



EMPYREAN

ENERGY PLC

Annual Report and Accounts

For the Year Ended

31 March 2020

Contents

Company Information.....	3
Highlights.....	4
Chairman’s Statement	6
Strategic Report.....	7
Operational Review	13
Directors’ Report	22
Corporate Governance Report	25
Statement of Directors’ Responsibilities	30
Independent Auditor’s Report to the Members of Empyrean Energy Plc.....	31
Statement of Comprehensive Income.....	36
Statement of Financial Position.....	37
Statement of Cash Flows	38
Statement of Changes in Equity	39
Notes to the Financial Statements	40

Company Information

Directors	Patrick Cross (Non-Executive Chairman) Thomas Kelly (Chief Executive Officer) Gajendra Bisht (Executive Director - Technical) John Laycock (Non-Executive Director)
Secretary and Registered Office	Jonathan Whyte C/O Kermans and Co LLP 200 Strand London WC2R 1DJ UNITED KINGDOM
Principal Administrative Office	Unit 32/33, 22 Railway Road Subiaco WA 6008 AUSTRALIA
Auditors	BDO LLP 55 Baker Street London W1U 7EU UNITED KINGDOM
Nominated Adviser and Broker	Cenkos Securities Plc 66 Hanover Street Edinburgh EH2 1EL UNITED KINGDOM
Solicitors	Kerman & Co LLP 200 Strand London WC2R 1DJ UNITED KINGDOM
Registrars	Link Asset Services The Registry 34 Beckenham Road Beckenham BR3 4TU UNITED KINGDOM

Highlights

Reporting period

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

- Presence of Gas Clouds over Jade and Topaz prospects has further mitigated exploration risk, with all nearby CNOOC Oil discoveries showing similarly well-defined gas clouds;
- Seismic inversion project has validated the interpreted presence of an excellent quality carbonate reservoir at the Jade and Topaz prospects, with porosities in the highly favourable range of 20-30%; and
- 12-month extension for first phase of exploration drilling at Block 29/11 secured, giving the Company until June 2022 to drill first well.

Duyung PSC Project, Indonesia (EME 8.5%)

- Highly successful Mako gas field appraisal drilling completed at Tambak-1 and Tambak-2 which demonstrated the presence of well-developed, high quality gas saturated reservoir sandstones across the field;
- Following the drilling program an independent resource audit by Gaffney, Cline and Associates (GCA) confirmed a significant resource upgrade of the Mako gas field including:
 - Mako gas discovery has been confirmed as one of the largest gas fields ever discovered in West Natuna Basin;
 - GCA audited 2C contingent resource estimate of 495 BcF, a 79% increase from previous GCA estimate; and
 - GCA audited 3C contingent resource estimate of 817 BcF, a 108% increase from previous GCA estimate.

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

- COVID-19 travel restrictions and uncertainty of being able to execute a drilling campaign safely and without interruption led the joint venture partners placing the intended drilling at Borba on hold until the United States situation normalises.

Corporate

- Placements to raise US\$1.0 million (£0.786 million) completed during the reporting period;
- Placement to raise US\$0.509 million (£0.411 million) completed in April 2020;
- Open Offer raised US\$0.511 million (£0.415 million) in May 2020;
- £10 million Equity Placement Facility Secured; and
- Consideration of US\$295,000 in cash and 6,090,504 Coro Energy shares received in return for a 1.5% reduction of interest in the Duyung PSC, with Coro Energy shares subsequently sold during the reporting period realising net proceeds of US\$156,000.

Empyrean CEO Tom Kelly said, “Targeted activity continued at Empyrean’s portfolio of exploration projects during the year, with further exploration and appraisal success achieved in Indonesia and critical de-risking work completed in China.

The Company made important progress at Block 29/11 in China during the year, in preparation for the drilling of an initial exploration well under the PSC terms. To date the Company has completed a substantial volume of work on the project, having independently validated its resource base and decreased exploration risk through comprehensive 3D seismic data analysis which allowed for a positive oil migration study and confirmed the presence of well-defined low reflectivity zones (‘gas clouds’). This rigorous 3D seismic analysis has most recently enabled the seismic inversion work which confirmed the excellent carbonate reservoir quality at Jade and Topaz. All these activities have added further confidence to the technical merits of the project and Gaffney, Cline and Associates estimated close to a 1 in 3 chance of geological success at Jade and Topaz, which is very encouraging.

Having also secured a 12-month extension from the China National Offshore Oil Corporation (‘CNOOC’) for the first phase of exploration on Block 29/11, the Company looks forward to finalising preparations to safely drill the first of the large scale prospects as soon as is practicable.

At the Duyung PSC in Indonesia the operator, Conrad Petroleum completed a highly-successful appraisal of the Mako gas discovery (comprising the Tambak-1 and Tambak-2 wells), which confirmed the presence of well-developed, high quality reservoir sandstones with a common gas water contact across the Mako structure. Following the drilling campaign Gaffney, Cline and Associates were commissioned by the operator on behalf of the Duyung PSC partners to update its view of the Mako field. The results of this audit were released post period end and not only confirmed a significant resource upgrade but also confirmed the Mako field as one of the largest gas fields ever discovered in West Natuna Basin. The Mako Gas Field has now become strategically important in that it is approximately 0.5 Tcf of high quality pipeline methane, close to existing infrastructure and well established markets, now confirmed as the largest undeveloped gas resource in the immediate region.

In California, COVID-19 travel restrictions and the uncertainty of being able to execute a drilling campaign safely and without interruption have caused the joint venture partners to place the intended drilling of the Borba well on hold until the United States situation normalises.

The Company successfully conducted a series of placements during the year to fund its share of the Indonesian drilling campaign and for working capital purposes. A Placement and Open Offer were also conducted post year end to provide further funding. In addition, the Company entered into a £10 million equity placement facility with Long State Investment Limited, a Hong Kong-based energy and resource focused investment company which provides Empyrean with a fully flexible funding facility and enables it to access capital to fund its ongoing working capital, if required.

We are continually assessing other financing and strategic alternatives to provide the Company with additional working capital as and when required, including through the sale or partial sale of existing assets, through joint ventures of existing assets or through further equity or debt funding.

Overall, it has been a successful year in a market that presented some unique challenges and the Company has, despite these challenges, positioned itself to realise the significant and potentially game changing upside potential of its Chinese assets, as well as to capitalise on the success of the exploration program in Indonesia this year. We look forward to reporting further progress on our portfolio of projects in the near term.”

Chairman's Statement

It was pleasing to see further progress made by Empyrean on its portfolio of exploration projects, primarily in China and Indonesia, during the year.

As all are acutely aware, 2020 has been a challenging year but Empyrean continues to safely execute its business plan and move forward. I'd like to extend the Board's thanks to our shareholders for their support, particularly in these volatile markets.

With the COVID-19 pandemic still running its course, I note that this year's Annual General Meeting will sensibly be a closed meeting. However, we will be inviting shareholders to submit questions in advance and will endeavour to answer all questions at that time. Again, we thank all stakeholders for their patience in the unique circumstances in which we find ourselves and look forward optimistically to a return to normality in markets and the global economy in the near future.

Finally, I would like to thank the Board and staff for their contributions during the year, in particular Tom Kelly and Gaz Bisht who continue to drive the Company towards a series of successful and value adding outcomes in the future.



Patrick Cross
Non-Executive Chairman
21 August 2020

Strategic Report

Business Overview and Likely Future Developments

The Company and its partners continued to progress exploration and development activities at its projects during the year. Important de-risking activities continued at the China project and further exploration success was achieved in Indonesia which will ultimately maximise value for our shareholders. Further details on these activities is provided in the Operations and Outlook section below.

The Company raised funds through a series of placements during the year and post year end, and also successfully completed an Open Offer to shareholders post year end. The funds raised were to support the current exploration programs and for working capital purposes.

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. While the oil price has fallen on the back of the COVID-19 outbreak, the current business strategy of the Company remains sound and value accretive.

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 2020 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 608km² 3D seismic acquisition survey in August 2017 and comprehensive processing and interpretation of the 3D seismic data, in addition to further geological work, has confirmed the structural viability and substantial prospective (un-risked) resources at the three key prospects (**'Jade, Topaz and Pearl'**). These internal estimates were subsequently independently audited and revised upwards. The Company successfully completed an oil migration study in 2018 which confirmed potential oil migration pathways into all three prospects. The study also further enhanced the technical merits of the Jade and Topaz prospects in 2019 through the identification of well-defined gas clouds over those prospects. In 2020 the Company announced the results of its seismic inversion project, designed to assess the reservoir quality and reservoir rock composition at its Jade and Topaz prospects at Block 29/11 in the Pearl River Mouth Basin, offshore China. This work interpreted the reservoir rocks at Jade and Topaz to be excellent quality carbonates with porosities in the highly favourable range of 20-30%. The Company signed a PSC for Block 29/11 with CNOOC in September 2018 with the first phase commitment being the drilling of one exploration well within a 2.5 year period. Following the COVID-19 outbreak the Company successfully negotiated a 12-month extension with CNOOC with the first phase exploration well required to be completed by June 2022.

The Company acquired a 10% shareholding in West Natuna Exploration Ltd (**'WNEL'**), which held a 100% Participating Interest in the 1,100km² Duyung PSC, offshore Indonesia, from Conrad Petroleum Ltd (**'Conrad'**) in April 2017. The main asset in the permit is the Mako shallow gas discovery, which has Gross 2C (contingent) resources of 495 Bcf (87.5 MMboe) of recoverable dry gas and 3C resources of 817 Bcf (144.4 MMboe), as

recently upgraded by an independent audit conducted during 2020. The appraisal well, Mako South-1, was spudded in June 2017 with results exceeding expectations encountering excellent reservoir quality rock with high permeability sands. Following approval from the Indonesian regulator of a detailed Plan of Development the JV partners conducted a successful drilling campaign comprising two wells, Tambak-1 and Tambak-2 wells, which demonstrated the presence of well developed, high quality reservoir sandstones with a common gas water contact across the Mako structure. Following the successful drilling campaign the operator engaged Gaffney, Cline and Associates ('GCA') to complete an independent resource audit for the Mako Gas Field, which resulted in a significant resource upgrade and confirmed Mako as one of the largest gas fields ever discovered in West Natuna Basin.

Following a transaction with AIM-listed Coro Energy plc ('Coro') during early 2019, both the operator, Conrad Petroleum, and Empyrean divested part of their interest in the Duyung PSC. Empyrean's interest reduced from 10% to 8.5% interest, having received cash and shares from Coro. As part of this transaction Coro committed to fund US\$10.5 million of the costs of the 2019 drilling programme. The transfer of interest was completed in May 2020.

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 Alvares (EME up to 25%) and further identified follow up prospects along the Dempsey trend (EME up to 30%).

Following completion of an appraisal and exploration well, Dempsey 1-15, the operator tested multiple gas zones which resulted in the production of commercial gas flows before the well was shut in for technical evaluation following water ingress into the well. Following a detailed technical review the joint venture partners had intended to drill the next target, Borba, in the near term. However, COVID-19 travel restrictions and the uncertainty of being able to execute a drilling campaign safely and without interruption have caused this intended drilling to be placed on hold until the United States situation stabilises.

