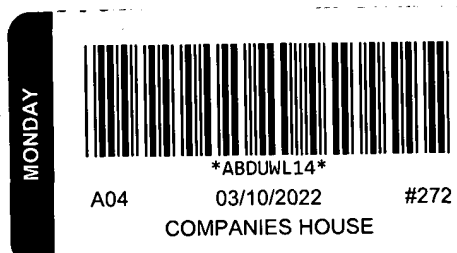


Empyrean Energy Plc
Registered Number 05387837
Annual Report and Accounts 2022



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Company Information

Directors	Patrick Cross (Non-Executive Chairman) Thomas Kelly (Chief Executive Officer) Gajendra Bisht (Executive Director - Technical) John Laycock (Non-Executive Director)
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Key Activities

Block 29/11, Pearl River Mouth Basin, China (EME 100% reverting to 49% upon commercial discovery)

Reporting period

- Empyrean and its partner China National Offshore Oil Corporation (“CNOOC”), along with its technical service providers CNOOC Enertech and China Oilfield Services Limited (“COSL”) completed significant pre-drilling operational, technical and permitting work throughout the year to enable the safe drilling of the Jade prospect post reporting year end.

Post-Reporting period

- LH 17-2-1 Jade well spudded and reached final total depth of 2,849 metres Measured Depth (“MD”) during April 2022. No oil pay was encountered in the target reservoir and demobilisation operations were completed.
- Post-well analysis at Jade confirmed reservoir quality better than pre-drill estimate with regional seal confirmed and depth conversion approach validated. Based on post-drill technical evaluation, and CNOOC-assisted migration pathways assessment, Empyrean decided to enter the second phase of exploration with the aim to drill the larger Topaz prospect.
- Topaz Drill Program targeted to commence in 2023.

Duyung PSC Project, Indonesia (EME 8.5%)

Reporting period

- Prevailing strong gas prices have enabled the operator Conrad Petroleum Ltd (“Conrad”) to advance Gas Sales Agreement (“GSA”) negotiations with multiple interested parties.
- Conrad has also been working with SKK Migas to enable an upgrade to the Plan of Development (“POD”) that was approved following the discovery of Mako. Following the successful appraisal of Mako, Gaffney Cline and Associates (“GCA”) upgraded its resource assessment for Mako and the new POD is expected to be finalised once Ministerial approval is obtained.
- Mako is one of the largest gas discoveries in the West Natuna Sea and the largest undeveloped resource in the area.

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

- Evaluation on the project is ongoing and the Company will continue to work with its joint venture partners in reviewing and assessing any further technical and commercial opportunities in Sacramento, particularly in light of strong gas prices.

Corporate

Reporting period

- Placement and Convertible Note funding of US\$10.14 million (£7.62 million) secured in December 2021 to partially fund Jade Prospect drilling.
- Placement to raise US\$6.92 million (£5.02 million) completed in July 2021.

Post-Reporting period

- Placement to raise US\$2.25 million (£1.83 million) completed in May 2022.

Empyrean CEO Tom Kelly said, “Empyrean’s key focus during the year was completing the necessary activities required in preparation for the drilling of the initial exploration well at Jade under the PSC terms.

While the end result was not the one we had hoped for at Jade, the achievement of safely drilling the well on time and on budget was a credit to Empyrean’s team and a great reflection of the excellent teamwork, expertise, professionalism and cooperation between the Company, its partner CNOOC, and its technical service providers CNOOC Enertech and COSL.

Importantly, post the drilling at Jade, Empyrean has been able to combine our excellent quality 3D seismic data with the confirmed well data from Jade resulting in post well analysis that has improved the validity of the Topaz prospect as a robust and large drilling target of approximately 891 million barrels in place (P10). We have therefore made the decision to enter into an agreement for the second phase of exploration on Block 29/11 with the aim to drill Topaz before June 2024.

In Indonesia, Empyrean looks forward to maximising the value from its interest in the Mako Gas Field which would strengthen the Company’s balance sheet and help fund the drilling of Topaz.

In California, while activity and expenditure was limited during the year, the operator Sacgasco continues to evaluate the project and Empyrean will review and assess any further technical and commercial opportunities as they come to hand, particularly in light of strong gas prices for gas sales in the Sacramento Basin.

As always, the Company continually assesses other financing and strategic alternatives to provide it 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. The Company has also successfully restructured its convertible note.

In addition to its existing projects, Empyrean continues to assess a number of additional oil and gas projects that it believes may enhance a balanced portfolio of opportunity and will update shareholders as required.

While the Board and management share the disappointment of the Jade well result with its shareholders, it moves forward with renewed optimism, with good news due from Indonesia and the learnings from Jade further de-risking Topaz which standalone has the potential to be a Company changer.”

Chairman's Statement

It was another busy year for Empyrean on its portfolio of exploration projects during the year, primarily in China.

After an enormous amount of hard work preparing for the drilling of the Jade prospect in China, the Company was clearly disappointed that the drilling program post year end did not result in the discovery of commercial hydrocarbons at the Jade Prospect. Unfortunately, this is the nature of exploration and we take the good with the bad.

Nevertheless, post-well evaluation in conjunction with CNOOC has provided invaluable further interpretation of the critical elements of effective regional oil migration pathways, with positive implications for the second target on Block 29/11, the Topaz prospect.

We also expect good news in the near term from Indonesia with GSA negotiations advanced and the prospect of Empyrean realising significant value from its interest there to follow the conclusion of the GSA process.

As always, I would like to thank the Board, management and staff for their efforts during the year. Empyrean retains a positive outlook for the future and is setting its sights on value creation from Indonesia and the further de-risked drill opportunity in China.



Patrick Cross
Non-Executive Chairman
15 September 2022

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. Empyrean and its partner CNOOC, along with its technical service providers CNOOC Enertech and COSL, completed significant pre-drilling operational, technical and permitting work throughout the reporting period to enable to safe drilling, although ultimately unsuccessful drilling of the Jade prospect post reporting year end.

Post-well analysis at Jade however has confirmed reservoir quality is better than pre-drill estimates with regional seal confirmed and the depth conversion approach validated. As a part of post-well evaluation, CNOOC geochemical and basin modelling experts together with Empyrean have interpreted the critical elements of effective regional oil migration pathways leading to positive implications for the Topaz prospect, and ultimately the decision to proceed with the second phase of exploration at Block 29/11, being the drilling of the Topaz Prospect before June 2024.

Following the exploration success that was achieved in Indonesia and the significant resource upgrade of the Mako gas field, the operator is in the process of negotiating a gas sales agreement which would enable Empyrean to maximise shareholder value from its interest in the project. Recent strong gas prices and a solid demand forecast in the south-east Asian region provides additional momentum and urgency.

In California operator Sacgasco continues to evaluate the project(s) in light of strong gas prices for gas sales in the Sacramento Basin. Empyrean is content to work with its joint venture partners in reviewing and assessing any further technical and commercial opportunities as they are presented, while keeping expenditures to a minimum, currently consisting mainly of meeting cash calls for joint venture overheads.

Further details on these activities are 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 through the entering of a Convertible Note Agreement pursuant to which the Company received gross proceeds of US\$5.4 million (£4.0 million) (the "**Convertible Note**"). The funds raised were to support the current exploration programs and for working capital purposes.

The Board and management recognise that exploration for hydrocarbons is a risky venture and there will be failures and challenges along with successes. As a result, the Company's strategy is to continue to add value for shareholders by building a diverse portfolio of drilling opportunities in commercially attractive jurisdictions. The Company has a team with a proven track record of finding hydrocarbons and advancing projects through exploration, appraisal and into production. Oil and Gas prices have steadily risen since the negative impact of the COVID-19 outbreak and the current business strategy of the Company remains sound and value accretive.

