

ANNUAL REPORT AND ACCOUNTS

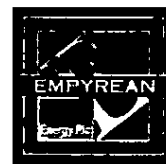
For the period 1 April 2006 to 31 March 2007

Registered Number **05387837**



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COMPANY INFORMATION

Directors

Patrick Cross (Chairman)
Frank Brophy (Technical Director)
Tom Kelly (Commercial Director)
Malcolm James (Non-Executive Director)

Secretary and Registered Office

Jade Styants
7 Savoy Court, Strand
London WC2R 0ER

Auditors

Chapman Davis LLP
2 Chapel Court
London SE1 1HH

Nominated Advisor and Broker

HB Corporate
40 Marsh Wall
London E14 9TP

Solicitors

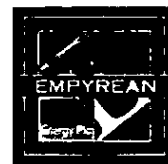
Kerman & Co LLP
7 Savoy Court, Strand
London WC2R 0ER

Bankers

Bank of Scotland
14-16 Cockspur Street
London SW1Y 5BL

Registrars

Capita Registrars
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU



CHAIRMAN'S STATEMENT

It is with pleasure that I am able to report on a successful second year of operations for Empyrean Energy Plc ("Empyrean" or "the Company")

Since the last Annual General Meeting, we have continued to seek additional projects that fit our strategy of investing in energy projects within politically stable regions. We have also undertaken an additional capital raising to assist the Company with the development of its existing portfolio of projects and to provide the capacity to invest in additional opportunities as they are identified.

It is important to note that since our AIM listing, less than two years ago, Empyrean has participated in the drilling of six wells, with a further five wells already scheduled for the remainder of calendar year 2007. All six wells drilled to date have encountered hydrocarbons, with two at Project Margarita currently in production and a third at Sugarloaf yet to be tested for hydrocarbon shows in the shallower Cretaceous carbonates and chinks that gave a good log response.

Last December the Company acquired an interest in Project Margarita, which consists of a number of deep prospects and also a number of lower risk smaller shallow prospects. Empyrean has already drilled three of the six planned wells to test the shallow prospects before moving onto the three higher impact deep 30 to 200 bcf gas prospects.

Two of the first three shallow wells have become producers, with the Milagro well connected to a gas sales line on 3 April 2007, and the Dos Dedos well been connected to the sales line on 26 April 2007. A further three shallow wells will now be drilled before a decision is made concerning moving on to the deeper prospects. Although modest, this production marks a significant milestone for Empyrean, which has been achieved within two years of listing on AIM.

At our Glantal Project in Germany, no commercial discovery was made from the testing of our first well, however results proved the existence of a seal (one of the greater pre-drill risks), the presence of fractures as a major component of reservoir effectiveness and the presence of gas. Having confirmed the geological characteristics of the formation, a seismic programme will be implemented prior to a decision about the position for the next well.

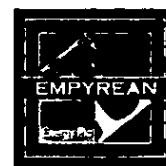
At the Eagle Oil Pool Development Project in California, the Eagle North-1 well encountered promising oil shows whilst drilling. An attempt to perforate and test a promising zone in the horizontal part of the well proved far more challenging and it has been concluded that the perforating guns did not fire. An attempt to retrieve the guns and production valve failed. A post mortem on the operations has concluded the best way forward, given the oil shows whilst drilling, is to drill a new well with a wider diameter horizontal completion. This is potentially a key production asset project for Empyrean and we expect that plans to drill the new well will commence in the near term.

The Sugarloaf well in Texas had two potential targets, and initial efforts concentrated on testing the most prospective intervals below 19,000 feet where drilling had encountered intermittent gas shows. These proved uncommercial, and a testing programme for the shallower Cretaceous carbonates and chinks is currently being finalised and it is anticipated that operations will recommence in the near future.

In January 2007, the Company successfully raised additional capital, an achievement that strongly confirmed the market's confidence in the Company's strategy, and in the balance of risk and reward which has been achieved with its wide portfolio of projects. The Board intends to continue actively looking for additional attractive opportunities to complement this portfolio further.