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 13.

Section 172 Statement

Section 172 of the Companies Act 2006 requires Directors to take into consideration the interests of stakeholders and other matters in their decision making. The Directors continue to have regard to the interests of the Company's employees and other stakeholders, the impact of its activities on the community, the environment and the Company's reputation for good business conduct, when making decisions. In this context, acting in good faith and fairly, the Directors consider what is most likely to promote the success of the Company for its members in the long term. In the current year the key strategic decisions included conducting the appraisal drilling campaign in Indonesia and continued de-risking work in China. The Company also requested and successfully obtained an extension for the first phase of exploration drilling at Block 29/11 in response to the COVID-19 outbreak. On the corporate front the Company raised funds through a series of placements during the year and completed a Placement and Open Offer subsequent to year end. The Company also entered into an equity placement facility with Long State Investment Limited to provide access to working capital, if required. We explain in this Annual Report, and referenced below, how the Board engages with stakeholders.

Promoting the Success of the Company for Stakeholders

The Directors endeavour to balance the needs and requirements of all stakeholders which, in addition to the Company's shareholders, include the Company's employees, the communities in the areas where it operates, government agencies and the Company's suppliers and customers, all of whom have a vested interest in the long-term success of the Company. Empyrean allocates its resources appropriately given the risk versus reward profile of our projects in order to achieve its goal of maximising Company and shareholder value. Empyrean is currently focused on developing three cornerstone assets: Block 29/11 offshore China; the Duyung PSC offshore Indonesia and a multi project participating interest in the Sacramento Basin, California. Exploration work continues on all three projects to maximise their value. The Board also continues to evaluate new projects to position the Company for renewed growth and to further increase shareholder value.

Consequences of Decisions

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, predominantly through market announcements, periodic reports and shareholder circulars. The Board in making decisions regarding the activities of the Company will consider and balance the costs and benefits those decisions and the varying expectations of its stakeholders.

The Company has an obligation to its shareholders to grow and develop the Company in a manner that will provide value enhancement to their investment whilst at the same time minimising risk. The Directors rely on the feedback from management who have direct interaction with the shareholders on a regular basis to provide a balanced assessment of the likely views of shareholders to the strategic and business decisions that the Directors make.

Human Resources and Ethical Culture

The Board believes that good corporate culture based on sound ethical values guides the objectives and actions of its Board, management and employees. The Board believes that its current members have an appropriate balance of sector, financial and public market skills and experience, as well as technical experience, in particular oil and gas industry experience and expertise.

The Company demands the highest standards of integrity in the conduct of its business. Empyrean is committed to conducting business in a transparent and ethical manner across all its operations. The Company aims to ensure that all its activities are conducted fairly and honestly and each person connected with the Company has individual responsibility for maintaining an ethical workplace. Consistent with this business philosophy, the Company strictly adheres to anti-bribery and corruption principles. The Company places an active responsibility for compliance on all Company employees and associated persons.

Foster Business Relationships with Suppliers, Customers and Others

Given the nature of the Group's business, it has limited customers but nonetheless maintains a close working relationship with those customers to understand their specific needs and expectations. The Board recognises that long term success relies upon good relationships with a range of different stakeholders, including its shareholders, regulators, joint venture partners and other service providers. The Company encourages feedback from all these groups.

The Company has strong relationships and maintains regular dialogue and engages actively with its joint venture partners and various service providers.

Environmental, Social and Community Implications

The Company endeavours to operate in a manner that accords with good practice and, where appropriate, exceeds the legislative requirements, whether this is in relation to its obligations to its employees, environmental obligations and interaction with communities.

Whilst the Company is cognisant of its corporate social responsibilities, for those projects that the Company is dependent on other operators for the performance of exploration and production activities, it ensures it undertakes suitable due diligence on these operators to mitigate the risk of any corporate, financial, social or environmental responsibilities being breached.

For the Company's China asset, in which it is the operator, sound financial, corporate, social, community and environmental protocols are paramount to the success of the operation and are embedded within the Company's strategy and business model.

Maintain High Standards of Business Conduct

The Company demands the highest standards of integrity in the conduct of its business. Empyrean is committed to conducting business in a transparent and ethical manner across all its operations. The Company aims to ensure that all its activities are conducted fairly and honestly and each person connected with the Company has individual responsibility for maintaining an ethical workplace. Consistent with this business philosophy, the Company strictly adheres to anti-bribery and corruption principles. The Company places an active responsibility for compliance on all Company employees and associated persons.

The Company has prepared a Statement of Compliance with the QCA Corporate Governance Code which outlines the Company's approach in addressing and applying the 10 corporate governance principles of the QCA Code and which also addresses the principles detailed above. This can be found at:

www.empyreanenergy.com/governance/

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. In addition, if the COVID-19 outbreak continues and results in a prolonged period of travel, commercial and other similar restrictions, the Company could experience disruptions with its operations.

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. Since 31 December 2019, the oil price has fallen in large part due to the impact of the international spread of COVID-19 and geopolitical factors.

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. The current COVID-19 outbreak, and regulators' or market fears about the same, may impact the Company's 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. 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. The operator has secured tenure at the Duyung PSC through to 2037. To manage risk as a result of the COVID-19 outbreak and the resultant global control policies, the Company proactively engaged with CNOOC and applied for a 12-month extension to the first phase of the exploration period for the PSC in China.

Environmental Risk

The Company's exploration, development and production activities are subject to extensive laws and regulations governing environmental impact and protection. A failure to comply with environmental laws and regulations (including as a result of technical failures) may result in enforcement actions causing operations to cease or be curtailed, the imposition of fines and penalties, and may include corrective measures requiring significant capital expenditures. In addition, certain types of operations require the submission and approval of environmental impact assessments. 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.

Financial Position and Performance of the Business

Net loss after tax for the year was US\$0.28m (2019: US\$0.15m net profit). Total assets were US\$14.57m (2019: US\$12.64m), the increase mainly due to an increase in investments (being the fair value assessment of the Company's interest in the Duyung PSC) as well as capitalised exploration expenditure on the Company's three primary projects. This capitalised expenditure also contributed to net investing cash outflows of US\$1.23m (2019: US\$1.63m). Total liabilities were US\$1.25m (2019: US\$1.78m), the decrease due to movement in the valuation of the derivative liability options, detailed in Note 11. The Company's cash position at 31 March 2020 was US\$0.19m (2019: US\$0.33m) with net operating cash outflows of US\$0.22m (2019: inflows of US\$0.35m), due to the receipt of a corporation tax refund of US\$0.36m.

Key Performance Indicators

Given the sale of the Company's primary producing asset in 2016, Sugarloaf AMI, revenue, net profit 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 a portfolio of projects aimed at adding value for shareholders – the Company's share price continues to be a key KPI. Since March 2019, the share price reached a high closing price of 10.25p in September 2019 and following the COVID-19 related decrease in energy prices and markets globally, reached a low closing price of 2.95p in March 2020. The Company subsequently completed an Open Offer to shareholders at 3.5p and at the time of writing this report the share price is 4.68p. The successful exploration and appraisal drilling in Indonesia, and subsequent upgrade in resources, and ultimately the unlocking of potentially transformational value from China provides significant share price re-rating potential. In addition, with the Company becoming an active explorer, exploration results across all projects and resource estimates at the Chinese and Indonesian projects are important KPIs. The work performed at each of the Company's projects and the results that have been achieved are detailed further in the Operational Review.

The share price performance from 1 April 2019 to 31 July 2020 is represented graphically below.



The strategic report and operational review were approved by the Board on 21 August 2020 and signed on the Board's behalf.



Thomas Kelly
Chief Executive Officer
21 August 2020

Operational Review

The 2020 financial year has seen substantial progress for Empyrean on several fronts, as the Company's corporate objective of building a significant asset portfolio across the Asian region has begun to take shape. Highlighted by the successful drilling campaign at the Mako gas field in Indonesia, and resultant significant independent resource upgrade, and further targeted technical work and de-risking of the large and potentially Company transforming prospects at Block 29/11, offshore China.

Empyrean and its partners have continued the methodical technical evaluation and de-risking activities at its 100% working interest in Block 29/11, offshore China, with two matured drill-ready low risk-high reward prospects now awaiting drilling. In response to COVID-19 pandemic, the Company requested and was successful in securing a 12 month extension from CNOOC for the first phase of exploration on Block 29/11. While the extension secures the block until June 2022, the Company's intentions remain to finalise preparations to safely drill the first of the large scale prospects as soon as is practicable.

In Duyung PSC in offshore Indonesia, Empyrean reduced its interest by 1.5% through the Coro Energy transaction in 2019, which brought US\$10.5m in funding from Coro Energy Plc for the drilling of two appraisal wells in the Mako gas discovery.

A highly successful appraisal program (comprising the Tambak-1 and Tambak-2 appraisal wells) was conducted in Q4 2019. A comprehensive dataset was collected in both wells including electric logs, Repeat Formation Testing (RFT), and a Drill Stem Test (DST). The detailed interpretation of subsurface data confirmed the extensive lateral extent of well developed, high quality reservoir sandstones across the field. In addition, Tambak-1 interested deeper gas contact in the log data that earlier estimated from the RFT data of Mako South-1. Upon completion of appraisal program GCA was engaged to conduct an independent resource audit for the Mako Gas Field, which confirmed a significant resource upgrade and also confirmed the Mako field as one of the largest gas fields ever discovered in West Natuna Basin.

Empyrean also has a 25-30% working interest in a package of gas projects in the Sacramento Basin, onshore California. The joint venture partners are currently waiting for the COVID-19 situation to normalise before targeting the drilling of a well at the Borba prospect, which is now fully permitted for drilling.

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. No technical work has been undertaken on these projects during the year.

China Block 29/11 Project (100% WI)

Background

Block 29/11 is located in the prolific Pearl River Mouth Basin, offshore China approximately 200km Southeast of Hong Kong. The 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, China National Offshore Oil Corporation Limited ('CNOOC') will have a back in right to 51% of the permit.

Following the completion and interpretation of the 3D seismic data acquired on Block 29/11, the prospective resources (un-risked) of all three prospects on the Block (Jade, Topaz and Pearl) were independently validated, by Gaffney, Cline and Associates, who completed an audit of the Company’s oil in place estimates in November 2018. Total mean oil in place estimates on the three prospects are now 884 MMbbl on an un-risked basis.

Oil in place (MMbbl) audited by Gaffney, Cline and Associates

Prospect	P90	P50	P10	Mean	GCoS
Jade	93	187	395	225	32%
Topaz	211	434	891	506	30%
Pearl	38	121	302	153	15%

In addition, Gaffney, Cline and Associates estimated close to a 1 in 3 chance of geological success at Jade and Topaz, which is particularly pleasing. Exploration risk has been further mitigated by the completion of an oil migration study during June 2018 which established oil migration pathways into all three prospects. During the reporting period, in May 2019 as detailed further below, the Company further solidified the technical merits of the project by confirming the presence of well-defined gas clouds over the Jade and Topaz prospects.

