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Empyrean Energy PLC

Final results

For the period 1 April 2011 to 31 March 2012

Empyrean Energy PLC ("Empyrean" or the "Company"), an oil and gas explorer and producer established to finance the exploration, development and production of energy resource projects in geopolitically stable environments, today announces its results for the year ended 31 March 2012.

Highlights

Financial

- Revenues for the 12 months to 31 March 2012 of £2.69 million (2011: £811,000)
- Profit after tax for the 12 months to 31 March 2012 of £675,000 (2011: loss £5.4 million)
- Cash and cash equivalents at 31 March 2012 of £1.5 million
- Post period end: a committed offer from Macquarie Bank Limited to provide a 3 year term debt facility for up to US\$50 million to support the Company's participation in the development of the Sugarloaf Project in onshore Texas, USA. Completion of the facility documentation and satisfaction of conditions precedent would see Empyrean fully funded for the anticipated drilling and development schedule through 2012.

Operational

- Increase in 1P reserves (by 41.7% to 1.5MMboe) and 2P reserves (by 39.1% to 3.2 MMboe) for the Sugarloaf Project;
- Updated independent reserves report as at 31 August 2011 at the Sugarloaf Project: Net Present Value at 10% discount rate of 2P reserves assessed at US\$57.7m (as announced on 22 December 2011);
- Marathon Oil Corporation ("Marathon") have taken over as operator of the Sugarloaf Project with initiatives in place to enhance recoverability and production. Marathon has indicated a ramp up in the rate of development as rigs become available, with at least 45 wells planned for 2012;
- To date there are 25 wells producing gas and condensate in Block B. The full exploitation of the Eagle Ford Shale in Block B is estimated to require at least 283 wells (based on an 80 acre spacing) in which Empyrean will have a 3% interest in most of these; and
- Sale of Hercules Project for US\$1m.

Commenting today, Empyrean CEO Tom Kelly said "We are delighted with progress at Empyrean's flagship Sugarloaf Project, where higher production resulted in increased revenues and a reported profit in the year to 31 March 2012. Recent corporate activity that includes the Sugarloaf Project also underpins the Board's view on the current and potential future value for Empyrean's interest in the project. We are now focused on participating in the aggressive development drilling programme being implemented by the operator, Marathon, and expect the reserves-based lending facility with Macquarie to fund our obligations in the current year. We look forward to the future with confidence, anticipating good scope for production and value growth and reserve upgrades in this liquids-rich Eagle Ford Shale play as drilling and development continues at a rapid pace."

For further information

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CHAIRMAN'S STATEMENT

I am delighted to report that this Financial Year has been a year of transformation for Empyrean Energy Plc ("the Company"). As we reported in the Interim Results, the Company generated a profit after tax for the 6 month period to September 2011 and this has flowed through to our end of year accounts resulting in our first profit after tax for the full year. This is a significant achievement in itself. We continue to focus on the development of the Sugarloaf Project, where we now have 25 wells in production, as part of our objective to transform from an exploration company to a substantial oil and gas producer. As the Sugarloaf Project is developed and our cash flow grows we will continue to seek appropriate opportunities to grow the Company via our existing exploration projects as well as new projects.

Last year, independent petroleum consultants Netherland Sewell & Associates, Inc. completed an update as at 31 August to their independent reserves estimate for Empyrean's interest in the Sugarloaf Project which confirmed the robust value of the Project and its potential to generate significant cash flows to the Company for many years to come. The report showed an increase in 1P and 2P reserves over their previous estimate. 2P reserves grew by 39.1% to an upgraded total of 3.2 million barrels of oil equivalent to Empyrean. The Net Present Value at 10% discount (NPV 10) of 1P reserves was assessed at US\$30.8m and the NPV 10 of 2P reserves was assessed at US\$57.7m. We will undertake further independent assessment of our reserves position as appropriate. The Directors believe that the Eagle Ford Shale resource is potentially the most exciting new "play" onshore US, and possibly the largest discovery for nearly forty years. The Sugarloaf Project has proved to be ideally situated within the liquids rich band of this formation, and as a result greater than 80% of revenue is derived from liquids sheltering it from low gas prices in the USA.

Recent activity within the Eagle Ford Shale field has seen Marathon Oil Company ("Marathon") take over as operator of our project from Hilcorp Energy Company ("Hilcorp") during 2011. Marathon has made their intentions to enhance reserves, recoverability and project economics clear through a range of initiatives being trialled this year. They have also indicated a ramp up in the rate of development as rigs become available.

The Sugarloaf Project is anticipated to require a minimum of 200 wells to fully develop. This number could easily reach in excess of 300 wells should initiatives being tested, such as closer well spacing or additional producing horizons, prove successful. The Company has therefore been putting in place adequate financial resources to fund its share of the evolving development programme. In March 2012 the non-core Hercules project was sold for US\$1 million as part of the focus strategy, and an institutional placement raised a further £300,000. These were interim measures. The key step however has been the negotiation of a three year term debt facility of up to US\$50 million with Macquarie Bank which, when completed and all conditions having been met, will provide the Company with a robust funding solution for the aggressive development programme being implemented by Marathon.

To summarise, the Company has secured a stronger financial position, has earned its first profit and is equipping itself to meet the accelerating pace of development drilling. The Company retains a broad portfolio of projects, whilst focussing on its core asset, the Sugarloaf Project. You can expect the Company to continue its growth in the next twelve months, and to continue the process of converting technical success into commercial success.

Patrick Cross
Chairman
2 May 2012

OPERATIONAL REVIEW

Until the recent sale of its 10% interest in the Hercules Project, Emyrean has continued its involvement in 5 separate oil and gas projects in the USA. The primary focus remains the onshore Texas Sugarloaf Project of which Block B forms a part. Emyrean has been a working partner in this project since production commenced at the first development well, Kennedy-1H, in 2008.