Patrick H. Cross

Patrick Cross
Chairman
30 April 2007



OPERATIONS REPORT

The Company has substantially increased its operational activities over the last twelve months. In addition to the ongoing Glantal Gas Project, the Eagle Oil Pool Development Project and the Sugarloaf Hosston Project, Empyrean has also acquired a working interest in the Margarita Project in the Gulf Coast, Texas USA.

Glantal Gas Project

Electric logs indicate that at least 20 intervals showing porosity and permeability have been intercepted during drilling and therefore had the possibility of being gas-filled reservoirs. Of these, six intervals were identified as the most likely to produce a positive result on testing. It was decided that the testing programme would investigate all six intervals only if the lowermost four intervals gave encouraging results.

Testing operations were carried out and completed during the month of July 2006 using the Koller workover rig. All tests were deemed to have been valid. The results were as follows:

Interval	Depth	Details
Interval 1	1445-1455m	A light blow at the surface and 212 litres of fluid were recovered in the drill string.
Interval 2	1355-1379m	Similar results with no detection of gas and only recovery of formation water.
Interval 3	1228-1249m	This was the zone that showed the best permeability and over a 4 hour flow period produced only 348 litres of connate water and no significant gas.
Interval 4	1205-1220m	This interval yielded only a small quantity of flammable gas to surface with no discernible formation water. The permeability appeared to be poor.

Since these four intervals were considered to be the most likely to flow gas, the results confirmed that no further testing of Glantal-1 was warranted and the well was consequently plugged and abandoned.

Despite the test results, the prospectivity of the project still remains high. Glantal-1 results proved the existence of seal (one of the greater pre-drill risks), the presence of fractures as a major component of reservoir effectiveness and the presence of gas during drilling and in the drill stem test number four.

The Glantal Prospect is located in the south western portion of the massive Pfalzer Anticline. And within the 60km², the prospect can be divided into two distinct structural elements, the Poltzberg Anticline and the Ulmet-Welchweiler Horst. Glantal-1 well was located on the relatively low western flank of the Poltzberg and a structurally higher position for the next well would be an ideal follow up to test the porous intervals already drilled.

However, prior to any further drilling, new seismic data will be required to further define the nature of faulting and compartmentalisation of the various structural elements. A small but adequate programme of 63 km has been designed which may be extended to approximately 100km. As with drilling rigs, seismic crews are difficult to acquire particularly when the programme is small, as in the case of Glantal. Preparations for the seismic campaign are under way and data acquisition will commence as soon as a contract is finalised.



OPERATIONS REPORT (Continued)

Eagle Oil Pool Development Project

Due to technical breakdowns and unconsolidated nature of the reservoir, the original programme of using a 2 3/8" slotted liner when testing the oil- filled sandstone had to be revised. The programme involved the testing of 72 metres of Lower Bellocchi Gatchell oil sand cased behind the 4 1/2" liner plus 105 metres of open hole (barefoot completion) beyond the base of the 4 1/2" liner set at 4,386 metres, a total of 177 metres.

This procedure required using a tubing- conveyed perforation gun, as well as a coiled tubing unit and a less expensive completion rig. The larger drilling rig was released on 20th May 2006 and testing operations were not resumed until sometime later.

Technical faults continued to plague the testing operation. Not only did the casing guns malfunction, but fishing operations to retrieve both the production valve, seal assembly and casing guns in the horizontal well proved to be unsuccessful.

Finally on 17th October 2006 it was announced that all partners had considered it no longer cost effective to continue the workover operation. It was agreed that the money would be better spent on a future re-entry and side track from the current cased Eagle North-1 well bore. The possibility of drilling another well is still being considered. If re-entry and sidetrack is decided, the target will remain the 177 metres of Lower Mary Bellocchi Gatchell oil sand in the horizontal well bore over the interval 4,209 – 4,386 metres. It should be recalled that these sands have produced at rates of up to 223 barrels of oil and 0.7 mcf from a 12 metre interval in the same sands of the Mary Bellocchi vertical well located 366 metres to the southeast. Production from the proposed horizontal interval should increase the oil production rate fourfold at least.

Planning has commenced for the future drilling operation, although the exact timing of recommencement depends on the availability of rigs, personnel and equipment.