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

Operations and Outlook

As at 31 March 2022 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. Migration studies, seismic inversion work and the identification of well-defined gas clouds over the three prospects further enhanced the technical merits of the Jade and Topaz prospects in 2019 and during the current year the Company, along with CNOOC and its service providers, completed the substantial pre-drilling operational, technical and permitting work to enable to safe drilling of the Jade prospect post reporting year end.

Post the financial year end, the Company completed drilling at the Jade prospect, which reached final total depth of 2,849 metres MD on 27 April 2022. The interpretation from logging while drilling ("**LWD**") and mud logging equipment indicated no oil pay in the target reservoir and the demobilization activities were then completed.

Post Jade well evaluation work confirmed reservoir quality and the regional seal and following a CNOOC assisted oil migration pathways assessment, the Company has committed to enter this second phase of exploration with the aim to drill Topaz.

Topaz remains a world class conventional oil target in the Jade prospect, to which GCA assigned a Geological Chance of Success ("**GCoS**") of 30%. The Topaz prospect has a GCA audited mean in place potential of 506 MMbbl and a P10 in place upside of 891 MMbbl. Following the Jade prospect, Topaz prospect is the second of the three identified prospects within Block 29/11, which also contains the Pearl prospect. The combined 2018 audited mean in place potential of the Topaz and Pearl prospects is 659 MMbbl and a P10 in place upside of 1,193 MMbbl.

The Company holds a 8.5% direct interest in the 1,100km² Duyung PSC, offshore Indonesia, operated by Conrad. 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 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 GCA to complete an independent resource audit for the Mako Gas Field, which resulted in a significant resource upgrade in May 2020 and confirmed Mako as one of the largest gas fields ever discovered in West Natuna Basin.

An updated Plan of Development has been approved by SKK Migas and is awaiting Ministerial Approval, and includes uplifted GIP estimates. The expected conclusion of GSA negotiations will mark a further important step toward the final investment decision to develop and commercialise the field, and for Empyrean to maximise value from its interest.

In 2017 the Company entered into an agreement with ASX-listed Sacgasco Limited ("**Sacgasco**"), a Sacramento Basin focused natural gas developer and producer, 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 with comprehensive testing of selected zones failing to sustain gas flow. Following the Dempsey drilling campaign, the joint venture integrated the subsurface data with regional geology and seismic data to evaluate additional targets with thicker reservoir units for future drilling along the "Dempsey trend", in which Empyrean could earn a 30% interest.

The operator matured Borba prospect was the next drilling opportunity at the project. In October 2020 Empyrean notified Sacgasco that it would not be participating in the proposed drilling of the Borba prospect under the timeframes and terms proposed by Sacgasco.

The Company will continue to work with its joint venture partners in reviewing and assessing any further technical and commercial opportunities as they relate to the project, particularly in light of strong gas prices for gas sales in the Sacramento Basin.

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 15.

Cyber Fraud Incident

As announced to the market, in December 2021 the Company made a payment totalling US\$1.98 million to COSL, representing a 10% deposit on the dry hole cost component of the Integrated Drilling Contract ("IDC") signed with COSL; however, the Company was subsequently informed that this payment was not received by COSL and had been paid to a fraudulent third party as a result of an impersonation fraud perpetrated against the Company.

The Company then worked with its bank, the recipient bank and the police authorities in three jurisdictions to initiate actions including the freezing of the recipient bank account and the commencement of recovery actions.

Empyrean commenced legal proceedings in the Singapore courts against the company believed to have committed the fraud and obtained an injunction order on 21 January 2022 to freeze its assets and obtain further banking information. Empyrean will continue to take the necessary steps and is taking legal advice for the purpose of pursuing recovery of the funds involved in the fraud. Empyrean continues to cooperate with the Singapore Police investigation into the fraud. Empyrean has taken the steps above, upon legal advice, in order to escalate the recovery process.

Empyrean has also reviewed its internal control policies including overseas and domestic payment processes and has added further authority approvals and procedures for all material payments.

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 decision was to commit the drilling of the Jade Prospect on Block 29/11 in China. The expenditure to drill the well was material but based on the Company's extensive technical and de-risking work, the Company proceeded to drill the Jade Prospect subsequent to year end. The Company completed a series of equity placements and also entered into the Convertible Note to fund the drilling of Jade. Ultimately, no oil pay was encountered in the target reservoir at Jade and demobilisation operations were completed.

Subsequent to the year end, the Company has completed a further placement of US\$2.25m and also successfully amended the terms of the Convertible Note, as detailed further in this Annual Report. 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 progressing three cornerstone assets: Block 29/11 offshore China, the Duyung PSC offshore Indonesia and to a lesser extent a multi project participating interest in the Sacramento Basin, California. Focused exploration work continued throughout year to maximise shareholder 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. While restrictions on face to face communication due to COVID-19 affected the Company's Annual General Meeting in prior years, the Company is holding a hybrid meeting in 2022 to enable shareholders to communicate with the Board and Management. 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 should guide 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. Compliance with these standards was monitored throughout the year by the Company Secretary and Directors through regular meetings and open dialogue and transparency on all business matters.

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. The Joint Management Committee for Block 29/11 in China and the Technical Committee for the Duyung PSC formally convened on a number of occasions during the year, while regular dialogue was maintained with our Joint Venture partner in California.

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.

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 to restrict travel, commercial and other activities, 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. Oil prices have been on the rise through 2021 and 2022, after the negative impact of COVID-19 outbreak and geopolitical factors saw energy prices decrease.

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. Emphyrean'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. In addition, the Company has committed to the second phase of exploration at Block 29/11 which requires the payment to CNOOC of US\$250,000 and a work obligation to drill an exploration well at Topaz within 2 years (12 June 2024).

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.

Climate Change Risk

The Company's exploration, development and production activities could be subject to restrictions or moratoriums in response to carbon emission reduction targets. The Company has received no indication that the relevant host governments want to place restrictions on the production of hydrocarbons. During the financial year the Company was in a non-operational phase and its environmental footprint is minimal.

Financial Position and Performance of the Business

Net loss after tax for the year was US\$8.11 million (2021: US\$0.95 million). Total assets were US\$24.96 million (2021: US\$15.19 million), the increase mainly due to capitalised exploration expenditure on the Company's primary projects. As a result of the unsuccessful well at Jade, Emphyrean has, in accordance with applicable accounting standards, written off all historical expenditure incurred on Block 29/11 and also the dry hole costs associated with the Jade drilling program subsequent to year end, together being US\$22.04 million. This capitalised expenditure contributed to net investing cash outflows of US\$16.37 million (2021: US\$1.16 million). Total liabilities were US\$6.23 million (2021: US\$0.78 million), the increase due to the convertible note issued in December 2021. The Company's cash position at 31 March 2022 was US\$19,000 (2021: US\$150,000) with net operating cash outflows of US\$0.88 million (2021: US\$0.83 million).

Key Performance Indicators

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 2021, the share price reached a high closing price of 11.8p in April 2022 ahead of the drilling of the Jade Prospect at Block 29/11 in China. Following the drilling of the Jade Prospect, where no oil pay was encountered in the target reservoir, the share price predictably decreased sharply, recording a low closing price of 1.1p in July 2022. Despite this setback, the Board believes that there is a near term value catalyst upon signing of the GSA. In addition, the planned drill program at the large scale Topaz prospect provides significant share price re-rating potential. 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 2021 to 13 September 2022 is represented graphically below.

The strategic report and operational review were approved by the Board on 15 September 2022 and signed on the Board's behalf.

A handwritten signature in black ink, appearing to read 'Tom Kelly', written in a cursive style.

Thomas Kelly
Chief Executive Officer
15 September 2022

Operational Review

For much of the 2022 financial year Empyrean was focused on completing the necessary technical, operational and permitting work required for the commencement of drilling operations at the first of its targets at Block 29/11, offshore China, being the Jade Prospect. The drilling of the Jade Prospect followed several years of methodical, targeted technical evaluation and de-risking activities. However disappointingly, the Jade well proved to be unsuccessful with no oil pay encountered.

