



EMPYREAN

ENERGY PLC

EMPYREAN ENERGY PLC
Registered Number 05387837

Annual Report and Accounts 2018



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Company Information

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Highlights

Reporting period

Block 29/11, Pearl River Mouth Basin, China (EME 100%)

- 580km² 3D seismic survey successfully completed in August 2017;
- Interpretation of onboard processed seismic data confirmed structural validity of Jade and Topaz prospects within Block 29/11;
- Third significant target identified named “Pearl”, located north of the Topaz prospect within Block 29/11; and
- Total Preliminary Prospective Resources (Best) Estimate of 591 MMbbl from Jade, Topaz and Pearl prospects.

Duyung PSC Project, Indonesia (EME 10%)

- Secured a 10% interest in the Duyung PSC, offshore Indonesia, in April 2017;
- Mako South-1 well was drilled to a total depth of 1,707 feet and the drilling and testing operations were completed in June 2017;
- Mako South-1 well results exceeded expectations encountering excellent reservoir quality, gas saturation, porosity, permeability and flow rates; and
- Mako South-1 well flowed at a stabilised rate of 10.9 cubic feet of gas per day with multi Darcy permeability.

Sacramento Basin, California USA (EME 25-30%)

- Negotiated a 25-30% working interest in the Northern Sacramento Basin package of gas projects;
- Northern Sacramento Basin projects includes the Dempsey and Alvarez prospects plus a Dempsey Trend AMI with multiple targets;
- Dempsey 1-15 well spudded in August 2017 and reached total depth of 9,747 feet; and
- Wireline logs confirmed numerous potential gas bearing zones. Comprehensive production testing commenced in November 2017.

Post reporting period

Block 29/11, Pearl River Mouth Basin, China (EME 100%)

- Based on comprehensive seismic interpretation of fully processed 3D data, 31% uplift in best case Prospective (Un-risked) Resources from 591 MMbbl to 774 MMbbl in Jade, Topaz and Pearl prospects announced in June 2018; and
- Detailed Oil Migration Study completed in June 2018. The study helped interpret effective oil migration pathways into the Jade, Topaz and Pearl prospects from proven hydrocarbon kitchen sags.



Highlights

Duyung PSC Project, Indonesia (EME 10%)

- The operator, Conrad Petroleum made significant progress with completion of detailed and comprehensive technical studies by incorporating all the sub-surface data collected in the discovery well;
- In addition, substantial commercial and facilities studies have been completed as a part of the Plan of Development (POD);
- POD, including reserves certification, submitted to the Indonesian regulator SKKMigas in August 2018; and
- Heads of Agreement signed with regional utility for sale of Mako gas.

Sacramento Basin, California USA (EME 25-30%)

- The JV discussed and agreed to conduct a comprehensive testing operation. A total of three zones (Zone 2, 3, and 4) were high-graded for testing in the well;
- Comprehensive data was collected to understand the key parameters (porosity and permeability) of the reservoir;
- Commercial Gas Flows from combined zones commenced at Dempsey at ~ 1,300 mcf per day;
- JV now undertaking further subsurface work to assess the prospectivity of other opportunities along the Dempsey trend in light of the results of Dempsey 1-15;
- Cash flow from production at Dempsey commenced in July 2018; and
- Applications submitted to commence operations at Alvarez well.

Empyrean CEO Tom Kelly said, “After the sale of our interest in the Sugarloaf AMI in Texas in 2016, Empyrean has successfully reconstructed the Company through a series of strategic acquisitions and the Company now holds an exciting portfolio of exploration projects in China, Indonesia and the USA.

The Company has actively worked with the operators to make substantial progress in each project during the year. As a result, we have made a discovery in Indonesia; proven commercial gas in the Sacramento Basin (Dempsey 1-15) in California; and successfully completed the acquisition, processing and interpretation of a large 3D survey over the key prospects in China.

We expect that work over the remainder of the calendar year will continue to add significant value for the Company and its shareholders through the focused advancement of these projects.”



Chairman's Statement

After a significant restructuring of its activities in the prior year, which included the sale of our interest in the Sugarloaf asset in Texas, Empyrean has successfully developed into an active exploration company through a series of exciting project acquisitions in China, Indonesia and the United States.

In December 2016 Empyrean acquired a permit covering 100% of the exploration rights for Block 29/11, located in the Pearl River Mouth Basin, offshore China. Under the negotiated terms, the China National Offshore Oil Company Limited (**CNOOC Limited**) have a back in right to 51% of the PSC if a commercial discovery is made following Empyrean entering a PSC.

Empyrean commenced a 580km² seismic acquisition survey on Block 29/11 in June 2017 which was completed in August of the same year, with preliminary interpretation confirming the structural validity of two key prospects, Jade and Topaz, which had previously been identified in vintage 2D seismic surveys, and identifying a third significant target named Pearl, located to the north of Topaz. All three prospects have significant resource potential and the prospective resource estimates were upgraded in June 2018, as detailed in the Operational Review. Empyrean has also recently completed an Oil Migration Study which has established effective potential oil migration pathways into the Jade, Topaz and Pearl prospects.

In April 2017 Empyrean acquired a 10% interest in the offshore Duyung PSC in Indonesia and participated in the drilling of the Mako South-1 well in June 2017. As previously reported, this well exceeded expectations with a stabilised flow rate of 10.9 cubic feet of high quality methane gas per day with excellent permeability (in the multi Darcy range). The results significantly de-risked the project, confirming a large accumulation of gas with extremely good reservoir quality. In August 2018 the Plan of Development (**POD**), including a certification of reserves, was submitted by the operator, West Natuna Exploration Limited, to the Indonesian regulator SKKMigas. During preparation of the POD, a Heads of Agreement was signed with a regional utility for the sale of all Mako gas.

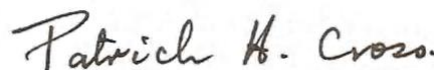
In May 2017 Empyrean entered into an agreement with ASX listed Sacgasco Limited, to test a group of projects in the Sacramento Basin California, including two mature gas prospects in Dempsey (EME 30%) and Alvarez (EME 25%) and also further identified follow up prospects along the Dempsey trend (EME 30%). Following completion of a 2,970 metre appraisal and exploration well, Dempsey 1-15, the operator has tested multiple gas zones which, subsequent to the reporting period end, resulted in the production of commercial gas flows. The plan at the time of this report was to connect to nearby wells to further increase production and cash flow.

Applications have also been submitted to the regulator to permit the re-entry of the Alvarez 1 wellbore. Analysis is currently being conducted with a view to assessing the integrity of the wellbore and the forward plan.

On the corporate front, the Company said farewell to Frank Brophy who retired in December 2017. Frank was with Empyrean for 12 years and made an invaluable contribution over that time and his technical knowledge, and friendship, is greatly missed. However, with Frank's departure the Company was fortunate to have the highly qualified Gajendra Bisht on the Board and he has assumed the technical oversight role across the Company's project portfolio. I'd also like to thank the Board and staff for their contribution during the year, in particular Tom Kelly who contributes so much time and effort and continues to drive Empyrean forward.

Chairman's Statement

The Company is excited about the position it is in, with a stronger oil price and interests in three high impact exploration projects in energy hungry markets. Work will continue to accelerate all three projects to maximise their value. While the activities above continue, in parallel the Board continues to evaluate new projects to position the Company for renewed growth and to further increase shareholder value.



Patrick Cross

Non-Executive Chairman

6 August 2018

Business Overview and Likely Future Developments

Following the sale of the Sugarloaf Asset in 2016 and a return of capital of 7.9p per share (totaling approximately £17,500,000) to shareholders the Company has re-established itself as an exploration company with a focus on high impact projects in proven hydrocarbon basins near to energy hungry markets that are close to existing infrastructure. The Company and its partners are actively engaged in exploration and development activities and are exploring various strategic options on all three projects, with the aim of maximising value for shareholders.

During the year the Company raised funds at various points to support the appraisal and exploration program and for working capital purposes. On 13 June 2017 the Company announced that it had raised £862,800 through a placing of 16,080,000 shares at 3.5p per share to raise £562,800 and through the exercise of 15,000,000 options by Tom Kelly at an exercise price of 2p to raise £300,000. On 20 June 2017 the Company announced that it had raised £660,000 through a placing of 12,000,000 shares at 5.5p per share. On 2 August the Company announced that it had raised £1,000,000 through the issue of 11,764,706 shares at 8.5p per share. On 20 February 2018 the Company announced that it had raised £600,000 through the exercise of 15,000,000 options by Tom Kelly at an exercise price of 4p.

The strategy is to continue to add value for shareholders by participating in late stage, mature exploration projects with low assessed geological risks. The Board and management recognise that exploration for hydrocarbons is a risky venture and there will be failures and challenges, however the Company has a team with a proven track record of finding hydrocarbons and advancing projects through exploration, appraisal and into production. The stronger oil price is also timely, particularly with regard to our China operations.

Management continually evaluates project opportunities that meet strict investment guidelines with an aim of adding value for all shareholders.

Operations and Outlook

As at 31 March 2018 the Company has the following interests:

The Company has an interest in Block 29/11 offshore China (100% during exploration and 49% upon any commercial discovery). Empyrean is the operator with 100% of the exploration rights of the 1800km² permit during the exploration phase of the project. Empyrean completed a 580km² 3D seismic acquisition survey in August 2017 and preliminary internal interpretation of the raw seismic data has confirmed the structural viability of two key prospects (**Jade** and **Topaz**) and identified a third significant prospect (**Pearl**). Geological work and further seismic interpretation resulted in upgraded prospective resource estimates on these three prospects being released subsequent to year end, as well as results from an Oil Migration Study, as detailed in the Operational Review.

The Company acquired a 10% interest in the Duyung PSC, offshore Indonesia, from Conrad Petroleum Pte Ltd (**Conrad Petroleum**) in April 2017. The Duyung PSC covers an offshore permit of approximately 1,100km² in the prolific West Natuna Basin. The main asset in the permit is the Mako shallow gas discovery that has an independently verified 2C and 3C gas resource of between 430-650 Bcf recoverable gas, that was completed before drilling the Mako South-1 well. The appraisal well, Mako South-1, was spudded in June 2017 with results exceeding expectations encountering excellent reservoir quality rock with high permeability sands in the multi Darcy range with 23 feet of gas bearing reservoir. This zone flowed gas at a stabilized rate of 10.9 million cubic feet per day through a 2-inch choke. The gas is of high-quality being close to 100% methane. On the back of

results from the Mako South-1 well the operator submitted a detailed Plan of Development, including a certification of reserves, to the Indonesian regulator in August 2018. As part of the POD submission, a Heads of Agreement was signed with a regional utility for the sale of all Mako gas.

The Company entered into an agreement with ASX listed Sacgasco Limited (**Sacgasco**), a Sacramento Basin focused natural gas developer and producer, in May 2017, to test a group of projects in the Sacramento Basin California, including two mature, multi-TcF gas prospects in Dempsey (EME 30%) and Alvarez (EME 25%) and further identified follow up prospects along the Dempsey trend (EME 30%). Following completion of an appraisal and exploration well, Dempsey 1-15, the operator has tested multiple gas zones which, subsequent to the reporting period end, resulted in the production of commercial gas flows which will generate near term cash flow. The JV is currently considering options including connecting to nearby wells to further increase the production rate. Applications have recently been submitted for work to commence at the Alvarez prospect.

The Company also has a 58.084% working interest in the Eagle Oil Pool Development Project asset in California and a 10% working interest in the Riverbend Project in Texas. Further detailed analysis on all projects is provided in the Operational Review on page 10.

Strategy

The Company's goal is to maximise value for shareholders. Empyrean will allocate its resources appropriately given the risk versus reward profile of our projects in order to achieve its goal. Risk assessment and evaluation is an essential part of the Company's planning and an important aspect of the Company's internal control system. These risks are first rigorously assessed at a technical level before the Company takes on a project and then diligently managed by the Company throughout the project timeline. 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 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 estimated capital costs, operating costs, reserves, recovery and production levels; actions of host governments or other regulatory authorities; and failure to find a hydrocarbon or finding uneconomic hydrocarbons. The Company employs geological experts and engages independent consultants where necessary to review exploration data as it is produced.

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. The Company monitors the current and forecast oil prices on a regular basis.