Hilcorp Energy Company ("Hilcorp") replaced the original operator of Block B, Texas Crude Energy Inc., in early 2010 as part of a farm-in deal, and for the next 2 years the tempo of development drilling has increased markedly, as has the improvement in fracking and completion techniques. Operatorship again changed hands when Hilcorp sold its interest to the internationally acclaimed Marathon Oil Corporation ("Marathon") in November 2011. This event marked the beginning of an even more accelerated drilling program which it is anticipated will see the completion of at least 45 wells in 2012 alone. To date there are 20 wells producing gas and condensate in Block B. The full exploitation of the Eagle Ford Shale in Block B is estimated to require at least 283 wells (based on an 80 acre spacing) in which Emyrean will have a 3 % interest in most of these.

In the adjacent Block A, Emyrean maintains its 7.5% interest in the 4 producing wells operated by Conoco-Phillips. It will not be participating in any further development drilling, outside of its producing units, in that particular block.

The third project is the Riverbend Project in which the Cartwright No1 well was drilled in 2010. Emyrean has a 10% interest in this mainly gas - producing well which exploits the overpressured Austin Chalk reservoir. Its full potential has not been realised because of an interpreted blockage in the production tubing.

On 2 March 2012 Emyrean announced the sale of its 10% share in the fourth Hercules Project, a gas - condensate well producing from the sands of the Upper Wilcox Formation. The proceeds of the sale from this "non-core" asset have been received and will be used predominantly in the development of the principal Sugarloaf Project.

The fifth project located onshore California, the Eagle Oil Pool Development Project, has had no further appraisal drilling performed for several years. Emyrean continues to hold a 48.5% working interest in this already proven oil accumulation in the Lower Mary Bellocchi Gatchell sands.

Finally, there were no new ventures entered into by Emyrean during these last 12 months.

**Sugarloaf Project
Block B**

The Eagle Ford Shale is probably the biggest and most sought after "play" in the USA onshore today. It may constitute the largest discovery in 40 years and is certainly the most exciting if the increase in drilling activity is any measure.

The formation trends from the Mexican border across East Texas, occupying an area approximately 40 miles wide and 400 miles long. It lies at depths of between 2,500 ft and 15,000ft and is over 330ft thick in some areas, with average thickness being around 250 ft.

OPERATIONAL REVIEW CONTINUED

It is the hydrocarbon source rock for other oil and gas fields in South Texas, including fields associated with the Austin Chalk, an historically well- documented formation which directly overlies the Eagle Ford Shale.

Deposited during a regional, Late Cretaceous marine transgression, the Eagle Ford Shale does not consist, as the name might suggest, of an unchanging, homogeneous lithology. Rather it is more a mixture of at least six identifiable microfacies each of which differs in source rock potential. The earlier- deposited and thus deeper transgressive shales are the more oil-prone source rocks, while the overlying "regressive" shales of the same formation are the more gas-prone. Depth of burial and time-temperature influences determine the nature and abundance of hydrocarbons generated. There are thus many geological variables to be taken into consideration when assessing the Eagle Ford Shale potential. Block B has proven to be ideally located, for it falls within that region where the depth of burial of the Eagle Ford Shale source rock and geothermal gradient have combined to ensure ubiquitous generation of oil, condensate and wet gas.

The previous operator, Hilcorp, drilled 14 post farmin development wells during the 10 month period 9 July 2010 and 2 May 2011 (as reported in the 2011 Annual Report). A further 5 development wells were drilled between June and September 2011 prior to the Marathon takeover in November 2011. Following a hiatus of 3 months, Marathon then embarked on its accelerated continuous drilling programme which includes at least 45 wells planned for the calendar year.

A summary of the Hilcorp and Marathon operated wells is given in the following table.

OPERATIONAL REVIEW CONTINUED

Hilcorp Operated Development Wells

Well	Interest	Spudded	TD (MD) ft.	Duration days	Commenced Production	March 12 Monthly Cumulative	
						condensate bbbls	gas mmcftg
Pfeifer 1H	1.91%	13-Jun-11	16,851	23	28-Jul-11	7,739	13,364
Brysch Jonas 1H	3.00%	27-Jun-11	18,540	17	10-Aug-11	3,666	5,154
Yosko Borgfield 1H	1.51%	11-July-11	18,625	15	14-Aug-11	4,041	4,756
Holland Opiela 1H	0.35%	28-Aug-11	16,847	17	8-Dec-11	7,071	5,672
Holland Brown 1H	2.897%	8-Sep-11	18,100	22	21-Oct-11	8,677	14,519

Marathon Operated Development Wells

Pfeifer Bell 1H	2.04%	12-Jan-12	18,878	26			
Brysch Jonas B1H	3.00%	14-Jan-12	17,760	53			
Brysch Adams 1H	3.00%	13-Feb-12	18,585	14			
Kimble Gilley 1H	3.00%	17-Feb-12	17,324	17			
Adams Tipton 1H	3.00%	4-Mar-12	17,974	15			
Olson Esse 1H	3.00%	7-Mar-12					
Tipton Jonas	1.48%	10-Mar-12					
Olson Esse 2H	3.00%	13-Mar-12	18,920	18			
Brysch Jonas C1H	1.03%	16-Mar-12					
Brown Dupnik A1H	2.712%	22-Mar-12					
Children Weston 2H	3.00%	26-Mar-12	18,341	21			

TABLE No1

OPERATIONAL REVIEW CONTINUED

At the end of March 2012, the most recent production report from the operator, Marathon, shows 24 wells producing gas and condensate in Block B. Each of the wells show differing production characteristics both in quantity and condensate-gas mix. Some have been producing since early 2010 and so far one of the Marathon operated wells (ie all those spudded during Q1 2012) has commenced producing (Pfeifer Bell 1 H on 12 March 2012). Approximately 89,000 bbbbls of condensate and 296 mmcft of gas were produced in March 2012 equating to an average of 4,458 boepd.

**Well Status 16 April 2012
Block B**

Farmout Wells		
	Producing	5
Post Farmout Wells		
	Producing	20
	Stimulation	6
	Underway	
	Drilling	4
Total		35
	est remaining new wells planned 2012	34

TABLE No 2

Riverbend Project (10%)

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 and the well averages approximately 100mscf/d (thousand standard cubic feet per day).