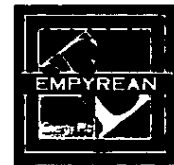
Sugarloaf Hosston Project

This attractive farmin agreement with Texas Crude Energy Inc. was announced by Empyrean on 6th April 2006 and mentioned briefly in the last Annual Report. The Farmin Agreement by which Empyrean would be earning a 7.5% interest before payout (reverting then to a 6% working interest) involved participating in the drilling and testing of a 21,000 feet well. The primary objective was the Cretaceous Hosston sandstone reservoir and the four way closure over an area of at least 20,000 acres was estimated to have an upside potential of several trillion cubic feet of gas. The mean reserves potential had been calculated at 800 bcf of gas.

Drilling commenced on 17th August 2006. First significant gas shows were recorded at 11,895' in the secondary objective, the Cretaceous chalk and limestone. These shows continued to 12,240' where they abruptly ended. Preliminary log estimates show 92' gross column of gas with a reservoir porosity of between 4 -10 %.

As planned, 9 5/8" casing was set at 14,480' and a 7 5/8" liner cemented at 17,000'.

Significant gas shows reappeared at 18,190' following the interception of the primary objective, the Hosston sandstones at 17,950'. These gas shows continued intermittently throughout the sequence until the total depth (TD) of 20,896' was reached on the 28th November 2006. The logs run at TD show a net pay of between 90 – 140' over an interval 1,700' (19,700' – 18,000') using a 6% porosity cut-off. The most prospective sand was 17' thick showing a calculated porosity of 9%.



OPERATIONS REPORT (Continued)

Based on these log results and gas shows during drilling, the operator proposed setting pipe at 19,000'. Perforations over 10 separate intervals between 19'630' – 18'973' in the lower Hosston sands were successfully executed but no gas flow resulted.

The well was cemented up to 18,900', and perforations were then made over 7 higher intervals between 18,199' – 18,689' where significant gas peaks had been encountered during drilling. These fine-grained sandstone intervals were then subjected to a fracturing procedure. On 12th March it was announced that the fracturing had achieved only minor gas recovery at a rate too small to measure. There are several reasons which can explain the absence of significant gas flow, despite the shows during drilling. The most likely explanation is the lack of sufficient permeability due to the fine-grained nature of the sandstones. The deleterious effects of using heavy mud weight (15.6 lbs/gal) by necessity could also have played a role in impeding gas flow.

The next operation will be to test the much shallower Cretaceous chalk and limestone which provided good gas shows and encouraging electric log response. A definitive testing programme is being finalised and it is anticipated that operations will recommence in the near future.

Project Margarita, Gulf Coast Texas, USA

In the November of 2006, Empyrean entered into a farmin agreement where it would earn a 44% Working Interest in six shallow prospects located in a prolific gas-producing area of Southeast Texas, USA. Under the terms offered, Empyrean would also have the opportunity to participate in any of the shallow prospects drilled after the initial six well programme. There also exists the option to participate, under the same farmin terms, in three "Deep Prospects" (30 – 200 bcf of gas) planned to be drilled in the second-third quarter of 2007.

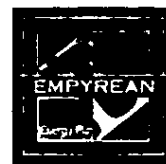
All of the shallow prospects are analogues of well documented Frio and Vicksburg sands production in the project area and have been identified using proven sophisticated geophysical techniques. Drilling of the first of the shallow wells commenced on 20th December 2006 and to date all three wells, El Viejito, Milagro and Dos Dedos, have encountered hydrocarbons.

El Viejito

El Viejito flowed gas at 210 mscfd during a 24 hour test period. High vertical permeability caused eventual water influx from below the well-defined gas-bearing interval and the gas flow was finally choked because of the water accumulating in the production string. The well was suspended to be used for a water disposal for other joint venture wells in the area.

Milagro

Milagro, the second well drilled at Margarita and had good shows while being drilled and was connected to a gas sales line on the 3rd April, 2007. On 26th April 2007 it was producing at 451,000 scfd with minor amounts of oil. It has been producing at rates of up to 384,000 scfd with minor amounts of oil. Side-wall cores and log interpretation would seem to indicate that the reservoir is actually oil-bearing with a high gas-oil ratio. In a nearby well initial flow was almost entirely gas before oil eventually flowed, which could be the case at Milagro. Further production data is required before reserves can accurately be determined. If the initial engineering calculation of approximately 150,000 barrels of oil gross is correct, there is a strong likelihood that two wells will be required to exploit the accumulation.