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. In particular, the Company's existing exploration assets are located in China, Indonesia and the USA and currently require US\$ denominated funding to take them forward. The Company monitors the ongoing economic situations in the countries in which it has activities.

Financing Risk

Future investment is dependent on having sufficient funds to enable the exploration or development of projects, whether through debt or equity funding. The Company has raised funds in GBP and has had surplus US\$ available from the sale of Sugarloaf in 2016. In addition, the Company is currently expecting a refund in USD from the IRS. There is the potential to be exposed to foreign exchange losses or profits on any funds that the Company converts into GBP or converts from GBP to US\$ as the Company's exploration assets require payments for services to be made in US\$. The Company prepares cash flow forecasts and monitors its expenditure against budget, raising funds when necessary.

Market Risk

Securing sufficient and profitable sales contracts to support operations is a key business risk. Empyrean's exploration projects in California require the renewing of certain leases from time to time. There is some risk that some leases may not be able to be negotiated or that the terms may be different. The Company also operates in China and Indonesia and there are risks associated with the demand for hydrocarbons and the different pricing between markets for different commodities such as gas versus oil.

Environmental Risk

For some assets, the Company is dependent on other operators for the performance of exploration and production activities and will be largely unable to direct, control or influence the activities and costs of these operators. The Company carefully considers the technical, HSSE and financial capabilities of future potential operators during any farm-out process. The Company currently operates Block 29/11 in offshore China.

Financial Position and Performance of the Business

Net loss after tax for the year was US\$2.63m (2017: US\$10.28m net loss). Total assets were US\$12.28m (2017: US\$7.41m), the increase mainly due to capitalised exploration expenditure on the Company's three primary projects. Total liabilities were US\$2.89m (2017: US\$2.66m), the slight increase due to movement in the derivative liability valuation. The Company's cash position at 31 March 2018 was US\$0.39m (2017: US\$6.11m) with net operating cash outflows of US\$0.99m (2017: US\$3.43m).

Key Performance Indicators

Over the last few years the key financial performance indicators ("KPI's") for the Company have been revenue and net profit. The key non-financial KPI's over that time have been the Company's reserves and share price. Given the sale of the Company's primary producing asset in 2016, Sugarloaf AMI, revenue, net profit, reserves and share price were deemed to be no longer the most appropriate indicator of the performance of the Company. With the Company's successful re-build as an exploration company with portfolio of projects aimed at adding value for shareholders – the Company's share price is again a key KPI. Since the return of value to shareholders, the Company's share price has grown from 1p to over 27p in September 2017 and is 7.8p at the time of writing this report. In addition, with the Company becoming an active explorer, exploration results across all projects, resource estimates at the Chinese project and production from California are important KPIs and to this end, all of the Company's projects have achieved positive results which are detailed further in the Operational Review.

The share price performance over the 24 months to 30 June 2018 is represented graphically below.



The strategic report and operational review was approved by the Board on 6 August 2018 and signed on the Board's behalf.



Thomas Kelly
Chief Executive Officer
6 August 2018



Operational Review

Following the sale of the Company's interest in the Sugarloaf AMI in 2016 and the subsequent return of capital to shareholders, Empyrean has been successfully transformed into an exploration focused company with an active work programme conducted during the financial year. The management and Board have been successful in establishing an exciting portfolio of value accretive projects in China, Indonesia and the United States with transformative potential.

All of these assets have one common thread - they are located in a proven and prolific geological play systems with strong commercialisation options in the vicinity of these assets. In addition, Empyrean has now become an operator with 100% working interest in Block 29/11, offshore China, acquired in December 2016.

In April 2017, Empyrean acquired a 10% shareholding in the Duyung PSC in offshore Indonesia from Conrad Petroleum. The portfolio was enhanced by the acquisition of a third project when Empyrean entered into an agreement with ASX listed Sacgasco Limited to farm in to a package of gas projects in the Sacramento Basin, onshore California in which Empyrean has a 25-30% working interest.

Empyrean has retained an interest in the Riverbend Project (10 % WI) located in the Tyler and Jasper counties, onshore Texas and a 58.084% WI in the Eagle Oil Pool Development Project, located in the prolific San Joaquin Basin onshore, Southern California. However, no technical work has been undertaken on these projects during the year.

China Block 29/11 Project (100% WI)

Block 29/11 is located in the prolific Pearl River Mouth Basin, offshore China approximately 200km Southeast of Hong Kong. This acquisition of this block heralded a new phase for Empyrean when it became an operator with 100% of the exploration rights of the permit during the exploration phase of the project. In the event of a commercial discovery, and subject to Empyrean first entering a Production Sharing Contract (**PSC**), China National Offshore Oil Corporation Limited (**CNOOC**) will have a back in right to 51% of the permit.

The initial contractual term called Geophysical Service Agreement (**GSA**) is for two years with a work programme commitment of acquisition, processing and interpretation of 500km² of 3D seismic data.

Completion of 3D Seismic Survey

In June 2017 Empyrean commenced a 3D seismic acquisition survey covering two key prospects, Jade and Topaz. These prospects were mapped in vintage 2D seismic data.

The 3D seismic survey acquisition was completed successfully in August 2017. Empyrean exceeded the work obligation of the permit for the current GSA phase by acquiring 580km² data for evaluating the permits prospectivity comprehensively.

The survey was completed on schedule with no Health, Safety and Environmental (**HSE**) issues.

In September 2017 Empyrean completed an internal interpretation and preliminary mapping of the Seismic Boat's raw 3D data. The main aim of this work was to confirm the structural validity of the Jade and Topaz prospects. This mapping exercise also helped identify a third significant prospect named Pearl, located immediately north of the Topaz prospect.

Preliminary mapping estimated the gross unrisks prospective resources for Jade, Topaz and Pearl and these results were published in August 2017 with a total Preliminary Prospective Resources (Best) Estimate of 591 million barrels of oil ("MMbbl") from the Jade, Topaz and Pearl prospects.

Completion of Processing of 3D seismic data

Following the successful acquisition of a large 3D survey with no HSE issues in August 2017, Empyrean focused on processing the seismic data optimally. Empyrean had regular interaction with the China Oilfield Services Limited (**COSL**) processing team at all stages of the project. Time (**PSTM**) and Depth (**PSDM**) processing of the 3D seismic data was completed in January 2018. The final processed data was of high-quality that clearly imaged the potential reservoirs, faults and deeper basin.

Interpretation of the processed data commenced immediately following the completion of processing using both internal technical capability and an additional expert consultant Geophysicist that Empyrean contracted specifically for the task.

Arising from the 3D seismic interpretation, the Jade and Topaz prospects have developed into better defined and very substantial opportunities. The Pearl Prospect, which was a substantial lead based on the vintage regional 2D seismic, has evolved into a significant prospect following the 3D seismic interpretation. The results indicated that all three prospects are large and are in favourable geological settings.

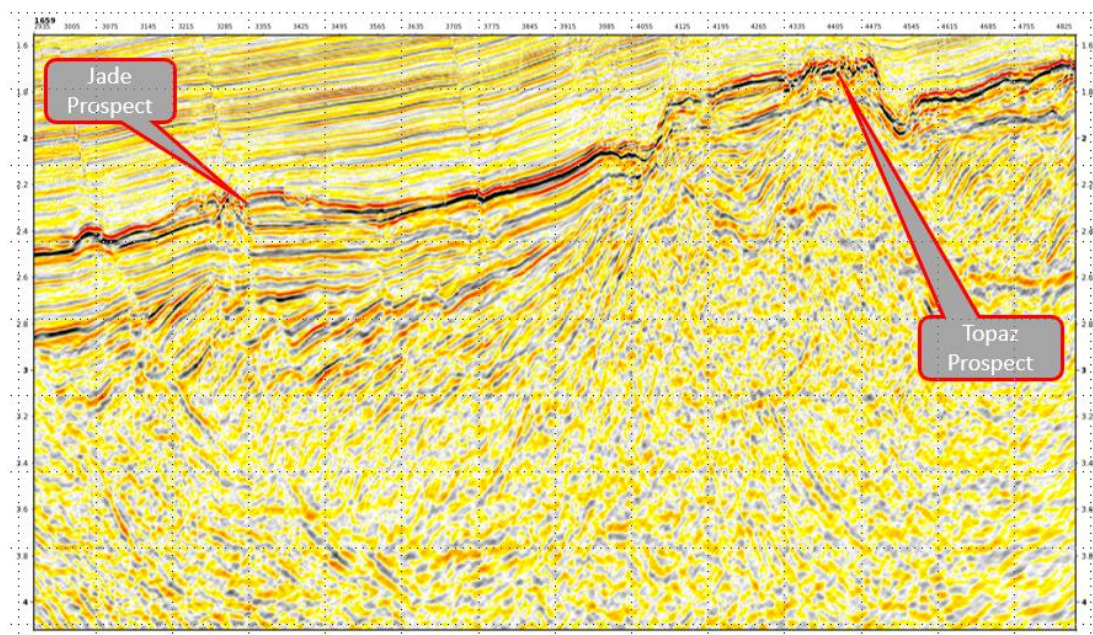


Figure 1: China Block 29/11, Jade and Topaz Prospects

Based on the results of comprehensive interpretation of the fully processed seismic data, the prospective (un-risked) resources of these three major high graded prospects was revised upwards by 31%, as per the table below. The revised estimates are higher than previously reported estimates because of detailed mapping and improved assessment of reservoir parameters.

Gross (100%) 'Best' case Prospective Resources combined are estimated at 774 MMbbl on an un-risked basis, as per below.

Block 29/11 China: Gross Prospective (un-risked) Resources MMbbl						
Timeline	September 2017			June 2018		
	(Seismic Boat Raw 3D data)			(Final Processed 3D data)		
Prospect	Low Case	Best Case	High Case	Low Case	Best Case	High Case
Jade	89	103	143	94	190	303
Topaz	280	365	498	292	435	728
Pearl	84	123	206	94	149	256

Given, one of the major challenges with resource estimation rests heavily with an estimation of Gross Rock Volume (GRV), a critical step to reducing the uncertainty of estimating GRV is to better understand and quantify velocity field and depth conversion. As a result, two approaches were taken for depth 'conversion of time' interpretation of the seismic marker for the potential reservoir top. The resulting two GRVs from two structure maps were then combined to generate an industry standard probabilistic result using Monte Carlo simulation with 1,000 trials (using Crystal Ball software). This probabilistic method has produced Gross Prospective (un-risked) Resources as shown below.

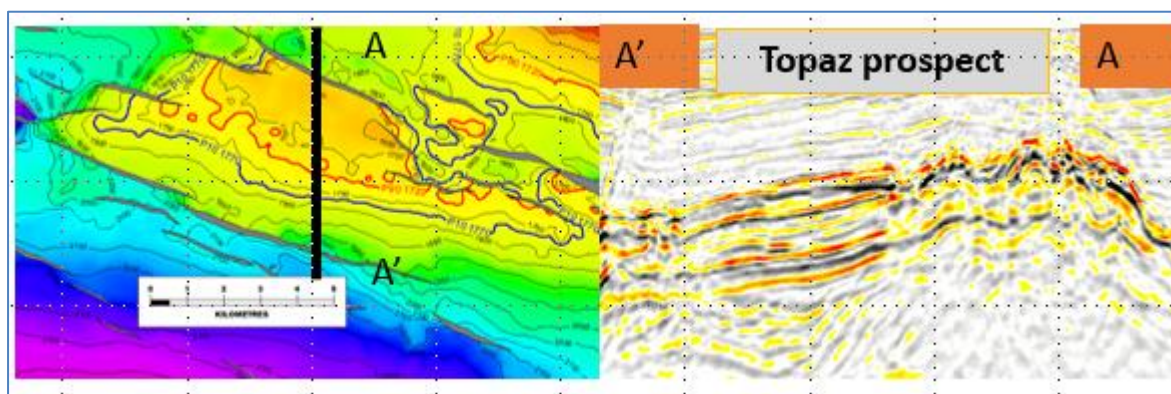


Figure 2: Block 29/11 – Topaz Prospect

Block 29/11 China: Gross Prospective (un-risked) Resources MMbbl				
Probabilistic Estimates				
Prospect	P90	P50	P10	Mean
Jade	110	183	230	202
Topaz	298	431	631	453
Pearl	105	152	220	159

Oil Migration Study Completed

Substantial geological work was also undertaken during the year, focusing on migration pathways of oil in the basin which culminated in an Oil Migration Study (**the Study**) which was completed in June 2018.

