EMPYREAN ENERGY PLC
Registered Number 05387837

Annual Report and Accounts 2014

Contents

Company Information

Directors	Patrick Cross (Non-Executive Chairman) Thomas Kelly (Chief Executive Officer) Frank Brophy (Technical Director) John Laycock (Finance Director)
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Nominated Adviser and Broker	Cenkos Securities Plc 66 Hanover Street Edinburgh EH2 1EL

Company Information

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Highlights

- Record financial results and production following a significant step-up in production at flagship Marathon Oil operated Sugarloaf AMI project (EME 3% working interest) targeting formations including the prolific Eagle Ford Shale and Austin Chalk in Texas
  - 51% increase in revenues for the 12 months to 31 March 2014 to US$13,883,854 (2013: US$9,180,544)
  - 83% increase in net profit after tax for the 12 months to 31 March 2014 to US$5,221,102 (2013: US$2,846,890)
  - 50% increase in production net to Empyrean (before royalties) for the 12 months to 31 March 2014 to 335,305 barrels of oil equivalent (2013: 223,500 barrels of oil equivalent)
- Substantial increase in activity at Sugarloaf with 43 wells spudded and 39 wells brought into production during the period
  - Well spacing initiatives – 90% of wells drilled in 2013 at 60 acre spacing or less resulting in an approximate 45% increase in 30 day initial production rates over wells previously drilled at greater than 60 acre spacing
  - Reduction in drilling costs following improvement in drilling techniques and introduction of drill pads
- Intensive drilling programme planned with 100 wells targeted in calendar year 2014
  - Funding available for current drilling schedule
- Significant potential from the overlying Austin Chalk formation
  - Early Austin Chalk wells drilled to date performing similarly to the Eagle Ford Shale wells
  - Further development of the Austin Chalk anticipated to require in the order of a further 300 wells, with down spacing potential of approximately 235 further wells
- Updated reserves report to 31 December 2013 on Sugarloaf AMI released in May 2014 showed:
  - 54% increase in 1P Reserves to 3.54 Mmboe
  - 48% increase in 2P reserves to 6.53 Mmboe
  - 2C Contingent Resource for the Austin Chalk formation of 3.87 Mmboe
- Piloting 30 acre well spacing during 2014 in selected areas of the Eagle Ford Shale
- Further repayments to Macquarie Bank reducing debt to US$10.67m as at 31 March 2014 and to US$9.17m as at 29 August 2014
- Formal Sales Process and Strategic Review announced 10 July 2014

Empyrean CEO Tom Kelly said, “This has been a year of tremendous growth for Empyrean. We are confident that this will continue as Marathon continues to ramp up drilling at our primary asset, with the potential for an accelerated uptrend as the Austin Chalk appraisal continues successfully. Significant potential reserves upside exists within both the Eagle Ford Shale and the Austin Chalk, with the latter showing signs of being a transformational pay-zone for the Company and its partners following recent successful appraisal wells. Empyrean has chosen to undertake a Formal Sales Process and Strategic Review with highly regarded advisors in Cenkos and Macquarie Bank, advising and coordinating the process, against the backdrop of recent, increased levels of corporate activity and industry interest in the region and in order to maximise value for its shareholders.”

Chairman's Statement

I am pleased to report that Empyrean Energy Plc ('the Company') has completed its ninth year of operations and enjoyed its best financial result since its AIM IPO. This has been achieved following a significant increase in oil and gas production, particularly from the de-risked flagship US onshore asset, the Sugarloaf AMI Project in Texas ('Sugarloaf'). As described in more detail below, Empyrean continues to benefit from an aggressive work programme being undertaken at two objectives available at Sugarloaf and the board of directors are pleased with the demonstrable increase in value both during the period and post period end.

In terms of unlocking value, an updated report by DeGolyer and MacNaughton into the reserves at Sugarloaf as at 31 December 2013 has revised the 1P Reserves upwards by 54% to 3.54 million barrels of oil equivalent ('MMboe') and the 2P reserves upwards by 48% to 6.53 MMboe, over previously reported reserves. Of particular importance is a new 2C Contingent Resource for the Austin Chalk formation of 3.87 MMboe that provides additional short term potential for further Reserve increases and value creation should further drilling continue to show promising results.

The operator of this field, Marathon Oil Corporation (NYSE: MRO) ('Marathon' or the 'Operator'), has continued to demonstrate excellent expertise across all technical and operational areas, and has succeeded with initiatives to improve efficiencies and optimise performance across a number of key areas. These include reduced drilling times, improved stimulation and completion techniques, reduced well spacing and reduced spud to production cycle times. As a result, well productivity has improved substantially, and drilling and completion costs have reduced and are forecast by Marathon to continue to improve through 2014. Marathon has declared its intention to pursue the co-development of the Austin Chalk simultaneously with the Eagle Ford Shale. Early Austin Chalk wells are performing similarly to the Eagle Ford Shale, and the Company is confident that the 2C Contingent Resource allocated by DeGolyer MacNaughton can be moved into 2P Reserves with further drilling and appraisal in the short term.

This aggressive development at Sugarloaf has had a very positive effect on our financials for the year. Revenue in the year to 31 March 2014 was $13.88 million, 51% above the previous year ($9.18 million). Net profit, at $5.221 million was 83% higher than the same period last year.

The Eagle Ford Shale is one of the most prolific onshore US plays. This is evidenced by the impressive production of wells targeting the formation resulting in extensive corporate activity amongst partners in Sugarloaf, with acquisition prices demonstrating the quality of the liquids rich acreage, most recently Baytex's acquisition of Aurora, one of our partners at Sugarloaf, at a price of A$4.20 per share and an implied market capitalisation of A$1.84 billion

Reflecting Empyrean's development into a substantial and profitable energy producer, this year has also seen a number of organisational changes. Most obvious has been the change to its accounting functional currency from Sterling to US dollars, to mirror the fact that almost all the Company's revenues and expenditures are in that currency. The Company has also appointed a new Nominated Advisor ('NOMAD') in Cenkos, new

Chairman's Statement

Auditor in BDO and a new Public Relations team in St Brides Media & Finance, as reported in the half year Interim Results.

Outside of Sugarloaf, which continues to demonstrate substantial upside potential through the future co-development of the Austin Chalk alongside the Eagle Ford Shale, Empyrean has holdings in the contiguous Sugarloaf Block A, the Riverbend project, and the Eagle Oil Pool Development project in California, providing it with an appropriate mix of advanced exploration through to development projects. On 10 July 2014, the Company announced a Strategic Review and Formal Sales Process with the goal of maximising value for shareholders. Macquarie Capital has been appointed to assist with this process. The Company looks forward to updating shareholders on this process in due course. In conclusion, the Company has enjoyed an excellent year's growth in production, revenue and profits, and is confident it can continue to deliver better value for shareholders.

Patrick H. Cross.