OPERATIONS REPORT (Continued)

Dos Dedos

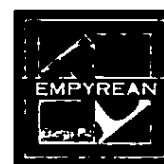
Dos Dedos the third well is also a gas producer. Connection to a gas sales line was completed on 26th April 2007 and production commenced at 151,000 scfd and will gradually be increased. Probable reserves for the producing sand are in the vicinity of 0.35 bcf gross, but again production and pressure data are required for a more accurate reserve determination.

The remainder of the six well programmes will commence mid-May 2007 and be completed by the end of July 2007. The wells will be drilled to depths of between 1,340 and 1,980 metres. The total mean reserves have been calculated at a little over 3.1 bcf.

Should Empyrean elect to participate in the "Deep Wells programme" following the "Shallow Wells", it will have the opportunity to share in the drilling of far larger gas prospects which have the potential of holding between 30 to 200 bcf. The reservoir targets will be the Cook Mountain and Wilcox formations and drilling is expected to commence late September 2007.

A handwritten signature in black ink, appearing to read "FJ Brophy", written over the typed name.

FJ Brophy BSc (Hons)
Technical Director
30 April 2007



DIRECTORS' REPORT

The Directors are pleased to present their report and the audited financial statements of the Company for the period 1 April 2006 to 31 March 2007

Principal Activities and Business Review

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

Results and Dividends

The loss for the year on ordinary activities of the company after taxation amounted to £791,000. Exploration costs for the year of £2,583,000 have been capitalised.

The Directors do not propose the payment of a dividend.

Directors and Directors Interests

The Directors who served during the year to 31 March 2007 had, at that time, and at the date of their respective appointment, the following beneficial interests in the shares of the Company:

	31 March 2007	
	Number of ordinary shares	Number of options over ordinary shares
Patrick Cross	-	500,000
Frank Brophy	-	2,000,000
Thomas Kelly	3,500,000	1,000,000
Malcolm James	500,000	-
Christopher Lambert (resigned 4 October 2006)	N/A	-

For further details on options held by Directors, refer to note 5 of the Financial Statements. None of the Directors hold warrants in the Company.

There have been no changes in Directors' interests in shares since the year-end.

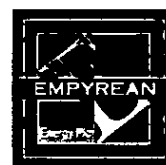
Directors Remuneration

The company's policy on remuneration of directors is to attract, retain and motivate the best people, recognising that they are key to the ongoing success of the business, but to avoid paying more than is necessary for that service.

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

Management Incentives

To assist in the incentivisation, retention and recruitment of employees and consultants, the Company issued share options to two of the directors during the period as part of this scheme. Details of these options are set out in note 5 to the Financial Statements.



DIRECTORS' REPORT (Continued)

Substantial shareholdings

On 31 March 2007 the following were registered as being interested in 3% or more of the Company's ordinary share capital other than Directors holdings as previously disclosed

	31 March 2007	
	Ordinary shares of £0 002 each	% of issued share capital
JP Morgan Asset Management Limited	1,770,000	3.56%
Barclays Stockbrokers Limited	3,391,718	6.84%
Societe Prive de Gestion de Patrimoine	2,919,046	5.89%
RAB Special Situations (Master) Fund Limited	1,783,333	3.60%

Share Capital

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

Charitable and Political Donations

During the period there were no charitable or political donations

Payment of Suppliers

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

Post Balance Sheet Events

Material post balance sheet events are set out in note 17 to the Financial Statements

Going Concern

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

Auditors

The auditors, Chapman Davis LLP, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the annual general meeting

Control Procedures

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

Corporate Governance

The Directors are committed to maintaining high standards of corporate governance. The Directors have established procedures, so far as is practicable, given the Company's size, to comply with the Combined Code as modified by the recommendations of the Quoted Companies Alliance. 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 UKLA



DIRECTORS' REPORT (Continued)

Corporate Governance continued...

The Board

The Board meets regularly throughout the year. 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.

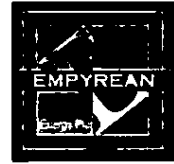
The Board currently includes two non-executive directors. The Board has delegated specific responsibilities to the committees described below.