During the Study, geoscientists from the CNOOC Limited Shenzhen branch were very supportive and shared the comprehensive viewpoints of their previous study in this area.

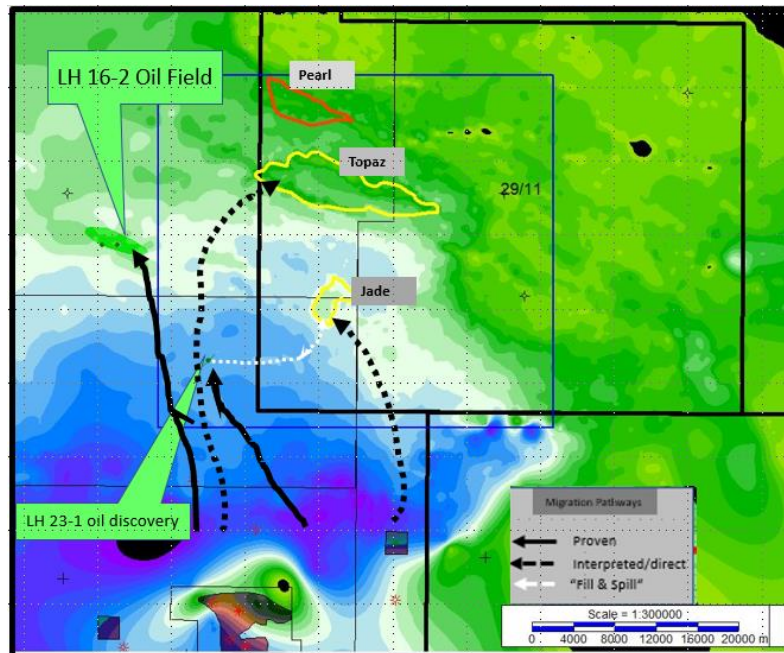


Figure 3: Proven and interpreted migration pathways from Baiyun Sag East

The Study established the maturity profile of source rock, and unambiguously established that the source rock in the Baiyun Sag East (**BSE**) area was at peak maturity when oil expulsion commenced. The main implications for Block 29/11 prospectivity are very positive with the entire source rock within BSE interpreted to have produced abundant hydrocarbons. In addition, any potential oil accumulation in Block 29/11 prospects are expected to be light and therefore similar to the oil discoveries around Block 29/11 that range from 33-38 API.

The Study validated the interpreted oil migration pathways from the known oil sources of the Enping Formation (Paleocene aged) within the BSE into the several oil discoveries made by CNOOC Limited to the immediate West and South of Block 29/11 since 2010, and thus provided strong evidence of a prolific petroleum system in the area. At the same time, the Study interprets effective migration pathways from BSE towards the northern flank of the Baiyun uplift where the Jade and Topaz prospects are located.

In addition, 28km² of 3D seismic data that was acquired outside Block 29/11 over the 2013 CNOOC Limited oil discovery LH 23-1d-1 which is located 8km west of the Jade prospect, helps confirm potential “fill-and-spill” pathways to the Jade structure from the oil discovery. Whilst early exploration techniques such as this are no guarantee of exploration success, the Company believes that this form of “seismic tie” to a nearby known discovery helps to reduce the risks associated with exploration and helps to provide an improved understanding of the geology in the basin and within Block 29/11.

Comprehensive interpretation of the 2017 3D seismic data has helped map a new sub-basin called Baiyun Sag North (**BSN**). BSN is located between the Jade and Topaz prospects and is entirely within Block 29/11. The Study confirms a potential effective migration pathway from BSN into Jade and Topaz.

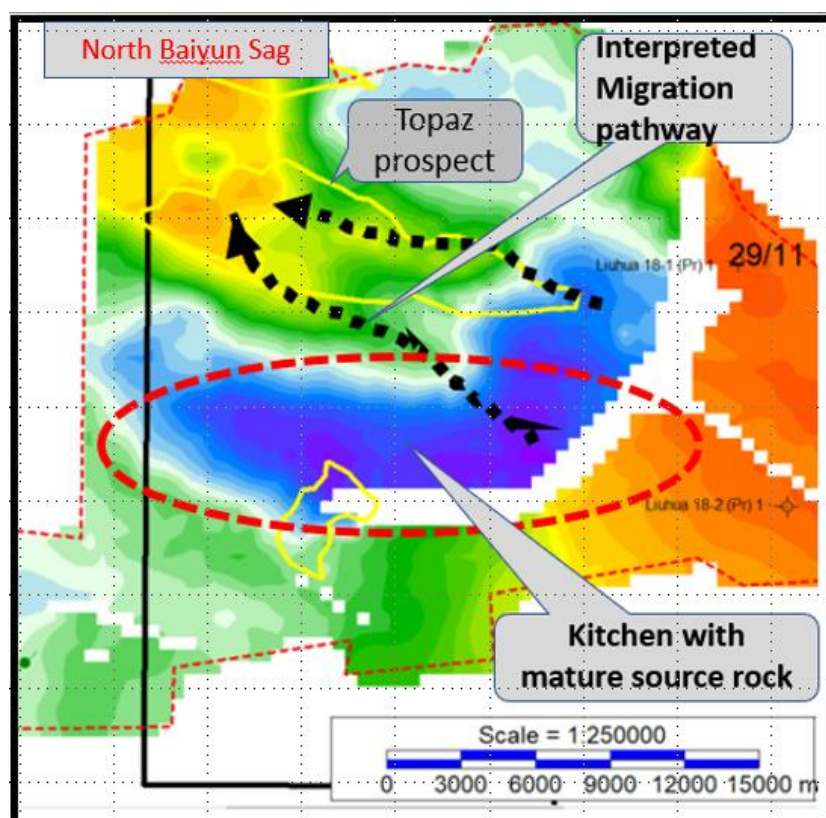


Figure 4: Interpreted migration pathways from Baiyun Sag North

The Study also indicates that the Pearl Prospect is potentially located in a migration shadow for oil migrating from BSE or BSN. As a result, further work has been done focusing on the possibility of migration from the Huizhou Sag located NW of Block 29/11. The Lihua 11-1 field complex that contained an estimated 1.1 billion barrels of oil is located immediately North of Block 29/11 and has been interpreted to have received oil from Huizhou Sag. Additional work completed now indicates that the Pearl prospect is located favourably for receiving oil charge from Huizhou Sag.

Having successfully completed the committed work program for the first phase (**GSA**), the Company intends to exercise its option to enter a PSC on the Block, on pre-negotiated terms, with CNOOC. The key term for entry into the PSC is commitment to and demonstration of the financial capacity to drill an exploration well on the Block within two and half years.

Duyung PSC, Indonesia (10% WI)

In April 2017, Empyrean acquired from Conrad Petroleum a 10% shareholding in West Natuna Exploration Ltd (**WNEL**), which holds a 100% Participating Interest in the Duyung Production Sharing Contract (**Duyung PSC**) in offshore Indonesia and is the operator of the Duyung PSC.

The Duyung PSC covers an offshore permit of approximately 1,100km² in the prolific West Natuna Basin. The main asset in the permit is the Mako shallow gas discovery that has an independently verified 2C and 3C gas resource of between 430-650 Bcf recoverable gas. In addition, the operator has been successful in mapping exploration prospects and leads within the permit.



Operational Review

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

The Mako South-1 well results exceeded the Company's expectations encountering excellent reservoir quality rock with high permeability sands in the multi Darcy range with 23 feet of gas bearing reservoir. This zone flowed gas at a stabilized rate of 10.9 million cubic feet per day through a 2-inch choke. The gas is of high-quality being close to 100% methane.

Initial interpretation of the test results demonstrated that the sandstone reservoir is expected to be laterally contiguous with exceptional permeabilities in the multi Darcy range.

Conrad Petroleum made significant progress with completion of detailed and comprehensive technical studies by incorporating all the sub-surface data collected in the discovery well. Substantial commercial and facilities studies have been completed as a part of the Plan of Development (POD). The POD was submitted to the Indonesian oil and gas regulator SKKMigas in August 2018. The Mako POD process paves the way for the Duyung PSC to convert into a Production Permit through to 2037 following approval of the POD by the Indonesian Ministry of Energy and Mines. As part of the POD submission, WNEL has negotiated and signed a Heads of Agreement for the sale of all Mako gas to a regional utility.

Furthermore, as part of the POD submission, Indonesian government owned and accredited consultant Lemigas completed a certification of reserves (**Lemigas Reserves**) based primarily on the Mako South-1 well and an area of circumference spreading out from the well. In addition, Conrad has completed an internal calculation of its contingent resources (**Contingent Resources**) based on the full Mako Gas Field. The Conrad preliminary estimate of 2C Contingent Resources of 373Bcf is expected to be converted into reserves following a Final Investment Decision (FID) by WNEL and the signing of a GSA and agreements to access (**Access Agreements**) the West Natuna Transport System (**WNTS**), the pipeline that carries gas to mainland Singapore. Conrad also has plans for third party certification of its Contingent Resources using current Society of Petroleum Engineers (**SPE**) standards in due course. The "Lemigas Reserves" are shown in the table below:

"Lemigas Reserve" Certification*	1P	2P	3P
Initial Gas In Place (Bcf)	38.03	190.38	620.70
Recoverable Gas Reserve (Bcf) as at April 01, 2018	30.42	152.30	496.56

Lemigas Mako POD "Reserves"

* It is important to note that "reserves" in this context does not equate with the current SPE definitions followed by Conrad but does signify approval for WNEL to extract the certified volume of gas.

Work on the FID, GSA and Access Agreements is a priority for WNEL in the coming 12 months.

Recently completed re-processing of 2009 vintage 2D seismic data utilising the latest advanced techniques has substantially improved imaging of the geological features underneath the Mako Gas Field. Ongoing evaluation of this data has identified a significant exploration 'lead', named Mako Deep. Whilst Mako Deep is named due to its proximity below the Mako Gas Field, it is in fact relatively shallow by industry standards at 2000-6000ft below mean sea level. Mako Deep is likely to contain well developed thick sand packages as proven by the Tengirri-1 well (drilled by Conoco in 1975). Provisional initial estimates show that Mako Deep has the potential to contain very large quantities of recoverable hydrocarbons, both oil and natural gas. Seismic interpretation, and analysis of the cuttings of the old Tengirri well are underway to further delineate and de-risk this exciting 'lead' for potential future drilling that could be executed sometime during 2019.