Hercules Project (10%)

The BP America A-740#1 well commenced production sales on the 4 September 2010. Recent production figures showed 1,018 mscf/d of gas and 30 bbls/d (barrels per day) of condensate.

On the 2 March 2012 Empyrean announced that it had sold the project for \$US 1,000,000 to Gulf Coast Midwest Energy Partners LLC who had been one of Empyrean's partners in the Hercules Project.

OPERATIONAL REVIEW CONTINUED**Eagle Pool Oil Development Project (48.5%)**

No further operations have been carried out on this project.

Zodiac Exploration is reported to have recently tested its Jaguar prospect and produced between 60-126 bopd of 29 degrees API gravity oil. The oil is proposed to emanate from the Kreyenhagen Shale which will certainly be the objective of Hess Corporation when it drills its 6 proposed wells updip to the east of Zodiac's acreage. Other companies showing strong interest in the oil shale plays are Occidental Petroleum Corporation and New Gulf Resources which is planning an initial 3 well programme.

The results of these drilling programmes will have a definite bearing on what objectives should be pursued and whether an initial vertical well would be the best option.

FJ Brophy BSc (Hons)
Technical Director
Empyrean Energy Plc
2 May 2012

DIRECTORS' REPORT

The Directors are pleased to present their report on the affairs of the Company, together with the audited financial statements for the period 1 April 2011 to 31 March 2012.

Principal Activities and Business Review

The principal activities of the Company are energy resource exploration and project development in geopolitically stable environments. The developments during the period are detailed in the Chairman's Statement and Operational Review.

Principal Risks and Uncertainties

The Company's activities are carried out principally in North America. Risk assessment and evaluation is an essential part of the Company's planning and an important aspect of the Company's internal control system. The principal risks and uncertainties are considered to be the following:

Exploration, Development and Production Risks

Exploration and development activities may be delayed or adversely affected by factors outside the Company's control, in particular; climatic conditions; performance of joint venture partners or suppliers; availability, delays or failures in commissioning or installing plant and equipment; unknown geological conditions resulting in uneconomic or dry wells; remoteness of location; failure to achieve estimate capital costs, operating costs, reserves, recovery and production levels; actions of host governments or other regulatory authorities.

Commodity Risk

The demand for, and pricing of, oil and gas is dependent on global and local supply and demand, weather conditions, availability of alternative fuels, actions of governments or cartels and general economic and political developments.

Currency Risk

Although the reporting currency is Sterling (£GBP), the currency most commonly used in the pricing of petroleum commodities and for significant exploration and production costs is US dollar (\$USD), thus creating currency exposure.

General and Economic Risk

As a consequence of activities in different parts of the world the Company may be subject to political, economic and other uncertainties both locally and internationally, including but not limited to inflation, interest rates, market sentiments, equity and financing market conditions.

Financing Risk

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

DIRECTORS' REPORT CONTINUEDMarket Risk

Securing sufficient and profitable sales contracts to support operations is a key business risk.

Key Performance Indicators

The current business of the Company is fundamentally exploration, together with development and production with focus on the successful delivery of investment to enable the Company to progress to a larger operational business.

Financial Review

The profit for the year on ordinary activities of the Company after taxation amounted to £675,000 (2011: loss £5,428,000).

The Company generated revenue of £2,694,000 (2011: £811,000) from oil and gas sales derived from its Sugarloaf, Hercules and Riverbend Projects in Texas. This was offset by cost of sales of £1,243,000 (2011: £733,000) which includes amortisation of the oil and gas properties and share based payments of £460,000 (2011: £619,000).

The Company incurred administrative expenses of £678,000 (2011: £527,000), which is exclusive of exploration and oil and gas properties expenditure impairment write off totalling £22,000 (2011: £4,312,000).

Net exploration costs for the year of £2,111,000 (2011: £4,371,000) have been capitalised.

Continued production success at the Sugarloaf Project resulted in oil and gas properties of £1,223,000 (2011: £2,965,000) being re-classified from exploration expenditure.

Dividends

The Directors do not propose the payment of a dividend.

DIRECTORS' REPORT CONTINUED**Directors and Directors' Interests**Patrick Cross - Non-Executive Chairman

Patrick Cross has international experience in corporate finance, organisation structures, marketing and joint venture operations. His previous positions include 25 years with BP specialising in marketing, strategic planning and business development across different cultures. He also worked for two years as President of Cable & Wireless Japan, and six years as Managing Director of BBC World Ltd. Patrick Cross has operated in South America, Asia, Europe and the United Kingdom establishing relationships at senior levels with major companies, Governments and the European Commission. He is non-executive chairman of Mercom Oil Sands plc and was a non-executive director of Orca Interactive Limited until that company was successfully sold in 2008.

Thomas Kelly - Chief Executive Officer

Thomas Kelly has had more than 16 years corporate, finance and investment banking experience. During this period, Thomas Kelly has had involvement in and been responsible for the financing of numerous listed companies on the Australian Securities Exchange (ASX) and several mergers and acquisitions within the Australian corporate sector. He held a previous directorship of ASX listed Brazilian Metals Group, formerly Lefroy Resources Limited.

Frank Brophy - Technical Director

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

John Laycock - Finance Director

John Laycock has over 30 years' experience in accounting, finance and risk management. His previous positions include 22 years with BP both in UK and international experience in France and Japan. John Laycock has a degree in Mechanical Engineering from Bristol University and is a Chartered Management Accountant. He is based in the UK and currently works for an electricity generating company.

DIRECTORS' REPORT CONTINUED

The Directors who served during the year to 31 March 2012 had, at that time, the following beneficial interests in the securities of the Company:

	31 March 2012		31 March 2011	
	Number of ordinary shares	Number of options over ordinary shares	Number of ordinary shares	Number of options over ordinary shares
Patrick Cross	340,000	1,900,000	340,000	1,150,000
Thomas Kelly	20,731,562	17,900,000	8,500,000	12,200,000
Frank Brophy	2,233,333	11,450,000	1,333,333	7,450,000
John Laycock	400,000	1,700,000	400,000	950,000

Other than those items disclosed above, there have been no changes in Directors' interests since the year-end. For further details on options held by Directors, refer to Note 5 of the Financial Statements.

