrying Value US$'000	**31 March 2017 Fair Value US$'000**	**31 March 2016 Carrying Value US$'000**	**31 March 2016 Fair Value US$'000**
Financial assets:				
Contingent consideration receivable	**554**	**554**	371	371
Cash and cash equivalents	**6,106**	**6,106**	17,473	17,473
Trade and other receivables	**-**	**-**	161	161
Amounts held in escrow	**-**	**-**	16,875	16,875
Financial liabilities:				
Borrowings	**-**	**-**	-	-
Trade and other payables	**2,134**	**2,134**	495	495
Accrued expenses	**44**	**44**	153	153
Derivative financial liability	**459**	**459**	195	195

The share options, derivative financial liability and the contingent consideration receivable represent level 3 fair measurements. The inputs and assumptions at grant and the reporting date and reconciliation of the movements have been provided in Notes 9, 15 and 18.

21. Events after the reporting date

Significant events post reporting date were as follows:

On 4 April 2017 the Company held a Shareholder General Meeting whereby shareholders approved the allotment of 70,000,000 shares at 0.2p each to Topaz Energy Pty Ltd in relation with services provided by Topaz Energy Pty Ltd (a company wholly owned by and of which Gajendra Bisht is a director) in relation to the introduction of the opportunity and successful award of the permit for 100% of the exploration rights for Block 29/11, offshore China to the Company. These shares were subsequently issued on 21 April 2017. Shareholders also approved the Directors to allot relevant securities up to a nominal amount of £250,000 (equating to 125,000,000 shares at a nominal value of 0.2p each). Shareholders also approved the dis-application of pre-emption rights associated with both of these allotments.

On 4 April 2017 the Company announced the acquisition of up to 20% interest in Duyung Production Sharing Contract in Indonesia from Conrad Petroleum Pte Ltd with the initial 10% interest conditionally acquired for US$2,000,000 utilising the Company's existing cash resources with further payment of US$2,000,000 to be paid for additional 10% interest prior to 12 May 2017. On 11 May 2017 the Company announced that it was seeking to agree an extension to the period of payment for the further US$2,000,000 to be paid for additional 10% interest. On 12 May 2017 the Company announced confirmation of the initial 10% interest via payment of the initial US$2,000,000 to Conrad Petroleum Pte Ltd as well as the agreement to extend the period of payment for the further US$2,000,000 to be paid for additional 10% interest to 26 May 2017. On 30 May 2017 the Company announced that it had chosen not to increase its interest to 20%, thus the interest remained at 10%. On 19 June the Company announced a well drilling update.

On 24 April 2017 the Company announced the open offer pursuant to which qualifying shareholders may subscribe for 1 new ordinary share in the Company at a price of 3.5 pence each for every 4 ordinary shares held at the record date. On 11 May 2017 the Company announced the closure of the open offer resulting in the issue and allotment of 34,316,551 new ordinary share in the Company at a price of 3.5 pence each, raising a total of £1,200,000 before costs.

On 15 May 2017 the Company announced that it had entered into an agreement with Sacgasco Limited to farm-in to a package of gas projects in the Sacramento Basin. The Company agreed to pay an initial amount of US$10,000 with a further US$90,000 upon signing a definitive farm-out agreement and joint operating agreement with Sacgasco Limited in order to secure the Company's right to participate in the Dempsey Prospect. The Company is then required to pay US$1,500,000 by 17 June 2017 towards the dry hole cost (i.e. up to the point of testing and running production casing or abandonment) of the Dempsey-1 Well to earn its 25% working interest in the Dempsey Prospect. If the Dempsey-1 well costs exceed US$3,200,000 then the Company will pay 25% of any further costs under standard joint operating agreement terms.

On 15 May 2017 the Company announced that it had agreed to pay 13.33% of the dry hole well costs (i.e. to testing and setting of production casing or abandonment) in the next Alvares appraisal well to earn a 10% working interest in the Alvares Appraisal Prospect. The Company's 13.33% earn-in is capped at a total well cost for Alvares of US$10,000,000, after which the Company will pay 10% of the costs moving forward. The Company has also agreed to pay US$20,000 upon signing the farmout agreement and joint operating agreement to reimburse Sacgasco for back costs associated with leasing and permitting the Alvares Appraisal Prospect. The joint venture partners have decided that drilling a well at the Dempsey Prospect is a first ranking priority before any proposal or decision to drill a well at Alvares will be made. The possibility of using the existing well bore to sidetrack and get a valid flow test, thus reducing costs will be examined. On 21 June 2017 the Company announced an increase in its working interest in the Dempsey Prospect to 30%, an increase in its working interest in the Alvares Appraisal Prospect to 25% and an increase to its working interest in the Dempsey Trend AMI to 30%. Part of the funds raised in the placement on 20 June 2017 will be used to fund this.