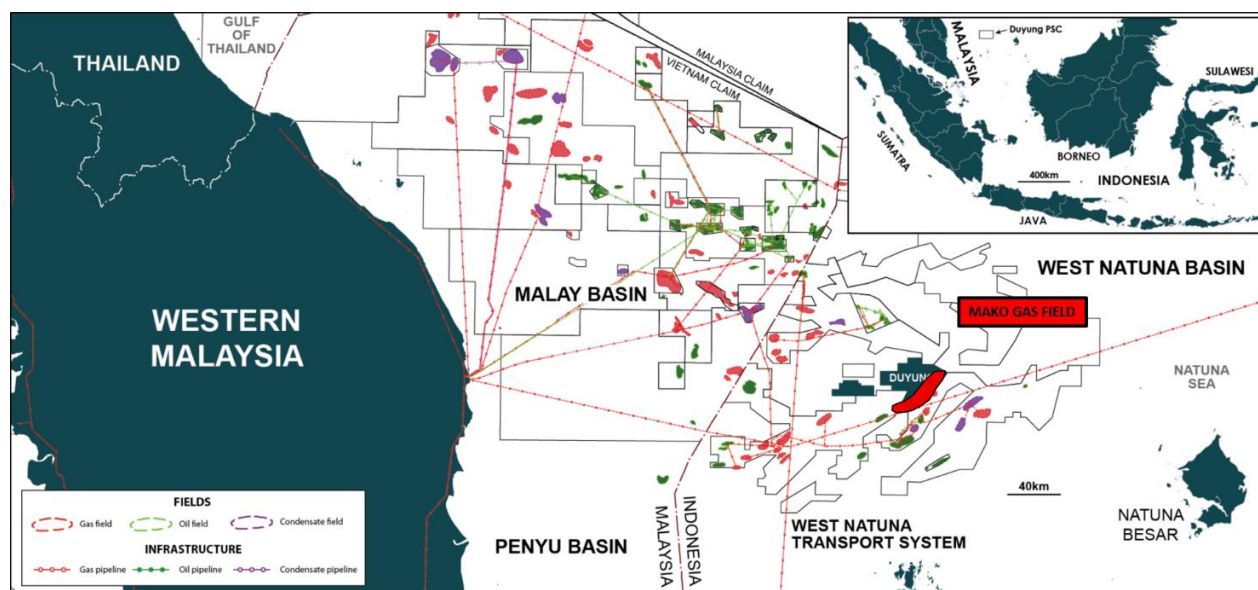


Figure 5: Mako Gas field, Duyung PSC, Indonesia

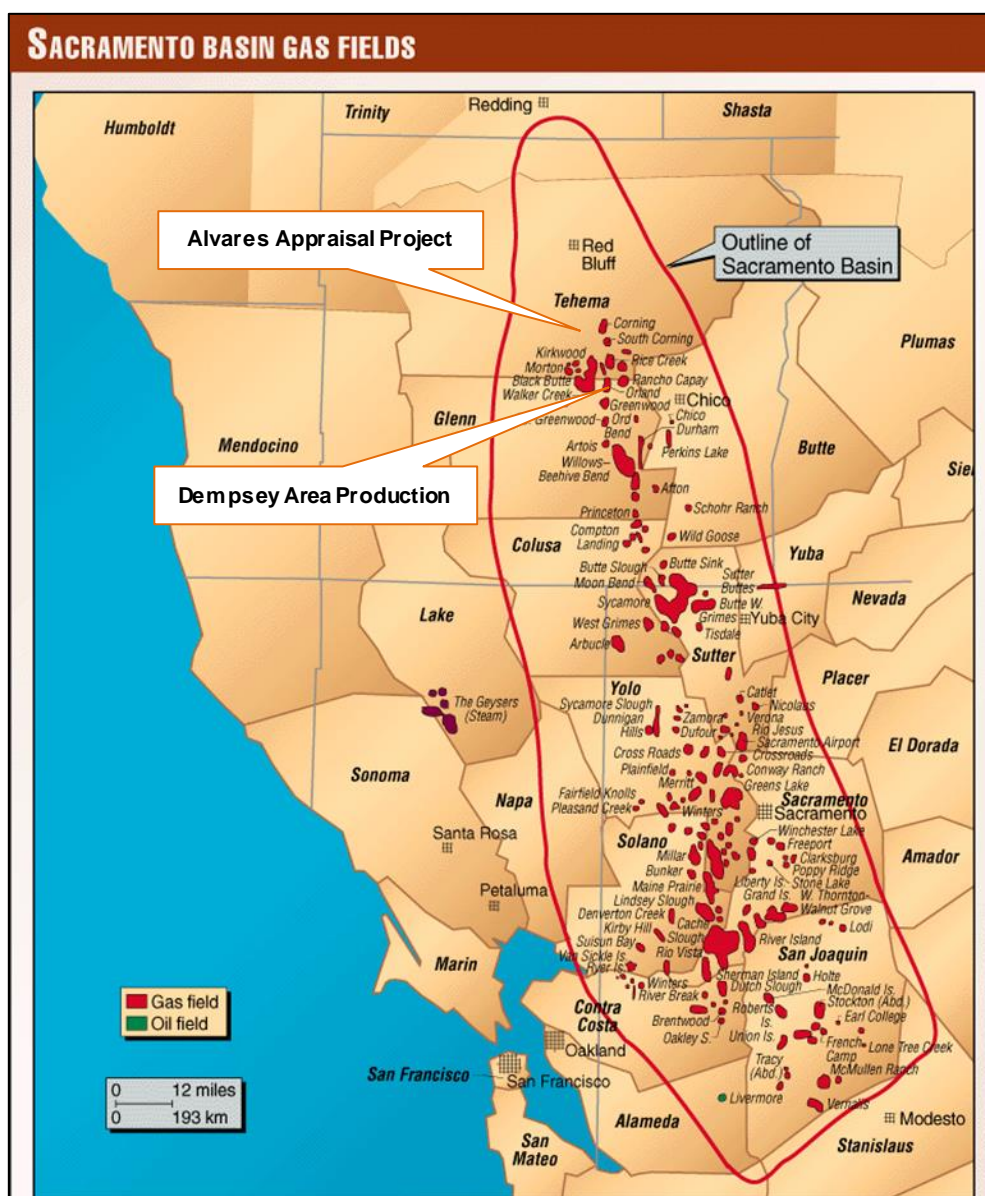
Multi Project Farm-in in Sacramento Basin, California (25%-30% WI)

In May 2017, Empyrean entered into an agreement with ASX listed Saggasco Limited to farm-in to a package of gas projects in the Northern Sacramento Basin, onshore California. The package includes two technically mature multi-Tcf gas potential prospects, Dempsey and Alvarez, and an Area of Mutual Interest (AMI) along trend from Dempsey that includes at least three already identified Dempsey style follow up prospects.

Empyrean earned a 30% interest in the Dempsey Prospect by paying US\$2,100,000 towards the cost of drilling the Dempsey 1-15 exploration well. These drilling costs had a promoted cap of US\$3,200,000 and Empyrean paid its working interest of 30% towards any additional costs towards Dempsey 1-15, including completion costs.

Dempsey 1-15 well was spudded on 2 August 2017 and drilled to a TD of 2,970 metres (9,747 feet) in September 2017. Wireline logs confirmed numerous potentially gas-bearing zones. A comprehensive production testing programme was designed to assess the production capability of these zones through 2017 and 2018. A total of three zones (Zone 2, 3, and 4) in the well were tested.

As of July 2018, Dempsey 1-15 is producing into the sales gas pipeline at an approximate rate of 1,300 mcf per day from Field Level Kione Sandstone and the combined Zones 2 and 3 with subsequent cash flow from this production expected in Q3 2018.



Based on test data the Dempsey 1-15 well has produced clean dry natural gas from a vertical interval of over 2000 feet, and this information will be integrated with geology and seismic to evaluate production options, including reservoir production enhancement through fracture stimulation, and alternative deviated well configurations. Production data and economic assessments will determine the development plans for Dempsey reservoirs and associated JV drilling activities in the Sacramento Basin. Sacgasco also advised of advanced plans to connect four idle wells into the sales gas system in the Dempsey area that are hoped to add to production and cash flow.

Sagcasco has commenced preparatory work on the Alvarez project and applications have recently been submitted for exploration work to commence at the Alvarez prospect. The initial plan at Alvarez is to assess the integrity of the well bore as the basis for a decision to either log through casing and perforate zones of interest for natural gas production or alternatively drill a side-track to enable gas-filled reservoir assessment in a newly drilled interval of reservoirs.

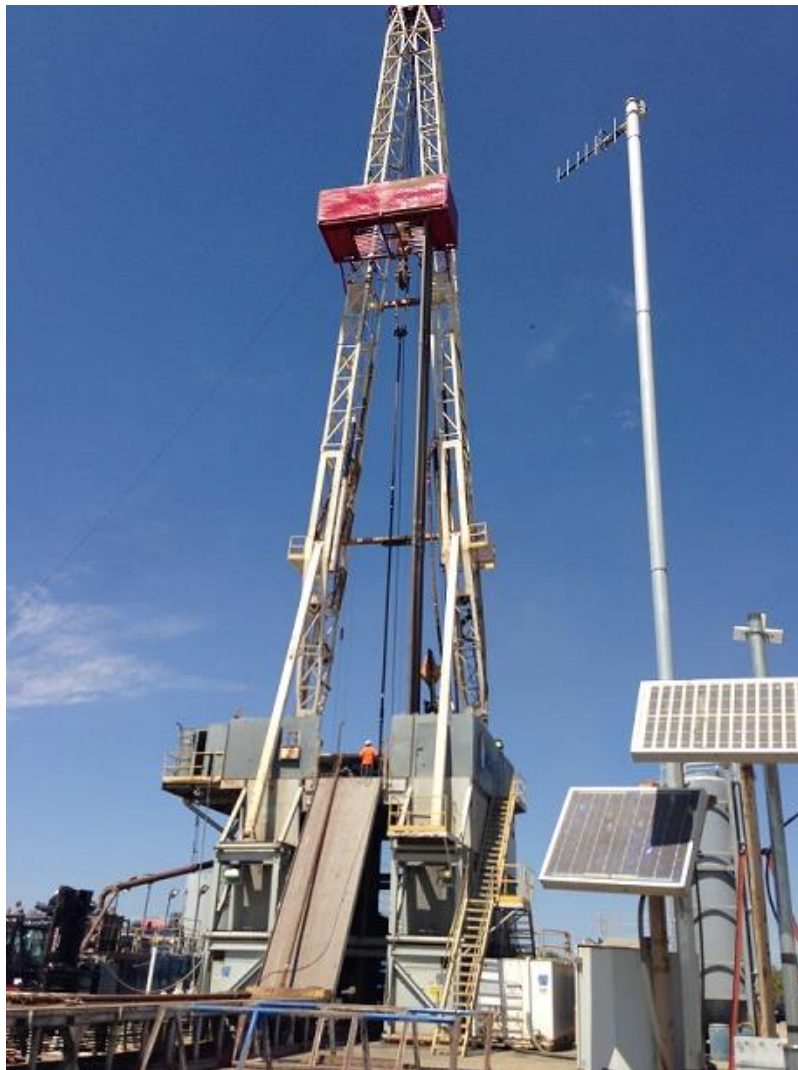


Figure 7: Dempsey 1-15 well, Sacramento Basin, California USA

Empyrean will earn a 25% working interest in the Alvarez appraisal prospect by paying 33.33% of the costs of the next Alvarez appraisal well.

The Dempsey Trend AMI, in which Empyrean will earn a 30% interest, extends to approximately 250,000 acres (including the Dempsey structure) and includes at least three large Dempsey style identified follow up prospects. Empyrean will provide technical assistance to Sacgasco to further mature prospects within the Dempsey Trend AMI and will also have an option to participate in the already identified prospects on the following basis:

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



Operational Review

Riverbend Project (10%)

Located in Jasper County, Texas, USA, the Cartwright No.1 re-entry well produces gas and condensate from the arenaceous Wilcox Formation.

The Cartwright No.1 well is currently virtually suspended producing only nominal amounts of gas condensate.

Little or no work has been completed on the project in the year and no budget has been prepared for 2018/19 whilst the Company focuses on other projects. The Company fully impaired the carrying value of the asset at 31 March 2017 and any subsequent expenditure, mainly for license fees, has been expensed through the profit and loss statement.

Eagle Oil Pool Development Project (58.084% WI)

The Eagle Oil Pool Development Projects is located in the prolific San Joaquin Basin onshore, southern California.

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

Little or no work has been completed on the project in the year and no budget has been prepared for 2018/19 whilst the Company focuses on other projects. The Company fully impaired the carrying value of the asset at 31 March 2017 and any subsequent expenditure, mainly for license fees, has been expensed through the profit and loss statement.

The information contained in this report was completed and reviewed by the Company's Executive Director (Technical), Mr Gajendra (Gaz) Bisht, who has over 29 years' experience as a petroleum geoscientist.

Definitions

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

*CAUTIONARY Statement: The estimated quantities of oil that may potentially be recovered by the application of a future development project relates to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration, appraisal and evaluation is required to determine the existence of a significant quantity of potentially movable hydrocarbons.



Gajendra Bisht M.Sc. (Tech) in Applied Geology

Executive Director (Technical)

6 August 2018



Directors' Report

The Directors are pleased to present their report on the affairs of the Company, together with the audited financial statements for the period 1 April 2017 to 31 March 2018.

Dividends

The Directors do not propose the payment of a dividend.

Directors and Directors' Interests

Directors of the Company who served during the year

Patrick Cross – Non-Executive Chairman

Dr 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 countries. He also worked for 2 years as President of Cable and Wireless Japan, and 6 years as Managing Director of BBC World Ltd. Dr 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 was non-executive chairman of Mercom Capital Plc, was a non-executive director of Orca Interactive Limited and is a Trustee of the Royal Society of Tropical Medicine and Hygiene. At the time of this report Dr Cross holds or has a beneficial interest in 625,000 shares in the Company.