Directors' Remuneration

The Company's policy on remuneration of directors is to attract, retain and motivate the best people, recognising they are key to the ongoing success of the business.

Details of the Directors' emoluments and of payments made for professional services rendered are set out in Note 5 to the Financial Statements.

Employment Policies

The Company is committed to promoting policies which ensure that high calibre employees are attracted, retained and motivated, to ensure the ongoing success of the business. Employees and those who seek to work within the Company are treated equally regardless of sex, marital status, creed, colour, race or ethnic origin.

Insurance

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

DIRECTORS' REPORT CONTINUED**Substantial shareholdings**

On 25 April 2012 the following were registered as being interested in 3% or more of the Company's ordinary share capital, inclusive of Directors holdings above 3%:

	25 April 2012	
	Ordinary shares of £0.002 each	% of issued share capital
TD Direct Investing Nominees (Europe)	31,524,971	14.80%
Barclayshare Nominees	23,250,099	10.91%
Thomas Kelly	20,731,562	9.73%
Vidacos Nominees	16,743,193	7.86%
LR Nominees Limited	16,288,552	7.65%
James Capel (Nominees)	9,228,467	4.33%
HSDL Nominees	8,312,940	3.90%
Dartington Portfolio Nominees	7,005,000	3.29%

Share Capital

Information relating to shares issued during the period is given in Note 13 to the Financial Statements.

Charitable and Political Donations

During the period there were no charitable or political donations.

Treasury Policy

The Company finances its operations through equity investment, convertible notes and debt and holds its cash as a liquid resource to fund the Company's financial commitments. Decisions regarding the management of these assets are approved by the Board.

Payment of Suppliers

The Company's policy is to settle terms of payment with suppliers when agreeing terms of business, to ensure that suppliers are aware of the terms of payment and to abide by them. It is usual for suppliers to be paid within 28 days of receipt of invoice.

Going Concern

The Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing its financial statements.

DIRECTORS' REPORT CONTINUED**Auditors**

The Auditors, Chapman Davis LLP, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the Annual General Meeting.

Control Procedures

The Board has approved financial budgets and cash forecasts. In addition, it has implemented procedures to ensure compliance with accounting standards and effective reporting.

Environment, Health and Safety

The Company is committed to conducting its operations in a responsible manner that protects the health and safety of employees, contractors and the public and minimises the impact on the environment. To accomplish this the Company is committed to ensuring compliance with all applicable legislation and standards; ensure an effective management team is in place and that all personnel and contractors are aware of their health, safety and environmental responsibilities; creation of a safe and healthy working environment; identify, evaluate and control the risks and impact associated with all company activities; monitor, evaluate and report health, safety and environmental performance; seek to achieve continuous improvement in health, safety and environmental performance.

By order of the Board

Thomas Kelly
Chief Executive Officer
2 May 2012

CORPORATE GOVERNANCE REPORT

The Directors are committed to maintaining high standards of corporate governance. The Directors have established procedures, so far as is practicable, given the Company's size, to comply with the UK Corporate Governance Code (UK Code") as modified by the recommendations of the Quoted Companies Alliance ("QCA Code"). The Company has adopted and operates a share dealing code for directors and senior employees on substantially the same terms as the Model Code appended to the Listing Rules of the UK Listing Authority.

The Board

The Board met twelve times throughout the year and each member was in attendance at each meeting except the CEO who was unable to attend one meeting. To enable the Board to perform its duties, each of the Directors has full access to all relevant information and to the services of the Company Secretary. If necessary the non-executive directors may take independent professional advice at the Company's expense. The Board currently includes two executive directors and two non-executive directors. The Board has delegated specific responsibilities to the committees described below.

Patrick Cross is a Non-Executive Director and Chairman of the Company and meets the Company's criteria for independence. His experience and knowledge of the Company makes his contribution to the Board such that it is appropriate for him to remain on the Board and in his position as Chairman. John Laycock is a Non-Executive Director of the Company and meets the Company's criteria for independence.

Performance Evaluation

The Chairman is responsible for the performance evaluation of the executive and non-executive directors. The Non-Executive Finance Director is responsible for the performance evaluation of the Chairman. The Board as a whole is responsible for the performance evaluation of the Committees and its own performance. These assessments occurred throughout the year.

The Audit Committee

The Audit Committee comprises Patrick Cross and John Laycock, and is chaired by John Laycock. During the year the Audit Committee met twice and each member was in attendance at each meeting. The committee reviews the Company's annual and interim financial statements before submission to the Board for approval. The committee also reviews regular reports from management and the external auditors on accounting and internal control matters. When appropriate, the committee monitors the progress of action taken in relation to such matters. The committee also recommends the appointment of, and reviews the fees of, the external auditors. The committee has considered the need for an internal audit function and has deemed the need unnecessary as the Company is not of a size to warrant such a function. The Audit Committee Charter can be found on the Company's website (www.empvreanenergy.com/corporate/governance).

CORPORATE GOVERNANCE REPORT CONTINUEDThe Remuneration Committee

The Remuneration Committee is made up of Patrick Cross and John Laycock, and is chaired by John Laycock. The Remuneration Committee met once during the year ended 31 March 2012 and each member was in attendance at the meeting. It is responsible for reviewing the performance of the Executive Directors and for setting the scale and structure of their remuneration, paying due regard to the interests of shareholders as a whole and the performance of the Company. The Remuneration Committee Charter can be found on the Company's website (www.empyreanenergy.com/corporate/governance).

Nomination Committee

The role of a Nomination Committee is to help achieve a structured Board that adds value to the Company by ensuring an appropriate mix of skills are present in Directors on the Board at all times. As the whole Board only consists of four (4) members, the Company does not have a nomination committee because it would not be a more efficient mechanism than the full Board for focusing the Company on specific issues. The full Board carries out the functions of the Nomination Committee. The Board did not meet formally as the Nomination Committee during the financial year however any relevant matters were discussed on an as-required basis from time to time during regular meetings of the Board.