The audit committee

The audit committee comprises Patrick Cross and Malcolm James, is chaired by Patrick Cross and met three times during the period ended 31 March 2007. The committee reviews the Company's annual and interim financial statements before submission to the Board for approval. The committee also reviews regular reports from management and the external auditors on accounting and internal control matters. When appropriate, the committee monitors the progress of action taken in relation to such matters. The committee also recommends the appointment of, and reviews the fees of, the external auditors.

The remuneration committee

The remuneration committee is made up of Patrick Cross and Malcolm James and chaired by Patrick Cross. The remuneration committee met twice during the period ended 31 March 2007. It is responsible for reviewing the performance of the Executive Directors and for setting the scale and structure of their remuneration, paying due regard to the interests of shareholders as a whole and the performance of the Company.



STATEMENT OF DIRECTORS' RESPONSIBILITIES

Directors' Responsibilities for the Financial Statements

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

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

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities. They are also responsible for ensuring that the annual report includes information required by the Alternative Investment Market.

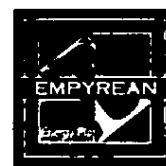
The maintenance and integrity of the Company's website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements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

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

By order of the Board

Patrick H. Cross.

Patrick Cross
Chairman
30 April 2007



REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF EMPYREAN ENERGY PLC

We have audited the company financial statements of Empyrean Energy Plc for the year ended 31 March 2007, which comprise the Income Statement, the Balance Sheet, Cash Flow Statement, Statement of Changes in Equity, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

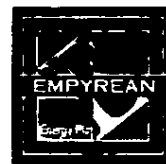
In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, Operations Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial



**REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF EMPYREAN ENERGY PLC (Continued)**

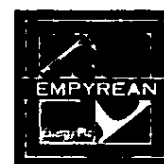
Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the company's affairs as at 31 March 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Chapman Davis LLP

Chapman Davis LLP
Registered Auditors
London
30 April 2007



INCOME STATEMENT
for the year ended 31 March 2007

	Notes	2007 £'000	2006 £'000
Administrative expenses		<u>(866)</u>	<u>(760)</u>
Operating loss	2	(866)	(760)
Interest received	3	<u>75</u>	<u>71</u>
Loss on ordinary activities before taxation		(791)	(689)
Taxation on loss on ordinary activities	6	<u>-</u>	<u>-</u>
Loss for the financial year		<u>(791)</u>	<u>(689)</u>
Loss per share expressed in pence per share			
- Basic	7	(2.1)p	(2.5)p

A separate Statement of Recognised Income and Expense is not required

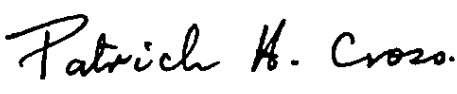
The accompanying accounting policies and notes form an integral part of these financial statements

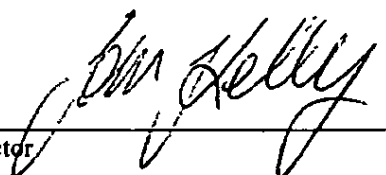


BALANCE SHEET
as at 31 March 2007

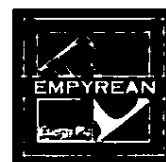
	Notes	2007 £'000	2006 £'000
Assets			
Non-current assets			
Intangible assets	8	6,443	3,860
Plant and equipment	9	4	7
		<u>6,447</u>	<u>3,867</u>
Current assets			
Other receivables	10	237	239
Cash and cash equivalents		4,889	3,210
		<u>5,126</u>	<u>3,449</u>
Liabilities			
Current liabilities			
Other payables	11	(27)	(123)
		<u>(27)</u>	<u>(123)</u>
Net current assets		<u>5,099</u>	<u>3,326</u>
Net assets		<u>11,546</u>	<u>7,193</u>
Shareholders' equity			
Share capital	13	99	70
Share premium		12,486	7,665
Other reserves		441	147
Retained loss		(1,480)	(689)
		<u>(1,480)</u>	<u>(689)</u>
Total equity		<u>11,546</u>	<u>7,193</u>