The Company's corporate objective remains to build a significant asset portfolio across the Asian region and with the Jade well evaluation work confirming reservoir quality and the regional seal and following a CNOOC assisted oil migration pathways assessment, the Company has committed to the second phase of exploration in China with the aim to drill the large-scale Topaz prospect.

Empyrean is excited about the significant value potential of its interest in Indonesia. Following the discovery of high quality gas in the first exploration well and successful appraisal program, the project has been further supported by increasingly strong gas prices in the Asian region. As a result, the Company anticipates that the operator will conclude the current negotiations of the GSA in the near term. Execution of the GSA would enable Empyrean to maximise shareholder value from its interest in the project.

Empyrean also has a 25-30% working interest in a package of gas projects in the Sacramento Basin, onshore California. The Company remains an active joint venture partner and will assess the technical and commercial merits of other prospects or proposals as they are presented.

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, 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 GCA, who completed an audit of the Company's oil in place estimates in November 2018. Prior to the drilling of the Jade Prospect in April 2022, the total mean oil in place estimates on the three prospects was 884 MMbbl on an un-risked basis.

Jade Prospect Drill Program

Subsequent to year end, the Company commenced the drilling of the LH 17-2-1 well to test the first of the three prospects noted above, the Jade Prospect in Block 29/11, offshore China.

On 10 April 2022 LH 17-2-1 spudded and on 27 April 2022 reached final total depth of 2,849 metres in Zhuhai Sandstone formation. The interpretation from LWD and mud logging data indicated no oil pay in the target reservoir. The wireline logs confirmed the initial interpretation of no oil pay seen on LWD.

Post Well Jade Well Analysis and Implications for Topaz Prospect

Following the Jade drilling program, comprehensive post well analysis by Empyrean and CNOOC confirmed the Jade well intersected carbonate reservoir as prognosed with better parameters than pre-drill estimates with total thickness of 292m and porosity in the range of 25 to 27%. In addition, the Jade well penetrated thick and effective regional seal facies and the reservoir top was encountered within the depth conversion range. These parameters can now be more confidently mapped across Empyrean's 3D data set. Jade well failed due to access to effective migration pathways.

As a result, reservoir, seal and trap validity of the Topaz prospect has been enhanced by the Jade well data.

As a part of post-well evaluation, CNOOC geochemical and basin modelling experts provided excellent assistance in assessing the critical elements of effective regional oil migration pathways, leading to positive implications for the Topaz prospect. Based on several oil discoveries in the area, CNOOC has identified the following three key elements for effective regional oil migration.

1. Presence of a deep sag for oil generation
2. Presence of a deep fault for efficient vertical migration that has reactivated at the peak time of oil expulsion (10Ma)
3. Presence of a carrier bed for lateral migration to the prospect

Implications for the Topaz Prospect

Post-well evaluation indicates the Topaz prospect has the potential for oil charge from two kitchen/source rocks, the Baiyun North and Baiyun East sags.

Topaz prospect has an additional oil migration pathway from Baiyun East Sag. This sag has been bio-marked as the proven source rock for all four CNOOC light oil discoveries to the immediate West of Block 29/11.

Baiyun North Sag was mapped by the 2017 3D seismic data and is located within Block 29/11 immediately south and down dip of the Topaz prospect and it has all three key elements required for successful oil migration. It is a deep sag that is in the timing and depth window for oil generation, and Empyrean has identified a suitable deep fault for efficient vertical migration that reactivated at the peak time of oil expulsion approximately 10 million years ago (10Ma). Finally, a thick carrier bed exists for lateral migration to the Topaz prospect. This carrier bed has been confirmed during the drilling of the Jade well and is mapped on Empyrean's 3D data set.

The Topaz prospect has an additional oil migration pathway from Baiyun East Sag. This sag has been bio-marked as the proven source rock for all four CNOOC light oil discoveries to the immediate West of Block 29/11.

Post well analysis indicates that the gas shows within the "gas cloud" zone in the overburden at the Jade well are now interpreted have migrated from Baiyun North Sag via reactivation of a nearby fault, approximately 800m away rather than coming from basinal faults extending into Baiyun East Sag which is approximately 20km away. The identification of this nearby fault that extends into the Baiyun North Sag is now the most likely explanation for the gas shows in the Jade well.

This interpretation enhances the prospects of Baiyun North Sag as a potentially valid additional source rock and, in turn, the likelihood of the Topaz prospect having access to two mature source rocks/kitchens.

Conclusions and the Entering of Second Phase of Exploration

Being able to combine excellent quality 3D seismic data with the confirmed well data and post well analysis has resulted in the improved validity of the Topaz prospect as a robust and large drilling target (approximately 891 million barrels in place (P10) per below table). Based on post drill technical evaluation, and CNOOC-assisted

migration pathways assessment, Empyrean decided to enter the second phase of exploration and drill the larger Topaz prospect, estimated to occur in 2023.

Block 29/11 Oil in place (MMbbl) audited by GCA

Prospect	P90	P50	P10	Mean	GCoS
Topaz	211	434	891	506	30%
Pearl	38	121	302	153	15%

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

Cautionary Statement: The volumes presented in this announcement are STOIIIP estimates only. A recovery factor needs to be applied to the undiscovered STOIIIP 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 (8.5% WI)

Background

In April 2017, Empyrean acquired a 10% shareholding in WNEL from Conrad Petroleum, 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.

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 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.

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 field that was discovered in 2017, and comprehensively appraised in 2019.

Figure 2: Mako Gas field, Duyung PSC, Indonesia

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 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.

Following on from the highly successful appraisal drilling campaign, Conrad engaged GCA to complete an independent resource audit for the Mako Gas Field which confirmed a significant resource upgrade for the Mako Gas Field and confirmed Mako to be one of the largest undeveloped gas fields in the West Natuna Basin and is currently by far the largest undeveloped resource in the immediate area.

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

Contingent Resource Estimates	2020 GCA Audit
	Bcf
1C (Low Case)	287
2C (Mid Case)	495
3C (High Case)	817

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 Gas Sale Agreement (“GSA”) and a final investment decision (“FID”).

SKK Migas (the Indonesian regulator) accepted the significantly uplifted estimates of GIIP, which are broadly in line with the independent resource audit by GCA.

The SKK Migas Accepted Mako Gas in Place estimates are:

GROSS (100%) GIIP (BSCF) Updated			
Reservoir	Low	Best	High
Upper Sand	358	525	687
Lower Sand	26	41	78
Total	384	566	766
3C (High Case)	392	817	108

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.

Current Status

During the current year regional gas prices in Europe and South East Asia have remained strong and that macro environment is creating incentive for the negotiations of the current Heads of Agreements for gas offtake at Mako to be negotiated to a binding GSA.

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

Background

In May 2017, Emphyrean 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.

The first prospect that was drilled in 2018 was the Dempsey Prospect. Whilst several potentially gas bearing zones were intersected in the well, comprehensive testing of selected zones failed to sustain gas flow. Following the Dempsey drilling campaign, the joint venture integrated the subsurface data with regional geology and seismic data to evaluate additional targets with thicker reservoir units for future drilling along the "Dempsey trend", in which Empyrean could earn a 30% interest.

The operator matured Borba prospect was the next prospect drilled however in 2020 Empyrean notified Saggasco that it would not be participating in this drilling campaign.

The Company will continue to work with its joint venture partners in reviewing and assessing any further technical and commercial opportunities as they relate to the project but given the current status and presence of impairment indicators the Company took the conservative measure of fully impairing expenditure incurred at the project as at the reporting date.