Thomas Kelly – Chief Executive Officer

Mr Kelly has had more than 25 years corporate, finance and investment banking experience. During this period, Thomas Kelly has been involved 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. Mr Kelly is a founding Director of Empyrean Energy Plc. At the time of this report Mr Kelly holds or has a beneficial interest in 70,881,563 shares in the Company and 15,000,000 options in the Company exercisable at 2p on or before 26 July 2019.

Gajendra Bisht – Executive Director (Technical) [Appointed 14 June 2017]

Mr Bisht is an oil and gas professional with over 29 years of proven skills in all aspects of Exploration and Production. In past 5 years, he has developed strong business acumen in strategy framing and execution and has built deep and effective relationships with international companies as well as regulators in South East and North Asia, particularly in Indonesia, China and Malaysia. At the time of this report Mr Bisht holds or has a beneficial interest in 31,250,000 shares in the Company.

John Laycock – Non-Executive Director

Mr 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. Mr Laycock has a degree in Mechanical Engineering from Bristol University and is a Fellow of the Chartered Institute of Management Accountants, who is based in the UK. At the time of this report Mr Laycock holds or has a beneficial interest in 1,700,000 shares in the Company.



Directors' Report

Frank Brophy – Technical Director (Resigned 31 December 2017)

Mr Brophy has over 50 years' experience as a petroleum geologist in the exploration, development and production of many world class projects. Mr Brophy's roles have seen him involved with operations in many locations around the world including Australia, Asia, Europe, USA, Africa and the Middle East.

Insurance

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

Going Concern

The Company's principal activity during the year has been the acquisition and development of its exploration projects. At year end the Company had a cash balance of US\$0.39m (2017: US\$6.12m) and made a loss after income tax of US\$2.63m (2017: US\$10.28m).

The Directors have prepared cash flow forecasts for the Company covering the period to 30 June 2019 and show that the Company will require further funding within the next 12 months. The Directors have an appropriate plan to raise additional funds as and when it is required, either through the sale of existing assets, through joint ventures of existing assets or through equity or debt funding.

The Directors have therefore concluded that it is appropriate to prepare the Company's financial statements on a going concern basis. However, in the absence of additional funding being in place these conditions indicate the existence of a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Financial, Liquidity and Cashflow Risk Management

Refer to Note 18 in the financial statements for further details.

Post Reporting Date Events

Significant events post reporting date were as follows:

In July 2018 the Company received notification from the United States Internal Revenue Service (**IRS**) that it would receive US\$905,000 on 23 July 2018, being a refund of 2017 corporation tax paid.

In June 2018 the Company received US\$396,000 from HM Revenue & Customs (**HMRC**), being a refund of 2017 corporation tax paid.

In June 2018 the Company announced the results of comprehensive processing and interpretation of the 608km² of 3D seismic data that it successfully acquired during 2017. Based on the results of the comprehensive processing and interpretation of the final 3D data, the prospective (un-risked) resources of these three major high graded prospects have been revised upwards by 31%. The revised estimates are higher than previously reported estimates because of detailed mapping and improved assessment of reservoir parameters. Gross (100%) 'Best' case Prospective Resources combined are now estimated at 774 MMbbl on an un-risked basis.



Directors' Report

In June 2018 the Company announced that it had completed an Oil Migration Study which has established effective potential oil migration pathways into the Jade, Topaz and Pearl prospects. The Study has interpreted the Pearl prospect to be filled via a pathway from the large oil field to the North and has identified a new small sub basin within Block 29/11 between the Jade and Topaz prospects. The Study has also established a seismic tie with additional migration pathways between the 2013 CNOOC oil discovery LH 23-1d-1, immediately west of Block 29/11 and the Jade prospect. The Study indicates valid drilling targets that are of significant size with relatively low geological risk.

In May 2018, following completion of the appraisal and exploration well, Dempsey 1-15 and testing of multiple gas zones through 2017 and 2018, Empyrean announced that the Dempsey 1-15 well will produce into the sales gas pipeline at an anticipated rate of 1,200 mcf per day from Field Level Kione Sandstone and the combined Zones 2 and 3 with subsequent cash flow from this production expected during Q3 2018.

In August 2018, the Company announced that Conrad Petroleum had submitted a detailed Plan of Development, including a certification of reserves, to the Indonesian regulator in August 2018. As part of the POD submission, a Heads of Agreement was signed with a Singaporean utility for the sale of all Mako gas.

Strategic Report

The Company has chosen, in accordance with Section 414C of the Companies Act 2006, to set out the likely future developments in the business of the Company which would otherwise be required to be contained in the report of the Directors within the Strategic Report on pages 6 to 9.

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.

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
6 August 2018

The Directors are committed to maintaining high standards of corporate governance. Under the AIM rules, compliance with the UK Corporate Governance Code (**The Code**) as published in 2016 is voluntary. The Company recognises that an effective Board facilitates the effective discharge of the duties imposed by law on Directors and contributes to the delivery of the Company's strategic objectives. Whilst it is not required to apply the main and supporting principles of good governance set out in the UK Corporate Governance in 2016 by the Financial Reporting Council, the Company has policies and practises that are consistent with the spirit of The Code.

The London Stock Exchange has announced that all AIM companies will be required to apply a recognised corporate governance code from the 28 September 2018. In connection with the introduction of these new requirements, the Quoted Companies Alliance has published a new corporate governance code which the Company will be applying from 28 September 2018.

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 11 times throughout the year and each member attended each meeting. To enable the Board to perform its duties, each of the Directors has full access to all relevant information and to the services of the Company Secretary. If necessary, the Non-Executive Directors may take independent professional advice at the Company's expense. The Board currently includes two Executive Directors and two Non-Executive Directors. The Board has delegated specific responsibilities to the committees described below. Patrick Cross is a Non-Executive Director and Chairman of the Company and meets the criteria for independence under The Code. His experience and knowledge of the Company makes his contribution to the Board such that it is appropriate for him to remain on the Board and in his position as Chairman. John Laycock is a Non-Executive Director of the Company and meets the Company's criteria for independence.

Performance Evaluation

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

The Audit Committee

The Audit Committee comprises Patrick Cross and John Laycock and is chaired by John Laycock. During the year the Audit Committee met 3 times and each member attended 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 assesses the independence of, 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 2 times during the year and each member attended each meeting. It is responsible for reviewing the performance of the Executive Director 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).

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 meetings 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

The Company is cognisant of its responsibilities under the Bribery Act and has implemented an Anti-Bribery policy.

UK City Code on Takeovers and Mergers

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

Market Abuse Regime

The Company has adopted and operates a share dealing code for Directors and senior employees on substantially the same terms as the Model Code and MAR appended to the Listing Rules of the UKLA.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual 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 trading securities on AIM.

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

- select suitable accounting policies and then apply them consistently;
- make judgements 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



Thomas Kelly
Chief Executive Officer
6 August 2018

Opinion

We have audited the financial statements of Empyrean Energy Plc (the 'Company') for the year ended 31 March 2018 which comprise the statement of comprehensive income, the statement of financial position, the statement of cash flows and the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements: give a true and fair view of the state of the of the Company's affairs as at 31 March 2018 and of its loss for the year then ended; have been properly prepared in accordance with IFRSs as adopted by the European Union; and have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

We draw attention to note 1 to the financial statements which explains that the Company requires further funding in order to continue to meet its obligations and liabilities as they fall due as well as to continue to undertake the required work programme for the Company's principal assets.

The matters explained in note 1 indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern. Our opinion is not modified in respect of this matter.

We considered going concern to be a key audit matter based on our assessment of the risk and the effect on our audit. We performed the following work in response to this key audit matter.

We challenged management and the director's forecasts to assess the Company's ability to meet its financial obligations as they fall due within the period of twelve months from the date of approval of the financial statements. We reviewed the assumptions and inputs in the cash flow forecast and assessed whether these were in line with our understanding of the Company's operations, contractual obligations, general operating costs and other information obtained by us during the course of the audit.

We performed an accuracy check on the mechanics of the cash flow forecast model prepared by management and the directors.

We sensitized the cash flow to remove uncertain cash flows from equity raises and revenues from assets which have yet to move into development. We discussed with the directors their plans to raise further funds in the near future and considered their viability taking into account the Company's has successfully raised funds in the past.

We considered the adequacy of the disclosure in the financial statements of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty in relation to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Carrying value of exploration and evaluation assets

The Company's exploration and evaluation assets represent the most significant asset on its statement of financial position totalling \$7.82m as at 31 March 2018. Management and the directors are required to assess whether there is any evidence of any indicators of impairment of the assets and ensure all costs capitalised meet the recognition criteria of IFRS 6 (refer to note 1 and 8). Given the significance of the assets on the Company's statement of financial position and the significant judgement involved in the assessment of the carrying values of the asset and the capitalisation of associated costs there is an increased risk of material misstatement.

Our response

We evaluated management's and the directors' impairment review for the Company's two material, principal assets, Sacramento and China. We critically challenged the considerations made as to whether or not there were any indicators of impairment identified. We also performed substantive testing on the costs capitalised to the exploration and evaluation asset in relation to both projects.

Our specific audit testing in this regard included:

- We selected a sample of costs capitalized in the period for testing. We obtained supporting evidence for the amount capitalized and used the recognition criteria in IFRS 6 to ascertain whether this is a reasonable expense to capitalize.
- Verification of licencing status in order to confirm legal title and validity of the right to explore.
- Reviewed approved budget forecasts and minutes of management and board meetings to confirm the Company's intention to continue the exploration work on the licence.
- Obtained an understanding of management's expectation of commercial viability and reviewed available technical documentation and discussed results and operations with the management team.

Our application of materiality

	Materiality/ \$	Basis for materiality
FY 2018	180,000	1.5% of total assets
FY 2017	140,000	2% of total assets

We consider total assets to be the financial metric of the most interest to shareholders and other users of the financial statements, given the Company's status as an exploration company and therefore consider this to be an appropriate basis for materiality.

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 75% (2017: 75%) of the above materiality levels.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of \$9,000 (2017: \$7,000). There were no misstatements identified during the course of our audit that were individually, or in aggregate, considered to be material in terms of their absolute monetary value or on qualitative grounds.

An overview of the scope of our audit

We performed a full scope audit on the financial statements of the Company.

All audit work was undertaken by BDO LLP.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which 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 parent company 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements


Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.