Patrick Cross
Non-Executive Chairman
5 September 2014

Strategic Report

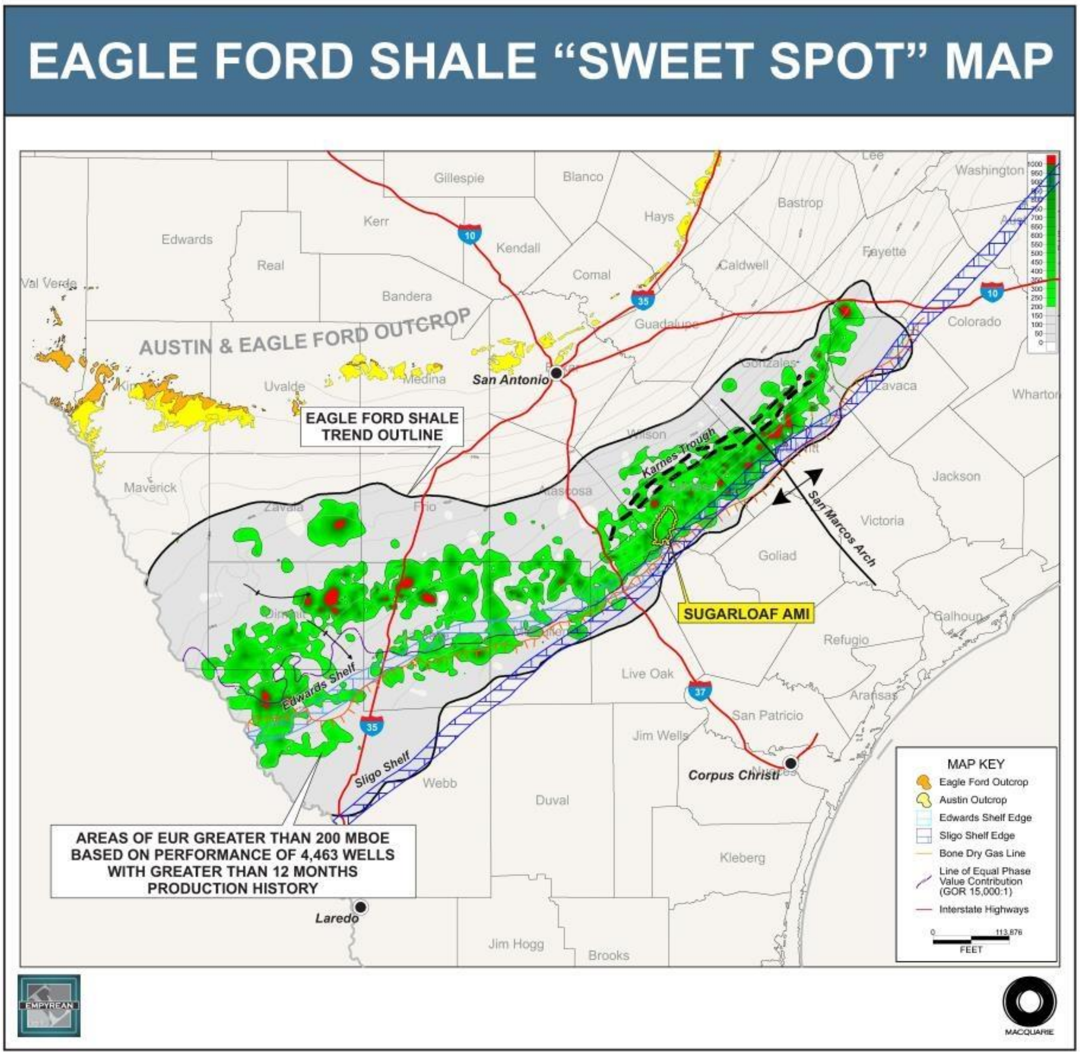
BUSINESS OVERVIEW AND DEVELOPMENTS

Empyrean was established to finance the exploration, development and production of energy resource projects in geopolitically stable environments.

The Company is focused on non-operating working interest positions in projects that have drill ready targets that substantially short cut the life-cycle of typical hydrocarbon projects by entering the project after exploration concept, initial exploration and drill target identification work has been completed.

Empyrean's core asset is a 3% working interest in the Sugarloaf AMI Project in Texas which is an advanced Eagle Ford Shale condensate, gas and natural gas liquids development operated by Marathon Oil Company. The Company identified and negotiated an interest in this project at the exploration stage immediately prior to drilling and was part of the initial discovery well. Due to the fact that this asset represents the majority of the Company's current intrinsic value, it is the primary focus of the Board and is integral to this Strategic Report. The Company's non-core assets are outlined within the Operational Review on pages 12 to 14.

The Sugarloaf AMI Project sits within the 'sweet spot' of the Eagle Ford Shale field fairway and has tremendous additional reserve potential from down spacing initiatives that are being trialed on the Eagle Ford Shale and the appraisal and development of the overlying Austin Chalk.



Strategic Report

RESERVES

Reserves at the Sugarloaf AMI Project were updated in a report by DeGolyer & MacNaughton to 31 December 2013 and the increase over the previous Netherland Sewell and Associates Inc report to 30 September 2012 are summarised below:

Sugarloaf AMI (EME 3%, net 2.25% after royalties)	Revised 31 Dec 2013 MMboe	Reported as at 1 Sept 2012 MMboe	Increase %
1P Reserves	**3.54**	2.32	**53**
2P Reserves	**6.52**	4.40	**48**
3P Reserves	**8.92**	New	**New**
2C Contingent Resources	**3.87**	New	**New**
2P + 2C	**10.39**	New	**New**

The contingent resource of 3.87 MMboe is Austin Chalk locations. The contingent resource status is due to the limited number of wells producing from the Austin Chalk as at 31 December 2013 and the early stage of appraisal. Since 31 December, Marathon has demonstrated a commitment to further appraise and pursue co-development opportunities for the Austin Chalk with the Eagle Ford Shale.

A summary of the Reserves and Contingent Resources, calculated on a 2.25% Net Revenue Interest ('NRI') basis after royalties, and the Net Present Value using a 10% discount rate ('NPV(10)') as at 31 December 2013 and included in the DeGolyer MacNaughton report is contained in the table below:

	Oil & Condensate MMBBLS	Natural Gas Liquids MMBBLS	Sales Gas MMcf	Barrels of Oil Equivalent MMboe	NPV(10)US$ million
1P Reserves	**1,542**	**835**	**6,999**	3.544	**52.9**
2P Reserves	**2,649**	**1,636**	**13,420**	6.521	**97.0**
3P Reserves	**3,486**	**2,302**	**18,768**	8.915	**139.5**
2C	**1,094**	**1,189**	**9,509**	3.868	**-**

OPERATIONS AND OUTLOOK

As at 5 September 2014 the company had an interest in 143 gross producing wells at the Sugarloaf AMI Project with a further 29 wells awaiting or having completion operations carried out and 2 wells drilling. Significantly, of these wells, 7 are producing from the Austin Chalk with 4 wells that were awaiting or undergoing completion operations and 1 drilling. There were a further 10 Austin Chalk wells, scheduled, that are yet to spud.

Strategic Report

Marathon Oil Company ("Marathon"), the operator at the Sugarloaf AMI Project has estimated that approximately 100 wells are to be spud during the 2014 calendar year. There have been 50 wells spud to 5 September 2014, with 41targetting the Eagle Ford Shale and 9 targeting the Austin Chalk.

Marathon has successfully trialed 40 acre spacing for Eagle Ford Shale locations with selected areas being trialed for 30 acre spacing. The DeGolyer & MacNaughton reserves report assumes 60 acre spacing for Austin Chalk locations.

It is expected that Austin Chalk contingent resources will shift to proven and probable reserves as further Austin Chalk wells are drilled and put on production. This represents a significant potential opportunity for the Company to add to reserves in the short to medium term along with continued well down-spacing initiatives.

STRATEGY

Our goal is to maximise value for shareholders. Our strategy is to allocate our resources appropriately given the risk versus reward profile of our projects in order to achieve our goal. Recent years have seen the Company transform from a pure hydrocarbon explorer into a producer, changing the risk versus reward profile dramatically for the Company and, at a project level, for the Sugarloaf AMI Project. Given the comparatively de-risked nature of our core Sugarloaf AMI Project when compared with our other assets, Empyrean has become more focused on ensuring that it has been able to continue to fund the appraisal and development in order to add significant value for shareholders whilst the reserves, production and revenue profile of this asset has been rapidly increasing over the 24 months to 31 March 2014. This intrinsic value increase has been further demonstrated by recent corporate activity within the Sugarloaf AMI Project acreage with Canadian listed Baytex Energy Corp successfully completing the acquisition of former Australian Stock Exchange ("ASX") listed Aurora Oil and Gas on 11 June 2014.

On 10 July 2014 Empyrean announced a Strategic Review as part of a Formal Sales Process. An extract from the announcement reads as follows:

"*Review of options*

Recent corporate acquisitions around Sugarloaf have demonstrated that high quality Eagle Ford Shale assets are in demand. This activity, together with recent reserve updates by Empyrean and other partners in the Project, has had positive implications on the underlying value of the Sugarloaf asset.