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 2022/23 whilst the Company focuses on other projects. The Company previously fully impaired the carrying value of the asset 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 2022/23 whilst the Company focuses on other projects. The Company previously fully impaired the carrying value of the asset 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.

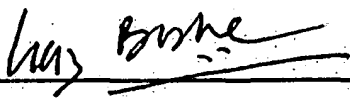
Definitions

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

Executive Director (Technical)

15 September 2022

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 2021 to 31 March 2022.

Dividends

The Directors do not propose the payment of a dividend (2021: nil).

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 (0.10%) 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 Empryan Energy Plc. At the time of this report, Mr Kelly holds or has a beneficial interest in 88,888,888 shares (11.27%) 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 the past 6 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 (4.03%) 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 3,900,000 shares (0.49%) 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 acquisition and development of its exploration projects. At the year end the Company had a cash balance of US\$19,000 (2021: US\$150,000) and made a loss after income tax of US\$8.11 million (2021: loss of US\$ 0.95 million).

The Directors have prepared cash flow forecasts for the Company covering the period to 31 December 2023 and these demonstrate that the Company will require further funding within the next 12 months. In June 2022, the Company entered into an agreement with CNOOC to drill an exploration well on the Topaz prospect in China, by 12 June 2024, which includes a payment of US\$250,000 to CNOOC. It is estimated that the cost of drilling this well would be approximately US\$12 million. In addition, the Company is required to repay the principal owing on the Convertible Note prior to 1 December 2022, being £3.3 million as at the date of this report, in accordance with the restructured terms announced to the market on 10 May 2022. The Convertible Note is secured by a senior first ranking charge over the Company, including its 8.5% interest in the Duyung PSC and Mako Gas Field.

In May 2022 US\$2.25 million was raised through an equity placement to complete further post well analysis of the Jade well, satisfy any further costs associated with the Jade drill, conduct a comprehensive oil migration study in conjunction with CNOOC for potential oil charge to the Topaz prospect, and for the Company's general working capital requirements. However, in order to meet the well commitment at Topaz and also to meet the repayment terms of the Convertible Note, the Company is required to raise further funding either through equity or the sale of assets and as at the date of this report the necessary funds are not in place.

The Directors are however optimistic that the full funding commitments for the Topaz well and the Convertible Note will be met, having a successful track record of equity (and debt) funding including funding the recently drilled Jade well.

It is the belief of the Board that there are likely value catalysts throughout the next 12 months leading up to drilling – including maximising the value of its interest at the Mako Gas field and activities leading into the intended drilling of the Topaz Prospect. There are a number of key milestones for the Project, each of which brings the Project closer to production. Each milestone reduces risk and increases the value of the Project. The major milestones are approval by the Indonesian Government of a revised Plan of Development that is currently before them, signing of the GSA(s), completion of front-end engineering design, final investment decision and production. Emphyrean's interest can be sold at any stage but with two of these major milestones due imminently without any further funding required, it is the Board's current intention to at least achieve those milestones before considering a sale versus funding through to production.

The Directors note that if the well commitment is not met in the timeframe advised then either a renegotiation of the commitment timing will be required or the licence could be relinquished.

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 17 in the financial statements for further details.

Post Balance Sheet Events

Significant events post reporting date were as follows:

On 1 April 2022, the Company issued 18,750,000 Ordinary Shares at a conversion price of 8.0p per share under the existing Convertible Loan Note Agreement, as announced on 28 March 2022. The partial conversion reduced the amount owing on the Convertible Note by US\$1.97 million (£1.5 million).

In April 2022, Empyrean announced that the Jade well had reached a final total depth of 2,849 metres MD and the interpretation from logging while drilling (LWD) and mud logging equipment indicated no oil pay in the target reservoir. As a result of the unsuccessful well at Jade, Empyrean has, in accordance with applicable accounting standards, written off all historical expenditure incurred on Block 29/11 and also the dry hole costs associated with the Jade drilling program subsequent to year end, together being US\$22.04 million.

In May 2022, Empyrean completed a Placing to raise US\$2.25 million (£1.83 million) with funds raised under this Placing to primarily be used to complete further post well analysis of the Jade well, satisfy any further costs associated with the Jade drilling, conduct a comprehensive oil migration study in conjunction with CNOOC for potential oil charge to the Topaz prospect, and for the Company's general working capital requirements.

In May 2022, following the announcement regarding the Jade well on 27 April 2022, the Company and the Lender proactively entered discussions to amend the key repayment terms of the Convertible Note, which included the right by the Lender to redeem the Convertible Note within five business days of the announcement of the results of the Jade well. The parties agreed the following key amendments to the terms of the Convertible Note:

1. The face value of the Convertible Note is increased to £3.3 million;
2. The Company may, at its sole and absolute discretion, redeem the Convertible Note at any time;
3. The Lender will not redeem the Notes prior to 31 July 2022;
4. If a binding GSA is entered into with regard to the Mako Gas Discovery in Indonesia on or before 31 July 2022, the Lender will not redeem the Convertible Note prior to 1 December 2022, with interest accruing thereafter at a rate of £330,000 per calendar month;
5. If a binding GSA is not entered into with regard to the Mako Gas Discovery in Indonesia on or before 31 July 2022, the Lender may redeem the Convertible Note at any time thereafter, in which circumstances the face value of the Convertible Note will be reduced to £2.67 million;
6. If the Company completes a sale of its interest in the Mako Gas Discovery, it will redeem the Convertible Note contemporaneously with that agreement; and
7. The Company will not execute any agreement in respect of a sale of its interest in the Mako Gas Discovery if the proceeds are less than the expected value of the Convertible Note on the date of completion of that agreement.

In June 2022, Empyrean announced that following the completion of post well analysis at Jade it would be entering the second phase of exploration with the aim to drill the Topaz prospect at its 100% owned Block 29/11 permit, offshore China. The second phase of exploration requires the payment to CNOOC of US\$250,000 and the work obligation is the drilling of an exploration well within 2 years.

In September 2022, the Company announced that the partners in the Duyung PSC had approved the updated POD and have secured alignment with SKK Migas on the plan. The POD has been submitted to the Indonesian Ministry of Energy and Mineral Resources for approval and an Operator commissioned Competent Persons Report has been prepared by GCA for the Mako development.

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 14.

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
15 September 2022

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 largely focused on the China and to a lesser extent Indonesia Project during the year to maximise their value. The Board will however consider participating in future wells at the Californian project based on their technical merit. 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 periodically. 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 once 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 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. While

there was no Audit Committee report prepared this year the Audit Committee presents its findings from the annual audit and interim review to the Board after consultation with the auditors and having received the detailed Audit Completion Report which is prepared specifically for the Audit Committee. 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 once 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 on the basis that remuneration levels were reviewed by the board as a whole and also the Remuneration Committee and 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.

As detailed in the Strategic Report, in December 2021 a deposit payment to COSL was misdirected to a fraudulent bank account as a result of an impersonation fraud perpetrated against COSL and the Company. Empyrean has since commenced legal proceedings in the Singapore courts against the company believed to have committed the fraud and has obtained an injunction order to freeze its assets and obtain further banking information. Empyrean continues to take legal advice for the purpose of pursuing recovery of the funds involved in the fraud and to cooperate with the Singapore Police investigation into the fraud.

Empyrean has also reviewed its internal control policies including overseas and domestic payment processes and has added further authority approvals and procedures for all material payments to new bank accounts.

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. Empryrean 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 UK adopted International Accounting Standards. 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 United Kingdom adopted International Accounting Standards, 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
15 September 2022

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Empyrean Energy plc (the 'Company') for the year ended 31 March 2022 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, 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 their preparation is applicable law and UK adopted international accounting standards.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain 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.

Material uncertainty related to going concern

We draw attention to the Going concern section in note 1 to the financial statements, which explains that the Company requires additional funding during the twelve months after approval of the financial statements in order to continue as a going concern.