Matt Crane (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor
London
6 August 2018

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 2018

	Notes	2018 US\$'000	2017 US\$'000
Revenue		30	1
Cost of sales			
Operating costs		(1)	(23)
Impairment of oil and gas properties	2, 8	(48)	(6,960)
Amortisation		-	(11)
Total cost of sales		(49)	(6,994)
Gross loss		(19)	(6,993)
Administrative expenditure			
Administrative expenses		(397)	(2,202)
Compliance fees		(225)	(284)
Directors' remuneration		(415)	(637)
Foreign exchange differences		114	-
Total administrative expenditure		(923)	(3,121)
Operating loss	2	(942)	(10,116)
Finance costs	3	(2,558)	(3,005)
Loss from continuing operations before taxation		(3,500)	(13,121)
Tax benefit in current year	5	797	2,839
Loss from continuing operations after taxation		(2,703)	(10,282)
Profit on discontinued operations net of tax	9	73	-
Loss after taxation		(2,630)	(10,282)
Total comprehensive loss for the year		(2,630)	(10,282)
Earnings per share from continuing operations (expressed in cents)			
- Basic	6	(0.71)c	(4.62)c
- Diluted		(0.71)c	(4.62)c
Earnings per share from discontinued operations (expressed in cents)			
- Basic	6	0.02c	-
- Diluted		0.02c	-

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

Statement of Financial Position

As at 31 March 2018

Company Number: 05387837

	Notes	2018 US\$'000	2017 US\$'000
Assets			
Non-current assets			
Oil and gas properties: exploration and evaluation	8	7,820	87
Oil and gas properties: development and production	9	-	57
Investments	10	2,572	-
Total non-current assets		10,392	144
Current assets			
Trade and other receivables	11	183	65
Corporation tax receivable	5	1,320	540
Contingent consideration receivable	7	-	554
Cash and cash equivalents		388	6,106
Total current assets		1,891	7,265
Liabilities			
Current liabilities			
Trade and other payables	12	374	2,178
Provisions		54	25
Derivative financial liabilities	13	2,463	459
Total current liabilities		2,891	2,662
Net current (liabilities)/assets		(1,000)	4,603
Net assets		9,392	4,747
Shareholders' equity			
Share capital	15	1,205	754
Share premium reserve		25,280	18,466
Share based payment reserve		10	2,421
Retained losses		(17,103)	(16,894)
Total equity		9,392	4,747

The Financial Statements were approved by the Board of Directors on 6 August 2018 and were signed on its behalf by:



Patrick Cross
Chairman



Thomas Kelly
Chief Executive Officer

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

Statement of Cash Flows

For the Year Ended 31 March 2018

	Notes	2018 US\$'000	2017 US\$'000
Payment for operating activities – continuing operations		(1,002)	(1,309)
Payment for operating activities – discontinued operations		-	(116)
Receipt of/(payment for) corporation tax		17	(2,007)
Net cash outflow from operating activities	14	(985)	(3,432)
Net proceeds from disposal of discontinued operations		73	-
Amounts held in escrow		-	16,875
Purchase of oil and gas properties: exploration and evaluation – continuing operations		(7,725)	(17)
Purchase of oil and gas properties: development and production – continuing operations		-	(80)
Acquisition of investments		(2,572)	-
Payment for exploration bonds and bank guarantees		(150)	-
Net cash (outflow)/inflow for investing activities		(10,374)	16,778
Issue of ordinary share capital		5,635	44
Return of value		-	(21,785)
Payment of equity issue costs		(108)	(63)
Finance expenses received		-	22
Net cash inflow/(outflow) from financing activities		5,527	(21,782)
Net decrease in cash and cash equivalents		(5,832)	(8,436)
Cash and cash equivalents at the start of the year		6,106	17,473
Forex gain/(loss) on cash held		114	(2,931)
Cash and cash equivalents at the end of the year		388	6,106



**Statement of Changes in Equity
For the Year Ended 31 March 2018**

		Share capital	Share premium reserve	Share based payment reserve	Retained loss	Total equity
	Note	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 April 2016		710	40,250	2,946	(7,201)	36,705
Loss after tax for the year		-	-	-	(10,282)	(10,282)
Total comprehensive loss for the year		-	-	-	(10,282)	(10,282)
<i>Contributions by and distributions to owners</i>						
Shares issued following exercise of options		44	-	-	-	44
Creation of B shares	15	21,784	(21,784)	-	-	-
Return of value (cancellation of B shares)	15	(21,784)	-	-	-	(21,784)
Transfer of expired options		-	-	(589)	589	-
Share based payment expense		-	-	64	-	64
Contributions by and distributions to owners		44	(21,784)	(525)	589	(21,676)
Balance at 1 April 2017		754	18,466	2,421	(16,894)	4,747
Loss after tax for the year		-	-	-	(2,630)	(2,630)
Total comprehensive loss for the year		-	-	-	(2,630)	(2,630)
<i>Contributions by and distributions to owners</i>						
Shares issued in the period	15	451	6,922	-	-	7,373
Equity issue costs		-	(108)	-	-	(108)
Transfer of expired options		-	-	(2,421)	2,421	-
Share based payment expense		-	-	10	-	10
Contributions by and distributions to owners		451	6,814	(2,411)	2,421	7,275
Balance at 31 March 2018		1,205	25,280	10	(17,103)	9,392

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

Notes to the Financial Statements

For the Year Ended 31 March 2018

Basis of preparation

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

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Company management to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed below.

Basis of measurement

The financial statements have been prepared on a historical cost basis, except for the following items (refer to individual accounting policies for details):

- Derivative financial liability

Nature of business

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

Going concern

The Company's principal activity during the year has been the acquisition and development of its exploration projects. At year end the Company had a cash balance of US\$0.39m (2017: US\$6.12m) and made a loss after income tax of US\$2.63m (2017: US\$10.28m).

The Directors have prepared cash flow forecasts for the Company covering the period to 30 June 2019 and show that the Company will require further funding within the next 12 months. The Directors have an appropriate plan to raise additional funds as and when it is required, either through the sale of existing assets, through joint ventures of existing assets or through equity or debt funding.

The Directors have therefore concluded that it is appropriate to prepare the Company's financial statements on a going concern basis. However, in the absence of additional funding being in place these conditions indicate the existence of a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Basis of accounting and adoption of new and revised standards

(a) New and amended standards adopted by the Company:

There were no new standards effective for the first time for periods beginning on or after 1 April 2017 that have had a significant effect on the Company's financial statements.



Notes to the Financial Statements For the Year Ended 31 March 2018

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

Any standards and interpretations that have been issued but are not yet effective, and that are available for early application, have not been applied by the Company in these financial statements. International Financial Reporting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 31 March 2018:

IFRS 15 'Revenue from Contracts with Customers' was issued by the IASB in May 2014. It is effective for accounting periods beginning on or after 1 January 2018. The new standard will replace existing accounting standards and provides enhanced detail on the principle of recognising revenue to reflect the transfer of goods and services to customers at a value which the company expects to be entitled to receive. The standard also updates revenue disclosure requirements. Sales revenue in the 2019 financial year is expected as Dempsey 1-15 well will shortly produce into the sales gas pipeline resulting in the production of commercial gas flows and subsequent cash flows. Management will assess the principals of IFRS 15 to ensure future revenues from this well are recognised appropriately. The adoption of IFRS 15 will have no impact on the 31 March 2018 financial statements as material revenues were not earned in this period.

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

IFRS 16 'Leases' – IFRS 16 'Leases' was issued by the IASB in January 2016 and is effective for accounting periods beginning on or after 1 January 2019. The Directors are currently evaluating the financial and operational impact of this standard, however do not consider that it will have a material impact as the Company does not currently have any material lease arrangements.

Revenue recognition

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

Tax

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

(a) Deferred tax

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



Notes to the Financial Statements For the Year Ended 31 March 2018

Foreign currency translation

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

Provisions

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

Oil and gas assets: exploration and evaluation

The Company applies the full cost method of accounting for Exploration and Evaluation ('E&E') costs, having regard to the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources'. Under the full cost method of accounting, costs of exploring for and evaluating oil and gas properties are accumulated and capitalised by reference to appropriate cash generating units ('CGUs'). Such CGUs are based on geographic areas such as a concession and are not larger than a segment. E&E costs are initially capitalised within oil and gas properties: exploration and evaluation. Such E&E costs may include costs of license acquisition, third party technical services and studies, seismic acquisition, exploration drilling and testing, but do not include costs incurred prior to having obtained the legal rights to explore an area, which are expensed directly to the income statement as they are incurred. Plant, Property and Equipment ('PPE') acquired for use in E&E activities are classified as property, plant and equipment. However, to the extent that such PPE is consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the intangible E&E asset. Intangible E&E assets related to exploration licenses are not depreciated and are carried forward until the existence (or otherwise) of commercial reserves has been determined. The Company's definition of commercial reserves for such purpose is proven and probable reserves on an entitlement basis.

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



Notes to the Financial Statements For the Year Ended 31 March 2018

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 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 8. The net book values of producing assets are depreciated on units of production basis. An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of a development or production asset may exceed its recoverable amount. The aggregate carrying value is compared against the expected recoverable amount of the cash generating unit. The recoverable amount is the higher of value in use and the fair value less costs to sell. Value in use is assessed generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. The cash generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped as a single cash generating unit where the cash flows of each field are interdependent.

Investments

Financial assets are defined in IAS 39 as investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such equity instruments, which shall be measured at cost. The Company acquired a 10% working interest in the Duyung PSC, Indonesia during the period. Due to the 10% shareholding and lack of significant influence over operations, under IAS 39 the project has been classified as an investment, measured at cost. Subsequent exploration expenditure is included as a further investment contribution in the period.

Discontinued operations

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and represents a separate major line of business or geographical area of operations; and is a part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or is a subsidiary acquired exclusively with a view to resale. Non-current assets held for sale and discontinued operations are carried at the lower of carrying value or fair value less costs to sell. Any gain or loss from disposal of a business, together with the results of these operations until the date of disposal, is reported separately as discontinued operations. The financial information of discontinued operations is excluded from the respective captions in the financial statements and related notes for the current and comparative period and disclosed as results from discontinued operations.

Financial instruments

Financial assets and liabilities are recognised in the statement of financial position when the Company becomes party to the contractual provision of the instrument.

(a) Financial assets

The Company's financial assets consist of loans and receivables (trade and other receivables, excluding prepayments, and cash and cash equivalents) and financial assets classified as fair value through profit or loss (contingent consideration receivable). Loans and receivables are initially measured at fair value and subsequently at amortised cost. Financial assets designated as fair value through the profit or loss are measured at fair value through the profit or loss at the point of initial recognition and subsequently revalued at each reporting date. Movements in the fair value of derivative financial assets are recognised in the profit or loss in the period in which they occur.



Notes to the Financial Statements For the Year Ended 31 March 2018

(b) Financial liabilities

All financial liabilities are classified as fair value through the profit and loss and financial liabilities at amortised cost. The Company's financial liabilities at amortised cost include trade and other payables and its financial liabilities at fair value through the profit or loss include the derivative financial liabilities. Financial liabilities at amortised cost, are initially stated at their fair value and subsequently at amortised cost. Interest and other borrowing costs are recognised on a time-proportion basis using the effective interest method and expensed as part of financing costs in the statement of comprehensive income. Derivative financial liabilities are initially recognised at fair value of the date a derivative contract is entered into and subsequently re-measured at each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company has not designated any derivatives as hedges as at 31 March 2017 or 31 March 2018.

(c) Impairment

At each reporting date, the Company assess whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the Statement of Comprehensive Income.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

Share based payments

The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Company's estimate of shares that will eventually vest. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

Critical accounting estimates and judgements

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.

Critical estimates

The following are the critical estimates that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

(a) Carrying value of exploration and evaluation assets

The Company monitors internal and external indicators of impairment relating to its exploration and evaluation assets. Management has considered whether any indicators of impairment have arisen over certain assets relating to the Company's exploration licenses. Management consider the exploration results to date and assess whether, with the information available, there is any suggestion that a commercial operation is unlikely to proceed. In addition, management have considered the likely success of renewing the licences, the impact of any instances of non-compliance with license terms and are continuing with the exploration and evaluation of the sites. After considering all relevant factors, management were of the opinion that no impairment was required in relation to the costs capitalised to exploration and evaluation assets.



Notes to the Financial Statements For the Year Ended 31 March 2018

(b) Income tax provision

The Company is subject to income tax in several jurisdictions and significant judgement is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the company recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when, despite the company's belief that its tax return positions are supportable, the company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The company believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

1. Segmental analysis

The Directors consider the Company to have three geographical segments, being China (Block 29/11 project), Indonesia (Duyung PSC project) and North America (Sacramento Basin project), which are all currently in the exploration and evaluation phase. The prior year numbers have been restated to reflect the updated segments. Corporate costs relate to the administration and financing costs of the Company and are not directly attributable to the individual projects. The Company's registered office is located in the United Kingdom.