Internal Control

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

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

Relationship with Shareholders

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

Corporate Social Responsibility

Whilst the Company is cognisant of its corporate social responsibilities, the Company considers that it is not of the size to warrant a formal policy as the issues that are relevant to this policy are mostly the responsibility of the operators of the wells with which the Company has agreements.

Bribery Act

Whilst the Company is cognisant of its responsibilities under the Bribery Act, the Company considers that it is not of the size to warrant a formal policy as the Company ensures, through due diligence, that it does not deal with countries known to participate in bribery.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law in the United Kingdom requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Profit or Loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business;
- so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware, and the directors have taken all the steps that they ought to have taken as directors' in order to make themselves aware of any relevant audit information and to establish that the Company's auditor are aware of that information.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities. They are also responsible for ensuring that the annual report includes information required by the AIM Listing Rules and comply with the Companies Act 2006.

The maintenance and integrity of the Company's website is the responsibility of the Directors. Work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

In so far as each of the directors is aware:

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

Thomas Kelly
Chief Executive Officer
2 May 2012

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

We have audited the financial statements of Empyrean Energy Plc for the year ended 31st March 2012 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31st March 2012 and of the profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006; and

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

*Rowan J. Palmer (Senior statutory auditor)
For and on behalf of Chapman Davis LLP, Statutory Auditor*

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

2 May 2012

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 March 2012

	Notes	2012 £'000	2011 £'000
Revenue		<u>2,694</u>	811
Cost of Sales			
Operating costs (excludes oil and gas and exploration expenditure impairment)		(186)	(16)
Amortisation - oil and gas properties	9	<u>(1,057)</u>	(717)
Total cost of sales		<u>(1,243)</u>	(733)
Gross Profit		<u>1,451</u>	78
Expenditure			
General and administrative expenses		(678)	(527)
Share based payments (directors & employees)	4	(460)	(619)
Exploration expenditure impairment	8	(22)	(2,520)
Oil and gas properties impairment	9	-	(1,792)
Total expenditure		<u>(1,160)</u>	(5,458)
Operating Profit / (Loss)	2	<u>291</u>	(5,380)
Profit on sale of project		466	-
Interest	3	<u>(82)</u>	(48)
Profit / (Loss) on ordinary activities before taxation		<u>675</u>	(5,428)
Income tax expense	6	-	-
Profit / (Loss) for the financial year		<u>675</u>	(5,428)
Other comprehensive income			
Share based payments reversal		-	619
Total comprehensive profit / (loss) for the year		<u>675</u>	(4,809)
Attributable to			
Equity shareholders of the Company		<u>675</u>	(4,809)
Profit / (Loss) per share (expressed in pence)			
- Basic	7	0.35p	(3.03)p
- Diluted	7	0.36p	(3.03)p

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

STATEMENT OF FINANCIAL POSITION
as at 31 March 2012

	Notes	2012 £'000	2011 £'000
Assets			
Non-current assets			
Intangible assets	8	4,106	4,825
Oil and gas properties	9	8,618	7,054
		<u>12,724</u>	11,879
Current assets			
Trade and other receivables	10	984	727
Cash and cash equivalents		1,537	611
		<u>2,521</u>	1,338
Liabilities			
Current liabilities			
Trade and other payables	11	(1,200)	(1,820)
		<u>(1,200)</u>	(1,820)
Net current assets/(deficiency)		<u>1,321</u>	(482)
Net assets		<u>14,045</u>	11,397
Shareholders' equity			
Share capital	13	426	365
Share premium		24,602	23,150
Share based payments reserve		1,128	668
Retained loss		(12,111)	(12,786)
Total equity		<u>14,045</u>	11,397

The Financial Statements were approved by the Board of Directors on 2 May 2012 and were signed on its behalf by:

Chairman
Patrick Cross

Director
Thomas Kelly

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

STATEMENT OF CASH FLOWS
for the year ended 31 March 2012

	Notes	2012 £'000	2011 £'000
Net cash inflow / (outflow) from operating activities	12	2,029	(175)
<hr/>			
Return on Investments			
Proceeds from sale of project		651	-
Interest received		2	2
<hr/>			
Net cash inflow from returns on investments		653	2
<hr/>			
Capital expenditure			
Purchase of tangible fixed assets		-	-
Purchase of intangible fixed assets		(2,110)	(4,386)
<hr/>			
Net cash outflow for capital expenditure		(2,110)	(4,386)
<hr/>			
Financing			
Issue of ordinary share capital		432	3,612
Expenses relating to share issues and conversions		(78)	(196)
Proceeds from borrowings		-	1,500
<hr/>			
Net cash inflow from financing		354	4,916
<hr/>			
Increase in net cash		926	357
<hr/>			
Cash and cash equivalents at the start of the year		611	254
<hr/>			
Cash and cash equivalents at end of the year		1,537	611
<hr/> <hr/>			

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

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2012

	Share capital account	Share premium reserve	Share based payment reserve	Retained loss	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2010	244	19,862	662	(7,978)	12,790
Share capital issued	121	3,492	-	-	3,613
Cost of shares issued	-	(197)	-	-	(197)
Share based payments reversal	-	(7)	625	1	619
Loss for the year	-	-	-	(5,428)	(5,428)
<u>Other comprehensive income</u>					
Share based payments reversal	-	-	(619)	619	-
Comprehensive loss for the year	-	-	(619)	(4,809)	(5,428)
Balance at 31 March 2011	365	23,150	668	(12,786)	11,397
Share capital issued	61	1,530	-	-	1,591
Cost of shares issued	-	(78)	-	-	(78)
Share based payments	-	-	460	-	460
Profit for the year	-	-	-	675	675
<u>Other comprehensive income</u>	-	-	-	-	-
Comprehensive profit for the year	-	-	-	675	675
Balance at 31 March 2012	426	24,602	1,128	(12,111)	14,045

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

**STATEMENT OF ACCOUNTING POLICIES
for the year ended 31 March 2012**

The financial statements of Empyrean Energy Plc for the year ended 31 March 2012 were authorised for issue by the Board on 2 May 2012 and the Statement of Financial Position signed on the Board's behalf by Patrick Cross and Thomas Kelly.