On 13 June 2017 the Company announced an amendment to the exercise price of the existing options on issue, adjusted by 0.1p each in accordance with the terms and conditions of the option agreement which provided for adjustments to the option price in the event of a pro rata issue of shares (the open offer). On 13 June 2017 the Company announced that it had placed 16,080,000 new ordinary shares at a price of 3.5 pence each as well as converting the 15,000,000 options exercisable at 2p each expiring 19 July 2017, raising a total of £863,000 before costs. On 20 June 2017 the Company announced that it had placed 12,000,000 new ordinary shares at a price of 5.5p each, raising a total of £660,000 before costs.

On 14 June 2017 the Company announced the appointment of Gaz Bisht as Executive Director (China) of the Company.

On 2 August 2017 the Company announced that it had placed 11,764,706 new ordinary shares at a price of 8.5p each, raising a total of £1,000,000 before costs.

22. Committed expenditure

Block 29/11 offshore China

The Company has committed an amount approximating US$3,000,000 to carry out its exploration obligations with CNOOC specifically for the acquisition of 500km^2 of 3D seismic which is currently underway.

Mako South-1 well offshore Indonesia

As announced on 12 May 2017, the Company made a payment of US$2,000,000 to secure its 10% interest in the project. Subsequent cash calls of approximately US$670,000 were also made.

Sacramento Basin assets onshore California

As announced on 15 May 2017, the Company was required to make a payment of US$10,000 upon signing its definitive farm-our agreement and join operation agreement with Sacgasco. Subsequent amounts of approximately US$2,110,000, as announced on 15 May 2017 have also been made.

****ENDS****

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The information contained in this announcement was completed and reviewed by the Company's Technical Director, Mr Frank Brophy, who has over 40 years' experience as a petroleum geologist.

Notes to Editors

About Empyrean Energy Plc (LON: EME)

Empyrean is a London AIM listed oil and gas explorer with three potentially high impact new projects. Empyrean has a 1800km2 offshore oil permit located in the Pearl River Mouth Basin, China where it has commenced 3D seismic Q2, 2017 to further mature two large oil prospects, Jade and Topaz. The permit is directly South East of the billion barrel+ Liuhua Oil Field operated by CNOOC and two recent discoveries to the permits West and South further enhance the merit of Jade and Topaz. Empyrean is operator and holds 100% of the exploration rights through to commercial discovery where CNOOC have a back-in right to 51%.

Empyrean also has a 10% interest in West Natuna Exploration Limited that holds 100% of the Duyung PSC in offshore Indonesia and is targeting the Mako Shallow Gas Discovery that has an independently verified 2C and 3C gas resource of between 430-650 Bcf recoverable gas. Successful testing operations were recently completed at the Mako South-1 Well with 10.9 million cubic feet of gas flow and better than expected reservoir quality and multi Darcy permeability. The operator is currently analysing data with a view to providing a development plan.

Empyrean also has a joint venture with ASX listed Sacgasco Limited on a suite of projects in the Sacramento Basin, onshore California, USA. The package includes two mature, multi-Tcf gas prospects, 'Dempsey' and 'Alvares', and an Area of Mutual Interest (the "Dempsey Trend AMI") that includes at least three already identified, large Dempsey-style follow up prospects. Dempsey is a large structure mapped with 3D seismic and interpreted by Sacgasco to have the potential to hold a prospective resource of over 1 Tcf of gas in up to seven stacked target reservoirs. The Company plans to commence a 3,200 metre (~10,500 feet) combined appraisal and exploration well, Dempsey-1, in Q3 2017 to evaluate this prospect.

Aside from compelling technical merit, the Dempsey-1 well location sits next to existing gas metering and surface infrastructure that is owned by the joint venture. This will allow for any gas discovery to be tested and connected into the local pipeline at relatively low cost and in an accelerated timeframe. This early potential for short-term cash flow in the event of a commercial discovery would be significant for the joint venture and for the state of California where gas demand is high and approximately 90% of consumption is imported from other states. Gas produced in the Sacramento Basin currently prices at a 10-15% premium to Henry Hub Gas Prices. The joint venture will be drilling and testing the Dempsey Prospect, a 1 Tcf gas target in Q3, 2017.

Alvares is a large structure mapped with 2D seismic and interpreted by Sacgasco to hold prospective resources of over 2 Tcf estimated potential recoverable gas. A well drilled by American Hunter Exploration Limited in 1982 for deeper oil intersected 5,000ft of gas shows. No valid flow test was conducted due to equipment limitations and the deeper oil target failing. However minor gas flows to surface were recorded even with these limitations. The possibility of using the existing well bore to sidetrack and get a valid flow test, thus reducing costs will be examined.

The Dempsey Trend AMI is an Area of Mutual Interest extending to approximately 250,000 acres and containing the Dempsey prospect (described above) as well as at least three other, Dempsey-style prospects which have been identified on existing seismic.

END

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Final Results - RNS