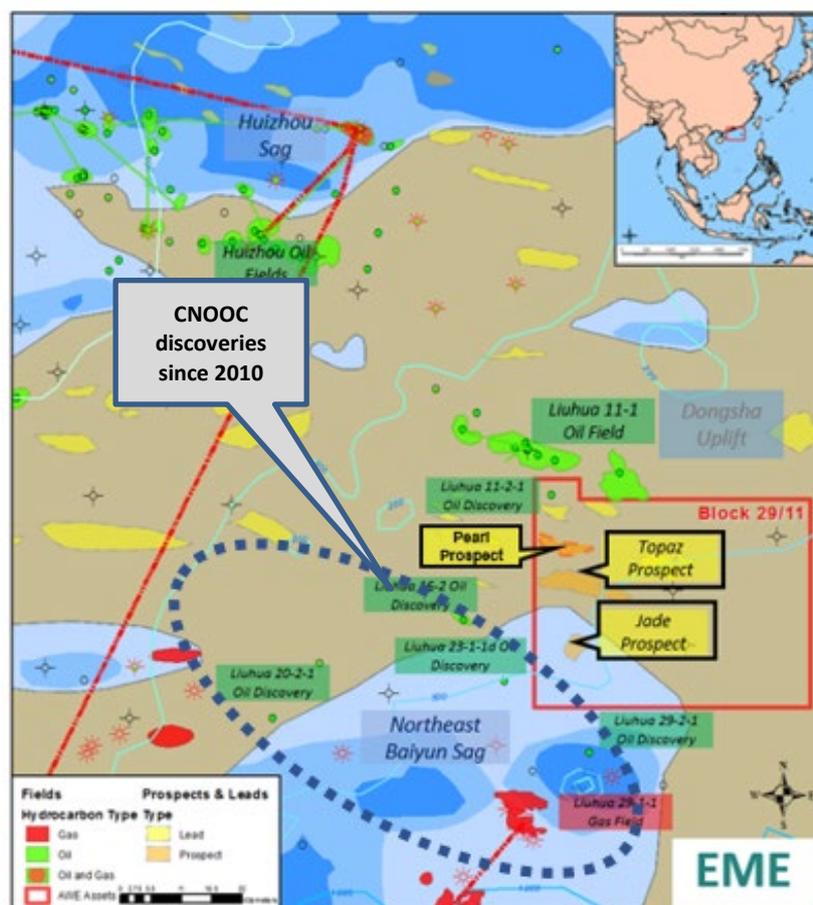


Figure 1: Block 29/11, Pearl River Basin, Offshore China

Presence of Gas Clouds Mitigating Exploration Risk at Jade and Topaz Prospects

Empyrean continued systematic, 'issue-based' technical evaluation at its 100% working interest in Block 29/11, offshore China during 2020. Block 29/11 sits in the heart of Baiyun sag area, and is surrounded by several large oil and gas fields (see Figure 1). While the discovery of oil columns in excess of 150m in several well augurs positively for the prospectivity of Block 29/11, comprehensive technical evaluation was conducted in Q1 2019 to further mitigate the exploration risk of key prospects. The scope of this work included analysis of well and 3D seismic data in the area currently operated by CNOOC. Access being granted to the CNOOC owned 3D seismic and well data for this study is an evidence of a deep and effective relationship that Empyrean have been able to build with CNOOC.

On good quality 3D seismic, the presence of gas clouds has been used as an effective exploration tool in prolific basins worldwide including the North Sea, Gulf of Mexico, and the Malaysian Sabah basin, resulting in the discovery of significant amounts of oil.

In May 2019 the Company announced the results of the comprehensive analysis of the excellent quality 3D seismic data acquired by Empyrean during 2017 as well as that of CNOOC 3D seismic data to the immediate west of Block 29/11. This analysis confirmed the presence of well-defined low reflectivity zones ('gas clouds') in the overburden strata above the Jade and Topaz traps. Empyrean's independent analysis of 3D seismic data over 4 large CNOOC oil discoveries located close to Block 29/11 confirmed the presence of similar gas clouds in the overburden.

At the same time, three dry wells drilled by CNOOC in proximity to the discoveries, outside Block 29/11, have been analysed, and the 3D seismic data over these wells confirms the lack of any gas clouds. Similar technical work was carried out over two dry wells in Block 29/11. These wells were drilled prior to Empyrean's involvement and without any 3D seismic data. Both wells confirm the lack of any gas clouds in overburden. As a result, it is Empyrean's interpretation that the presence of well-defined gas clouds in the overburden on both the Jade and Topaz structures mitigates the exploration risk on these prospects significantly. The Pearl prospect does not have 100% coverage with 3D seismic to enable the same comprehensive analysis and assessment at this point in time.

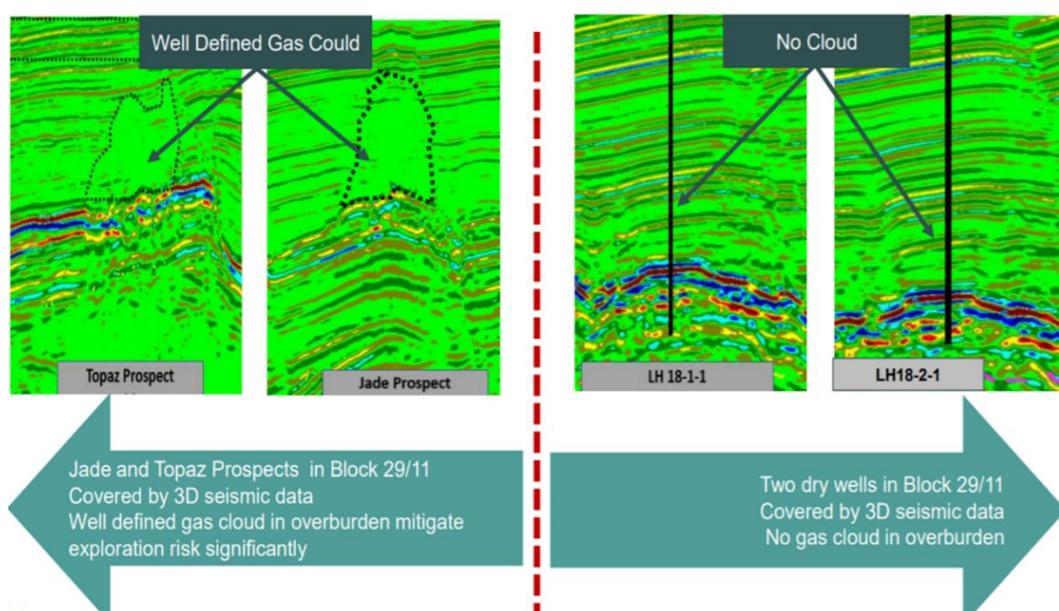


Figure 2: Well-Defined Gas Cloud Over Jade and Topaz Prospects, Block 29/11

Reservoir Quality Assessment – Seismic Inversion Project

Another issue-specific technical evaluation that the Company completed during 2020 was to address the quality of reservoir. Geological studies completed earlier provided confirmation of an excellent quality reservoir at Jade and Topaz prospects, which the Company decided to address further via seismic inversion. The Company engaged China Offshore Services Limited (**'COSL'**) to carry out data processing and technical work for the seismic inversion project and then carried out detailed analysis and assessment of the dataset. Analysis of the seismic inversion data validated the interpreted presence of excellent quality carbonate reservoir facies at both the Jade and Topaz prospects with porosities interpreted to be in a highly favourable range of 20-30%.

The main aim of the seismic inversion project was comprehensive reservoir characterisation, with particular focus on the Jade and Topaz prospects, by combining existing well log data with 3D seismic data to generate an acoustic impedance dataset. Analysis of this nature has been used to successfully interpret the physical rock properties of reservoirs globally, in particular lithology, porosity and thickness of reservoir.

In order to achieve the most comprehensive and robust result from the Seismic Inversion Project, the Company requested access from CNOOC to the log data of a crucial well, LH-23-1-1d, located approximately 12 km southwest of the Jade prospect in a permit operated by CNOOC. CNOOC agreed to provide the data, resulting in increased technical confidence in the results of the seismic inversion project. The LH-23-1-1d well intersected both carbonate and sandstone reservoirs with oil pay.

In order to combine well log data with the 3D seismic data, the Company worked closely with the COSL team. During this process well data from the LH-23-1-1d well proved crucial in establishing the close relationship of impedance data extracted from the seismic data to the lithology, porosity and thickness of reservoir in existing wells.

Comprehensive and systematic analysis of the acoustic impedance dataset resulted in separating Zhujiang carbonate facies from the underlying Zhuhai sandstones facies. In addition, the lateral distribution of high-quality carbonate reservoir has been mapped. This more detailed work validates the earlier interpretation from seismic thickness analysis and supports the interpreted presence of a thick carbonate reservoir with porosities in a range of 20-30% at the Jade and Topaz prospects.

12-Month Extension for First Phase Exploration Drilling

The initial contractual term called Geophysical Service Agreement (**'GSA'**) was for two years with a work programme commitment of acquisition, processing and interpretation of 500km² of 3D seismic data. Having successfully completed the committed work program for the GSA, the Company exercised its option to enter a PSC on the Block, on pre-negotiated terms, with CNOOC. The PSC was signed on 30 September 2018 with the date of commencement of implementation of the PSC being 13 December 2018. The first phase of the contract is for 2.5 years with a commitment to drill one exploration well to a depth of 2,500m or to the Basement Formation.

Due to the COVID-19 situation and the resultant global control policies, the Company proactively engaged with CNOOC and applied for a 12-month extension to the first phase of the exploration period for the PSC. In June 2020 Empyrean announced that CNOOC had granted the 12-month extension as requested. As a result, the first phase of the exploration period for the PSC has been extended to 12 June 2022. The Company is taking all the necessary steps to ensure the safe drilling of the well as soon as is practicable.

Under the PSC terms, Empyrean has the option of entering the second phase of exploration after drilling the first exploration well and subsequently relinquishing 25% of the current area. The second phase has a commitment to drill one additional exploration well to a depth of 2,500m or to the Basement Formation within a further 2 years.

Cautionary Statement: The volumes presented in this announcement are STOIP estimates only. A recovery factor needs to be applied to the undiscovered STOIP estimates based on the application of a future development project. The subsequent estimates, post the application of a recovery factor, will 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.

Duyung PSC, Indonesia (10% WI)

Background

In April 2017, Empyrean acquired from Conrad Petroleum a 10% shareholding in WNEL, which held 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 with 23 feet of gas bearing excellent reservoir quality rock with high permeability sands in the multi Darcy range. The gas is of high-quality being close to 100% methane.

In early 2019, both the operator, Conrad Petroleum, and Empyrean divested part of their interest in the Duyung PSC to AIM-listed Coro Energy Plc. Following the transaction, Empyrean's interest reduced from 10% to 8.5% interest in May 2020, having received cash and shares from Coro. As part of this transaction Coro funded US\$10.5 million of the costs of the 2019 drilling programme. Empyrean also received cash consideration of US\$295,000 and consideration shares in Coro with a value of US\$185,000 for the transfer to Coro of 1.5% of its current 10% interest in the Duyung PSC.