The board of Empyrean (the "**Board**"), which has been focused on maximising the commerciality of the Sugarloaf asset alongside its experienced major partners and on demonstrating its future upside potential, has now resolved to consider a number of strategic options to allow the Company to capitalise on recent, increased levels of corporate activity and industry interest in the region and to maximise value for its shareholders.

These options may include a farm down or disposal of existing assets or a corporate transaction such as a merger with or acquisition of the Company's securities by a third party or a sale of the business. Discussions in relation to a merger with a third party or a sale of the Company will take place within the context of a "formal sale process" in accordance with Note 2 on Rule 2.6 of the City Code on Takeovers and Mergers (the "**Code**").

The formal sale process

The Company has appointed Macquarie Capital to conduct the formal sale process only and Cenkos Securities plc as its joint financial adviser and adviser under Rule 3 of the Code to oversee the process."

For further details please refer to the announcement dated 10 July 2014.

Strategic Report

PRINCIPLE 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. Empyrean undertakes appropriate levels of commodity price hedging relative to its level of debt and production.

Currency Risk

The currency most commonly used in the pricing of petroleum commodities and for significant exploration and production costs is US dollar ($US), thus creating minimal currency exposure as the functional currency has been changed to US dollars (US$) this year and for the comparative years commencing 1 April 2012.

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.

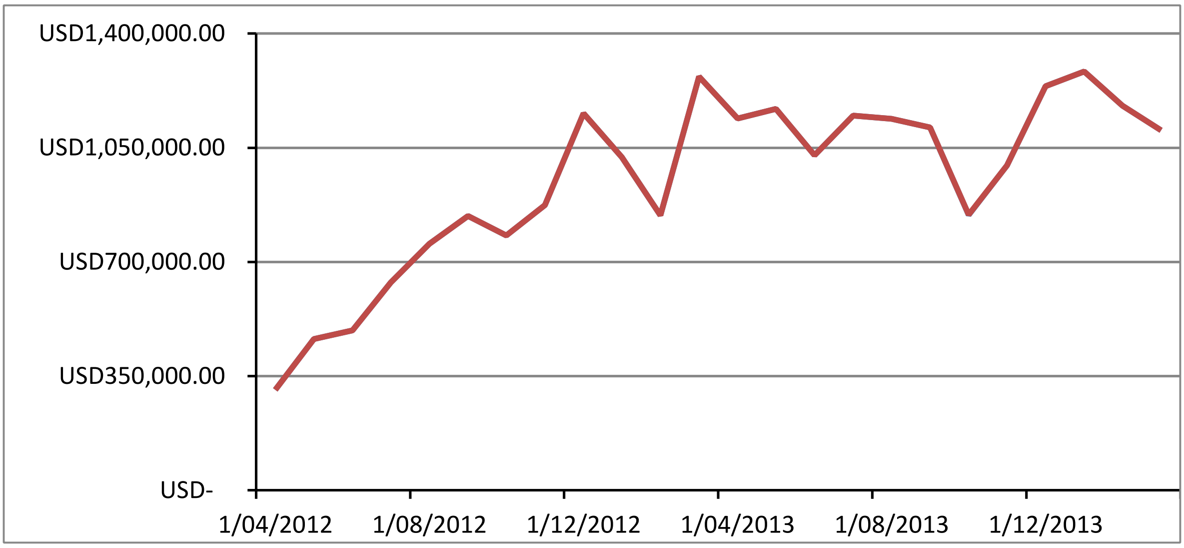
Financing Risk

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

FINANCIAL POSITION AND PERFORMANCE OF THE BUSINESS

Continued successful appraisal and development at the Sugarloaf AMI Project has seen the financial position of the company continue to improve over the 12 months to 31 March 2014.

Revenue has increased by 51% to US$13,883,857 (2013: US$9,180,544). Net Profit has increased by 83% to US$5,221,102 (2013: US$2,846,890). The Graph below represents monthly revenue received by Empyrean in relation to the Sugarloaf AMI for a two year period ended March 31, 2014.



As at 31 March 2014 the Company had outstanding debt of US$10.67m. This debt has been further reduced with a repayment of US$1.5m on 30 June 2014 and stands at US$9.17m as at 3 September 2014.

These financial improvements are as a result of strong revenue from the Sugarloaf AMI Project as further wells are brought into production. The Company received in excess of 85% of its revenue from liquids production and continued strong condensate prices are contributing positively to this revenue.

KEY PERFORMANCE INDICATORS

The key financial performance indicators ('KPI's) for the company are Revenue and Net Profit detailed above. The non-financial KPI is the Company's share price.

These KPI's are assessed in relation to the Company's capital requirements, growth prospects and debt levels to ensure that the Company meets performance objectives whilst maintaining manageable levels of debt in order to grow the business.

The share price performance over the 18 months to 28 August 2014 is represented graphically below:

The strategic report was approved by the board on 03/09/2014 and signed on the board's behalf.

Strategic Report

Thomas Kelly
Chief Executive Officer
5 September 2014

Operational Review

Empyrean has continued to focus its operational activities during the past 12 months on the development of the Sugarloaf AMI Project, which lies within the greater Eagle Ford Shale play in onshore Texas. The Sugarloaf AMI Project is located onshore East Texas in Karnes County. The company holds a 3% working interest in approximately 24,000 acres. Marathon Oil Corporation (“Marathon” NYSE: MRO), replaced Hillcorp as operator in late 2011 and has since maintained an accelerated drilling programme targeting as the primary objective, the Cretaceous Eagle Ford Shale.

In the adjacent Block A, Empyrean holds a 7.5% working interest in 4 producing wells in addition to a lesser interest in another 2 recently drilled wells, one of which commenced production in late 2013. Block A is operated by ConocoPhillips, and Empyrean will have the opportunity to participate in further wells if they are proposed on acreage covered by the existing producing wells that Empyrean already has an interest in .

The Riverbend Project onshore Texas is the third area of interest, where Empyrean first became involved in 2009. After several unsuccessful attempts to produce economic quantities of gas and condensate from 2 wells targeting the Austin Chalk, Empyrean agreed with the newly appointed operator, Krescent Energy Partners II,LP (KEP II), to re-enter Cartwright -1 well and test the shallower Wilcox Formation. The operation was successful and the well commenced the production of gas and minor condensate in May 2013.

The fourth Empyrean project located onshore California in the San Joaquin Basin is the Eagle Oil Pool Development Project. Empyrean has an increased working interest of 57.2 % and the operator remains Strata-X Energy (TSX.V:SXE). There have been no operations carried out during the past 12 months.

Sugarloaf AMI Project(Block B) (3% WI)

The Eagle Ford Shale play is the primary target in the Sugarloaf AMI Project. It is termed “unconventional“ because shale, being impermeable, has traditionally been the necessary barrier to fluid migration in porous, permeable reservoirs resulting in the eventual accumulation of hydrocarbons in a so-called petroleum “trap”.

Shale can also be a hydrocarbon source rock in addition to being a barrier. The Eagle Ford Shale is rich in organic material, and has in the area of the Sugarloaf AMI Project been subjected to the time duration and temperature requirements for in situ hydrocarbons generation. However, the entrapped hydrocarbons can only be released by increasing the density, size and connectivity of microfractures within the shale. This can best be accomplished by combining fraccing operations with horizontal drilling. The fraccing releases the hydrocarbons by creating permeability, while the horizontal drilling exposes much greater volumes of “unconventional” reservoir to the fraccing process.

132 wells have been spudded since the drilling of the first producing well, Kennedy 1H, in 2007 (which did not commence producing until January 2010). Marathon has spudded 107 wells to the end of March 2014 since becoming operator at the end of 2011 and plan to spud approximately 100 wells during the 2014 calendar year.

During the year to 31 March 2014 there have been 43 wells spudded and 39 wells brought on production, which is a commendable achievement. The drilling and completion operations are highly sophisticated, technically difficult and have the potential to be time consuming and expensive when problems arise. Logistical considerations are equally challenging. Sugarloaf AMI partners have profited from the fact that Marathon has had access to 12 different rigs during the period mentioned and at no time has there been time lost due to rig unavailability. Nor have any of the wells been unsuccessful as producers or plugged and abandoned.