Details	China US\$'000	Indonesia US\$'000	USA US\$'000	Corporate US\$'000	Total US\$'000
31 March 2018					
Revenue from continued operations	-	-	30	-	30
Profit on sale of discontinued operations	-	-	73	-	73
Cost of sales of continued operations	-	-	(48)	-	(48)
Cost of sales of discontinued operations	-	-	(1)	-	(1)
Segment result	-	-	54	-	54
Unallocated corporate expenses	-	-	-	(923)	(923)
Operating loss	-	-	54	(923)	(869)
Finance income and expense	-	-	-	(2,558)	(2,558)
Loss before taxation	-	-	54	(3,481)	(3,427)
Tax benefit in current year	-	-	-	797	797
Loss after taxation	-	-	54	(2,684)	(2,630)
Total comprehensive loss for the financial year	-	-	54	(2,684)	(2,630)
Segment assets	4,596	2,722	3,254	-	10,572
Unallocated corporate assets	-	-	-	1,711	1,711
Total assets	4,596	2,722	3,254	1,711	12,283
Segment liabilities	41	-	81	-	122
Unallocated corporate liabilities	-	-	-	2,769	2,769
Total liabilities	41	-	81	2,769	2,891

Notes to the Financial Statements For the Year Ended 31 March 2018

1. Segmental analysis (continued)

Details	China US\$'000	USA US\$'000	Corporate US\$'000	Total US\$'000
31 March 2017				
Revenue from continued operations	-	1	-	1
Profit on sale of discontinued operations	-	-	-	-
Cost of sales of continued operations	-	(6,994)	-	(6,994)
Cost of sales of discontinued operations	-	-	-	-
Segment result	-	(6,993)	-	(6,993)
Unallocated corporate expenses	-	-	(3,123)	(3,123)
Operating loss	-	(6,993)	(3,123)	(10,116)
Finance income and expense	-	-	(3,005)	(3,005)
Loss before taxation	-	(6,993)	(6,128)	(13,121)
Tax benefit in current year	-	-	2,839	2,839
Loss after taxation	-	(6,993)	(3,289)	(10,282)
Total comprehensive loss for the financial year	-	(6,993)	(3,289)	(10,282)
Segment assets	87	611	-	698
Unallocated corporate assets	-	-	6,711	6,711
Total assets	87	611	6,711	7,409
Segment liabilities	-	337	-	337
Unallocated corporate liabilities	-	-	2,325	2,325
Total liabilities	-	337	2,325	2,662

Notes to the Financial Statements
For the Year Ended 31 March 2018



	2018 US\$'000	2017 US\$'000
2. Operating loss		
The operating loss is stated after charging:		
Audit and tax fees	(46)	(99)
Consideration shares for Block 29/11 offshore China	-	(1,740)
Impairment of oil and gas properties	(48)	(6,960)
Amortisation	-	(11)
	<u>(94)</u>	<u>(8,810)</u>

Auditor's Remuneration

Amounts paid to BDO LLP and their associates in respect of both audit and non-audit services:

Fees payable to the Company's auditor for the audit of the Company annual accounts	32	34
Fees payable to the Company's auditor and its associates in respect of:		
- Other services relating to taxation	14	65
	<u>46</u>	<u>99</u>

	2018 US\$'000	2017 US\$'000
3. Finance costs		
Revaluation (loss)/gain on contingent consideration receivable	(554)	183
Fair value movement on derivative liability	(2,004)	(553)
Interest received/receivable	-	25
Net effective of de-recognition and re-recognition of derivative financial liability	-	289
Share based finance costs	-	(64)
Foreign exchange differences on finance arrangements	-	(2,882)
Interest paid/payable	-	(3)
Total finance costs	<u>(2,558)</u>	<u>(3,005)</u>

Notes to the Financial Statements For the Year Ended 31 March 2018

4. Directors' emoluments

	Fees and salary		Bonus payment		Social security contributions		Short-term employment benefits (total)	
	2018	2017	2018	2017	2018	2017	2018	2017
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Non-Executive Directors:								
Patrick Cross	24	24	-	-	2	2	26	26
John Laycock	14	14	-	-	1	1	15	15
Frank Brophy ^(a)	32	43	-	-	-	-	32	43
Executive Directors:								
Thomas Kelly ^(b)	296	290	-	282	-	-	296	572
Gajendra Bisht ^{(c)(d)}	185	N/A	-	N/A	-	N/A	185	N/A
	551	371	-	282	3	3	554	656

(a) Services provided by F J Brophy Pty Ltd for technical services. Frank Brophy retired as a Non-Executive Director on 31 December 2017.

(b) Services provided by Apnea Holdings Pty Ltd. On 13 June 2017 Tom Kelly exercised 15,000,000 options at an exercise price of £0.02. The closing share price of the Company on 13 June 2017 was £0.388. On 20 February 2018 Tom Kelly exercised 15,000,000 options at an exercise price of £0.04. The closing share price of the Company on 20 February 2018 was £0.119. These options were not granted to Mr Kelly as part of his remuneration but were acquired by Mr Kelly in an arms-length transaction. Mr Kelly has not sold any shares during the reporting period.

(c) Services provided by Topaz Energy Pty Ltd for technical services. Gajendra Bisht was appointed as an Executive Director on 14 June 2017. 75% of Mr Bisht's fees are capitalised to exploration and evaluation expenditure (Note 8), in addition to 100% of consulting fees Mr Bisht received pre-appointment as director.

(d) On 4 April 2017 the Company held a Shareholder General Meeting whereby shareholders approved the allotment of 70,000,000 shares at 0.2p each to Topaz Energy Pty Ltd in relation with services provided by Topaz Energy Pty Ltd (a company wholly owned by and of which Gajendra Bisht is a Director) in relation to the introduction of the opportunity and successful award of the permit for 100% of the exploration rights for Block 29/11, China to the Company. These shares were subsequently issued on 21 April 2017. The share issue settled the total value of US\$1,740,000 which was accrued for at 31 March 2017, therefore is excluded from Mr Bisht's Director fees in FY2018.

The average number of Directors was 4 during 2018 and 2017. The highest paid director received US\$296,000 (2017: US\$572,000).

**Notes to the Financial Statements
For the Year Ended 31 March 2018**

	2018 US\$'000	2017 US\$'000
5. Taxation		
UK corporation tax (benefit)/charge at 20%	(396)	-
US corporation tax (benefit)/charge at 35%	(924)	(288)
Total corporation tax (receivable)/payable	(1,320)	(288)
Factors affecting the tax charge for the year		
Loss from continuing operations	(3,500)	(13,121)
Profit on discontinued operations	73	-
Add back: contingent consideration receivable revaluation	-	183
(Loss)/profit on ordinary activities before tax	(3,427)	(12,938)
(Loss)/profit on ordinary activities at US rate of 21% (2017: 35%)	(720)	(4,528)
Non-deductible expenses	534	326
Movement in provisions	6	-
Over provision in prior year	(797)	(1,382)
Release of tax liability on first contingent consideration payment	-	(750)
Losses offset against prior year project disposal	-	441
Deferred tax asset not recognised	180	3,054
	(797)	(2,839)
Analysed as:		
Tax (benefit)/charge on continuing operations	(797)	(2,839)
Tax (benefit)/charge on discontinued operations	-	-
Tax (benefit)/charge in current year	(797)	(2,839)

Notes to the Financial Statements For the Year Ended 31 March 2018

	2018	2017
6. Earnings per share		
The basic earnings per share is derived by dividing the profit/(loss) after taxation for the year attributable to ordinary shareholders by the weighted average number of shares in issue being 380,423,710 (2017: 222,770,839).		
<u>Earnings per share from continuing operations</u>		
Loss after taxation from continuing operations	(US\$2,703,000)	(US\$10,282,000)
Earnings per share – basic	(0.71)c	(4.62)c
Loss after taxation from continuing operations adjusted for dilutive effects	(US\$2,703,000)	(US\$10,282,000)
Earnings per share – diluted	(0.71)c	(4.62)c
<u>Earnings per share from discontinued operations</u>		
Profit after taxation from discontinued operations	US\$73,000	-
Earnings per share – basic	0.02c	-
Profit after taxation from discontinued operations adjusted for dilutive effects	US\$73,000	-
Earnings per share – diluted	0.02c	-

For the current financial year there are dilutive options on issue. The weighted average number of dilutive shares is 395,423,710. Details of the potentially issuable shares that could dilute earnings per share in future periods are set out in Notes 13 and 15. For the prior financial year the exercise of the options was anti-dilutive and as such the diluted earnings per share was the same as the basic loss per share.

	2018 US\$'000	2017 US\$'000
7. Contingent consideration receivable		
Financial asset recorded at fair value through profit or loss:		
Opening balance	554	371
Revaluation of contingent consideration receivable (Note 3)	(554)	183
	-	554

Derivative financial assets consisted of the fair value of contingent consideration amounts attached to the sale of Sugarloaf AMI on 19 February 2016. The fair value of the options was initially measured at the effective date of the sale and subsequently remeasured at each reporting period. The final contingency expired 31 December 2017 with no payment received.

**Notes to the Financial Statements
For the Year Ended 31 March 2018**



	2018 US\$'000	2017 US\$'000
8. Oil and gas properties: exploration and evaluation		
Balance brought forward	87	6,842
Additions ^(a)	7,781	116
Impairment ^(b)	(48)	(6,871)
Net book value	7,820	87

(a) The Company was awarded its permit in China in December 2016. Block 29/11 is located in the Pearl River Mouth Basin, offshore China. Empyrean is operator with 100% of the exploration right of the Permit during the exploration phase of the project. The initial contractual term is for two years with a work programme commitment of acquisition, processing and interpretation of 580km² of 3D seismic data. The Company also acquired a working interest in the Sacramento Basin, California during the period. In May 2017 Empyrean entered into a joint project with ASX listed Sacgasco Limited, to test a group of projects in the Sacramento Basin, California, including two mature, multi-TcF gas prospects in Dempsey (EME 30%) and Alvarez (EME 25%) and also further identified follow up prospects along the Dempsey trend (EME 30%).

(b) In light of current market conditions, little or no work has been completed on the Riverbend or Eagle Oil projects in the year and no substantial project is forecast for either project in 2018/19 whilst the Company focuses on other projects. Whilst the Company maintains legal title it has continued to fully impair the carrying value of the asset at 31 March 2018.

Project	Operator	Working Interest	2018 Carrying Value US\$'000	2017 Carrying Value US\$'000
<i>Exploration and evaluation</i>				
China Block 29/11	Empyrean Energy	100%*	4,596	87
Sacramento Basin	Sacgasco	25-30%	3,224	-
Riverbend	Huff Energy	10%	-	-
Eagle Oil Pool Development	Strata-X	58.084%	-	-
			7,820	87

*In the event of a commercial discovery, and subject to the Company entering PSC, CNOOC Limited will have a back in right to 51% of the permit. As at the date of these financial statements no commercial discovery has been made.

**Notes to the Financial Statements
For the Year Ended 31 March 2018**

	2018 US\$'000	2017 US\$'000
9. Oil and gas properties: development and production		
Balance brought forward	57	156
Additions	-	1
Amortisation	-	(11)
Impairment	-	(89)
Discontinued operations ^(a)	(57)	-
Net book value	-	57

(a) The Company sold its interest in minor ancillary leases in Texas in June 2017 in satisfaction of amounts owing by the Company on those properties. This resulted in a gain on sale of US\$73,000.

	2018 US\$'000	2017 US\$'000
10. Investments		
Balance brought forward	-	-
Additions ^(a)	2,572	-
Total investments	2,572	-

(a) The Company acquired a 10% working interest in the Duyung PSC, Indonesia during the period. Due to the 10% shareholding and lack of significant influence over operations, the acquisition has been classified as an investment, measured at cost. Subsequent exploration expenditure of US\$554,000 has been included as a further investment contribution in the period. For further information, please refer to the Operational Review.

	2018 US\$'000	2017 US\$'000
11. Trade and other receivables		
Trade and other receivables	1	-
Accrued revenue	30	-
Prepayments	-	51
VAT receivable	2	14
Bank guarantee – Duyung PSC	150	-
Total trade and other receivables	183	65

	2018 US\$'000	2017 US\$'000
12. Trade and other payables		
Trade payables	283	396
Other payables	-	1,738
Accrued expenses	91	44
Total trade and other payables	374	2,178

Notes to the Financial Statements For the Year Ended 31 March 2018

	2018 US\$'000	2017 US\$'000
13. Derivative financial liabilities		
Opening balance	459	195
Fair value movement (Note 3)	2,004	553
Extinguishment following substantial modification	-	(400)
Recognition of modified derivative financial liability	-	111
Closing balance	2,463	459

Derivative financial liabilities represent the fair value of 15,000,000 options granted to Macquarie Bank and linked to the extension of a now repaid loan facility held with Macquarie Bank. As announced on 13 March 2017, the Options are currently owned by Apnea Holdings Pty Ltd, a company which is wholly owned by Tom Kelly, CEO of Empyrean. The options were granted on 27 July 2015 and are referred to as the Tranche 4 options. At the date of grant these were considered to fall outside of the scope of IFRS 2 and unlike Tranches 1-3 were not accounted for as a share-based payment. The Macquarie Bank loan facility was repaid in 2016 but the options did not expire at that point.