The Financial Statements on pages 15 to 27 were approved by the Board of Directors on 30 April 2007 and were signed on its behalf by


Chairman


Director

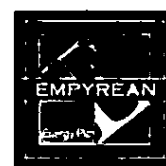
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CASH FLOW STATEMENT
for the year ended 31 March 2007

	Notes	2007 £'000	2006 £'000
Net cash outflow from operating activities	12	<u>(644)</u>	<u>(769)</u>
Return on Investments			
Interest received		75	71
Net cash inflow from returns on investments		<u>75</u>	<u>71</u>
Capital expenditure			
Purchase of tangible fixed assets		(3)	(12)
Purchase of intangible fixed assets		(2,583)	(3,854)
Proceeds from the sale of intangible fixed assets		3	-
Net cash inflow for capital expenditure		<u>(2,583)</u>	<u>(3,866)</u>
Financing			
Issue of ordinary share capital		5,095	8,146
Expenses relating to share issues		(264)	(372)
Net cash inflow from financing		<u>4,831</u>	<u>7,774</u>
Increase in net cash	14	1,679	3,210
Cash and cash equivalents at the start of the year		<u>3,210</u>	-
Cash and cash equivalents at end of the year		<u>4,889</u>	<u>3,210</u>

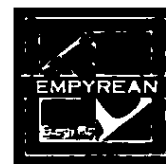
The accompanying notes and accounting policies form an integral part of these financial statements



STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2007

	Share capital account	Share premium reserve	Other reserve	Retained loss	Total equity
	£'000	£'000	£'000	£'000	£'000
As at 1 April 2005					
Share capital issued	70	8,076	-	-	8,146
Cost of share issue	-	(411)	-	-	(411)
Share based payments	-	-	147	-	147
Loss for the year	-	-	-	(689)	(689)
As at 31 March 2006	70	7,665	147	(689)	7,193
Share capital issued	29	5,066	-	-	5,095
Cost of share issue	-	(245)	-	-	(245)
Share based payments	-	-	294	-	294
Loss for the year	-	-	-	(791)	(791)
As at 31 March 2007	99	12,486	441	(1,480)	11,546

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



STATEMENT OF ACCOUNTING POLICIES for the year ended 31 March 2007

The financial statements of Empyrean Energy plc for the year ended 31 March 2007 were authorised for issue by the board on 30 April 2007 and the balance sheets signed on the board's behalf by Mr Patrick Cross and Mr Frank Brophy

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") The principal accounting policies are summarised below They have all been applied consistently throughout the year.

Basis of accounting

These financial statements have been prepared under the historical cost convention in accordance with International Financial Reporting Standards and IFRIC interpretations and with those parts of the Companies Act, 1985 applicable to companies reporting under IFRS

The financial report is presented in Sterling and all values are shown in pounds (£)

Turnover

The Company had no turnover during the year

Finance Revenue

Finance Revenue is recognised as interest accrues

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts

Deferred tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance sheet date

No deferred tax asset has been recognised because there is insufficient evidence of the timing of suitable future profits against which they can be recovered

Foreign currencies

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

Trade and other receivables

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

Trade and other payables

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



STATEMENT OF ACCOUNTING POLICIES (Continued) for the year ended 31 March 2007

Exploration and development expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against the profit in the year in which the decision to abandon the area is made.

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

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are expensed as incurred and treated as exploration and evaluation expenditure.

Judgements and estimates

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

Impairment of assets

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

Share-based payments

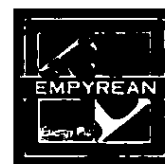
Certain Directors of the Company receive remuneration in the form of equity-settled share-based payment transactions, whereby services are rendered in exchange for rights over shares ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using the Black-Scholes pricing model, further details of which are given in note 5 to the Financial Statements.

The cost of equity-settled transactions with parties other than employees is measured at the fair value of the services received at the date of receipt, with a corresponding increase in equity.