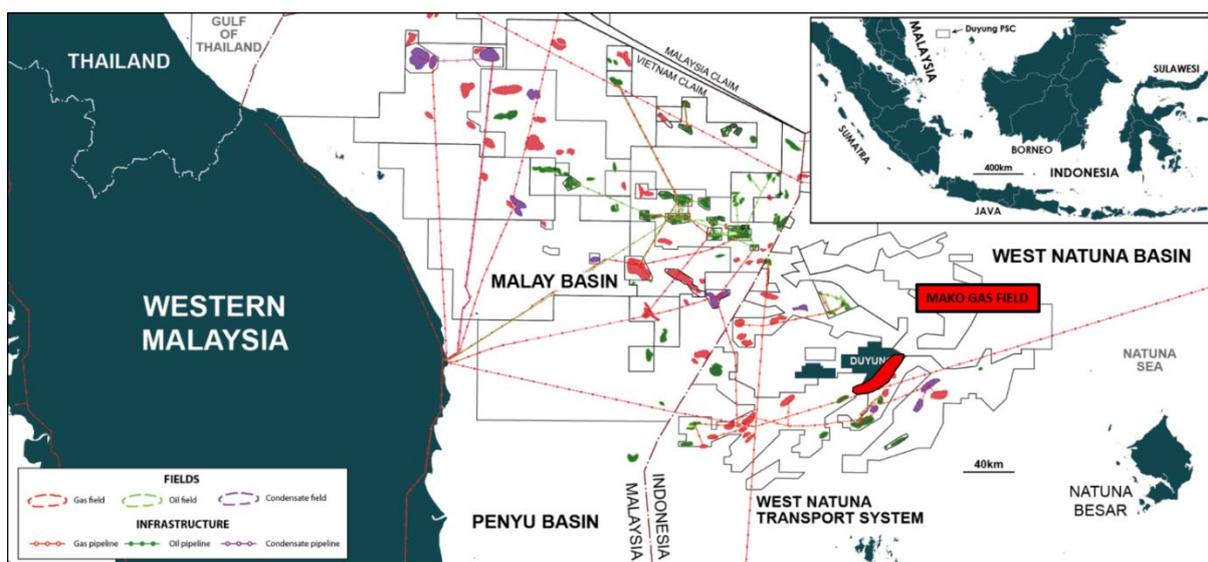


Figure 3: Mako Gas field, Duyung PSC, Indonesia

Duyung PSC Drilling Programme - October/November 2019

Following receipt of the approved the Plan of Development ('POD') for the Mako Gas Field in March 2019, which secured tenure until 2037 and was required ahead of the drilling programme at the Duyung PSC, Conrad Empyrean and Coro finalised a comprehensive drilling programme at the Duyung PSC comprising two wells. One appraisal well was designed to test the potential of the deeper Gabus reservoir in the Tambak prospect beneath the central area of the Mako gas field. The other appraisal well was designed to appraise the intra-Muda sandstone reservoir in the northern area of the Mako field.

During October and November 2019, a highly successful appraisal drilling campaign was conducted in the Duyung PSC. The appraisal wells confirmed the field-wide presence of excellent quality gas in the intra-Muda reservoir however sands of the Mako gas field however testing of the deeper Tambak prospect in the Lower Gabus interval found these sandstones to have low gas saturations and attempts to collect fluid samples and pressure data demonstrated low permeabilities.

Tambak-2

The Tambak-2 well successfully reached a total depth of 1,650 feet on 15 October 2019, the top of the targeted intra-Muda reservoir depth came in as prognosed approximately 10 feet up-dip to Conrad's Mako South-1 gas discovery well over 13.5 km away.

A full logging suite was acquired, including formation pressure measurements, confirming a 33 feet gross gas pay zone (30 feet net) with formation permeabilities calculated to be over 1 Darcy across the best quality zone. The pressures and gas-water contact depth in Tambak-2 are the same as those encountered in Mako South-1, confirming a very large "single-tank" or areal extent of the Mako gas field.

While preparing for a Drill Stem Test ('DST') across the intra-Muda reservoir, an inflatable open hole bridge plug ('packer'), used to isolate the gas-bearing reservoir for testing, failed. During operations to recover the packer, the well started flowing natural gas to surface. For safety reasons, the well was immediately shut in. Subsequently, utilising the appropriate well control practices, the well was killed using heavy mud containing barite. A significant quantity of the heavy mud was lost in the highly permeable intra-Muda reservoir.

Following this operation, the well was conditioned, and the DST equipment set in place into the wellbore. Two separate DST attempts failed to flow gas in spite of gas bearing zones being confirmed in the electric log. Subsequent analysis of drilling data established formation damage due to the heavy mud used to control the well.

Tambak-1

The Tambak-1 well, located approximately 4.5 km north of the Mako South-1 well, was designed to both appraise the Mako gas field and test the underlying Tambak exploration prospect.

The Tambak-1 well encountered 82 feet of total intra-Muda reservoir sandstones with 56 feet of better quality upper sandstone, confirmed a common gas-water contact across the field and culminated in the DST demonstrating the potential deliverability of the Mako reservoir.

Following the DST, which flowed dry gas at 11.4 MMscf/d on a 181/64 inch (2.8 inch) choke with well head tubing pressure being maintained at 225psi, operations concluded in late November 2019.

The well was deepened beneath the Mako field to a depth of 5,062 feet true vertical depth sub-sea (**'TVDSS'**) to test the Tambak exploration prospect. The well encountered multiple sandstone intervals in the Lower Gabus section as predicted, with corresponding hydrocarbon shows seen while drilling. However, petrophysical interpretation of wireline log data has concluded that these sandstones have low gas saturations and attempts to collect fluid samples and pressure data demonstrate low permeabilities.

Tambak-1 was plugged and abandoned, as originally planned, prior to the Asian Endeavour 1 rig being demobilised.

The appraisal of the intra-Muda sandstones of the Mako gas field was better than expected with better quality sands and a thicker reservoir encountered and the flow test now from two wells has confirmed the deliverability of Mako gas. The Tambak-1 and Tambak-2 wells demonstrated the presence of well-developed, high quality reservoir sandstones with a common gas water contact across the Mako structure.

Mako Resource Audit Confirms Significant Upgrade

Following on from the highly successful drilling campaign, Conrad engaged GCA to complete an independent resource audit for the Mako Gas Field, further to the updated internal resource estimates prepared by Conrad in May 2020.

GCA's audit (**'2020 GCA Audit'**) confirmed a significant resource upgrade for the Mako Gas Field compared to its previous resource assessment released in January 2019 (**'2019 GCA Audit'**). 2C (contingent) recoverable resource estimates have been increased to 495 Bcf, an increase of approximately 79% compared with the 2019 GCA Audit and confirming the work completed by the operator and partners. In the upside case, the 3C (contingent) resources have increased by approximately 108% compared with the 2019 GCA Audit and GCA's assessment is also significantly higher than the 3C estimate made by the Operator and partners in April 2020.

With the latest upgrade, Mako has been confirmed to be one of the largest gas fields ever discovered in the West Natuna Basin and is currently by far the largest undeveloped resource in the immediate area.

Results of the Updated Resource Audit

The revised estimates of gross (full field) recoverable dry gas audited in the 2020 GCA Audit are:

Contingent Resource Estimates	2019 GCA Audit	2020 GCA Audit	Increase
	Bcf	Bcf	%
1C (Low Case)	184	287	56
2C (Mid Case)	276	495	79
3C (High Case)	392	817	108

The full field resources above are classified in the 2020 GCA Audit as contingent. Gas volumes are expected to be upgraded to reserves when certain commercial milestones are achieved, including execution of a GSA and a final investment decision (**'FID'**).

The Mako Gas Field is located close to the West Natuna pipeline system and gas from the field can be marketed to buyers in both Indonesia and in Singapore. A Heads-of-Agreement with a gas buyer in Singapore is already in place. The conclusion of GSA negotiations will mark a further important step toward the FID to develop and commercialise the field. Further updates will be provided in due course.

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

Background

In May 2017, Empyrean agreed to farm-in to a package of opportunities including the Dempsey and Alvares prospects in the Northern Sacramento Basin, onshore California. The rationale for participating in this potentially significant gas opportunity was a chance to discover large quantities of gas in a relatively ‘gas hungry’ market. Another attractive component of the deal was the ability to commercialise a potential gas discovery using existing gas facilities that are owned by the operator.

Following on from the Dempsey drilling campaign in 2018, the joint venture integrated the subsurface data with regional geology and seismic data to evaluate additional more attractive targets in thicker reservoir units for future drilling along the “Dempsey trend”, in which Empyrean will earn a 30% interest.

During the reporting period the drilling application for the Borba Prospect was approved by the County and the final approval from California Department of Geological and Geothermal Resources was received. With the outbreak of COVID-19 however, the travel restrictions and the uncertainty of being able to execute a drilling campaign safely and without interruption have caused the commencement of any planned drilling at Borba to be placed on hold until the United States situation normalises.

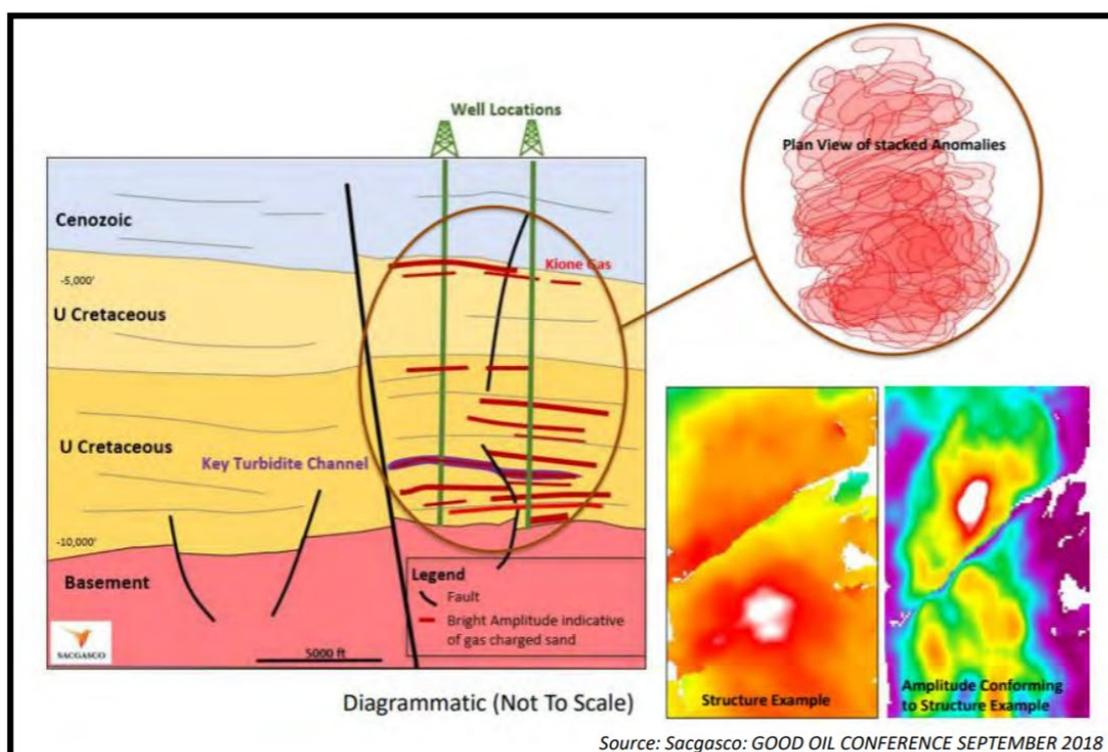


Figure 4: Borba Prospect, California

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 2020/21 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 2020/21 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 30 years' experience as a petroleum geoscientist.