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The principal accounting policies are summarised below. They have all been applied consistently throughout the year. The financial report is presented in the functional currency, Sterling and all values are shown in thousands of pounds (£'000).

Basis of accounting

These financial statements have been prepared under the historical cost convention, modified for certain items carried at fair value, in accordance with International Financial Reporting Standards and International Financial Reporting Interpretations Committee ("IFRIC") and with the Companies Act 2006.

Going concern

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

Revenue Recognition

Net revenues from crude oil and natural gas sales are recognised when the oil and gas has been lifted and title has passed to a third-party purchaser.

Finance Revenue

Finance Revenue is recognised as interest accrues.

Cash and cash equivalents

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

Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less any allowance for any uncollectible amounts.

Deferred tax

Current tax assets and liabilities for the current and prior periods are measured as the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the end of financial year date.

STATEMENT OF ACCOUNTING POLICIES CONTINUED
for the year ended 31 March 2012

Deferred tax continued...

The Company has considered whether to create a deferred tax asset but has chosen the conservative approach to not recognise a deferred tax asset at this point in time but will review it on a bi-annual basis.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at contracted rates or, where no contract exists, at average monthly rates. Monetary assets and liabilities denominated in foreign currencies which are held at the year-end are translated into sterling at year-end exchange rates. Exchange differences on monetary items are taken to the Statement of Comprehensive Income.

Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the company prior to the end of the financial year that are unpaid and arise when the company becomes obliged to make future payments in respect of the purchase of these goods and services.

Tangible fixed assets

Tangible fixed assets are included in the Statement of Financial Position at cost, less accumulated depreciation and any provision for impairment. Tangible fixed assets are depreciated on a straight line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives.

Office systems, equipment and furniture: 2.5 - 6 years

Intangible Fixed Assets

- exploration and development expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are expensed as incurred and treated as exploration and evaluation expenditure.

These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against the profit in the year in which the decision to abandon the area is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward the exploration and development costs in relation to that area of interest.

STATEMENT OF ACCOUNTING POLICIES CONTINUED
for the year ended 31 March 2012

Intangible Fixed Assets Continued...

- oil and gas properties

Investments in unevaluated properties and development projects are not reclassified from exploration and development expenditure to oil and gas properties, until commercial production associated with the projects can be determined or until impairment occurs. The capitalised costs of intangible oil and gas assets are subject to amortisation when they are determined to have commercial production, at which point the capitalised costs plus the estimated future costs to develop the underlying commercial reserves are amortised using the unit-of-production method using total estimated reserves.

Judgements and estimates

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

- impairment of assets

Financial and non-financial assets are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount is based on a calculation of expected future cash flows which includes management assumptions and estimates of future performance.

- share-based payments

Certain Directors of the Company receive remuneration in the form of equity-settled share-based payment transactions, whereby services are rendered in exchange for rights over shares ("equity-settled transactions"). The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using the Black-Scholes pricing model. The cost of equity-settled transactions with parties other than employees is measured at the fair value of the services received at the date of receipt, with a corresponding increase in equity.

Financial instruments

The Company's financial assets consist of current account or short-term deposits at variable interest rates, loans, other receivables. Any interest earned is accrued and classified as interest. Trade and other receivables are stated at cost. The Company's financial liabilities consist of trade and other payables and a convertible loan (of which no equity element has been included). All are non-derivative assets. The trade and other payables are stated at cost.

STATEMENT OF ACCOUNTING POLICIES CONTINUED
for the year ended 31 March 2012

New standards and interpretations not yet adopted

As at the date of authorisation of these financial statements, there were Standards and Interpretations that were in issue but are not yet effective and have not been applied in these financial statements. The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the group or company, except for additional disclosures when the relevant Standards come into effect.

The following standards have been adopted during the year:

- IAS 1 (Revised) "Presentation of Financial Statements";
- IAS 17 (Revised) "Leases";
- IAS 23 "Borrowing Costs";
- IAS 24 (Revised) "Related Party Disclosures";
- IAS 27 (Revised) "Consolidated and Separate Financial Statements";
- IAS 32 (Revised) "Financial Instruments Presentation";
- IAS 36 (Revised) "Impairment of Assets";
- IAS 39 (Revised) "Financial Instruments Measurement".

Adoption of standards and interpretations

As at the date of authorisation of these financial statements, there were Standards and Interpretations in issue but that are not yet effective and have not been applied in these financial statements, as listed below:

Standards, amendments and interpretations in issue but not effective

- IFRS 9 "Financial Instruments: Classification and Measurement";
- IFRS 10 "Consolidated Financial Statements";
- IFRS 11 "Joint Arrangements";
- IFRS 12 "Disclosure of Interests in Other Entities";
- IFRS 13 "Fair Value Measurement";
- IAS 12 "Income Taxes (amendment)";
- IAS 28 "Investments in Associates (revised)".

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2012

1. Segmental Analysis

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

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

2. Operating Profit / (Loss)

The operating profit / (loss) is stated after charging:

	2012	2011
	£'000	£'000
Auditors' remuneration - audit services	27	20
Amortisation Exploration Expenditure (Note 9)	1,057	717
Exploration Expenditure Impairment (Note 8)	22	2,520
Oil and Gas Properties Impairment (Note 9)	-	1,792
Directors' emoluments (Note 5)	358	244
Directors' share based payments (Note 5)	435	572
	<u>435</u>	<u>572</u>

3. Interest

	2012	2011
	£'000	£'000
Bank interest received	2	2
Interest payable	(84)	(50)
	<u>(84)</u>	<u>(50)</u>

4. Staff Costs (including Directors)

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

	2012	2011
	£'000	£'000
Equity settled share based payments (directors & employees)	460	619
	<u>460</u>	<u>619</u>