As mentioned in previous reports, the operator has from the beginning embarked on a programme of technical initiatives aimed at achieving optimum productivity with maximum economic efficiency. These initiatives fall into 2 categories: firstly stimulation and completion design, and secondly well spacing.

Improvements in stimulation and completion design have had a marked positive effect on well performance. Fraccing is complex and there are many variables involved. Perforation clusters, gel loading, propane size, fluids and volumes all play a part, and the object of improving and refining the operation continues to be an ongoing process. The results have been impressive. Marathon reports an approximate 97% improvement in 30 day IP‘s (initial production measured in barrels of oil equivalent per day) between 2011 and 2014 wells to date. The record shows a large variation in the early days of production for many of the wells and this does not seem to be dependent necessarily on well location. Kennedy 5H has been one of the more impressive producers. It commenced production on the 16 March 2013 and produced 101,976 msc.ft (thousand standard cubic feet) of gas and 23,078 barrels of condensate in the following month (wellhead measurements). Eight months later, in December 2013, it produced 62,507 msc.ft of gas and 8,438 barrels of condensate. A more recent well, St. Christoval Ranch G2H, commenced production on the 31 August 2013 and in the following month produced 95,199 msc.ft of gas and 22,905 barrels of condensate. These 2 wells were among the better producers.

The second category, well spacing, has also shown positive results in productivity due to application of denser well distribution. 80 acre spacing equates to approximately 750ft between the horizontal branches of each well. Wells drilled in the early stages of development in 2010-11 were usually located within an 80 acre, or greater, spacing. In contrast, 90% of the Marathon wells drilled in 2013 were located on a 60 acre, or less, spacing. The results show an impressive 45% improvement between 2011 and 2013 when comparing the 30 day IP (initial production) rates. A comparison of the first 180 days of cumulative production over the same period also shows a 34% increase. These encouraging results strongly support the continuation of infill development and Marathon has commenced piloting 30 acre infills during 2014.

In addition to the initiatives taken to increase productivity, Marathon has been successful in reducing drilling costs by developing improved drilling techniques and adopting the practice of common pad drilling. Common pad drilling reduces mobilization expenses and minimises the time taken between the spudding of consecutive wells. Time lost is also minimised during fraccing and completion operations. Most of the wells are now being drilled from common pads. Recently drilled Mobil B AC 1H, for example, is located on an 8 well pad, while the May B unit 2H-5H wells drilled in January and March 2014 are located on a 4 well pad. The practice of using multi-well pads has no effect on the vertical or horizontal limitations of a well. Of the 43 wells spudded in the recent 12 months, measured depths have ranged between 16,296ft (well May B 4H) and 19,473 ft at Morgan 5H. Horizontal distances ranged between 4,250 ft and 7,900ft with an average distance of 5,755 ft.

The effects of improved drilling techniques are manifest in the drill time comparisons with wells drilled only 2 years ago. The time taken in the last 12 months to drill a well to 18,000ft MD (measured depth) varied between 12-15 days. For the well MD’s in the vicinity of 16,500ft the drill time was reduced to 11 days. The well May B 5H reached a TD of 16,492 ft in an impressive 9 days in March 2014. The well drill costs are invariably less than the fraccing and completion costs, but overall the operator is aiming to reduce total costs to US$ 6.5-7.5 million per well during 2014.

In summary, the rate of drilling new development wells in the AMI is increasing. The operator plans to drill approximately 100 wells in 2014 alone. The productivities have improved markedly through technical innovation, and drilling and completion costs have decreased. There are at present 5 central facilities operating with total existing capacity of 117,000 mscfd and 30,000 barrels of condensate per day. The capacities are planned to be increased to 320,000 mscfd and 80,000 barrels of condensate respectively. This capacity increase will be necessary to include the volumes expected with the additional development of the Austin Chalk. Three wells only were drilled specifically to test this formation in the recent 12 months (Weston Gas Unit 1 10H, 12H and Children Weston 4H). The 10H and 12H wells produced approximately 85,000 msc.ft of gas and 8,000 barrels of condensate in the first month of production, comparable with some of the better Eagle Ford Shale wells. It is anticipated that full development of the Austin Chalk could involve the drilling of approximately 300 further wells, based on 60 acre spacing with down spacing potential of approximately 235 further wells. These would be in addition to the Eagle Ford Shale wells, for which 330 further wells will be required for full development with down spacing potential of a further 200 wells. Much will depend on the eventual spacing.

Operational Review

Sugarloaf Block A (7.5% WI)

Empyrean has held in Sugarloaf Block A 7.5 % WI in 4 producing wells for some time. Production of gas and condensate from the first of the wells commenced on 13 November 2008. The remaining 3 wells commenced producing in February 2009. The 4 wells are referred to as TCEI Block A-1 (Kunde No3), A-3 (Baker Trust No1), A-4 (Baker Trust No2) and A-5 (Marlene Olson No1).

Empyrean had elected against participation in further drilling in Block A for almost 5 years to late August 2013. The decision had been made to focus on the development of the Sugarloaf AMI (Block B). In September 2013 Empyrean announced its decision to accept participation in 2 Eagle Ford Shale wells in Block A. Baker Trust No 4 was drilled to a measured depth of 17,948ft with a lateral of approximately 5,000ft. It commenced producing gas condensate on the 29 December 2013, and Empyrean holds an approximate 2.45% WI.

Marlene Olson No 3, the second well in which Empyrean has an approximate 0.85% WI, was drilled to a measured T.D of 20,601 ft. on the 3 October 2013. The well has a lateral length of approximately 7,000 ft. and is at present undergoing completion operations.

Both wells are being drilled from the same pad along with a third well to be completed in acreage in which Empyrean holds no interest. Empyrean’s interest in the 2 wells is less than the previous 7.5% WI because parts of each well traverse acreage in which no WI is held; the resulting interest being based on a pro rata share.

Riverbend Project (10% WI)

The new operator of the project, Krescent Energy Partners 11,LP (“KEP11”) proposed re-entering Cartwright No1 and testing a fresh interval between 9,584ft.-9,590ft in the Wilcox Formation. The previous attempts to produce from the older Austin Chalk had failed due to obstructions in the production tubing.

Empyrean agreed to participate in the re-entry and the formation was successfully perforated and tested. The Wilcox Formation had previously exhibited encouraging hydrocarbon “shows” during the initial drilling of the well.

The early production from this new zone of 30-40 barrels of condensate and 755 msc.ft of gas per day was above expectations. The well is currently producing 15 barrels of condensate and 400,000 c.ft of gas per day with minimal operating cost.

Eagle Oil Pool Development Project (57.2% WI)

Empyrean increased its interest from 48.5% to 57.2% at no extra cost to the Company. Although no tangible operations were performed during the recent 12 months, a vertical well test of the Gatchell sands, and possibly the Kreyenhagen Shale, would appear to be the next logical step. The results of such a vertical well would have a strong bearing on the emplacement of a horizontal well if required.

Frank Brophy BSc (Hons)
Executive Technical Director
5 September 2014

Directors' Report

The Directors are pleased to present their report on the affairs of the Company, together with the audited financial statements for the year ended 31 March 2014.

Financial Review and Results

	2014	**2013**
	US$'000	**US$'000**
Profit for the year on ordinary activities of the Company after taxation	**5,221**	2,847
Revenue from oil and gas sales	**13,884**	9,181
Operating Costs	**(1,398)**	(1,117)
Amortisation of the oil and gas properties	**(3,926)**	(3,515)
Exploration and Development costs	**10,866**	16,868

Dividends

The Directors do not propose the payment of a dividend.

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 and 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 a Trustee of The Royal Society of Tropical Medicine and Hygiene.

