



### Chairman's Statement

I am pleased to report that in the first half of the current financial year Emphyrean Energy Plc (the "Company") has generated a profit after tax for the first time. The Company continues its transformation from a purely exploration company into a substantial oil and gas producer, focussing principally on the continuing development of the Sugarloaf Project.

In the Sugarloaf Project, Texas USA, (EME Interest between 3% - 9%) Emphyrean retains its working interest in the four producing wells in Block A, and has interests in twenty-three wells in Block B which are already in production. The Company plans to participate in all the production wells being drilled at Sugarloaf, currently planned to number at least 260. Initial estimates indicate the potential recoverable reserves attributable to each producing well could lie between 2-10 billion cubic feet of gas equivalent.

In an eventful six months, Hilcorp Energy Company, the operator of the Sugarloaf Project, onshore Texas, has sold its Eagle Ford Shale acreage to Marathon Oil Company. Marathon is now the operator of the project and a partner to Emphyrean. The price agreed for this sale, when broken down into an average \$US per acre figure has further strengthened confidence in the value of Emphyrean's holding in the field. This value was further underpinned with the independent assessment of reserves and calculation of net present values for the Sugarloaf Project which was assessed by independent petroleum consultants Netherland Sewell & Associates, Inc. and reported in the 2011 Annual Report. We look forward to continuing the development of the Sugarloaf Project with Marathon as the new operator.

The following technical report provides details of all the projects in which Emphyrean Energy Plc is currently engaged.

Dr Patrick Cross  
Chairman  
2 December 2011

### Technical Overview

Emphyrean Energy Plc ("Emphyrean") continued its involvement in 5 separate projects in USA. The Sugarloaf Project onshore Texas has been the focus of all Emphyrean drilling activity in the last 6 months. Ever since Hilcorp Energy Company ("Hilcorp") replaced Texas Crude Energy Inc. ("TCEI") as operator of the Sugarloaf Project (Block B) in early 2010, the tempo of development drilling has intensified as has the number of wells being completed as gas- condensate producers.

To date, 23 wells are now producing at Sugarloaf (Block B) with Emphyrean holding interests in wells varying from 0.35% to 10.2%, but mostly at 3.0%. Emphyrean will hold 3.0% interest in the majority of all future wells in the project where the drilling programme is estimated to include at least another 260 wells for the full development of this part of the Sugarkane gas condensate field.

In the adjacent Block A, Emphyrean maintains its 7.5% interest in the four producing wells operated by Conoco-Phillips.

#### **Sugarloaf Project Block B**

In Block B, the Lower Cretaceous Eagle Ford Shale has become the principal objective, even though the overlying Austin Chalk still maintains its potential for future exploitation. Each well drilled has been subject to a similar drilling programme. The Eagle Ford Shale consistently lies at about 12,000 ft in this region. The aim is to intercept approximately 5,000 ft of horizontal section and subject it to a procedure whereby the intervals identified during drilling (and identified on logs) as being the more fractured are isolated and fraced using a staged process. This approach by Hilcorp has proved to be ideal for this type of reservoir. It is far more reliable, and eventually less expensive, than the previously employed method of a "one off" fracc procedure over the whole horizontal interval.

In the most recent 2011 Annual Report it was reported that, up until May 2011, 14 post-farmin wells had been spudded, of which 7 were at that time producing. Each of those wells have now been completed and all are now producing gas and condensate to market. PMT - 1H was brought on stream in May 2011, Gilley-1H, Jordan -1H, Davenport- 1H in June, and Best Fenner-1H, Turnbull -6 and Best Huth-1H in July 2011.

A further 5 post farmin wells have been spudded since May 2011 of which one, Yosko Bogfield - 1H, commenced production on the 14 August 2011. The well was drilled to 18,625 ft (MD) in an exceptional 15 days - a record for our project so far.

In all, nineteen post farmin wells have been drilled since the first, Kowalik -1H, was spudded on the 9 July 2010. The drilling time has varied between 15 and 46 days (Turnbull-6); with "trouble free" wells averaging around 20 days, depending on the final measured depth.

#### **Riverbend Project (10% WI)**

The Cartwright No 1 well continues to produce gas and minor condensate at reduced rates due to a suspected blockage impediment. No remedial work has been so far carried out.