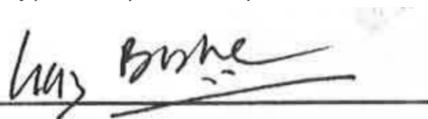
Definitions

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).

Bcf: Billions of cubic feet

MMbbl: Million Barrels of Oil

**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)

21 August 2020

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 2019 to 31 March 2020.

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 825,000 shares (0.17%) in the Company. Dr Cross was appointed to the Board in June 2005.

■ Thomas Kelly – Chief Executive Officer

Mr Kelly has had more than 25 years of 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 88,683,785 shares (18.82%) in the Company. Mr Kelly was appointed to the Board in May 2005.

■ Gajendra Bisht – Executive Director (Technical)

Mr Bisht is an oil and gas professional with over 30 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 31,821,429 shares (6.75%) in the Company. Mr Bisht was appointed to the Board in June 2017.

■ 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 3,200,000 shares (0.68%) in the Company. Mr Laycock was appointed to the Board in August 2008.

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 exploration, evaluation, appraisal and development of its exploration projects. At year end the Company had a cash balance of US\$0.19m (2019: US\$0.33m) and made a loss after income tax of US\$0.28m (2019: profit of US\$0.15m).

The Directors have prepared cash flow forecasts for the Company covering the period to 31 August 2021 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 further equity or debt funding. In addition the entering into an Equity Facility Agreement with Long State Investment Limited provides Empyrean with a fully flexible funding facility and enables it to access capital to fund its ongoing working capital, if required and subject to the administrative conditions of the agreement.

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, at the date of this report, 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 16 in the financial statements for further details.

Post Reporting Date Events

Significant events post reporting date were as follows:

In April 2020 the Company completed a placement to raise US\$0.509 million (£0.411 million).

In May 2020 the Company completed an Open Offer to raise US\$0.511 million (£0.415 million).

In May 2020 an independent resource audit by GCA was completed which confirmed a significant resource upgrade of the Mako gas field including an audited 2C contingent resource estimate of 495 BcF, a 79% increase from previous GCA estimate and an audited 3C contingent resource estimate of 817 BcF, a 108% increase from previous GCA estimate.

In May 2020 the final Indonesian regulatory approvals for the transfer of title of the 15% direct interest in the Duyung PSC to Coro were received. As part of this completion process WNEL made a direct transfer of its interest in the Duyung PSC to Empyrean and the other owners, who now hold their interest in the Duyung PSC directly.

In June 2020 the Company received a 12-month extension from CNOOC for first phase of exploration drilling at Block 29/11 secured, giving the Company until June 2022 to drill the first well.

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.

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 7 to 12.

Auditors

The Auditors, BDO LLP, have indicated their willingness to continue in office and a resolution suggesting that they should 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
21 August 2020

Corporate Governance Report

The Directors are committed to maintaining high standards of corporate governance.

The London Stock Exchange announced that all AIM companies will be required to apply a recognised corporate governance code from 28 September 2018. In connection with the introduction of these new requirements, the Quoted Companies Alliance has published a new corporate governance code. The Board of Empyrean has adopted the Quoted Companies Alliance Corporate Governance Code (the '**QCA Code**') in line with these requirements.

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.

Chairman Statement – Corporate Governance

As Chairman of the Board of Directors of Empyrean Energy Plc, it is my responsibility to ensure that the Company is run by an effective and suitably qualified Board underpinned by a strong corporate governance policy. As Chairman, my responsibilities include overseeing the Company's corporate governance model and ensuring the Board is run by an effective and efficient Board, with good communication and information flow both internally and with our shareholders.

The Company has adopted the QCA Code in line with the AIM Rules requirement for all AIM-listed companies to adopt and comply or explain non-compliance with a recognised corporate governance code. The Company has prepared a Statement of Compliance with the QCA Corporate Governance Code which outlines the Company's approach in addressing and applying the 10 corporate governance principles of the QCA Code. This can be found at:

www.empyreanenergy.com/governance/

The Board considers that the Company complies with the QCA Code so far as it is practicable having regard to the size, nature and current stage of development of the Company and does not believe its governance structures and practices differ from the expectations set by the QCA Code.

The Board believes that that good corporate governance, as outlined in the QCA Code, improves the long-term success and performance of the Company, whilst effectively managing risks and providing a framework for communication internally and with our shareholders.

There have been no governance matters of any concern that have occurred during the year and there have been no significant changes in the Company's governance arrangements.

Business Strategy

Through a series of strategic acquisitions, Empyrean now holds an exciting portfolio of exploration projects and its primary focus is to add significant value for the Company and its shareholders through focused advancement of these projects. Empyrean allocates its resources appropriately given the risk versus reward profile of our projects in order to achieve its goal of maximising Company and shareholder value.

Empyrean is currently focused on developing three cornerstone assets: Block 29/11 offshore China; the Duyung PSC offshore Indonesia and a multi project participating interest in the Sacramento Basin, California. Exploration work has continued during the year on all three projects to maximise their value. The Board also continues to evaluate new projects to position the Company for renewed growth and to further increase shareholder value.

The Board

The Board met 10 times throughout the year. Attendance at the Board Meetings was as follows:

Director	Number Eligible to Attend	Number Attended
Patrick Cross	10	10
John Laycock	10	10
Thomas Kelly	10	10
Gajendra Bisht	10	10

To enable the Board to perform its duties, each of the Directors has full access to all relevant information and to the services of the Company Secretary. If necessary, the Non-Executive Directors may take independent professional advice at the Company's expense. The Board currently includes two Executive Directors and two Non-Executive Directors. The Board has delegated specific responsibilities to the committees described below. Patrick Cross is a Non-Executive Director and Chairman of the Company and meets the Company's criteria for independence. His experience and knowledge of the Company makes his contribution to the Board such that it is appropriate for him to remain on the Board and in his position as Chairman. John Laycock is a Non-Executive Director of the Company and meets the Company's criteria for independence. While both Dr Cross and Mr Laycock have held Board positions for some time, they remain sufficiently removed from the day to day management of the Company and therefore continue to meet the Company's independence criteria.

Non- Executive Directors are expected to devote sufficient time as is reasonably required to perform their duties, which includes at a minimum being available to attend weekly update meetings and monthly board meetings and to review preparation material for those meetings. Thomas Kelly is an Executive Director and Chief Executive Officer of the Company and is expected to devote sufficient time as is reasonably required to perform the duties of Chief Executive Officer, which is on a full time basis. Gajendra Bisht is the Executive Director (Technical) of the Company and is expected to devote sufficient time as is reasonably required to perform the duties of an Executive Technical Director, which is on a full time basis. Mr Kelly and Mr Bisht form the executive management team for the China Project, where the Company is the Operator. The relevant experience, skills and capabilities of each of the directors are described in the Directors Report.

The Board has effective procedures and protocols in place to monitor any potential conflicts of interest and ensure that members with such conflicts abstain from voting on any resolutions on those matters. The Board members are also transparent in notifying other members of any other commitments or interests external to the business of the Company.

Company Secretary

The Company Secretary, Jonathan Whyte (CA), is an adviser to the Chairman and the Board and provides assistance to the Executive Directors in the day to day operations of the Company. The Company Secretary has responsibility for the Company's legal, statutory and regulatory compliance requirements and assists management with shareholder communication and investor relations matters. The Company Secretary prepares and disseminates all Board and Committee Meeting materials.

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 however the Company is in the process of formalising this process in line with QCA Code requirements. The Board believes that its current members have an appropriate balance of sector, financial and public market skills and experience, as well as technical experience, in particular oil and gas industry experience and expertise. The Board is satisfied that it has the appropriate balance of personal qualities and capabilities and is not dominated by a single member. On a continual basis, the Board assesses its core competencies, expertise and effectiveness to ensure they remain relevant and up to date. The Company has defined procedures for the selection and appointment of new directors to the Company's Board. Refer to pages 22 and 23 of the Directors' report for details of the Directors' experience and capabilities.

The Company has adopted a formal Board Evaluation Policy to ensure individual directors and the Board work efficiently and effectively in achieving their functions, which involves the Chairman meeting with each Executive and Non-Executive Director separately to discuss individual performance and ideas for improvement and the Non-Executive Finance Director meeting with the Chairman separately to discuss individual performance and ideas for improvement. The Board discuss and analyse its own performance and the performance of the committees during the year including suggestions for change or improvement. Following this review, the structure of the Board was deemed appropriate and it was agreed that the Board continues to function effectively and efficiently, with no recommendations for change at this time.

The Company has an established Remuneration Committee that operates under a Formal Charter. The Remuneration Committee is responsible for reviewing the performance of the Executive Directors, setting the scale and structure of their remuneration, setting performance-based objectives and paying due regard to the interests of shareholders and the performance of the Executive Directors and the Company as a whole. On a continual basis the Board assesses its core competencies, expertise and effectiveness. This includes an assessment of individual directors and whether the appointment of external personnel may enhance the performance of the Board.

The Audit Committee

The Audit Committee comprises of Patrick Cross and John Laycock and is chaired by John Laycock. During the year the Audit Committee met 1 time and each member attended the 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/governance. There was no Audit Committee report prepared this year however the Audit Committee does present its findings from the annual audit and interim review. The Company relies on the audit summary report from its external auditors and discussions between the auditors and the Audit Committee to sufficiently address any audit related matters.

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 1 time during the year and each member attended the 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/governance). There was no Remuneration Committee report prepared this year as Remuneration levels were deemed acceptable and appropriate for the current year, with no changes recommended or made. The Company and its advisers conducted a review of the Company's cost base in view of the current environment and in the context of its peer group during the year.

Internal Control and Risk Management

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.

The Company has established an Audit Committee which is responsible for overseeing the establishment and implementation by management of a system for identifying, assessing, monitoring and managing material risk throughout the company. This system includes the Company's internal compliance and control systems. The Audit Committee reviews at least annually the Company's risk management systems to ensure the exposure to the various categories of risk, including fraud, are minimised. The Audit Committee monitors the standard of corporate conduct in areas such as arms-length dealings and likely conflicts of interest.

Corporate Culture

The Board believes that good corporate culture based on sound ethical values guides the objectives and actions of its Board, management and employees. The Company has an Ongoing Education Framework which is designed to facilitate the education of directors and employees so they are equipped with the general and technical knowledge required to carry out their duties and understand the business of the Company.

The Company demands the highest standards of integrity in the conduct of its business. Empyrean is committed to conducting business in a transparent and ethical manner across all its operations. The Company aims to ensure that all its activities are conducted fairly and honestly and each person connected with the Company has individual responsibility for maintaining an ethical workplace. Consistent with this business philosophy, the

Company strictly adheres to anti-bribery and corruption principles. The Company places an active responsibility for compliance on all Company employees and associated persons.