Thomas Kelly – Chief Executive Officer

Thomas Kelly has had more than 20 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 50 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, the Middle East, North Africa and the Sudan. Recent experience includes four years as General Manager of the Hanoi operation in North Vietnam, for France based company Maurel et Prom, and almost two years in Sicily representing the same company in gas appraisal and development. 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.

The Directors who served during the year to 31 March 2014 had, at that time, the following beneficial interests in the securities of the Company:

	31 March 2014		31 March 2013	
	Number of ordinary shares	Number of options over ordinary shares	Number of ordinary shares	Number of options over ordinary shares
Patrick Cross	340,000	1,400,000	340,000	1,900,000
Thomas Kelly	20,881,563	13,500,000	20,881,563	17,900,000
Frank Brophy	2,233,333	9,000,000	2,233,333	11,450,000
John Laycock	900,000	1,200,000	700,000	1,400,000

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.

Significant Shareholdings

On 18 August 2014 the following parties had notified the Company as being interested in 3% or more of the Company's ordinary share capital, inclusive of Directors holdings above 3%:

Directors' Report

	31 July 2014	
	Ordinary shares of £0.002 each	**% of issued share capital**
Thomas Kelly	20,881,563	9.43%
Richard Appleby	11,072,000	5.00%
James Kight	10,000,000	4.51%

Share Capital

Information relating to capital structure shares and issued during the period is given in Note 15 to the Financial Statements.

In summary, there are currently 221,433,853 ordinary shares on issue and a total of 74,900,000 options/warrants currently granted. Further information is provided in Note 15 to the Financial Statements.

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. The net current liabilities of US$817,259 (2013: US$2,068,000 net current liabilities) are alleviated with the Macquarie Bank Facility. Empyrean has reached certain Reserve hurdles under Tranche B of the Macquarie Bank Facility to obtain further drawdowns if required. Any further draw downs on the Macquarie Bank Facility are subject to the bank's normal credit department approvals for draw downs under the facility. In addition, the Company has in the money options and warrants that will further reduce the net current liabilities position if they are exercised before expiry. These options and warrants are detailed note 15 to the Financial Statements.

Post Reporting Date Events

On 20 May 2014 the Company announced an increase in Reserves following a report being prepared by DeGolyer MacNaughton to 31 December 2013. A summary of this report is included in the Strategic Report on pages 6-to 11 of this Annual Report.

On 3 July 2014 the Company announced that it had repaid a further US$1.5 million of debt under its Macquarie Bank Facility, thus reducing the amount outstanding on the facility to US$9.17 million.

On 10 July 2014 the Company announced that it had entered into a Formal Sales Process and Strategic Review. Further details are provided in the Strategic Report on pages 6 to 11 of this Annual Report.

Auditors

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

Internal Controls

The Board is responsible for maintaining a strong system of internal control to safeguard shareholders' investments and the Company's assets. The system of internal financial control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

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

Directors' Report

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.

Statement of Disclosure to Auditors

Each person who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditors are not informed; and
- the Director has taken all steps required to make himself aware of any relevant audit information and to establish that the Company's Auditors are informed of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

By order of the Board

Thomas Kelly
Chief Executive Officer
5 September 2014

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 Directors make no statement of compliance with the code overall and do not explain in detail any aspect of the code which they do not comply. 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 12 times throughout the year and each member was in attendance at each meeting except the Chairman who was unable to attend one meeting, the CEO who was unable to attend one meeting and the Technical Director who was unable to attend two meetings. 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. 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.

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 Audit Committee reviews the Company's annual and interim financial statements before submission to the Board for approval. The Audit Committee also reviews regular reports from management and the external auditors on accounting and internal control matters. When appropriate, the Audit Committee monitors the progress of action taken in relation to such matters. The Audit Committee also recommends the appointment of, and reviews the fees of, the external auditors. The Audit 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.empyreanenergy.com/corporate/governance).

The Remuneration Committee

The Remuneration Committee is made up of Patrick Cross and John Laycock, and is chaired by John Laycock. The Remuneration Committee met once during the year ended 31 March 2014 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 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.

UK City Code on Takeovers and Mergers

The Company is subject to the UK City Code on Takeovers and Mergers.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they 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. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies whose securities are traded on AIM.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Company number: 05387837

On behalf of the Board

Thomas Kelly
Chief Executive Officer
5 September 2014

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 31 March 2014 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. 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 Chapter 3 of Part 16 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 statement of directors' responsibilities, 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

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 31 March 2014 and of the company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Directors' report and Strategic 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 matters where the Companies Act 2006 requires us 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.

Scott Knight

Scott Knight, (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
5 September 2014
BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Statement of Comprehensive Income
For the Year Ended 31 March 2014

	Notes	2014 US$'000	Restated 2013 US$'000
Revenue		**13,884**	9,181
Cost of sales			
Operating costs		**(1,398)**	(833)
Gain/(loss) on hedge contract		**(199)**	-
Amortisation - oil and gas properties	9	**(3,926)**	(3,515)
Total cost of sales		**(5,523)**	(4,348)
Gross profit		**8,361**	4,833
Administrative expenses			
Other Administrative expenses	2	**(515)**	(650)
Directors' remuneration		**(816)**	(752)
Compliance fees		**(445)**	(525)
Total expenditure		**(1,776)**	(1,926)
Operating profit		**6,585**	2,906
Finance expense	3	**(1,364)**	(59)
Profit on ordinary activities before taxation		**5,221**	2,847
Taxation on profit on ordinary activities	6	**-**	-
Profit for the financial year		**5,221**	2,847

Statement of Comprehensive Income
For the Year Ended 31 March 2014

Other comprehensive income		**-**	-
Total comprehensive income for the year		**5,221**	2,847
Attributable to:			
Equity shareholders of the Company		**5,221**	2,847
Earnings per share			
- Basic (cents)	7	**2.37**	1.32
- Diluted (cents)	7	**2.36**	1.32

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 2014

	Notes	2014 US$'000	Restated 2013 US$'000	Restated 2012 US$'000
Assets				
Non-current assets				
Oil and gas properties – Exploration and evaluation	8	**8,929**	9,007	6,575
Oil and gas properties – Development and production	9	**33,325**	26,176	12,255
Total non-current assets		**42,254**	35,183	21,830
Current assets				
Trade and other receivables	10	**1,887**	1,978	1,388
Cash and cash equivalents		**1,513**	1,067	2,460
Total current assets		**3,400**	3,045	3,848
Liabilities				
Current liabilities				
Trade and other payables	11	**1,643**	113	1,030
Bank borrowings	11	**2,575**	5,000	-
Total current liabilities		**4,218**	5,113	1,030
Net current assets / (liabilities)		**(818)**	(2,068)	2,818
Non-current liabilities				
Bank Borrowings	12	**7,222**	4,470	700
Provision for decommissioning costs	13	**218**	-	-
Total non-current liabilities		**7,440**	28,645	700

Statement of Financial Position
As at 31 March 2014

Net assets		**33,996**	27,594	23,948
Shareholders' equity				
Share capital	16	**709**	706	682
Share premium		**40,202**	40,075	39,388
Share based payment reserves	17	**2,946**	2,946	1,806
Retained losses		**(9,861)**	(15,082)	(17,928)
Total equity		**33,996**	28,645	23,948

The financial statements were approved by the Board of Directors on 5 September 2014 and were signed on its behalf by:

Patrick H. Cross.

Patrick Cross
Chairman

Tom Kelly

Thomas Kelly
Chief Executive Officer

The accompanying accounting policies and notes form an integral part of these financial statements.
Company number 05387837.