As stated in Note 1, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

For the reason set out above and based on our risk assessment, we determined going concern to be a key audit matter.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting and in response to the key audit matter included:

- We have obtained the latest bank statements to compare the opening cash position to the forecasts;
- We have challenged the robustness of key assumptions used in the base case cashflow and financial forecasts prepared for a period of 15 months from the date of approval of the financial statements. We have agreed the budgeted well costs to the minimum spend in the second phase of exploration to the petroleum contract. We also considered the actual cash flows against the budget for the year, historical cost levels and compared exploration costs to licence work programmes and commitments and assessed consistency of the forecast with other financial and operational information obtained during the course of the audit;

- We challenged the Directors on the assumptions applied within their sensitised cash flow forecasts which removed fund raises, factored in inflationary adjustments and removed expenditure which are considered to be discretionary, referred to as the care and maintenance case;
- We assessed the integrity of the cash flow forecasts;
- We obtained, challenged and assessed the Directors strategy to raise future funds to meet both the Topaz well commitments and other working capital requirements, including those required for settlement of convertible instrument by the end of 2022 for consistency with the Company's past history of raising funds;
- We have challenged the Directors ability to raise funds from placements and from the sale of the Indonesian project taking into consideration the factors set out in Note 1; and
- We reviewed and considered the adequacy and consistency of the going concern disclosures within the financial statements with the Directors going concern assessment.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Key audit matters		2022	2021
	Carrying value of exploration and evaluation assets	✓	✓
	Going concern	✓	✓
	Cyber fraud incident	✓	x
Materiality	<i>Financial statements as a whole</i>		
	\$349,000 (2021:\$210,000) based on 1.4% (2021: 1.4%) of total assets		

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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) that 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 related to going concern section above, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter		How the scope of our audit addressed the key audit matter
Carrying value of exploration and evaluation assets (refer to note 8)	As at 31 March 2022, the Company's exploration and evaluation assets totalled \$24.9m (2021: \$14.6m).	Our procedures included the following: - We verified a sample of costs capitalised in the year to supporting documentation and checked that the nature of the cost is in line with the recognition criteria set out in IFRS 6; - We obtained and reviewed all licenses to confirm that they are in good standing and reviewed the commitments attached to the exploration assets to determine if the Company still maintains the right to ownership of the projects; - We assessed and challenged Management's impairment indicator review to establish whether it was performed in accordance with the accounting policy and relevant accounting standard; - We reviewed public announcements, board minutes, press releases and results of activities carried out in the year on the licence areas for evidence of indicators of impairment; - We considered the appropriateness of the Directors' judgment that the drilling results obtained subsequent to the reporting date in April 2022 at the Jade prospect represented a non-adjusting subsequent event for impairment indicator purposes. In doing so we obtained drilling reports from management prepared with the use of management's third party expert and made inquiries outside of the Company's finance function to understand the timing of the well results being determined; and We assessed the independence, competence and objectivity of management's third party expert. Key observations: Based on the procedures performed, we found the judgement made by management in their assessment of the carrying value of the E&E assets to be appropriate.
	The Company's exploration and evaluation assets associated with the China block 29/11 project and the Duyung PSC project represent the key assets on the Company's statement of financial position.	
	Management performed an impairment indicator review to assess whether there were any indicators of impairment for the exploration assets and whether the carrying value was appropriate as at 31 March 2022.	
	Following the review, the Company fully impaired its interest in the Sacramento Basin, California and did not highlight any indicators of impairment related to the China block 29/11 project and the Duyung PSC project.	
	After the year end, the Company drilled the Jade prospect within the China block 29/11 and the results were unsuccessful. Management have assessed this to be a non-adjusting post balance sheet event as there were no conditions, facts or circumstances present at 31 March 2022 which suggested the Jade well would be dry.	
	Given the inherent judgement involved in the assessment of	

	the carrying value of the exploration and evaluation assets and the size of the carrying value, we considered the carrying value of exploration and evaluation assets to be a significant risk and key audit matter for the audit.	
Material fraud (refer to note 3)	During the year the Company made a payment of \$1.98m to a fraudulent company who impersonated a known supplier of the Company. The Company has reported the fraud to the authorities in the relevant jurisdictions and commenced legal proceedings against the company believed to have committed the fraud. The Company has since reviewed its internal controls related to supplier payments and has implemented additional controls. This has been determined as a key audit matter due to the significance and nature of the incident and the amount of the audit team's time spent addressing this risk as a proportion of the total audit.	Our procedures included the following: - We increased the level of seniority of team members working on the audit and engaged with our forensic and technical teams internally to discuss the fraud and appropriateness of our audit response; - We made enquiries of management and their IT provider around their investigation and challenged the conclusions reached. This included corroborating to supporting documentation including the documents provided to support the ongoing police investigations and legal case; - We obtained the supplier bank details changes log and reviewed for any unapproved changes to supplier bank details; - In order to determine the extent of the fraud, we reviewed the approval of invoices by selecting an additional sample of payments to suppliers, checked they had been authorised and that the payment details on the invoice matched the payment details on the bank statements and the supplier bank details list. We also extended our testing of expenses and E&E additions to check that the bank details on the supplier invoices were the same as those paid on the bank statements; - Using our data analytics tool we searched for manual journals specifically those which were posted directly to bank nominal accounts for which the contra entries were outside of our expectations; - We obtained a legal confirmation from the lawyers representing the legal case to understand the details of the case; and - We obtained an understanding of the design and implementation of the controls following the cyber fraud to understand how they have been strengthened. Key observations:

		Based on the procedures performed we consider managements accounting for the material fraud to be appropriate.
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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.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. 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.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Financial statements	
	2022 \$k	2021 \$k
Materiality	349	210
Basis for determining materiality	Materiality was set at 1.4% (2021: 1.4%) of the total assets.	
Rationale for the benchmark applied	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 is a natural resources exploration entity.	
Performance materiality	Performance materiality was set at \$261k (2021: \$157k).	
Basis for determining performance materiality	Performance materiality was set at 75% (2021: 75%) of materiality taking into consideration the lower level of historic misstatements, number of locations of operations, lower value of brought forward adjustments and the nature of planned procedures.	

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of \$6,000 (2021:\$4,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	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. In the light of the knowledge and understanding of the 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.
Matters on which we are required to report by exception	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 Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. During our audit, management identified a material fraud which we assessed to be a key audit matter. Our response to the instance of fraud is detailed in the key audit matters section of our audit report.

In addition to this, we design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We obtained an understanding of the legal and regulatory frameworks applicable to the Company and the industry in which it operates and considered the significant laws and regulations to be the applicable financial reporting framework, Companies Act 2006, tax legislation and AIM listing rules.

We also assessed the susceptibility of the financial statement to material misstatement, including fraud and considered the fraud risk areas to be management override of controls.

Our procedures in response to the above included:

- Making enquiries of Management and those charged with governance including obtaining and reviewing supporting documentation concerning the Company's policies and procedures relating to identifying, evaluating and complying with laws and regulations including those relating to their exploration assets in the respective geographies of Republic of China, Indonesia & USA and assessing whether they were aware of any known or suspected instances of non-compliance with such laws and regulations or fraud;
- Reviewing minutes from board meetings of those charged with governance to identify any instances of non-compliance with laws and regulations or fraud;
-
- Agreeing the financial statement disclosures to underlying supporting documentation, performing detailed testing on accounts balances which were considered to be at a greater risk of susceptibility to fraud and reviewing correspondence with relevant authorities, in so far as the correspondence related to the financial statements;
- Performing targeted journal entry testing based on identified characteristics the audit team considered could be indicative of fraud, for example capitalisation entries to exploration and evaluation assets without a corresponding entry to cash or trade payables, by agreeing to supporting documentation; and
- Critically assessing areas of the financial statements which include judgement and estimates, as set out in note 1 to the financial statements (refer to the key audit matters section above for procedures performed).