Relationship with Shareholders

The Board attaches high importance on 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 ('IFRS') 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; and
- 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 the 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
21 August 2020

Independent Auditor's Report to the Members of Empyrean Energy Plc

Opinion

We have audited the financial statements of Empyrean Energy Plc (the 'Company') for the year ended 31 March 2020 which comprise the statement of comprehensive income, the statement of financial position, the statement of cash flows, 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 2020 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 page 40 of the financial statements which explains that the Company requires further funding, which is not yet in place, in order to continue to meet its obligations and liabilities as they fall due.

The matters explained on page 40 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 increase costs by 5% and noted there was a cash shortfall in October 2020. We discussed with the directors their plans to raise further funds in the near future and considered their viability taking into account the Company has successfully raised funds in the past.

We obtained a copy of an equity financing arrangement agreed to support the Company's funding position. We note there are conditions to raise funds and Management is currently working through these but at the date of this report these activities have not been completed. If the Company is unable to drawdown on the equity financing arrangements then other sources of financing will be required.

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 matter described below to be the key audit matter 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 \$9.6m as at 31 March 2020. Management and the directors are required to ensure all costs capitalised meet the recognition criteria of IFRS 6 and assess whether there is any evidence of any indicators of impairment of the assets (refer to page 44 and note 7). Given the significance of the assets on the Company's statement of financial position and the significant judgement involved in the assessment of capitalisation of associated costs and of the carrying values of the assets, there is an increased risk of material misstatement and we therefore considered this to be a key audit matter.

How we addressed the key audit matter in the audit

We selected a sample of costs capitalized to the asset 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.

We evaluated Management's impairment review for the Company's two material exploration and evaluation assets located in Sacramento and China, which documents Management's considerations of whether or not there were any indicators of impairment identified in accordance with IFRS 6.

We reviewed license documentation for both projects in order to confirm legal title and validity of the right to explore in the near future. We reviewed documentation with the Chinese authorities which, confirmed the commitment to drill a well in China has been delayed until 2022.

We 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.

We obtained an understanding of Management's expectation of commercial viability by discussing recent and historic exploration activity at each location with senior Management and the company's primary technical advisor. We reviewed available exploration reports to ensure there is no evidence to suggest commercially viable quantities of mineral resources will not be discovered.

We discussed the Sacramento project with the operator where we understood the reasons for the delay to production which are not related to the prospectivity of the project and also ensured the disclosures and information from Management were in line.

Key observations:

From the audit work performed we found no indicators of impairment and consider that expenditure had been appropriately capitalised.

Valuation of investment in West Natuna Exploration Limited (See page 40 and note 8)

The Company holds an 8.5% interest in West Natuna Exploration Limited (WNEL). WNEL holds a 100% participating interest in the highly prospective Duyung Production Sharing Contract (Duyung PSC).

In accordance with IFRS 9, the investment has been accounted for at fair value through profit and loss.

Management have determined that there is a wide range of fair values relating to the project and therefore the most appropriate value is the brought forward fair value and the costs invested in the year on the exploration project.

To determine the fair value of the investment requires significant Management judgement on an appropriate valuation method, and as such we determined this to be a key audit matter.

How we addressed the key audit matter in the audit

We reviewed and challenged Management's memo on the project and the main uncertainties associated with valuing the project.

We discussed the significant uncertainties with Management and the impact this has on the potential valuations for the investment. This includes the uncertainties around the economics of the future development plan, Gas sales price and the impact on the range of potential estimates for a valuation.

We reviewed the independent audit report of the contingent resources. We confirmed the resources reported are 1C, 2C and 3C resources which indicate that there is an inherent risk around the economics and chance of development which underpins the valuation of the project and therefore the investment in WNEL.

We looked for public information on any sales in the West Natuna Basin which could be used as a proxy for fair value and none were noted.

We reviewed board minutes to check there was not any evidence to contradict Management's valuation of the investment.

We reviewed the disclosures to the financial statements and checked these are in line with the disclosure requirements of IFRS 9.

Key observations:

Based on the audit work performed we concur with the judgements made by Management in respect of the valuation of investment at 31 March 2020.

Our application of 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.

	Materiality/ \$	Basis for materiality
FY 2020	200,000	1.5% of total assets
FY 2019	200,000	1.5% 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.

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% (2019: 75%) of the above materiality levels due to the low value of brought forward from the prior year and the low value of historic adjustments identified.

We agreed with the audit committee that we would report to them all individual audit differences identified during the course of our audit in excess of \$4,000 (2019: \$4,000) as well as any other differences that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

We performed a full scope audit on the financial statements of the Company. Our audit approach is risk based and has been driven by our materiality thresholds set out above.

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 and accounts, 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 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.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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, UK
21 August 2020

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 2020

		2020	2019
	Notes	US\$'000	US\$'000
Revenue		-	-
Administrative expenditure			
Administrative expenses		(326)	(375)
Compliance fees		(214)	(212)
Directors' remuneration		(388)	(386)
Foreign exchange differences		(34)	(49)
Total administrative expenditure		(962)	(1,022)
Operating loss	2	(962)	(1,022)
Finance income	3	43	1,114
Impairment of oil and gas properties	7	(47)	(47)
Fair value revaluation	8	-	98
Loss on sale of investment	8	(29)	-
(Loss)/Profit from continuing operations before taxation		(995)	143
Tax benefit in current year	5	716	2
(Loss)/Profit from continuing operations after taxation		(279)	145
Total comprehensive (loss)/profit for the year		(279)	145
(Loss)/Earnings per share from continuing operations (expressed in cents)			
- Basic	6	(0.06)c	0.03c
- Diluted		(0.06)c	0.03c

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

Statement of Financial Position

As at 31 March 2020

Company Number: 05387837

	Notes	2020 US\$'000	2019 US\$'000
Assets			
Non-Current Assets			
Oil and gas properties: exploration and evaluation	7	9,586	9,075
Investments	8	4,404	3,200
Total non-current assets		13,990	12,275
Current Assets			
Trade and other receivables	9	35	37
Corporation tax receivable	5	358	-
Cash and cash equivalents		189	332
Total current assets		582	369
Liabilities			
Current Liabilities			
Trade and other payables	10	1,170	374
Provisions		78	54
Derivative financial liabilities	11	-	1,349
Total current liabilities		1,248	1,777
Net Current Liabilities		(666)	(1,408)
Net Assets		13,324	10,867
Shareholders' Equity			
Share capital	13	1,291	1,232
Share premium reserve		27,811	26,524
Share based payment reserve		153	69
Retained losses		(15,931)	(16,958)
Total Equity		13,324	10,867

The Financial Statements were approved by the Board of Directors on 21 August 2020 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 2020

	Notes	2020 US\$'000	2019 US\$'000
Operating Activities			
Payments for operating activities		(579)	(971)
Receipt of corporation tax		358	1,322
Net cash (outflow)/inflow from operating activities	12	(221)	351
Investing Activities			
Payments for exploration and evaluation		(557)	(1,424)
Payments for investments		(953)	(530)
Proceeds from disposal of investments		276	175
Receipt of exploration bonds and bank guarantees		-	150
Net cash outflow for investing activities		(1,234)	(1,629)
Financing Activities			
Issue of ordinary share capital		1,375	1,314
Payment of equity issue costs		(29)	(43)
Net cash inflow from financing activities		1,346	1,271
Net decrease in cash and cash equivalents		(109)	(7)
Cash and cash equivalents at the start of the year		332	388
Forex loss on cash held		(34)	(49)
Cash And Cash Equivalents At The End Of The Year		189	332

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

Statement of Changes in Equity

For the Year Ended 31 March 2020

		Share Capital	Share Premium Reserve	Share Based Payment Reserve	Retained Loss	Total Equity
Notes	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 April 2018		1,205	25,280	10	(17,103)	9,392
Profit after tax for the year		-	-	-	145	145
Total comprehensive profit for the year		-	-	-	145	145
Contributions by and distributions to owners						
Shares issued in the period	13	27	1,287	-	-	1,314
Equity issue costs		-	(43)	-	-	(43)
Share based payment expense		-	-	59	-	59
Total contributions by and distributions to owners		27	1,244	59	-	1,330
Balance at 1 April 2019		1,232	26,524	69	(16,958)	10,867
Loss after tax for the year		-	-	-	(279)	(279)
Total comprehensive loss for the year		-	-	-	(279)	(279)
Contributions by and distributions to owners						
Shares issued in the period	13	59	1,316	-	-	1,375
Equity issue costs		-	(29)	-	-	(29)
Share based payment expense		-	-	84	-	84
Derivative settlement		-	-	-	1,306	1,306
Total contributions by and distributions to owners		59	1,287	84	1,306	2,736
Balance at 31 March 2020		1,291	27,811	153	(15,931)	13,324

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 2020

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):

- Investments
- 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\$0.19m (2019: US\$0.33m) and made a loss after income tax of US\$0.28m (2019: profit of US\$0.15m).

The Directors have prepared cash flow forecasts for the Company covering the period to 31 August 2021 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 further equity or debt funding. In addition the entering into an Equity Facility Agreement with Long State Investment Limited provides Empyrean with a fully flexible funding facility and enables it to access capital to fund its ongoing working capital, if required and subject to the administrative conditions of the agreement.

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 at the date of this report, 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.

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2020

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 2019 that have had a significant effect on the Company's financial statements.

(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 2020.

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.

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).

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, or costs incurred after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, which are reclassified as development and production assets.

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2020

Property, Plant 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.

Investments

Under IFRS 9, all investments in equities are required to be measured at fair value. The Company's interest in the Duyung PSC is classified under IFRS 9 as a financial asset at fair value through profit or loss, due to the Company's 8.5% shareholding and lack of significant influence over operations. Financial assets designated as fair value through the profit or loss are measured at fair value through profit or loss at the point of initial recognition and subsequently revalued at each reporting date. The purchase agreement detailed in Note 8(b) has formed the basis for the fair value assessment at 31 March 2020, including costs capitalised since the agreement was entered into.

Joint operations

Joint arrangements represent the contractual sharing of control between parties in a business venture where unanimous decisions about relevant activities are required. Joint venture operations represent arrangements whereby joint operators maintain direct interests in each asset and exposure to each liability of the arrangement. The Company's interests in the assets, liabilities, revenue and expenses of joint operations are included in the respective line items of the financial statements.

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2020

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 financial assets at amortised cost (trade and other receivables, excluding prepayments, and cash and cash equivalents) and financial assets classified as fair value through profit or loss. Financial assets at amortised cost are initially measured at fair value and subsequently at amortised cost and attributable transaction costs are included in the initial carrying value. 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. Attributable transactions costs are recognised in profit or loss as incurred. Movements in the fair value of derivative financial assets are recognised in the profit or loss in the period in which they occur.

(b) Financial liabilities

All financial liabilities are classified as fair value through the profit and loss or 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 2019 or 31 March 2020.

(c) Impairment for financial instruments measured at amortised cost

Impairment provisions for financial instruments are recognised based on a forward looking expected credit loss model in accordance with IFRS 9. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

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.