Statement of Cash Flows
For the Year Ended 31 March 2014

	Notes	2014 US$'000	Restated 2013 US$'000
Net cash inflow from operating activities	14	**11,805**	4,959
Investing activities			
Purchase of exploration assets		**(2,379)**	(2,526)
Purchase of oil and gas properties		**(8,487)**	(14,341)
Net cash outflow from investing activities		**(10,866)**	(16,868)
Financing activities			
Issue of ordinary share capital		**130**	710
Proceeds from borrowings		**5,150**	9,804
Interest Paid		**(773)**	
Repayment of borrowings		**(5,000)**	-
Net cash (outflow)/inflow from financing activities		**(493)**	10,514
Increase / (decrease) in net cash and cash equivalents		**446**	(1,393)
Cash and cash equivalents at the start of the year		**1,067**	2,460
Cash and cash equivalents at the end of the year		**1,513**	1,067

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

Statement of Changes in Equity
For the Year Ended 31 March 2014

	Share capital	Share premium reserve	Share based payment reserve	Retained deficit	Total equity
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Balance At 1 April 2012	**682**	**39,389**	**1,806**	**(17,928)**	**23,949**
Share capital issued	24	686	-	-	710
Cost of shares issued	-	-	-	-	-
Share based payments (Macquarie Bank)	-	-	1,140	-	1,140
Profit for the year	-	-	-	2,846	2,846
Comprehensive profit for the year	-	-	-	2,846	2,846
Balance At 31 March 2013	**706**	**40,075**	**2,946**	**(15,082)**	**28,645**
Share capital issued	3	127	-	-	130
Profit for the year	-	-	-	5,221	5,221
Other comprehensive income	-	-	-	-	-
Comprehensive profit for the year	-	-	-	5,221	5351
Balance At 31 March 2014	**709**	**40,202**	**2,946**	**(9,861)**	**33,996**

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

Accounting policies, significant judgements, estimates and assumptions

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. They have all been applied consistently throughout the year. The financial report is presented in the functional currency, US dollars and all values are shown in thousands of US dollars (US$'000) for the first time this year.

These financial statements have been prepared under the historical cost convention modified by the revaluation of certain financial assets and liabilities.

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. The net current liabilities of US$817,259 (2013: US$2,068,000 net current liabilities) are alleviated with the Macquarie Bank Facility. Empyrean has reached certain Reserve hurdles under Tranche B of the Macquarie Bank Facility to obtain further drawdowns if required. Any further draw downs on the Macquarie Bank Facility are subject to the bank's normal credit department approvals for draw downs under the facility. In addition, the Company has in the money options and warrants that will further reduce the net current liabilities position if they are exercised before expiry. These options and warrants are detailed note 15 to the Financial Statements.

Basis of accounting and adoption of new and revised standards

a) Standards, amendments and interpretations effective in 2013:

The following new standards and amendments to standards are mandatory for the first time for the company for the financial year beginning 1 April 2013. Except as noted, the implementation of these standards did not have a material effect on the Company:

Standard	Impact on initial application	Effective date
IAS 1 (Amendment)	Presentation of items of other comprehensive income	1 July 2012
IFRS 13	Fair value measurement	1 January 2013
IAS 19 (Amendment 2011)	Employee benefits	1 January 2013
IFRS 7 (Amendment 2011)	Disclosures – offsetting financial assets and financial liabilities	1 January 2013
IAS 16 (improvements)	Classification of servicing equipment	1 January 2013

b) Standards, amendments and interpretations that are not yet effective and have not been early adopted:

Standard	Impact on initial application	Effective date
IAS 32 (Amendment 2011)	Offsetting financial assets and financial liabilities	1 January 2014
IFRS 11	Joint arrangements	1 January 2014*
IFRS 10	Consolidated financial statements	1 January 2014*

IFRS 12	Disclosure of interest in other entities	1 January 2014*
IAS 27 (Amendment 2011)	Separate financial statements	1 January 2014*
IAS 28 (Amendment 2011)	Investments in associates and joint ventures	1 January 2014*
IFRIC 21	Levies	1 January 2014
IFRS 9	Financial instruments	TBC

* Effective date 1 January 2014 for the EU.

The Company does not expect the pronouncements to have a material impact on the Company's earnings or shareholders' funds.

Revenue recognition

Revenue is derived from sales of oil and gas to third party customers. Sales of oil and gas production are recognized 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 recognized net of local ad valorem taxes.

Interest revenue is accrued on a time basis, by reference to the principal outstanding at the effective interest rate applicable.

Cash and cash equivalents

Cash and short-term deposits comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less from the date of issue. 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 or credited 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 recognize 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.

Royalties

Royalties or taxes based on production quantities or calculated as a percentage of revenue taken out of net revenue proceeds received.

Foreign currencies
Transactions denominated in foreign currencies are translated into US dollars at the spot rate on the date of the transaction 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). This is the first year then the financial statements are presented in USD, which is also the functional currency of the Company.

<u>Change in functional currency and presentation currency</u>

Prior to 31 March 2014 the Company's financial statements were presented in UK Sterling and the functional currency of the Company was also assumed to also be UK sterling. As at 31 March 2014 the directors have reviewed the transactions that underpin the Company's operations and have noted that the majority of these are denominated in US Dollars. The Directors have decided that US Dollar is more reflective of the underlying operations of the Group and as such a change in functional currency has been enacted. Given the trigger for change occurred prior to the 31 March 2014 reporting period the adjustment has been retrospectively applied from 31 March 2012.

In line with the requirements of IAS 21 the Directors have chosen to change the presentational currency of the Company to US Dollars. The change in presentation currency is a change in accounting policy, as if the new presentation currency has always been the entity's presentation currency and therefore requires a retrospective change. The Directors retrospectively adjusted the presentation currency from the earliest practical point which has been deemed the opening period for the 31 March 2014 financial statements, being 1 April 2012.

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 'Intangible assets'. 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 9.

The net book values of producing assets are depreciated on units of production basis. The depletion rate was calculated using the proven 1P reserves.

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.

The Company has potential decommissioning obligations in respect of its producing interests. The extent to which a provision is required in respect of these potential obligations depends, inter alia, on the legal requirements at the time of decommissioning, the cost and timing of any necessary decommissioning works, and the discount rate to be applied to such costs. The Company recognised a provision in its accounts at March 31, 2014.

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, cash and cash equivalents and financial assets classified as fair value through profit or loss.

All financials assets, other than cash and cash equivalents are initially measured at fair value and subsequently at amortised cost.

Cash and cash equivalents comprise cash on hand or held on current account or on short-term deposits (up to 90 days) at variable interest rates. Any interest earned is accrued monthly and classified as finance income.

Financial liabilities

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include trade and other payables, loans and borrowings including bank loans and derivative financial liabilities.

All financial liabilities 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.

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 on a straight-line basis 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 and estimates of future performance.

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.

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 Directors and the Company Secretary 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 Directors and the Company Secretary is measured at the fair value of the services received at the date of receipt, with a corresponding increase in equity.

Change in accounting policies

In line with the requirements of IAS 21 the Directors have chosen to change the presentational currency of the company to US dollar. The change in presentation currency is a change in accounting policy, as if the new presentation currency has always been the entity's presentation currency and therefore requires a retrospective change. The Directors retrospectively adjusted the presentation currency from the earliest practical point which has been deemed the opening period for the 31 March 2014 financial statements, 1 April 2012.

Management has undertaken to amortise developed wells on a units of production basis and as required by IAS 8 the change has been applied retrospectively. As a result adjustments were made to prior year for the value of Amortisation in the books of the accounts. The retrospective change in prior years amounted to a $340,940 increase in the book value of the assets as at 1 April 2013. Retained earnings were adjusted accordingly.

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 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.