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available 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.

John Black (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK

15 September 2022

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 2022

	Notes	2022 US\$'000	2021 US\$'000
Revenue			
Expenses			
Administrative expenses		(377)	(351)
Compliance fees		(302)	(225)
Directors' remuneration	4	(402)	(387)
Foreign exchange differences	3	(518)	20
Impairment – exploration and evaluation assets	8	(4,127)	(3)
Cyber fraud loss	3	(1,981)	-
Total expenses		(7,707)	(946)
Operating loss	3	(7,707)	(946)
Finance expense	5	(402)	(7)
Loss from continuing operations before taxation		(8,109)	(953)
Tax expense in current year	6	(1)	-
Loss from continuing operations after taxation		(8,110)	(953)
Total comprehensive loss for the year		(8,110)	(953)
Loss per share from continuing operations (expressed in cents)			
- Basic	7	(1.43)c	(0.20)c
- Diluted		(1.43)c	(0.20)c

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

Statement of Financial Position

As at 31 March 2022

Company Number: 05387837

	Notes	2022 US\$'000	2021 US\$'000
Assets			
Non-Current Assets			
Exploration and evaluation assets	8	24,907	14,643
Total non-current assets		24,907	14,643
Current Assets			
Trade and other receivables	9	36	36
Corporation tax receivable	6	-	358
Cash and cash equivalents		19	150
Total current assets		55	544
Liabilities			
Current Liabilities			
Trade and other payables	10	1,299	667
Provisions		140	111
Convertible loan notes	11	4,125	-
Derivative financial liabilities	12	722	-
Total current liabilities		6,286	778
Net Current Liabilities		(6,231)	(234)
Net Assets		18,676	14,409
Shareholders' Equity			
Share capital	14	1,809	1,398
Share premium reserve		41,285	29,408
Warrant and share-based payment reserve		576	487
Retained losses		(24,994)	(16,884)
Total Equity		18,676	14,409

The Financial Statements were approved by the Board of Directors on 15 September 2022 and were signed on its behalf by:

Patrick H. Cross

Patrick Cross
Chairman

Thomas Kelly

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 2022

	Notes	2022 US\$'000	2021 US\$'000
Operating Activities			
Payments for operating activities		(1,240)	(831)
Receipt of corporation tax		358	-
Net cash outflow for operating activities	13	(882)	(831)
Investing Activities			
Payments for exploration and evaluation	8	(14,391)	(1,159)
Payments due to cyber fraud		(1,981)	-
Net cash outflow for investing activities		(16,372)	(1,159)
Financing Activities			
Issue of ordinary share capital		11,805	2,094
Proceeds from exercise of warrants		623	-
Proceeds from borrowings	11	5,412	-
Payment of finance costs		(271)	-
Payment of equity issue costs		(463)	(163)
Net cash inflow from financing activities		17,106	1,931
Net decrease in cash and cash equivalents		(148)	(59)
Cash and cash equivalents at the start of the year		150	189
Forex gain/(loss) on cash held		17	20
Cash and Cash Equivalents at the End of the Year		19	150

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 2022

		Share Capital	Share Premium Reserve	Warrant & Share- Based Payment Reserve	Retained Losses	Total Equity
	Notes	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 April 2020		1,291	27,811	153	(15,931)	13,324
Loss after tax for the year		-	-	-	(953)	(953)
Total comprehensive loss for the year		-	-	-	(953)	(953)
Contributions by and distributions to owners						
Shares issued in the period	14	107	1,760	227	-	2,094
Equity issue costs		-	(163)	-	-	(163)
Share-based payment expense		-	-	100	-	100
Finance expense (share-based)		-	-	7	-	7
Total contributions by and distributions to owners		107	1,597	334	-	2,038
Balance at 1 April 2021		1,398	29,408	487	(16,884)	14,409
Loss after tax for the year		-	-	-	(8,110)	(8,110)
Total comprehensive loss for the year		-	-	-	(8,110)	(8,110)
Contributions by and distributions to owners						
Shares issued in the period	14	378	11,427	-	-	11,805
Partial conversion of convertible note		23	896	-	-	919
Exercise of warrants		10	613	-	-	623
Equity issue costs		-	(463)	-	-	(463)
Issue of placement warrants		-	(596)	-	-	(596)
Share-based payment expense		-	-	66	-	66
Finance expense (share-based)		-	-	23	-	23
Total contributions by and distributions to owners		411	11,877	89	-	12,377
Balance at 31 March 2022		1,809	41,285	576	(24,994)	18,676

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 2022

Note 1. Statement of Significant Accounting Policies

Basis of preparation

The Company's financial statements have been prepared in accordance with United Kingdom adopted International Accounting Standards ("UK adopted IAS") 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), unless otherwise stated.

The preparation of financial statements in compliance with UK adopted IAS 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 derivative financial instruments, which are measured at fair value through profit or loss.

Nature of business

The Company is a public limited company incorporated and domiciled in England and Wales. The address of the registered office is 2nd Floor, 38-43 Lincoln's Inn Fields London, WC2A 3PE. 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 the year end the Company had a cash balance of US\$19,000 (2021: US\$150,000) and made a loss after income tax of US\$8.11 million (2021: loss of US\$0.95 million).

The Directors have prepared cash flow forecasts for the Company covering the period to 31 December 2023 and these demonstrate that the Company will require further funding within the next 12 months. In June 2022, the Company entered into an agreement with CNOOC to drill an exploration well on the Topaz prospect in China, by 12 June 2024, which includes a payment of US\$250,000 to CNOOC. It is estimated that the cost of drilling this well would be approximately US\$12 million. In addition, the Company is required to repay the principal owing on the Convertible Note prior to 1 December 2022, being £3.3 million as at the date of this report, in accordance with the restructured terms announced to the market on 10 May 2022. The Convertible Note is secured by a senior first ranking charge over the Company, including its 8.5% interest in the Duyung PSC and Mako Gas Field.

In May 2022 US\$2.25 million was raised through an equity placement to complete further post well analysis of the Jade well, satisfy any further costs associated with the Jade drill, conduct a comprehensive oil migration study in conjunction with CNOOC for potential oil charge to the Topaz prospect, and for the Company's general working capital requirements. However in order to meet the well commitment at Topaz and also to meet the repayment terms of the Convertible Note, the Company is required to raise further funding either through equity or the sale of assets and as at the date of this report the necessary funds are not in place.

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2022

The Directors are however optimistic that the full funding commitments for the Topaz well and the Convertible Note will be met, having a successful track record of equity (and debt) funding including funding the recently drilled Jade well.

It is the belief of the Board that there are likely share price catalysts throughout the next 12 months leading up to drilling – including maximising the value of its interest at the Mako Gas field and activities leading into the intended drilling of the Topaz Prospect. There are a number of key milestones for the Project, each of which brings the Project closer to production. Each milestone reduces risk and increases the value of the Project. The major milestones are approval by the Indonesian Government of a revised Plan of Development that is currently before them, signing of the GSA(s), completion of front-end engineering design, final investment decision and production. Emphyrean's interest can be sold at any stage but with two of these major milestones due imminently without any further funding required, it is the Board's current intention to at least achieve those milestones before considering a sale versus funding through to production.

The Directors note that if the well commitment is not met in the timeframe advised then either a renegotiation of the commitment timing will be required or the licence could be relinquished.

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.

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 2021 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 been assessed by the Company and are not considered to have a significant effect on the Company's financial statements.

Tax

The major components of tax on profit or loss include current and deferred tax.

(a) Current tax

Tax is recognised in the income statement. The current tax charge is calculated on the basis of the tax laws enacted at the statement of financial position date in the countries where the Company operates.

(b) 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

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2022

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. 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.