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.

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2020

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 and judgements

The following are the critical estimates and judgements 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 (judgement)

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 except for the below:

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 work is forecast for either project in 2020/21 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 2020.

(b) Investments (judgement and estimate)

The Company's interest in the Duyung PSC is classified under IFRS 9 as a financial asset at fair value through profit or loss, due to the 8.5% shareholding and lack of significant influence over operations. Financial assets designated as fair value through profit or loss are measured at fair value through profit or loss at the point of initial recognition and subsequently revalued at each reporting date. The purchase agreement detailed in Note 8(b) has formed the basis for the fair value assessment at 31 March 2020 and 31 March 2019, including costs capitalised since the agreement was entered into. While the successful appraisal drilling program conducted during the year has resulted in a substantial increase in the contingent resources of Mako gas field subsequent to year end, there are, in the Board's opinion, several milestones required to be achieved before an updated fair value of the project can be reliably and objectively assessed. These include steps required for contingent resources to be converted to reserves at final investment decision (FID) and also the steps required to finalise a gas sales agreement, which has been delayed by the current COVID-19 pandemic and resultant disruptions. Given COVID-19 and the current uncertainty and volatility in the energy markets, attempting to model fair value at this point in time would be intrinsically difficult and subject to a number of contingencies. Therefore the carrying value at 31 March 2020 of \$US4.4 million approximates fair value.

Note 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. 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.

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2020

Details	China US\$'000	Indonesia US\$'000	USA US\$'000	Corporate US\$'000	Total US\$'000
31 March 2020					
Revenue from continued operations	-	-	-	-	-
Segment result	-	-	-	-	-
Unallocated corporate expenses	-	-	-	(962)	(962)
Operating loss	-	-	-	(962)	(962)
Finance income	-	-	-	43	43
Impairment of oil and gas properties	-	-	(47)	-	(47)
Loss on sale of investment	-	(29)	-	-	(29)
Loss before taxation	-	(29)	(47)	(919)	(995)
Tax benefit in current year	-	-	-	716	716
Loss after taxation	-	(29)	(47)	(203)	(279)
Total comprehensive loss for the financial year	-	(29)	(47)	(203)	(279)
Segment assets	5,679	4,404	3,907	-	13,990
Unallocated corporate assets	-	-	-	582	582
Total assets	5,679	4,404	3,907	582	14,572
Segment liabilities	-	480	-	-	480
Unallocated corporate liabilities	-	-	-	768	768
Total liabilities	-	480	-	768	1,248

Details	China US\$'000	Indonesia US\$'000	USA US\$'000	Corporate US\$'000	Total US\$'000
31 March 2019					
Revenue from continued operations	-	-	-	-	-
Segment result	-	-	-	-	-
Unallocated corporate expenses	-	-	-	(1,022)	(1,022)
Operating loss	-	-	-	(1,022)	(1,022)
Finance income	-	-	-	1,114	1,114
Impairment of oil and gas properties	-	-	(47)	-	(47)
Fair value revaluation	-	98	-	-	98
Profit/(loss) before taxation	-	98	(47)	92	143
Tax benefit in current year	-	-	-	2	2
Profit/(loss) after taxation	-	98	(47)	94	145
Total comprehensive profit/(loss) for the financial year	-	98	(47)	94	145
Segment assets	5,222	3,200	3,853	-	12,275
Unallocated corporate assets	-	-	-	369	369
Total assets	5,222	3,200	3,853	369	12,644
Segment liabilities	-	175	-	-	175
Unallocated corporate liabilities	-	-	-	1,602	1,602
Total liabilities	-	175	-	1,602	1,777

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2020

Note 2. Operating Loss

	2020 US\$'000	2019 US\$'000
The operating loss is stated after charging:		
Audit and tax fees	(84)	(90)
Total operating loss	(84)	(90)

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	42	44
Fees payable to the Company's auditor and its associates in respect of:		
- Other services relating to taxation	12	15
Total auditor's remuneration	54	59

Note 3. Finance Income

	2020 US\$'000	2019 US\$'000
Fair value movement on derivative liability	43	1,114
Total finance income	43	1,114

Note 4. Directors' Emoluments

	Fees and Salary		Bonus Payment		Social Security Contributions		Short-Term Employment Benefits (Total)	
	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000
Non-Executive Directors:								
Patrick Cross	23	24	-	-	2	2	25	26
John Laycock	14	14	-	-	1	1	15	15
Executive Directors:								
Thomas Kelly ^(a)	283	293	-	-	-	-	283	293
Gajendra Bisht ^(b)	220	220	-	-	-	-	220	220
	540	551	-	-	3	3	543	554

- (a) Services provided by Apnea Holdings Pty Ltd, of which Mr Kelly is a Director. On 9 July 2019 Mr Kelly exercised 15,000,000 options at an exercise price of £0.02. The closing share price of the Company on 9 July 2019 was £0.0905. 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.

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2020

(b) Services provided by Topaz Energy Pty Ltd, of which Mr Bisht is a Director. 75% of Mr Bisht's fees are capitalised to exploration and evaluation expenditure (Note 7).

The average number of Directors was 4 during 2020 and 2019. The highest paid director received US\$283,000 (2019: US\$293,000).

Note 5. Taxation

	2020 US\$'000	2019 US\$'000
US corporation tax benefit at 21%	(716)	-
AMT Federal Credit received during year	358	-
Total corporation tax receivable	<u>(358)</u>	<u>-</u>
Factors Affecting The Tax Charge For The Year		
(Loss)/profit from continuing operations	(995)	143
(Loss)/profit on ordinary activities before tax	<u>(995)</u>	<u>143</u>
(Loss)/profit on ordinary activities at US rate of 21% (2019: 21%)	(209)	30
(Non-assessable income)/non-deductible expenses	19	(232)
Movement in provisions	5	-
Over provision in prior year	(716)	-
Deferred tax assets not recognised	185	202
	<u>(716)</u>	<u>(2)</u>
Analysed as:		
Tax benefit on continuing operations	(716)	(2)
Tax benefit in current year	<u>(716)</u>	<u>(2)</u>
Deferred Tax Liabilities		
Temporary differences - exploration	1,628	1,594
Temporary differences - other	393	393
	<u>2,021</u>	<u>1,987</u>
Offset of deferred tax assets	(2,021)	(1,987)
Net deferred tax liabilities recognised	<u>-</u>	<u>-</u>
Unrecognised Deferred Tax Assets		
Tax losses ^(a)	3,468	3,384
AMT Federal Credit	-	358
Temporary differences - exploration	2,940	2,925
Temporary differences - other	1,075	1,183
	<u>7,483</u>	<u>7,850</u>
Offset of deferred tax liabilities	(2,021)	(1,987)
Net deferred tax assets not brought to account	<u>5,462</u>	<u>5,863</u>

(a) If not utilised, carried forward tax losses of approximately US\$9.32 million (2019: \$8.91 million) begin to expire in the year 2033.

Deferred tax assets and deferred tax liabilities are offset only if applicable criteria to set off is met.

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2020

Note 6. (Loss)/Earnings Per Share

The basic (loss)/earnings per share is derived by dividing the (loss)/profit after taxation for the year attributable to ordinary shareholders by the weighted average number of shares on issue being 438,014,668 (2019: 417,825,466).

	2020	2019
<u>(Loss)/Earnings per share from continuing operations</u>		
(Loss)/Profit after taxation from continuing operations	US\$(279,000)	US\$145,000
(Loss)/Earnings per share – basic	(0.06)c	0.03c
(Loss)/Profit after taxation from continuing operations adjusted for dilutive effects	US\$(279,000)	US\$145,000
(Loss)/Earnings per share – diluted	(0.06)c	0.03c

For the current and prior financial years the exercise of the options is anti-dilutive and as such the diluted (loss)/earnings per share is the same as the basic (loss)/earnings per share. Details of the potentially issuable shares that could dilute earnings per share in future periods are set out in Notes 11 and 13.

Note 7. Oil and Gas Properties: Exploration and Evaluation

	2020 US\$'000	2019 US\$'000
Balance brought forward	9,075	7,820
Additions ^(a)	558	1,302
Impairment ^(b)	(47)	(47)
Net book value	9,586	9,075

(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. In May 2017 the Company acquired a working interest in the Sacramento Basin, California. 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 Alvares (EME 25%) and also further identified follow up prospects along the Dempsey trend (EME 30%). Please refer to the Operational Review for further information on exploration and evaluation performed during the year.

(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 work is forecast for either project in 2020/21 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 2020.

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2020

Project	Operator	Working Interest	2020 Carrying Value US\$'000	2019 Carrying Value US\$'000
<i>Exploration and evaluation</i>				
China Block 29/11	Empyrean Energy	100%*	5,679	5,222
Sacramento Basin	Sacgasco	25-30%	3,907	3,853
Riverbend	Huff Energy	10%	-	-
Eagle Oil Pool Development	Strata-X	58.084%	-	-
			9,586	9,075

*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.

Note 8. Investments

	2020 US\$'000	2019 US\$'000
Balance brought forward	3,200	2,572
Additions ^(a)	1,389	530
Disposals ^(a)	(185)	-
Fair value revaluation ^{(b)(c)}	-	98
Total investments	4,404	3,200

- (a) The Company acquired a 10% working interest in the Duyung PSC, Indonesia during the 2018 financial year. For further information on additional work performed on the Duyung PSC during the year, please refer to the Operational Review. In April 2019 the Company also acquired shares in AIM-listed Coro valued at US\$185,000 as part of the purchase agreement detailed below, which were disposed of on 3 December 2019 for US\$156,000, resulting in a loss on sale of US\$29,000.
- (b) In February 2019 Empyrean announced that it had entered into a binding, conditional purchase agreement (the Agreement) pursuant to which AIM listed Coro would acquire a 15% interest in the Duyung PSC from WNEL for aggregate consideration in cash and Coro shares of US\$4.8 million (of which Empyrean received US\$295,000 in cash and 6,090,504 Coro shares) and the contribution of US\$10.5 million by Coro toward the 2019 drilling campaign at the Mako gas field. The cash and share component of the consideration was paid pro rata to the existing owners of WNEL, being Empyrean, which currently had a 10% effective interest in the Duyung PSC, and Conrad Petroleum Ltd, which currently had a 90% effective interest in the Duyung PSC, each through shareholding in WNEL.

The consideration paid comprised US\$2.95 million in cash and US\$1.85 million in the form of 60,905,037 new ordinary shares in Coro. Empyrean received cash consideration of US\$295,000 and Consideration Shares with a value of US\$185,000 for the transfer to Coro of 1.5% of its current 10% interest in the Duyung PSC, reducing its interest to 8.5% once the transaction is completed (subject to government and regulatory approval which was received in May 2020). As at 31 March 2020, Empyrean had received all cash and share proceeds of US\$480,000, recorded as a Prepayment Received in Trade and Other Payables (Note 10).