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

Fair value of share options and assumptions

	31 March 2018	31 March 2017
Grant date	27 July 2015	27 July 2015
Expiry date	26 July 2019	26 July 2019
Share price	£0.138	£0.039
Exercise price	£0.02	£0.021
Volatility	79%	83%
Option life	1.33	2.33
Expected dividends	-	-
Risk-free interest rate (based on national government bonds)	0.74%	0.12%

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

Details of financier options outstanding at 31 March 2018 are as follows:

Option Class	Financier options (Tranche 4)
Grant Date	27 July 2015
Options awarded	15,000,000
Exercise price (£)	£0.02
Expiry date	26 July 2019



Notes to the Financial Statements For the Year Ended 31 March 2018

13. Derivative financial liabilities (continued)

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

Option Class	Financier options (Tranche 2)	Financier options (Tranche 3)	Financier options (Tranche 4)
Grant Date	19 July 2012	25 March 2013	27 July 2015
Options awarded	15,000,000	15,000,000	15,000,000
Exercise price (£)	£0.021	£0.041	£0.021
Expiry date	19 July 2017	25 March 2018	26 July 2019

	2018 US\$'000	2017 US\$'000
14. Reconciliation of net loss before taxation to operating cash flows		
Net loss before taxation	(3,500)	(13,121)
Amortisation – oil and gas properties	-	11
Revaluation loss on contingent consideration receivable	554	(183)
Finance costs	2,004	531
Forex (gain)/loss	(114)	2,883
Impairment – oil and gas properties	48	6,960
Share based payments	10	(225)
Decrease in trade receivables	64	115
(Decrease) in trade payables relating to operating activities	(80)	(386)
Increase/(decrease) in provisions	29	(17)
Net cash inflow from operating activities	(985)	(3,432)

15. Called up share capital

Issued and fully paid	2018 US\$'000	2017 US\$'000
413,995,110 (2017: 221,833,853) ordinary shares of 0.2p each	1,205	754
Opening balance (number: 239,833,853)	754	710
Share issue (number: 70,000,000)	180	-
Share issue (number: 34,316,551)	89	-
Exercise of options (number: 15,000,000)	38	-
Placement (number: 16,080,000)	41	-
Placement (number: 12,000,000)	31	-
Placement (number: 11,764,706)	31	-
Exercise of options (number: 15,000,000)	41	-
Exercise of options (number: 18,000,000)	-	44
Closing balance (number: 413,995,110)	1,205	754

Notes to the Financial Statements

For the Year Ended 31 March 2018

15. Called up share capital (continued)

	2018 US\$'000	2017 US\$'000
<i>Ordinary B shares of 7.9p each</i>		
Opening balance (number: nil)	-	-
New shares issued (number: 221,833,853)	-	21,784
Cancellation/return of value	-	(21,784)
Closing balance (number: nil)	-	-

Share options

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

	Weighted average exercise price 2018	Number of options 2018	Weighted average exercise price 2017	Number of options 2017
Outstanding at the beginning of the year	£0.028	45,000,000	£0.040	74,400,000
Issued during the year ^(a)	£0.170	2,500,000	-	-
Adjustment during the year	-	-	£0.002	3,000,000
Exercised during the year	£0.030	(30,000,000)	£0.002	(18,000,000)
Expired during the year	-	-	£0.080	(14,400,000)
Outstanding at the end of the year	£0.042	17,500,000	£0.028	45,000,000

- (a) On 20 January 2018, 2,500,000 unlisted options were issued to the Company Secretary, Jonathan Whyte. The options have an exercise price of £0.17, expire on 30 January 2021 and have a vesting date of 20 January 2019. The options are being expensed over the life of the options, resulting in a share-based payment expense of US\$9,799 to 31 March 2018.

Valuation and assumptions of employee options

	31 March 2018	31 March 2017
Grant date	30 Jan 2018	-
Expiry date	30 Jan 2021	-
Share price	£0.12	-
Exercise price	£0.17	-
Volatility	79%	-
Option life	3.00	-
Expected dividends	-	-
Risk-free interest rate (based on national government bonds)	0.73%	-

The options outstanding at 31 March 2018 have an exercise price in the range of £0.02 to £0.17 (2017: £0.021 to £0.041) and a weighted average remaining contractual life of 1.54 years (2017: 1.20 years). The remaining 15,000,000 financier options have vested and are fully exercisable at the date of this report.

Notes to the Financial Statements For the Year Ended 31 March 2018

15. Called up share capital (continued)

Details of share options outstanding at 31 March 2018 are as follows:

Option Class	Employee Options	Financier options (Tranche 4)
Grant Date	20 January 2018	27 July 2015
Options awarded	2,500,000	15,000,000
Exercise price (£)	£0.17	£0.02
Expiry date	20 January 2021	26 July 2019

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

Option Class	Financier options (Tranche 2)	Financier options (Tranche 3)	Financier options (Tranche 4)
Grant Date	19 July 2012	25 March 2013	27 July 2015
Options awarded	15,000,000	15,000,000	15,000,000
Exercise price (£)	£0.021	£0.041	£0.021
Expiry date	19 July 2017	25 March 2018	26 July 2019

16. Reserves

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Share based payment reserve	Records items recognised as expenses on valuation of employee share options.
Retained losses	All other net gains and losses and transactions with owners not recognised elsewhere.

17. Related party transactions

Directors are considered Key Management Personnel for the purposes of related party disclosure.

During the financial year Chief Executive Officer Thomas Kelly exercised 30,000,000 EME unlisted options.

On 4 April 2017 the Company held a Shareholder General Meeting whereby shareholders approved the allotment of 70,000,000 shares at 0.2p each to Topaz Energy Pty Ltd in relation with services provided by Topaz Energy Pty Ltd (a company wholly owned by and of which Gajendra Bisht is a Director) in relation to the introduction of the opportunity and successful award of the permit for 100% of the exploration rights for Block 29/11, China to the Company. These shares were subsequently issued on 21 April 2017, refer to Note 4 for further details.

There were no other related party transactions during the year ended 31 March 2018 other than those payments made in regard to Director remuneration disclosed in Note 4.

Notes to the Financial Statements For the Year Ended 31 March 2018

18. Financial risk management

The Company manages its exposure to credit risk, liquidity risk, foreign exchange risk and a variety of financial risks in accordance with Company policies. These policies are developed in accordance with the Company's operational requirements. The Company uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessment of prevailing and forecast interest rates and foreign exchange rates. Liquidity risk is managed through the budgeting and forecasting process.

Credit Risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Company.

Credit risk is managed through the maintenance of procedures (such procedures include the utilisation of systems for approval, granting and removal of credit limits, regular monitoring of exposures against such limits and monitoring the financial stability of significant customers and counterparties), ensuring to the extent possible, that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Credit terms are generally 30 days from invoice date.

Risk is also minimised by investing surplus funds in financial institutions that maintain a high credit rating.

Credit risk related to balances with banks and other financial institutions are managed in accordance with approved Board policy. The Company's current investment policy is aimed at maximising the return on surplus cash, with the aim of outperforming the benchmark within acceptable levels of risk return exposure and to mitigate the credit and liquidity risks that the Company is exposed to through investment activities.

The following table provides information regarding the credit risk relating to cash and money market securities based on Standard and Poor's counterparty credit ratings.

	2018 US\$'000	2017 US\$'000
Cash and cash equivalents		
- A rated	388	6,106
Total cash and cash equivalents	388	6,106

Liquidity risk

Liquidity risk arises from the possibility that the Company might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Company manages liquidity risk by maintaining sufficient cash or credit facilities to meet the operating requirements of the business and investing excess funds in highly liquid short-term investments. The Company's liquidity needs can be met through a variety of sources, including the issue of equity instruments and short or long-term borrowings.

Alternative sources of funding in the future could include project debt financing and equity raisings, and future operating cash flow. These alternatives will be evaluated to determine the optimal mix of capital resources.

Notes to the Financial Statements For the Year Ended 31 March 2018

18. Financial risk management (continued)

The following table details the Company's non-derivative financial instruments according to their contractual maturities. The amounts disclosed are based on contractual undiscounted cash flows. Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates.

	Less than 6 months	6 months to 1 year	1 to 6 years	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Trade and other payables (2018)	283	-	-	283
Trade and other payables (2017)	2,134	-	-	2,134

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.

Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commitments, assets and liabilities that are denominated in a currency that is not the functional currency of the Company. The Company's borrowings and deposits are largely denominated in US dollars. Currently there are no foreign exchange hedge programmes in place. However, the Company treasury function manages the purchase of foreign currency to meet operational requirements.

As at 31 March 2018 the Company's net exposure to foreign exchange risk was as follows:

	2018 US\$'000	2017 US\$'000
Net foreign currency financial assets		
Cash and cash equivalents - GBP	380	459
Total net exposure	380	459

The effect of a 10% strengthening of the USD against the GBP at the reporting date on the GBP-denominated assets carried within the USD functional currency entity would, all other variables held constant, have resulted in an increase in post-tax loss for the year and decrease in net assets of US\$38,000 (2017: US\$46,000).

Fair value

Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values may be based on information that is estimated or subject to judgement, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgement and the assumptions have been detailed below.

Notes to the Financial Statements For the Year Ended 31 March 2018

18. Financial risk management (continued)

Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

- Cash and short-term investments – the carrying amount approximates fair value because of their short term to maturity;
- Trade receivables and trade creditors – the carrying amount approximates fair value; and
- Derivative financial assets and liabilities – initially recognised at fair value through profit and loss at the date the contract is entered into and subsequently re-measured at each reporting date the fair value of the derivative financial liability options is calculated using a Black-Scholes Model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

No financial assets and financial liabilities are readily traded on organised markets in standardised form.

Financial Instruments Measured at Fair Value

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below:

Financial Instruments at Fair Value	31 March 2018 Fair Value US\$'000	31 March 2017 Fair Value US\$'000
Financial assets:		
Contingent consideration receivable (Level 3)	-	554
Total financial assets	-	554
Financial liabilities:		
Derivative financial liability (Level 3) ^(a)	2,463	459
Total financial liabilities	2,463	459

- (a) The fair value of the Level 3 derivative financial liability has been determined using a Black-Scholes option pricing model, refer to Note 13 for detailed valuation inputs and assumptions.

Notes to the Financial Statements

For the Year Ended 31 March 2018

18. Financial risk management (continued)

Cash and cash equivalents

Cash and short-term deposits in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above and which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value, net of outstanding bank overdrafts.

19. Events after the reporting date

In July 2018 the Company received notification from the United States Internal Revenue Service (**IRS**) that it would receive US\$905,000 on 23 July 2018, being a refund of 2017 corporation tax paid.

In June 2018 the Company received US\$396,000 from HM Revenue & Customs (**HMRC**), being a refund of 2017 corporation tax paid.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

20. Committed expenditure

The Company has met all commitments on all three key projects during the current financial year.

Block 29/11 offshore China

The Company's committed work program for the Geophysical Service Agreement (GSA) phase for Block 29/11 included acquisition, processing and interpretation of 500km² for a 3D seismic survey, and a financial commitment of US\$3 million. The Company exceeded the work program commitments during the 2018 financial year. Therefore, commitments for the 2019 financial year consist only of an annual assistance fee to CNOOC of US\$60,000 and an annual personnel representative fee to CNOOC of approximately US\$160,000.

Mako South-1 well offshore Indonesia

Having completed the successful drilling test program at the Mako South 1 well during the 2018 financial year, the Company has commitment in the 2019 financial year of US\$120,000 to complete the Plan of Development for submission to the Indonesian regulator during Q3 2019. Subsequent financial commitments and related cash calls are likely to be finalised during Q4 2019 and will be dependent on the agreed work program going forward.

Sacramento Basin assets Onshore California

The Company earned a 30% interest in the Dempsey Prospect by paying US\$2,100,000 towards the costs of drilling the Dempsey 1-15 exploration well. These drilling costs had a promoted cap of US\$3,200,000 and the Company paid its share of additional costs at Dempsey 1-15, including completion costs. The Company will earn a 25% interest in the Alvarez appraisal prospect by paying 33.33% of the costs of the Alvarez appraisal well. At the time of this report, the work plan, cost estimates and timing of expenditure for the Alvarez prospect have not been finalised.