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2012

4. Staff Costs (including Directors) Continued

During the year ended 31 March 2012, the following options were granted to Directors and Employees:

Personnel	Number of Options	Exercise Price	Expiry Date	Value £'000
Patrick Cross	750,000	£0.08	02-Mar-15	23
John Laycock	750,000	£0.08	02-Mar-15	23
Thomas Kelly	7,500,000	£0.08	02-Mar-15	233
Frank Brophy	5,000,000	£0.08	02-Mar-15	156
Other Employees	800,000	£0.08	02-Mar-15	25

5. Directors' Emoluments

	Fees and Salary Paid		Options Issued	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Non-Executive Directors:				
Patrick Cross	34	38	24	34
John Laycock	24	6	23	33
Executive Directors:				
Frank Brophy ⁽¹⁾	140	100	155	198
Thomas Kelly ⁽²⁾	160	100	233	307
Total	358	244	435	572

(1) Services provided by F J Brophy Pty Ltd

(2) Services provided by Apnea Holdings Pty Ltd

No pension benefits are provided for any Director.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2012

5. Directors' Emoluments Continued...

Directors' Share Options

The terms of the share option interests of Directors in office during the year ended 31 March 2012 were as follows:

	Grant Date	Options held 31 Mar 11	Options granted during year	Options expired during year	Options exercised during year	Options held 31 Mar 12	Exercise Price (£)	Expiry
Patrick Cross	28/05/10	500,000	-	-	-	500,000	£0.06	28/05/13
	23/03/11	650,000	-	-	-	650,000	£0.08	30/04/14
	02/03/12	-	750,000	-	-	750,000	£0.08	02/03/15
Thomas Kelly	31/03/09	1,800,000	-	-	(1,800,000)	-	£0.04	31/03/12
	28/05/10	4,400,000	-	-	-	4,400,000	£0.06	28/05/13
	23/03/11	6,000,000	-	-	-	6,000,000	£0.08	30/04/14
	02/03/12	-	7,500,000	-	-	7,500,000	£0.08	02/03/15
Frank Brophy	31/03/09	1,000,000	-	-	(1,000,000)	-	£0.04	31/03/12
	28/05/10	2,450,000	-	-	-	2,450,000	£0.06	28/05/13
	23/03/11	4,000,000	-	-	-	4,000,000	£0.08	30/04/14
	02/03/12	-	5,000,000	-	-	5,000,000	£0.08	02/03/15
John Laycock	28/05/10	300,000	-	-	-	300,000	£0.06	28/05/13
	23/03/11	650,000	-	-	-	650,000	£0.08	30/04/14
	02/03/12	-	750,000	-	-	750,000	£0.08	02/03/15
Total		21,750,000	14,000,000	-	(2,800,000)	32,950,000		

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2012

6. Taxation

	2012	2011
	£'000	£'000
Current year taxation		
UK corporation tax at 26% (2011: 28%) on profits for year	-	-
Factors affecting the tax charge for the year		
Profit / (Loss) on ordinary activities before tax	675	(5,428)
Profit / (Loss) on ordinary activities at the UK standard rate of 26% (2011: 28%)	176	(1,520)
Adjustment for share based payments	120	-
Effect of tax benefit of loss carried forward	-	1,520
Utilisation of tax losses brought forward	(296)	-
Current year taxation	-	-

The Company has considered whether to create a deferred tax asset but has chosen the conservative approach to not recognise a deferred tax asset at this point in time but will review it on a bi-annual basis.

Tax losses of approximately £10,415,000 (2011: £10,148,000) are available to be claimed going forward, which are inclusive of the exploration expenditure and oil & gas properties impairment total write off of £7,571,000 (2011: £7,549,000).

7. Earnings / (Loss) Per Share

The basic earnings / (loss) per share is derived by dividing the profit / (loss) for the year attributable to ordinary shareholders by the weighted average number of shares in issue.

	2012	2011
Profit / (Loss) for the year	£675,000	(£5,428,000)
Weighted average number of Ordinary shares of £0.002 in issue	195,384,970	179,142,679
Earnings / (Loss) per share - basic (pence)	0.35	(3.03)
Profit adjusted for interest on convertible loan	£728,000	N/A
Weighted average number of Ordinary shares of £0.002 in issue inclusive of outstanding options	204,140,471	202,232,397
Earnings / (Loss) per share - diluted (pence)	0.36	N/A

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2012

8. Intangible Assets

Exploration expenditure	2012	2011
	£'000	£'000
Carrying value		
Balance brought forward	4,825	6,217
Additions	526	4,093
At 31 March	<u>5,351</u>	<u>10,310</u>
Reclassified - Oil and Gas Properties	(1,223)	(2,965)
Exploration Expenditure Impairment	<u>(22)</u>	<u>(2,520)</u>
	(1,245)	(5,485)
Net Book Value	<u>4,106</u>	<u>4,825</u>

9. Oil and Gas Properties

	2012	2011
	£'000	£'000
Net Book Value		
Balance brought forward	7,054	6,320
Reclassification of exploration costs (Note 8)	1,223	2,965
Additions	1,585	278
Project sale	(187)	-
Oil and Gas Properties Impairment	-	(1,792)
Amortisation	<u>(1,057)</u>	<u>(717)</u>
At 31 March	<u>8,618</u>	<u>7,054</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2012

10. Trade and Other Receivables

	2012 £'000	2011 £'000
Trade and other receivable	139	146
Accrued revenue	819	557
Prepayments	23	23
VAT receivables	3	1
	<hr/>	<hr/>
Total Receivables	984	727

11. Trade and Other Payables

	2012 £'000	2011 £'000
Trade payables	703	235
Accruals	22	35
Convertible loan	437	1,500
Interest payable	38	50
	<hr/>	<hr/>
Total Payables	1,200	1,820

The convertible loan arises from the finance facility entered into by the Company and Apnea Holdings Pty Ltd on 21 October 2010. The amount outstanding of the convertible loan is able to be converted into equity on or before 31 December 2012. Interest of 9% pa accrues daily on the convertible loan. Refer to Notes 13 and 15.