Details	**Exploration**		**Production**		**Corporate**		**Total**	
	31 Mar 14	**31 Mar 13**	**31 Mar 14**	**31 Mar 13**	**31 Mar 14**	**31 Mar 13**	**31 Mar 14**	**31 Mar 13**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Revenue	**-**	-	**13,884**	9,181	-	**-**	**13,884**	9,181
Cost of sales	**(54)**	-	**(5,469)**	(4,348)	-	**-**	**(5,523)**	(4,348)
Gross profit	**(54)**	-	**8,415**	4,833	-	**-**	**8,361**	4,833
Exploration expenditure impairment	**(86)**	(105)	**-**	-			**(86)**	(105)
Segment result	**(140)**	(105)	**8,415**	4,833			**8,275**	4,728
Unallocated corporate expenses					**(1,690)**	(1,821)	**(1,690)**	(1,821)

Operating profit							**6,585**	2,906
Finance expense							**(1,364)**	(59)
Profit on ordinary activities before taxation							**5,221**	2,847
Taxation							**-**	-
Profit for the financial year							**5,221**	2,847
Total comprehensive profit for the financial year							**5,221**	2,847
Segment assets	**8,930**	9,007	**33,325**	26,175			**42,037**	35,182
Unallocated corporate assets					**3,400**	2,328	**3,400**	2,328
Total assets							**45,655**	37,510
Segment liabilities			**(1,212)**	(8)			**(1,246)**	(8)
Unallocated corporate liabilities					**(11,068)**	(9,908)	**(11,068)**	(9,908)
Total liabilities							**(12,314)**	(9,916)

Revenue by Customer

Customer	Revenue 2014 US$'000	Revenue 2013 US$'000
Marathon oil	$ 13,380	$ 8,741
Conoco Philips	$ 504	$ 440
	$ 13,884	$ 9,181

	2014	Restated 2013
	US$'000	**US$'000**

2. Administrative expenses

The operating profit is stated after charging:

Bank charges	**(156)**	(304)
Audit fees	**(15)**	(55)
Communications	**(8)**	(17)
Insurance	**(85)**	(53)
Travel	**(88)**	(82)
Other	**(77)**	(34)
	(429)	(545)

3. Finance expense

Amortisation of finance costs	**(395)**	-
Interest paid	**(969)**	(59)
	(1,364)	(59)

4. Share based payments

The Company had no employees during the year, other than Directors and the Company Secretary who are either directly employed or employed on a consultancy basis or a combination.

The Company's equity settled share based payments comprise options granted to Macquarie Bank. The option value per security is being spread over the expected life of the facility.

During the year ended 31 March 2014, there were no options were granted to Directors and the Company Secretary. Options were Issued to Macquarie in relation to the loan facility. These are disclosed in detail under Note 16.

5. Directors' emoluments

	Fees and salary paid		Fees and salary paid	
	2014	**2013**	**2014**	**2013**
	US$'000	**US$'000**	**£'000**	**£'000**
Non-Executive Directors:				
Patrick Cross	**71**	57	**44**	36
John Laycock	**53**	41	**33**	26
Executive Directors:				
Thomas Kelly(1)	**394**	393	**247**	250
Frank Brophy(2)	**298**	261	**187**	165
	816	752	**491**	477

(1) Services provided by Apnea Holdings Pty Ltd
(2) Services provided by F J Brophy Pty Ltd
No UK pension benefits are provided for any UK resident Director.

Directors' share options

The terms of the share option interests of Directors in office during the year ended 31 March 2014 were as follows:

	Grant date	Options held 31 March 2013	Options granted during year	Options expired during year	Options exercised during year	Options held 31 March 2014	Exercise price (£)	Expiry date
Patrick Cross	28 May 2010	500,000	-	(500,000)	-	-	£0.06	28 May 2013
	23 March 2011	650,000	-	-	-	650,000	£0.08	2014*
	2 March 2012	750,000	-	-	-	750,000	£0.08	2 March 2015
Thomas Kelly	28 May 2010	4,400,000	-	(4,400,000)	-	-	£0.06	28 May 2013

	23 March 2011	6,000,000	-	-	-	6,000,000	£0.08	2014*
	2 March 2012	7,500,000	-	-	-	7,500,000	£0.08	2 March 2015
Frank Brophy	28 May 2010	2,450,000	-	(2,450,000)	-	-	£0.06	28 May 2013
	23 March 2011	4,000,000	-	-	-	4,000,000	£0.08	2014*
	2 March 2012	5,000,000	-	-	-	5,000,000	£0.08	2 March 2015
John Laycock	28 May 2010	-	-	-	-	-	£0.06	28 May 2013
	23 March 2011	650,000	-	-	(200,000)	450,000	£0.08	2014*
	2 March 2012	750,000	-	-	-	750,000	£0.08	2 March 2015
		32,650,000	**-**	**(7,350,000)**	**(200,000)**	**25,100,000**		

*As announced on 20 March 2014, these options had their expiry date extended to four months following the publication of the Company's Annual Report & Accounts for the period to 31 March 2014.

	2014	Restated 2013
	US$'000	US$'000

6. Taxation

Current year taxation

UK corporation tax at 23% (2013: 24%)	-	-

Factors affecting the tax charge for the year

Profit on ordinary activities before tax	5,221	2,847
Profit on ordinary activities at the UK standard rate of 23% (2013: 24%)	1,201	683
Effect of different Tax Rate in US	835	427
Add back disallowable expense	2,833	1,371
Effects of accelerated capital allowances	(4,234)	(2,481)
Utilisation of tax losses brought forward	(635)	(-)
Current year taxation	-	-

The Company has considered whether to create a deferred tax asset and has considered that sufficient taxable profits will not be generated in the near future to utilise the losess carried forward in the US due to forecast future capital spend.

Tax losses of approximately US$43.1m are available to be claimed going forward.

7. Earnings per share

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

	2014	2013
Profit for the year	**$5,220,102**	$2,846,890

Weighted average number of ordinary shares of £0.002 on issue	**220,587,000**	216,090,000
Earnings per share – basic	**2.37 cents**	1.32 cents
Profit adjusted for dilutive effects	**$5,220,102**	$2,846,890
Weighted average number of ordinary shares of £0.002 on issue inclusive of outstanding options	**220,826,194**	217,799,000
Earnings per share – diluted	**2.36 cents**	1.31 cents

	2014	**Restated 2013**
	US$'000	**US$'000**

8. Oil and gas properties: Properties, exploration and evaluation

At 1 April 2013	**9,007**	6,679
Additions	**2,379**	2,527
Reclassified to oil and gas properties (Note 9)	**(2,370)**	(94)
Impairment - intangible assets	**(86)**	(105)
At 31 March 2014	**8,929**	9,007

9. Oil and gas properties: Development and production

At 1 April 2013	**26,176**	15,255
Additions	**8,487**	14,341
Reclassified from intangible assets (Note 8)	**2,370**	94
Oil and gas decommissioning asset	**218**	-
Amortisation – oil and gas properties	**(3,926)**	(3,514)
At 31 March 2014	**33,325**	26,176

10. Trade and other receivables

Trade and other receivables	**161**	161
Accrued revenue	**1,607**	1,589
Prepayments	**112**	224
VAT receivable	**7**	4
	1,887	1,978

11. Current trade and other payables

Trade payables	**1,362**	68
Accrued expenses	**176**	45
Hedge instrument payable	**105**	-
Borrowing(1)	**2,575**	5,000
	4,218	5,113

(1) Refer to Note 12 for the non-current Macquarie Bank Facility.

	2014	**Restated 2013**
	US$'000	**US$'000**

12. Non-current trade and other payables

Borrowing(1)	**7,222**	4,470
Total non-current trade and other payables	**7,222**	4,470

The Macquarie Bank Facility totaling US$10,671,000 was entered into on 30 May 2012, drawn down on twice during the year and is repayable at an interest rate of 9% pa plus LIBOR. The first repayment was on 28 June 2013 and 3 repayments have been made subsequently. Refer to Note 11 for the current Macquarie Bank Facility. The Macquarie Bank Facility is secured by a fixed and floating charge over the Company, a Company guarantee and a specific charge over the Sugarloaf AMI asset.

13. Provision for decommissioning costs

The provision for decommissioning costs is calculated on the following assumptions:

- decommissioning cost of $70,000 per well (gross)
- US CPI rate of 2% and long term bond rate of 3%
- Average life of 19 years

14. Reconciliation of operating profit to operating cash flows

Profit for the year before tax	**5,221**	2,847
Amortisation – oil and gas properties	**3,926**	3,515
Loss on hedging liability	**199**	-
Finance costs	**1,364**	-
Impairment - intangible assets	**86**	105
Decrease / (increase) in receivables	**(416)**	(590)
Increase / (decrease) in payables	**1,425**	(916)
Net cash inflow from operating activities	**11,805**	4,959

15. Called up share capital

The authorised share capital of the Company and the called up and fully paid amounts at 31 March 2014 were as follows:

Authorised		
1,000,000,000 ordinary shares of 0.2p each	**£2,000**	£2,000
Issued and fully paid		
221,433,853 (2013: 220,433,853) ordinary shares of 0.2p each	**£443**	£426
	$709	$706

On 14 August 2013, 200,000 fully paid ordinary shares of 0.2p each were issued as a result of option conversions for cash at a price of £0.08 per share.