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2020

- (c) The Company's interest in the Duyung PSC is classified under IFRS 9 as a financial asset at fair value through profit or loss, due to the 8.5% shareholding and lack of significant influence over operations. Financial assets designated as fair value through profit or loss are measured at fair value through profit or loss at the point of initial recognition and subsequently revalued at each reporting date. The purchase agreement detailed in Note 8(b) above has formed the basis for the fair value assessment at 31 March 2020 and 31 March 2019, including costs capitalised since the agreement was entered into. While the successful appraisal drilling program conducted during the year has resulted in a substantial increase in the contingent resources of Mako gas field subsequent to year end, there are, in the Board's opinion, several milestones required to be achieved before an updated fair value of the project can be reliably and objectively assessed. These include steps required for contingent resources to be converted to reserves at final investment decision (FID) and also the steps required to finalise a gas sales agreement, which has been delayed by the current COVID-19 pandemic and resultant disruptions. Given COVID-19 and the current uncertainty and volatility in the energy markets, attempting to model fair value at this point in time would be intrinsically difficult and subject to a number of contingencies. Therefore the carrying value at 31 March 2020 of \$US4.4 million approximates fair value.

Note 9. Trade and Other Receivables

	2020 US\$'000	2019 US\$'000
Trade and other receivables	-	1
Accrued revenue	30	30
VAT receivable	5	6
Total trade and other receivables	35	37

Note 10. Trade and Other Payables

	2020 US\$'000	2019 US\$'000
Trade payables	648	157
Accrued expenses	42	42
Prepayments received – proceeds from disposal of investment	480	175
Total trade and other payables	1,170	374

Note 11. Derivative Financial Liabilities

	2020 US\$'000	2019 US\$'000
Opening balance	1,349	2,463
Fair value movement (Note 3)	(43)	(1,114)
Settlement of derivative	(1,306)	-
Closing balance	-	1,349

Derivative financial liabilities represented 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 were owned by Apnea Holdings Pty Ltd, a company which is wholly owned by Tom Kelly, CEO of Empyrean. Apnea Holdings Pty Ltd exercised the options on 9 July 2019, thereby extinguishing the derivative financial liability.

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2020

During the 2017 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 profit or loss these were revalued at period end. The fair value was measured using a Black-Scholes Model with the following inputs:

Fair value of share options and assumptions

	31 March 2020	31 March 2019
Grant date	-	27 July 2015
Expiry date	-	26 July 2019
Share price	-	£0.09
Exercise price	-	£0.02
Volatility	-	77%
Option life	-	0.33
Expected dividends	-	-
Risk-free interest rate (based on national government bonds)	-	0.76%

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

Note 12. Reconciliation of Net (Loss)/Profit

	2020 US\$'000	2019 US\$'000
Net (loss)/profit before taxation	(995)	143
Finance (income)	(43)	(1,114)
Fair value revaluation	-	(98)
Forex loss	34	49
Impairment – oil and gas properties	47	47
Share based payments	84	60
Decrease/(increase) in trade receivables relating to operating activities	2	(5)
Increase/(decrease) in trade payables relating to operating activities	268	(53)
Increase in provisions	24	-
Net cash outflow from operating activities before taxation	(579)	(971)
Receipt of corporation tax	358	1,322
Net cash (outflow)/inflow from operating activities	(221)	351

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2020

Note 13. Share Capital

Issued and fully paid	2020	2019
	US\$'000	US\$'000
447,597,777 (2019: 424,275,110) ordinary shares of 0.2p each	1,291	1,232
Opening balance (2020 number: 424,275,110) (2019 number: 413,995,110)	1,232	1,205
Exercise of options - 9 July 2019 (number: 15,000,000)	38	-
Placement - 30 Sep 2019 (number: 3,655,800)	9	-
Placement - 16 Jan 2020 (number: 4,666,667)	12	-
Placement - prior year (number: 10,280,000)	-	27
Closing balance (2020 number: 447,597,777) (2019 number: 424,275,110)	1,291	1,232

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

Each of the ordinary shares carries equal rights and entitles the holder to voting and dividend rights and rights to participate in the profits of the Company and in the event of a return of capital equal rights to participate in any sum being returned to the holders of the ordinary shares. There is no restriction, imposed by the Company, on the ability of the holder of any ordinary share to transfer the ownership, or any of the benefits of ownership, to any other party.

Share options

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

	Weighted Average Exercise Price 2020	Number of Options 2020	Weighted Average Exercise Price 2019	Number Of Options 2019
	Outstanding at the beginning of the year	£0.042	17,500,000	£0.042
Issued during the year ^(a)	£0.125	3,000,000	-	-
Exercised during the year	£0.020	(15,000,000)	-	-
Outstanding at the end of the year	£0.145	5,500,000	£0.042	17,500,000

- (a) On 17 September 2019, 2,500,000 unlisted options were issued to the Company Secretary, Jonathan Whyte. The options have an exercise price of £0.125, expire on 30 September 2022 and have a vesting date of 17 September 2020. On 24 December 2019, 500,000 unlisted options were issued to Long State Investments as part of the £10 million equity placement facility. The options have an exercise price of £0.123 and expire on 24 December 2022.

Options are being expensed over the life of the options, resulting in a share-based payment expense of US\$84,000 to 31 March 2020 (US\$60,000 to 31 March 2019).

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2020

Valuation and assumptions of options at 31 March 2020

	Employee Options	Employee Options	Equity Facility Options
Number of Options	2,500,000	2,500,000	500,000
Grant date	17 Sep 2019	30 Jan 2018	24 Dec 2019
Expiry date	30 Sep 2022	30 Jan 2021	24 Dec 2022
Share price	£0.098	£0.12	£0.084
Exercise price	£0.125	£0.17	£0.123
Volatility	79%	79%	79%
Option life	3.00	3.00	3.00
Expected dividends	-	-	-
Risk-free interest rate (based on national government bonds)	0.49%	0.73%	0.52%

The options outstanding at 31 March 2020 have an exercise price in the range of £0.123 to £0.17 (2019: £0.02 to £0.017) and a weighted average remaining contractual life of 1.77 years (2019: 0.54 years). None of the outstanding options at 31 March 2020 are exercisable at year end.

Note 14. 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.

Note 15. Related Party Transactions

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

Apnea Holdings Pty Ltd, of which Mr Thomas Kelly is a Director, subscribed to 2,222,222 ordinary shares at £0.0131 as part of the January 2020 Share Placement.

There were no other related party transactions during the year ended 31 March 2020 other than those disclosed in Note 4.

Note 16. 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.

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2020

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.

	2020 US\$'000	2019 US\$'000
Cash and cash equivalents		
AA-rated	189	332
Total cash and cash equivalents	189	332

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.

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 US\$'000	6 months to 1 year US\$'000	1 to 6 years US\$'000	Total US\$'000
Trade and other payables (2020)	690	-	-	690
Trade and other payables (2019)	199	-	-	199

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2020

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. The Company has a track record of successfully securing additional funding as and when required from equity capital markets.

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 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 2020 the Company's gross exposure to foreign exchange risk was as follows:

	2020 US\$'000	2019 US\$'000
Gross foreign currency financial assets		
Cash and cash equivalents - GBP	40	196
Total gross exposure	40	196

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\$4,000 (2019: US\$19,600).

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.

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.

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2020

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;
- 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); and
- Investments - The Company's interest in the Duyung PSC is classified under IFRS 9 as a financial asset at fair value through profit or loss, due to the Company's 8.5% shareholding and lack of significant influence over operations. Financial assets designated as fair value through the profit or loss are measured at fair value through profit or loss at the point of initial recognition and subsequently revalued at each reporting date. The purchase agreement detailed in Note 8(b) has formed the basis for the fair value assessment at 31 March 2020, including costs capitalised since the agreement was entered into.

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).

Financial instruments at fair value and methods used to estimate the fair value are summarised below:

Financial Instruments at Fair Value	31 March 2020 Fair Value US\$'000	31 March 2019 Fair Value US\$'000
Financial assets		
Investments (Level 3) ^(a)	4,404	3,200
Total financial assets	4,404	3,200
Financial liabilities		
Derivative financial liability (Level 3)	-	1,349
Total financial liabilities	-	1,349

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2020

- (a) The Company's interest in the Duyung PSC is classified under IFRS 9 as a financial asset at fair value through profit or loss. The purchase agreement detailed in Note 8(b) has formed the basis for the fair value assessment at 31 March 2020, including costs capitalised since the agreement was entered into.

Financial instruments by category are summarised below:

Financial Instruments by Category	Fair Value Through Profit or Loss		Amortised Cost	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
	US\$'000	US\$'000	US\$'000	US\$'000
Financial assets				
Cash and cash equivalents	-	-	189	332
Trade and other receivables	-	-	35	37
Investments	4,404	3,200	-	-
Total financial assets	4,404	3,200	224	369
Financial liabilities				
Trade and other payables	-	-	648	157
Derivative financial liability	-	1,349	-	-
Total financial liabilities	-	1,349	648	157

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.

Note 17. Events After the Reporting Date

Significant events post reporting date were as follows:

In April 2020 the Company completed a placement to raise US\$0.509 million (£0.411 million).

In May 2020 the Company completed an Open Offer to raises US\$0.511 million (£0.415 million).

In May 2020 an independent resource audit by GCA was completed which confirmed a significant resource upgrade of the Mako gas field including an audited 2C contingent resource estimate of 495 BcF, a 79% increase from previous GCA estimate and an audited 3C contingent resource estimate of 817 BcF, a 108% increase from previous GCA estimate.

In May 2020 the final Indonesian regulatory approvals for the transfer of title of the 15% direct interest in the Duyung PSC to Coro were received. As part of this completion process WNEL made a direct transfer of its interest in the Duyung PSC to Empyrean and the other owners, who now hold their interest in the Duyung PSC directly.

In June 2020 the Company received a 12-month extension from CNOOC for first phase of exploration drilling at Block 29/11 secured, giving the Company until June 2022 to drill the first well.

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2020

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.

Note 18. 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 GSA phase for Block 29/11 included acquisition, processing and interpretation of 500km² for a 3D seismic survey, and a financial commitment of US\$3.0 million. The Company exceeded the work program commitments during the 2018 financial year.

Having successfully completed the committed work program for the first phase GSA, the Company exercised its option to enter a PSC on the Block, on pre-negotiated terms, with CNOOC on 30 September 2018, with the date of commencement of implementation of the PSC being 13 December 2018. The first phase of the contract is for 2.5 years with a commitment to drill one exploration well to a depth of 2,500m or to the Basement Formation. In June 2020 Empyrean announced that CNOOC had granted a 12-month extension for the first phase of the exploration commitment for the PSC, extending it to 12 June 2022.

Additional commitments for the 2020 financial year consist of an annual assistance fee to CNOOC of US\$60,000, an annual personnel representative fee to CNOOC of approximately US\$234,000 and an annual prospecting fee of US\$128,000.

Duyung PSC offshore Indonesia

As reported the joint venture partners completed a successful exploration and appraisal well program at the Duyung PSC during the year. Empyrean have paid all cash calls associated with the program with no further amounts due and payable.

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. At the time of this report, the work plan, cost estimates and timing of further expenditure for both the Borba and Alvares prospects have not been finalised. The Company incurs quarterly cash calls of approximately US\$10,000 for overheads, geological and geophysical costs and approximately US\$48,000 for its share of associated lease obligations annually.