The ultimate recoupment of the value of exploration and evaluation assets is dependent on the successful development and commercial exploitation, or alternatively, sale, of the exploration and evaluation asset.

Impairment tests are carried out on a regular basis to identify whether the asset carrying values exceed their recoverable amounts. There is significant estimation and judgement in determining the inputs and assumptions used in determining the recoverable amounts.

The key areas of judgement and estimation include:

- Recent exploration and evaluation results and resource estimates;
- Environmental issues that may impact on the underlying tenements; and
- Fundamental economic factors that have an impact on the planned operations and carrying values of assets and liabilities.

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

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2022

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 2021 or 31 March 2022.

(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.

Convertible loan notes ("CLNs")

The component parts of convertible loan notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument, where material.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. Where material, this is recognised and included as a financial derivative where the convertible loan notes are issued in a currency other than the functional currency of the Company because they fail the fixed for fixed criteria in IAS 32. The conversion option is recorded as a financial liability at fair value through profit or loss and revalued at each reporting date.

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2022

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.

The Company has also issued warrants on placements which form part of a unit. These warrants do not fall into the scope of *IFRS 2 Share Based Payments* because there is no service being provided and are assessed as either a financial liability or equity. If they fail the fixed for fixed criteria in *IAS 32 Financial Instruments: Presentation*, they are classified as financial liability and measured in accordance with *IFRS 9 Financial Instruments*.

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:

- i) Emphyrean and its China Block 29/11 partner CNOOC, along with its technical service providers CNOOC Enertech and COSL, completed significant pre-drilling operational, technical and permitting work throughout the reporting period to enable to safe drilling, although ultimately unsuccessful drilling of the Jade prospect post reporting year end. As a result of the unsuccessful well at Jade, Emphyrean has, in accordance with applicable accounting standards, written off all historical expenditure incurred on Block 29/11 and also the dry hole costs associated with the Jade drilling program subsequent to year end, together being US\$22.04 million. At 31 March 2022, there were no conditions, facts or circumstances present which lead the Company to believe the Jade well would be dry, therefore it does not constitute an adjusting event under the requirements of *IAS 10 Events after the Reporting Period*.
- ii) While the Company will continue to work with its joint venture partners in reviewing and assessing any further technical and commercial opportunities as they relate to the Sacramento Basin project, particularly in light of strong gas prices for gas sales in the region, it has not budgeted for further

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2022

substantive exploration expenditure. As this is an impairment indicator under IFRS 6, management has taken the decision to impair all expenditure incurred on the project to date as at 31 March 2022.

- iii) 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 2022/23 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 2022.

(b) Share based payments (judgement)

The Company has made awards of options and warrants over its unissued share capital to certain employees as part of their remuneration package. Certain warrants have also been issued to shareholders as part of their subscription for shares and suppliers for services received.

The valuation of these options and warrants involves making a number of critical estimates relating to price volatility, future dividend yields, expected life of the options and forfeiture rates. These assumptions have been described in the more detail in Note 14.

Note 2. 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.

Details	China US\$'000	Indonesia US\$'000	USA US\$'000	Corporate US\$'000	Total US\$'000
31 March 2022					
Unallocated corporate expenses	-	-	-	(1,599)	(1,599)
Operating loss	-	-	-	(1,599)	(1,599)
Finance expense	-	-	-	(402)	(276)
Impairment of oil and gas properties	-	-	(4,127)	-	(4,127)
Cyber fraud loss	-	-	-	(1,981)	(1,981)
Loss before taxation	-	-	(4,127)	(3,982)	(8,109)
Tax expense in current year	-	-	-	(1)	(1)
Loss after taxation	-	-	(4,127)	(3,983)	(8,110)
Total comprehensive loss for the financial year	-	-	(4,127)	(3,983)	(8,110)
 Segment assets	20,662	4,245	-	-	24,907
Unallocated corporate assets	-	-	-	55	55
Total assets	20,662	4,245	-	55	24,962
 Segment liabilities	-	-	-	-	-
Unallocated corporate liabilities	-	-	-	6,286	6,286
Total liabilities	-	-	-	6,286	6,286
 Details	China US\$'000	Indonesia US\$'000	USA US\$'000	Corporate US\$'000	Total US\$'000
31 March 2021					
Unallocated corporate expenses	-	-	-	(943)	(943)
Operating loss	-	-	-	(943)	(943)

Notes to the Financial Statements (continued)
For the Year Ended 31 March 2022

Finance expense	-	-	-	(7)	(7)
Impairment of oil and gas properties	-	-	(3)	-	(3)
Loss before taxation	-	-	(3)	(950)	(953)
Tax benefit in current year	-	-	-	-	-
Loss after taxation	-	-	(3)	(950)	(953)
Total comprehensive loss for the financial year	-	-	(3)	(950)	(953)
Segment assets	6,537	4,052	4,054	-	14,643
Unallocated corporate assets	-	-	-	544	544
Total assets	6,537	4,052	4,054	544	15,187
Segment liabilities	-	-	-	-	-
Unallocated corporate liabilities	-	-	-	778	778
Total liabilities	-	-	-	778	778

Note 3. Operating Loss

	2022	2021
	US\$'000	US\$'000
The operating loss is stated after charging:		
Audit and tax fees	(94)	(97)
Foreign exchange differences	(518)	20
Impairment – exploration and evaluation assets	(4,127)	(3)
Cyber fraud loss ^(a)	(1,981)	-

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	73	45
Fees payable to the Company's auditor and its associates in respect of:		
- Other services relating to taxation	12	14
Total auditor's remuneration	85	59

- (a) In December 2021, the Company announced a payment totalling US\$1.98 million to COSL, representing a 10% deposit on the dry hole cost component of the Integrated Drilling Contract ("IDC") signed with COSL; however, the Company was subsequently informed that this payment was not received by COSL and had been paid to an unknown third party as a result of an impersonation fraud perpetrated against the Company.

The Company then worked with its bank, the recipient bank and the police authorities in three jurisdictions to initiate actions including the freezing of the recipient bank account and the commencement of recovery actions.

Empyrean has commenced legal proceedings in the Singapore courts against the company believed to have committed the fraud and has obtained an injunction order on 21 January 2022 to freeze its assets and obtain further banking information. Empyrean will take the necessary steps and is taking legal advice for the purpose of pursuing recovery of the funds involved in the fraud. Empyrean continues to cooperate with the Singapore Police investigation into the fraud. Empyrean has taken the steps above, upon legal advice, in order to escalate the recovery process.

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2022

Empyrean has also reviewed its internal control policies including overseas and domestic payment processes and has added further authority approvals and procedures for all material payments.

Note 4. Directors' Emoluments

	Fees and Salary		Bonus Payment		Social Security Contributions		Short-Term Employment Benefits (Total)	
	2022 US\$'000	2021 US\$'000	2022 US\$'000	2021 US\$'000	2022 US\$'000	2021 US\$'000	2022 US\$'000	2021 US\$'000
Non-Executive Directors:								
Patrick Cross	25	24	-	-	2	2	27	26
John Laycock	15	14	-	-	1	1	16	15
Executive Directors:								
Thomas Kelly ^(a)	304	291	-	-	-	-	304	291
Gajendra Bisht ^(b)	220	220	-	-	-	-	220	220
Total	564	549	-	-	3	3	567	552
Capitalised to E&E ^(b)	(165)	(165)	-	-	-	-	(165)	(165)
Total expensed	399	384	-	-	3	3	402	387

(a) Services provided by Apnea Holdings Pty Ltd, of which Mr Kelly is a Director. In addition to the Director fees above, Apnea Holdings Pty Ltd was paid US\$95,000 for capital raising services for the July 2021 Placement which raised US\$6.92 million. Mr Kelly has not sold any shares during the reporting period.

(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 2022 and 2021. The highest paid director received US\$304,000 (2021: US\$291,000).