On 10 February 2014, 150,000 fully paid ordinary shares of 0.2p each were issued as a result of option conversions for cash at a price of £0.08 per share.

On 28 March 2014, 650,000 fully paid ordinary shares of 0.2p each were issued as a result of option conversions for cash at a price of £0.08 per share.

Share options and warrants

The following equity instruments have been issued by the Company and have not been exercised at 31 March 2014:

Option class	Grant date	Options / warrants held 31 March 2013	Options / warrants granted during year	Options / warrants expired during year	Options / warrants exercised during year	Options / warrants held 31 March 2014	Exercise price (£)	Expiry date	Value per security	Weighted average contractual life remaining (years)
Broker options	9 April 2010	500,000	-	(500,000)	-	-	£0.06	16 April 2013	£0.0145	
Director and Company Secretary options	28 May 2010	8,575,000	-	(8,575,000)	-	-	£0.06	28 May 2013	£0.0141	
Director and Company Secretary options	23 March 2011	12,100,000	-	-	(1,000,000)	11,100,000	£0.08	2014(2)	£0.0239	See note (2)
Director and Company Secretary options	2 March 2012	14,800,000	-	-	-	14,800,000	£0.08	2 March 2015	£0.0311	0.92
Financier options	19 July 2012	15,000,000	-	-	-	15,000,000	£0.08	19 July 2016	£0.018(1)	0.92
Financier options	19 July 2012	15,000,000	-	-	-	15,000,000	£0.10	19 July 2016	£0.014(1)	2.30

Financier options	25 March 2013	15,000,000	-	-	-	15,000,000	£0.12	25 March 2017	£0.016[1]	2.30
Warrants	1 March 2012	4,000,000	-	-	-	4,000,000	£0.0875	1 March 2015	N/A[3][4]	0.92
		84,975,000	**-**	**(9,075,000)**	**(1,000,000)**	**74,900,000**				

[1]The value of these options is being expensed over a period of 4 years.
[2]As announced on 20 March 2014, these options had their expiry date extended to four months following the publication of the Company's Annual Report & Accounts for the period to 31 March 2014
[3]Subsequent to year end, the exercise price of the warrants was converted to USD0.147175
[4]On issue of the warrants in 2012, nil value was attributed to the securities.

The weighted average exercise price of options on issue at 31 March 2014 is £0.092.

The fair value of the granted options in 2013 was estimated using a Black Scholes model with the following inputs:

Grant date	19-Jul-12	19-Jul-12	25-Mar-13
Share price at grant date	0.065p	0.065p	0.0588p
Exercise price	0.08p	0.1p	0.12p
Volatility	50%	50%	50%
Expected option life	4.00 years	4.00 years	4.00 years
Dividend yield	-	-	-
Risk free interest rate	0.439%	0.439%	0.439%

	2014	Restated 2013
	US$'000	**US$'000**
16. Reserves		
Share based payments reserve	**2,947**	2,947
Total reserves	**2,947**	2,947

17. Commitments

As at 31 March 2014, the Company had no material capital commitments, other than Authority For Expenditures (“AFE’s”) received from the operator of the Sugarloaf AMI in the normal course of business for operations, including future wells and facilities, that the Company intends to participate.

18. Related party transactions

There were no related party transactions during the year ended 31 March 2014 other than disclosed in Note 5.

19. 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 Macquarie Bank Facility at an interest rate of 9%pa plus LIBOR. Refer to Notes 11 and 12 for further details. 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.

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.

Short-term receivables and payables are not exposed to interest rate risk. The company's borrowing with Macquarie is subject to the 9% plus LIBOR rate. The company is therefore exposed to the premium paid above market rates and if market rates were to fall they would not realize the benefit of this.

The following table illustrates sensitivities to the Company's exposures to changes in interest rates. The tables indicates the impact of how profit at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

At 31 March 2014, the effect on profit as a result of changes in the interest rate on the Macquarie borrowing facility ($10,671,000), with all other variable remaining constant would be as follows:

Change in profit	Change $’000	Adjusted 2014 $’000
Profit before taxation		5,221
Increase in interest rate by 100 basis points	(107)	5,114
Increase in interest rate by 200 basis points	(213)	5,008

Credit risk
Credit risk is the risk of financial loss to the Company if a customer or a counter party to a financial instrument fails to meet its contractual obligations. The Company is mainly exposed to credit risk through cash and cash equivalents and deposits with banks and financial institutions.

Credit risk in relation to the amount that can be borrowed against the Company's producing assets is predominantly determined by the level of proven reserves. Cash flow risk is mitigated by the use of oil price hedging where appropriate.

Currency risk
The Company's functional currency is US$ and as the majority of its operating expenses and revenues are denominated in USD, the Company does not consider that it is exposed to a significant foreign currency risk.

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 as at 31 March 2014 amounted to US$1,513,000 (2013: US$1,067,000).

Commodity risk
The Board recognises that through the normal course of business the Company is exposed to commodity risks for the revenue's received. To manage commodity risk the company entered into a hedging arrangement during the year to manage the company's price risk exposure during the year ended March 31, 2014 with Macquarie.

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 Group'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, restricted cash, accounts receivable, accounts payable and accrued expenses*

The fair value of cash & cash equivalents, restricted cash, 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 2014 and 31 December 2013, the fair value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses approximated their carrying value due to their short term to maturity.

(ii) *Derivatives*

The fair value of the private placement warrants, Hess warrants and the incentive stock options granted to employees is calculated using a Black Scholes option pricing 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 behavior), 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.

	31 March 2014 Carrying value $'000	31 March 2014 Fair value $'000
Financial assets:		
Cash and cash equivalents	1,513	1,513
Loans and receivables:		
Accounts receivable	161	161
Financial Liabilities:		
Borrowings	9,797	9,797
Other financial liabilities		
Accounts payable and accrued expenses	1,538	1,535
Hedging Instrument Payable	105	105

The hedging instrument is the only financial instrument whereby a valuation has been applied. A level 1 fair value measurement is applied and the mark to market valuation is based on the quoted oil price. The different levels have been defined as follows:

Level 1 Fair Value Measurements

- Level 1 fair value measurements are based on unadjusted quoted market prices

Level 2 Fair Value Measurements

- Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.

Level 3 Fair Value Measurements

- Level 3 fair value measurements are based on unobservable information.

The Macquarie Hedging Contract closing positions for each month after 31 March 2014 till the current date are as follows:

March 2014: $19,035 settled in April 2014.
April 2014: $ 23,577 settled in May 2014.
May 2014: $ 22,542 settled in June 2014.
June 2014: $ 33,012 settled in July 2014.
July 2014: $ 23,144 settled in August 2014.
August 2014 $ 606.67 settled in September 2014.

20. Events after the reporting date

On 20 May 2014 the Company announced an increase in Reserves following a report being prepared by DeGolyer MacNaughton to 31 December 2013. A summary of this report is included in the Strategic Report on pages 6 to 11 of this Annual Report.

On 3 July 2014 the Company announced that it had repaid a further US$1.5 million of debt under its Macquarie Bank Facility, thus reducing the amount outstanding on the facility to US$9.17 million. The Macquarie Hedging Contract closing positions are detailed for each month after 31 March 2014 in note 19 to these accounts above.

On 10 July 2014 the Company announced that it had entered into a Formal Sales Process and Strategic Review. Further details are provided in the Strategic Report on pages 6 to 11 of this Annual Report

There are no other significant post reporting date events.

Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

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