#### **Hercules Project (10% WI)**

The BP America A-740#1 well commenced production to sales on the 4 September 2010. Recent production figures showed 1,018 mscf/d (thousand standard cubic feet per day) and 40 bbls/d (barrels per day). There still remain at least another 3 development wells to fully exploit this field.

#### **Eagle Oil Pool Development Project (48.5% WI)**

No further operations have been carried out on this project. The drilling results in adjacent acreage are likely to

influence future drilling and geophysical planning activity to best exploit this proven accumulation.

#### **Outlook**

Recent transactions in the Eagle Ford Shale and more relevantly within the liquids rich corridor provide great support to the underlying value of the Sugarloaf Project.

The Sugarloaf Project has been independently assessed and we look forward to unlocking fair value as development continues.

Development upside exists at Hercules and we also look forward to re-commencing work at Eagle in 2012.

Mr Frank Brophy BSc (Hons)  
Technical Director  
2 December 2011

*The technical information contained in this report was completed and reviewed by the Technical Director of Empyrean Energy Plc, Mr Frank Brophy BSc (Hons) who has over 40 years experience as a petroleum geologist.*

#### Independent review report to Empyrean Energy Plc for the period ended 30 September 2011

#### **Introduction**

We have been engaged by Empyrean Energy Plc (the "Company") to review the interim financial statements for the six months ended 30 September 2011 comprising the statement of comprehensive income, statement of financial position, cash flow statement, statement of changes in equity and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the interim financial statements.

This report is made solely to the Company in accordance with guidance contained in ISRE 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

#### **Directors' responsibilities**

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the rules of the London Stock Exchange Plc for companies trading securities on the AIM Market.

As disclosed in Note 1, the accounting policies are consistent with those that the directors intend to use in the next financial statements. The interim financial statements included in this interim financial report have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

#### **Our Responsibility**

Our responsibility is to express to the Company a conclusion on the interim financial statements in the interim financial report based on our review.

#### **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### **Conclusion**

Based on our review we are not aware of any material modifications that should be made to the financial information as presented in the interim financial statements for the six months ended 30 September 2011.

**CHAPMAN DAVIS LLP**  
**Chartered Accountants**  
**2 Chapel Court**  
**London SE1 1HH**

**2 December 2011**

#### **STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 SEPTEMBER 2011**

Note	6 months to	6 months to	Year ended
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	30 September 2011 (unaudited) £'000	30 September 2010 (unaudited) £'000	31 March 2011 (audited) £'000
<b>Revenue</b>	<b>1,168</b>	110	811
<b>Cost of sales</b>			
Production costs (excluding oil and gas and exploration expenditure impairment)	(15)	(2)	(16)
Amortisation	(395)	(355)	(717)
<b>Gross profit / (loss)</b>	<b>758</b>	(247)	78
Administrative expenses	(272)	(406)	(527)
Share based payments (directors and employees)	-	-	(619)
Exploration expenditure (impairment)	(19)	(2,716)	(2,520)
Oil and gas properties (impairment)	-	(1,587)	(1,792)
<b>Operating profit / (loss)</b>	<b>467</b>	(4,956)	(5,380)
Interest receivable / (payable)	(60)	1	(48)
<b>Profit / (loss) on ordinary activities before taxation</b>	<b>407</b>	(4,955)	(5,428)
Taxation on profit/(loss) on ordinary activities	-	-	-
<b>Profit / (loss) for the financial period</b>	<b>407</b>	(4,955)	(5,428)
<b>Other comprehensive income</b>			
Share based payment reversal	-	273	619
<b>Total comprehensive income for the period</b>	<b>407</b>	(4,682)	(4,809)
<b>Attributable to</b>			
Equity shareholders of the Company	<b>407</b>	(4,682)	(4,809)
Basic earnings / (loss) per share (expressed in pence)	<b>3</b>	<b>0.44p</b>	(2.81)p
Diluted earnings / (loss) per share (expressed in pence)	<b>3</b>	<b>0.42p</b>	N/A

All financial results presented are from continued operations.

#### STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2011

Note	6 months to 30 September 2011 (unaudited) £'000	6 months to 30 September 2010 (unaudited) £'000	Year ended 31 March 2011 (audited) £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	4,757	5,980	4,825
Oil and gas properties	8,272	4,451	7,054
Plant and equipment	-	-	-
	<b>13,029</b>	10,431	11,879
<b>Current assets</b>			
Trade and other receivables	205	429	727
Cash and cash equivalents	211	511	611
	<b>416</b>	940	1,338
<b>Total assets</b>	<b>13,445</b>	11,371	13,217
<b>Liabilities</b>			

<b>Current liabilities</b>				
Trade and other payables		(69)	(4)	(270)
Convertible loan note		(877)	-	(1,550)
		(946)	(4)	(1,820)
<b>Net current assets / (deficiency)</b>		<b>(530)</b>	936	(482)
<b>Net assets</b>		<b>12,499</b>	11,367	11,397
<b>Shareholders' equity</b>				
Called up share capital	4	394	364	365
Share premium account		23,816	23,139	23,150
Other reserves		668	524	668
Retained loss		(12,379)	(12,660)	(12,786)
		<b>12,499</b>	11,367	11,397

**STATEMENT OF CASHFLOWS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2011**

Note	6 months to 30 September 2011 (unaudited) £'000	6 months to 30 September 2010 (unaudited) £'000	Year ended 31 March 2011 (audited) £'000
Cash received/(used) in operating activities	764	(160)	(175)
Other Receivables			
<b>Net cash inflow / (outflow) from operating activities</b>	<b>764</b>	(160)	(175)
Interest received	2	1	2
<b>Net cash inflow from returns on investments</b>	<b>2</b>	1	2
Purchase of tangible assets	-	-	-
Purchase of intangible assets	(1,166)	(2,988)	(4,386)
<b>Net cash (outflow) from capital expenditure</b>	<b>(1,166)</b>	(2,988)	(4,386)
<b>Net cash (outflow) before financing</b>	<b>(400)</b>	(3,147)	(4,559)
Issue of ordinary share capital	5	3,600	3,612
Share issue costs	-	(196)	(196)
Proceeds from borrowings	-	-	1,500
<b>Net cash inflow from financing</b>	<b>-</b>	3,404	4,916
<b>Increase/(decrease) in cash</b>	<b>(400)</b>	257	357
Cash and cash equivalents at beginning of period	611	254	254
Cash and cash equivalents at end of period	<b>211</b>	511	611

**STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 30 SEPTEMBER 2011**

	Called Up Share Capital £'000	Share Premium £'000	Share Based Payment Reserve £'000	Retained Losses £'000	Total Shareholders' Equity £'000
<b>6 months ended 30 September 2011 (unaudited)</b>					
As at 1 April 2011	365	23,150	668	(12,786)	11,397
Shares issued during the period	29	666	-	-	695
Share issue expense	-	-	-	-	-
Equity-settled share-based payments	-	-	-	-	-
Share based payments reversal	-	-	-	-	-
Profit for the period	-	-	-	407	407
<b>Balance as at 30 September 2011</b>	<b>394</b>	<b>23,816</b>	<b>668</b>	<b>(12,379)</b>	<b>12,499</b>
<b>6 months ended 30 September 2010 (unaudited)</b>					
As at 1 April 2010	244	19,862	662	(7,978)	12,790

Shares issued during the period	120	3,480	-	-	3,600
Share issue expense	-	(203)	7	-	(196)
Equity-settled share-based payments	-	-	128	-	128
Share based payments reversal	-	-	(273)	273	-
(Loss) for the period	-	-	-	(4,955)	(4,955)
<b>Balance as at 30 September 2010</b>	<b>364</b>	<b>23,139</b>	<b>524</b>	<b>(12,660)</b>	<b>11,367</b>
<b>Year ending 31 March 2011 (audited)</b>					
As at 1 April 2010	244	19,862	662	(7,978)	12,790
Shares issued during the period	121	3,492	-	-	3,613
Share issue expense	-	(197)	-	-	(197)
Share based payments	-	(7)	625	1	619
(Loss) for the period	-	-	-	(5,428)	(5,428)
Share based payments reversal	-	-	(619)	619	-
<b>Balance as at 31 March 2011</b>	<b>365</b>	<b>23,150</b>	<b>668</b>	<b>(12,786)</b>	<b>11,397</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2011

### 1. Basis of preparation

The interim report has been prepared in accordance with the AIM rules and the basis of accounting policies set out in the accounts for the year to 31 March 2011 and on the basis of all International Financial Reporting Standards (IFRS) that are expected to be applicable to the company's statutory accounts for the year ended 31 March 2011, except as disclosed below. If any amendments, new standards or new interpretations are issued these may require the financial information provided in the interim report to be changed. The interim financial statements do not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The interim financial statements have been prepared on a going concern basis in accordance with IFRS and comply with IAS 34.