Going concern

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



NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2007

1. Turnover and Segmental Analysis

The Company had no turnover during the year

All the administration costs were incurred by the Company in the United Kingdom

Capitalised exploration, evaluation and development expenditure can be analysed by the following geographical segments

	2007	2006
	£'000	£'000
Continental Europe	2,644	2,027
North America	3,799	1,833
	<u>6,443</u>	<u>3,860</u>

2. Operating Loss

The operating loss is stated after charging

	2007	2006
	£'000	£'000
Auditors' remuneration – audit services	8	5
– other services	3	3
Depreciation (note 9)	5	3
Directors' emoluments (note 5)	116	88
Directors' share based payments (note 5)	261	127
	<u>643</u>	<u>351</u>

Auditors' remuneration for non-audit services provided during the year amounting to £2,500 relates to the provision of review and taxation services

3. Interest Receivable

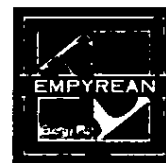
	2007	2006
	£'000	£'000
Bank interest received	<u>75</u>	<u>71</u>

4. Staff Costs (including Directors)

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

	2007	2006
	£'000	£'000
Equity-settled share-based payments	<u>294</u>	<u>127</u>

The Company's equity-settled share based payments comprise incentive options granted to the Company's Directors. The amount and details of share options subject to equity-settled share based payments are set out in note 13



NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 March 2007

4. Staff Costs (including Directors) continued...

The fair value of these options has been fully expensed during the year, based on a Black-Scholes model, assuming a risk free rate of 4.7% and expected volatility of 60%. The value per option ranges from 8 pence to 9 pence. There are no performance measures attached to the options.

5. Directors' Emoluments

	Executive Salary		Options Issued	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Non-Executive Directors:				
Patrick Cross ⁽¹⁾	33	24	-	41
Malcolm James	24	16	-	-
Executive Directors:				
Frank Brophy ⁽²⁾	36	24	130	86
Thomas Kelly ⁽³⁾	36	24	131	-
Christopher Lambert ⁽⁴⁾ <i>(Resigned 4 October 2006)</i>	16	40	-	-
Total	145	128	261	127
Capitalised to Intangible Assets	26	40	-	-
Expensed to Income Statement	119	88	261	127

- 1) Services provided includes £5,000 paid to HFH Associates Ltd
- 2) Services provided by F J Brophy Pty Ltd
- 3) Services provided by Apnea Holdings Pty Ltd
- 4) Services provided by Walkerton Plc

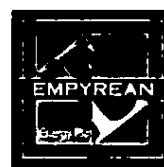
No pension benefits are provided for any Director

The Executive Directors are remunerated for consultancy services provided to the Company in relation to its exploration operations as disclosed above. These payments are capitalised to licences and deferred exploration costs (note 8).

Malcolm James is a director of Claridge House Services Limited, for which there is a contract for the provision of administrative and office services to the Company.

Directors' Share Options

On 31 October 2006, Frank Brophy and Thomas Kelly were allocated options over 1,000,000 shares each at an exercise price of 50 pence per share with an expiry date of 31 October 2009.



NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 March 2007

6. Taxation

	2007 £'000	2006 £'000
Current year taxation		
UK corporation tax at 30% on profits for the year	-	-
Factors affecting the tax charge for the year		
Loss on ordinary activities before tax	(791)	(689)
Loss on ordinary activities at the UK standard rate of 30%	(237)	(207)
Effect of tax benefit of loss carried forward	237	207
Current year taxation	-	-

No deferred tax asset has been recognised because there is insufficient evidence of the timing of suitable future profits against which they can be recovered

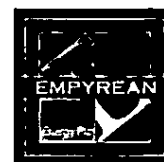
Tax losses of approximately £1,480,000 are available to be claimed going forward

7. Loss Per Share

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

	2007	2006
Loss for the year	£(791,542)	£(689,000)
Weighted average number of Ordinary shares of £0 002 in issue	37,833,661	27,310,455
Loss per share – basic	(2 1) pence	(2 5) pence
Weighted average number of Ordinary shares of £0 002 in issue inclusive of outstanding options	39,006,994	27,917,129

As the inclusion of the potential ordinary shares would result in a decrease in the loss per share they are considered to be antidilutive and, as such, a diluted loss per share is not included



NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 March 2007

8. Intangible Assets

Licences and deferred exploration

	2007	2006
	£'000	£'000
Cost		
Balance brought forward	3,860	-
Additions	2,583	3,860
At 31 March	<u>6,443</u>	<u>3,860</u>
Amortisation	-	-
Net Book Value		
At 31 March	<u>6,443</u>	<u>3,860</u>