12. Reconciliation of Operating Profit / (Loss) to Operating Cash Flows

	2012 £'000	2011 £'000
Operating profit / (loss)	291	(5,380)
Increase in receivables	(257)	(678)
Decrease / (increase) in prepayments	-	(1)
Increase / (decrease) in accrued liabilities	(13)	14
Share based payments - directors & employees	460	619
Oil and gas properties amortisation	1,057	717
Exploration expenditure impairment	22	2,520
Oil and gas properties impairment	-	1,792
Increase in accounts payable	469	222
	<hr/>	<hr/>
Net cash inflow / (outflow) from operating activities	2,029	(175)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2012

13. Called Up Share Capital

The authorised share capital of the Company and the called up and fully paid amounts at 31 March 2012 were as follows:-

	2012 £'000	2011 £'000
Authorised		
1,000,000,000 ordinary shares of 0.2p each	2,000	2,000
Issued and fully paid		
213,060,678 (2011: 182,424,460) ordinary shares of 0.2p each	426	365

On 15 August 2011, 11,091,562 fully paid ordinary shares of 0.2p each were issued as a result of note conversions at a price of £0.0481 per share.

On 23 August 2011, 3,237,993 fully paid ordinary shares of 0.2p each were issued as a result of note conversions at a price of £0.049831 per share.

On 18 October 2011, 2,815,648 fully paid ordinary shares of 0.2p each issued as a result of note conversions at a price of £0.049987 per share.

On 24 October 2011, 526,990 fully paid ordinary shares of 0.2p each were issued as a result of note conversions at a price of £0.051428 per share.

On 27 October 2011, 1,759,461 fully paid ordinary shares of 0.2p each were issued as a result of note conversions at a price of £0.052408 per share.

On 30 November 2011, 3,334,187 fully paid ordinary shares of 0.2p each were issued as a result of note conversions at a price of £0.050824 per share.

On 17 February 2012, 570,377 fully paid ordinary shares of 0.2p each were issued as a result of note conversions at a price of £0.06 per share.

On 1 March 2012, 4,000,000 fully paid ordinary shares of 0.2p each were placed for cash at a price of £0.075 per share including attaching warrants exercisable at 8.75p per share up to 1 March 2015.

On 2 March 2012, 2,800,000 fully paid ordinary shares of 0.2p each were issued upon conversion of options for cash at a price of £0.04 per share.

On 27 March 2012, 500,000 fully paid ordinary shares of 0.2p each were issued upon conversion of options for cash at a price of £0.04 per share.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2012

13. Called Up Share Capital Continued...

Share Options and Warrants

The following equity instruments have been issued by the Company and have not been exercised at 31 March 2012:

	Number securities	Exercise Price	Vesting Date	Expiry Date	Value per option (pence)
Broker options	500,000	6 pence	9/04/10	16/04/13	1.45
Management options	8,875,000	6 pence	28/05/10	28/05/13	1.41
Management options	12,100,000	8 pence	23/03/11	30/04/14	2.39
Management options	14,800,000	8 pence	2/03/12	2/03/15	3.11
Warrants	4,000,000	8.75 pence	1/03/12	1/03/15	N/A
TOTAL	40,275,000				

Convertible Loan

The total amount of the finance facility is £2,500,000 of which £1,000,000 remains at year end. The convertible loan is able to be converted into equity on or before 31 December 2012. Interest of 9% pa accrues daily on the convertible loan. The balance of the convertible loan at year end is £437,000. Refer to Note 11.

14. Commitments

As at 31 March 2012, the Company had no material capital commitments.

15. Related Party Transactions

On 21 October 2010 the Company entered into a convertible loan facility agreement for £2,500,000 with Apnea Holdings Pty Ltd, a company associated with Director Thomas Kelly. The convertible loan facility had a remaining undrawn balance of £1,000,000 at year end and the convertible loan had a balance outstanding of £437,000 at year end. Interest of 9% pa accrues daily on the convertible loan.

Other than those disclosed above and in Note 5 there were no other related party transactions during the year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2012**16. Financial instruments**

The Board of Directors determine, as required, the degree to which it is appropriate to use financial instruments to mitigate risk. Currently the Company's principal financial instruments comprise cash and the convertible loan. Together with the issue of equity share capital, the main purpose of these is to finance the Company's operations. The Company has other financial instruments such as short-term receivables and payables which arise directly from normal trading.

The Company has not entered into any derivative or other hedging instruments.

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

Throughout the period ending 31 March 2012 no trading in financial instruments was undertaken.

There is no material difference between the book value and fair value of the Company cash balances, short-term receivables and payables.

Interest rate risk

The Company finances its operations through the use of cash deposits at variable rates of interest for a variety of short-term periods, depending on cash requirements. These rates are reviewed regularly and the best rate obtained in the context of the Company's needs.

Short-term receivables and payables are not exposed to interest rate risk.

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

Currency risk

The Company has potential currency exposures in respect of items denominated in foreign currencies comprising transactional exposure in respect of operating costs and capital expenditure incurred in currencies other than the functional currency of operations.

At times the Company may hold cash deposits in foreign currency to meet needs of commitments required for international operations.

Liquidity risk

The Company's policy throughout the year has been to ensure that it has adequate liquidity by careful management of its working capital. Amount held at bank amounted to £1,537,000 (2011: £611,000).

Capital

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

17. Events after the reporting date

There were no significant events post balance date other than the following:

On 3 April 2012, 576,190 fully paid ordinary shares of 0.2p each were issued as a result of note conversions at a price of £0.06 per share. This resulted in the balance of the convertible loan reducing to £392,500.

On 18 April 2012 the Company announced the acceptance of a committed offer from Macquarie Bank Limited to provide a 3 year term debt facility for up to US\$50 million to support its participation in the development of the Sugarloaf Project.

18. Availability of accounts

The audited Annual Report and Financial Statements for the 12 months ended 31 March 2012 will shortly be sent to shareholders and is available at the Company's website: www.empyreanenergy.com

This information is provided by RNS
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Regulatory