The amounts in the interim report for the periods ended 30 September 2011 and comparative 30 September 2010 are unaudited. The amounts in this report for the year ended 31 March 2011 are extracted from the audited statutory accounts for that period and as such are not the company's statutory accounts for that financial year. The 31 March 2011 accounts have been reported on by the company's auditors and delivered to the Registrar of Companies and received an unqualified audit report and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The interim report of Empyrean Energy Plc was authorised for issue by the Board on 2 December 2011.

### Going concern

The directors have a reasonable expectation that Empyrean Energy Plc have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the interim accounts.

### 2. Segmental Analysis

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

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

	<b>6 months to 30 September 2011 (unaudited) £'000</b>	<b>6 months to 30 September 2010 (unaudited) £'000</b>	<b>Year ended 31 March 2011 (unaudited) £'000</b>
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### 3. Earnings/(Loss) Per Share

The calculation of earnings/(loss) per share is based on the loss after taxation divided by the weighted average number of shares in issue during the period:

Net profit/(loss) after taxation	<b>407</b>	(4,955)	(5,428)
Weighted average number of ordinary shares of £0.002 used in calculating basic earnings/(loss) per share	<b>93,236,332</b>	176,053,695	179,142,679
Basic earnings/(loss) per share (expressed in pence)	<b>0.44p</b>	(2.81)p	(3.03)p

Weighted average number of ordinary shares of £0.002 in issue inclusive of outstanding options and convertible debt

	<b>106,387,231</b>	188,052,056	380,396,054
Diluted earnings/(loss) per share (expressed in pence)	<b>0.42p</b>	N/A	N/A

As the inclusion of the potential ordinary shares would result in a decrease in the loss per share they are considered to be antidilutive and, as such, a diluted loss per share is not included for the year ended 31 March 2011 and for the half year ended 30 September 2010.

#### 4. Called Up Share Capital

The authorised share capital of the Company and the called up and fully paid amounts at 30 September 2011 were as follows:

##### Authorised

1,000,000,000 ordinary shares of 0.2p each	<b>2,000</b>	2,000	2,000
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##### Issued and fully paid

196,754,015 ordinary shares of 0.2p each	<b>394</b>	364	365
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##### Share Options

The following equity instruments have been issued by the Company and have not been exercised at 30 September 2011:

Equity	Number of Options	Exercise Price	Expiry Date
Incentive options	3,300,000	£0.04	31 March 2012
Incentive options	8,875,000	£0.06	28 May 2013
Consultant options	500,000	£0.06	16 April 2013
Incentive options	12,100,000	£0.08	30 April 2014

There were no options granted, no options exercised and no options expired during the half year.

##### Convertible Loan Facility

As at 30 September 2011, £877,000 of the convertible loan facility including accrued interest remained unconverted into equity.

#### 5. Cashflow

During the half year ended 30 September 2011, the Company issued 14,329,555 shares resulting from the conversion of the convertible loan facility plus the accrued interest. There was no impact on the cash position. Interest expense of £61,829 was recorded in the profit and loss.

#### 6. Dividend

The Directors do not recommend the payment of a dividend.

#### 7. Post Balance Sheet Events

On 18 October 2011, £130,000 of the convertible loan facility was converted into 2,815,648 shares.

On 24 October 2011, £25,000 of the convertible loan facility was converted into 526,990 shares.

On 27 October 2011, £85,000 of the convertible loan facility was converted into 1,759,461 shares.

On 1 December 2011, £155,000 of the convertible loan facility was converted into 3,334,187 shares.

#### 8. Director's Responsibility Statement

The Directors confirm that, to the best of their knowledge the condensed set of financial statements for the six months ended 30 September 2011 have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union.

The Directors of Empyrean Energy plc and their functions are: Dr Patrick Cross (Chairman), Mr Thomas Kelly (Chief Executive Officer), Mr Frank Brophy (Technical Director) and Mr John Laycock (Finance Director).

#### 9. Availability of Accounts

Copies of these interim results are available from Empyrean Energy Plc, GPO Box 2517, Perth WA 6831, Australia. Alternatively a downloadable version is available from the following web address: <http://www.empyreanenergy.com/news/reports.html>.

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