At 31 March 2007 the Directors undertook an impairment review of the licences and deferred exploration costs, as a result of which, no provisions were deemed to be required

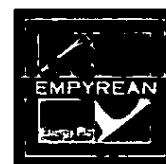
Exploration Expenditure by Project Area

	2007	2006
	£'000	£'000
Glantal, Germany	2,644	2,027
Eagle Oil, USA	2,723	1,833
Sugarloaf Hosston, USA	528	-
Margarta, USA	548	-
Total Licences and deferred exploration	<u>6,443</u>	<u>3,860</u>

9. Plant and Equipment

Office Equipment

	2007	2006
	£'000	£'000
Cost		
Balance brought forward	12	-
Additions	3	10
Disposal	(3)	-
At 31 March	<u>12</u>	<u>10</u>



NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 March 2007

9. Plant and Equipment continued...

Depreciation		
Balance brought forward	3	-
Charge for the year	5	3
At 31 March 2007	<u>8</u>	<u>3</u>
Net Book Value		
At 31 March	<u>4</u>	<u>7</u>

10. Other Receivables

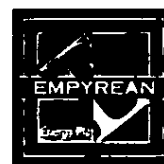
	2007	2006
	£'000	£'000
VAT receivables	<u>237</u>	<u>239</u>

11. Other Payables

	2007	2006
	£'000	£'000
Accounts Payable	10	-
Accruals	<u>17</u>	<u>123</u>
Total Payables	<u>27</u>	<u>123</u>

12. Reconciliation of Operating Loss to Operating Cash Flows

	2007	2006
	£'000	£'000
Operating loss	(866)	(760)
Increase / (decrease) in debtors	2	(243)
Increase / (decrease) in accrued liabilities	(88)	104
Other non-cash charges	294	127
Depreciation	5	3
Increase in accounts payable	9	-
Net cash outflow from operating activities	<u>(644)</u>	<u>(769)</u>



NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 March 2007

13. Called Up Share Capital

The authorised share capital of the Company and the called up and fully paid amounts at 31 March 2007 were as follows -

	2007	2006
Authorised		
1,000,000,000 ordinary shares of 0 2p each	2,000,000	2,000,000
Issued and fully paid		
49,596,767 (2006 35,038,671) ordinary shares of 0 2p each	99,194	70,077

On 26 April 2006 a further 267,619 shares were allotted for cash on exercise of warrants over ordinary shares of 0 2p at a price of 35p per share

On 24 November 2006 a further 4,762 shares were allotted for cash on exercise of warrants over ordinary shares of 0 2p at a price of 35p per share

On 26 January 2007 a placement for a further 14,285,715 ordinary shares of 0 2p were allotted for cash at a price of 35p per share

Share Options and Warrants

The following equity instruments have been issued by the Company and have not been exercised at 31 March 2007

	Number of ordinary shares	Exercise price	Expires
IPO Warrants	1,173,333	35 pence	27 July 2007
Incentive options	1,250,000	35 pence	31 December 2008
Incentive options	250,000	40 pence	31 December 2008
Incentive options	2,250,000	50 pence	31 October 2009

15. Commitments

As at 31 March 2007, the Company had no material capital commitments

16. Related Party Transactions

Other than those disclosed in note 5 there were no other related party transactions during the year



NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 March 2007

17. Post Balance Date Events

Production has commenced from the shallow well programme at the Margarita project at both the Milagro and Dos Dedos wells. Milagro the second well drilled had good shows and was connected to a gas sales line on the 3 April 2007. On 26 April 2007 it was producing at 451,000 scfd with minor amounts of oil. Further production data is required before reserves can accurately be determined.

Dos Dedos the third well drilled in the shallow well programme at Margarita. Dos Dedos is also a gas producer and connection to a gas sales line was completed on 26 April 2007, with production commencing at 151,000 scfd. Production and pressure data is required before the reserves can accurately be determined.

On 24 April 2007, the Company announced that the Joint Venture had extended the land acquisition programme for the Sugarloaf Project area, increasing the area over which the Joint Venture has rights to approximately 19,500 acres to date.