Notes to the Financial Statements (continued)
For the Year Ended 31 March 2022

Note 5. Finance Expense

	2022 US\$'000	2021 US\$'000
Interest - convertible loan notes (Note 11)	(253)	-
Finance expense - equity facility options (Note 14)	(23)	(7)
Fair value adjustment - derivative financial liabilities (Note 12)	(126)	-
Total finance expense	(402)	(7)

Note 6. Taxation

	2022 US\$'000	2021 US\$'000
Opening balance	(358)	(358)
AMT Federal Credit received during year	358	-
Total corporation tax receivable	-	(358)

Factors Affecting the Tax Charge for the Year

Loss from continuing operations	(8,109)	(953)
Loss on ordinary activities before tax	(8,109)	(953)
Loss on ordinary activities at US rate of 21% (2021: 21%)	(1,703)	(200)
Non-deductible expenses	1,328	23
Movement in provisions	6	7
Carried forward losses on which no DTA is recognised	368	170
	(1)	-
Analysed as:		
Tax expense on continuing operations	(1)	-
Tax expense in current year	(1)	-

Deferred Tax Liabilities

Temporary differences - exploration	1,669	1,657
Temporary differences - other	4	4
	1,673	1,661
Offset of deferred tax assets	(1,673)	(1,661)
Net deferred tax liabilities recognised	-	-

Unrecognised Deferred Tax Assets

Tax losses ^(a)	3,609	3,555
Temporary differences - exploration	4,101	2,946
Temporary differences - other	1,054	824
	8,764	7,325
Offset of deferred tax liabilities	(1,673)	(1,661)
Net deferred tax assets not brought to account	7,091	5,664

(a) If not utilised, carried forward tax losses of approximately US\$9.87 million (2021: \$9.63 million) begin to expire in the year 2033.

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2022

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

Note 7. Loss Per Share

The basic loss per share is derived by dividing the loss after taxation for the year attributable to ordinary shareholders by the weighted average number of shares on issue being 565,853,821 (2021: 479,537,844).

	2022	2021
<u>Loss per share from continuing operations</u>		
Loss after taxation from continuing operations	US\$(8,110,000)	US\$(953,000)
Loss per share – basic	(1.43)c	(0.20)c
Loss after taxation from continuing operations adjusted for dilutive effects	US\$(8,110,000)	US\$(953,000)
Loss per share – diluted	(1.43)c	(0.20)c

For the current and prior financial years, the exercise of the options is anti-dilutive and as such the diluted loss per share is the same as the basic loss per share. Details of the potentially issuable shares that could dilute earnings per share in future periods are set out in Note 14.

Note 8. Exploration and Evaluation Assets

	2022 US\$'000	2021 US\$'000
Balance brought forward	14,643	9,850
Additions ^{(a)(b)}	14,391	847
Transfers	-	3,949
Impairment ^{(c)(d)}	(4,127)	(3)
Net book value	24,907	14,643

(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. Empryean 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. Empryean 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) Empryean and its China Block 29/11 partner CNOOC, along with its technical service providers CNOOC Enertech and COSL, completed significant pre-drilling operational, technical and permitting work throughout the reporting period to enable to safe drilling, although ultimately unsuccessful drilling of the Jade prospect post reporting year end. As a result of the unsuccessful well at Jade, Empryean has, in accordance with applicable accounting standards, written off all historical expenditure incurred on Block 29/11 and also the dry hole costs associated with the Jade drilling program subsequent to year end, together being US\$22.04 million. At 31 March 2022, there were no conditions, facts or circumstances present which lead the Company to believe the Jade well would be dry, therefore it does not constitute an adjusting event under the requirements of *IAS 10 Events after the Reporting Period*. Post-well analysis at Jade however has confirmed reservoir quality is better than pre-drill estimates with regional seal confirmed and the depth conversion approach validated. As a part of post-well evaluation, CNOOC geochemical and basin modelling experts together with Empryean have

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2022

interpreted the critical elements of effective regional oil migration pathways-leading to positive implications for the Topaz prospect, and ultimately the decision to proceed with the second phase of exploration at Block 29/11, being the drilling of the Topaz Prospect before June 2024.

- (c) While the Company will continue to work with its joint venture partners in reviewing and assessing any further technical and commercial opportunities as they relate to the Sacramento Basin project, particularly in light of strong gas prices for gas sales in the region, it has not budgeted for further substantive exploration expenditure. As this is an impairment indicator under IFRS 6, management has taken the decision to impair all expenditure incurred on the project to date as at 31 March 2022.
- (d) 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 2022/23 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 2022.

Project	Operator	Working Interest	2022 Carrying Value US\$'000	2021 Carrying Value US\$'000
<i>Exploration and evaluation</i>				
China Block 29/11	Empyrean Energy	100% ¹	20,662	6,537
Sacramento Basin	Sacgasco	25-30%	-	4,054
Duyung PSC	Conrad Petroleum	8.5%	4,245	4,052
Riverbend	Huff Energy	10%	-	-
Eagle Oil Pool Development	Strata-X	58.084%	-	-
			24,907	14,643

1. 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 9. Trade and Other Receivables

	2022 US\$'000	2021 US\$'000
Accrued revenue	30	30
VAT receivable	6	6
Total trade and other receivables	36	36

Notes to the Financial Statements (continued)
For the Year Ended 31 March 2022

Note 10. Trade and Other Payables

	2022 US\$'000	2021 US\$'000
Trade payables	293	504
Accrued expenses ^(a)	1,006	163
Total trade and other payables	1,299	667

- (a) Accrued expenses includes expenditure incurred pre-31 March 2022 in relation to drilling the China Block 29/11 Jade prospect post-year end.

Note 11. Convertible Loan Notes

	2022 US\$'000	2021 US\$'000
Current		
Opening balance	-	-
Drawdowns ^(a)	5,412	-
Conversions ^(b)	(919)	-
Costs of finance	(211)	-
Foreign exchange loss	(157)	-
Total convertible loan notes – current	4,125	-

- (a) On 16 December 2021, the Company entered into a Convertible Loan Note Agreement with a Melbourne-based investment fund pursuant to which the Company issued a convertible loan note to the Lender and received gross proceeds of US\$5.4 million (£4.0 million). The Convertible Note has a maturity date of 16 December 2022 and the Lender can elect to convert all or part of the principal amount of the Convertible Note into fully paid ordinary shares in the Company at any time prior to maturity at a conversion price of 8.0p per share. The Convertible Note bears interest at a rate of 10% per annum and is secured by a senior first ranking charge over the Company, including its 8.5% interest in the Duyung PSC and Mako Gas Field.
- (b) On 22 March 2022 the Company advised that it had received a conversion notice to convert 8,750,000 Ordinary Shares at a conversion price of 8.0p per share under the existing Convertible Loan Note Agreement. The partial conversion reduced the amount owing on the Convertible Note by US\$0.92 million (£0.7 million).

Notes to the Financial Statements (continued)
For the Year Ended 31 March 2022

Note 12. Derivative Financial Liabilities

	2022 US\$'000	2021 US\$'000
Current		
Opening balance	-	-
Issue of warrants ^{(a)(b)}	596	-
Fair value revaluation ^{(a)(b)}	126	-
Total derivative financial liabilities – current	722	-

(a) 41,849,249 Placement Warrants were issued to subscribers of the Placement announced on 9 July 2021. The warrants have an exercise price of £0.12 and expire on 22 July 2022. The warrants have been valued using a Black-Scholes model and the fair value of US\$489,000 was recorded as a derivative financial liability. As a financial liability at fair value through profit or loss these were revalued at the year end. Refer to Note 14 for valuations and assumptions of the warrants.

(b) As detailed in the announcement on 9 July 2021, any Placement Warrants that were exercised by 22 October 2021 (subsequently extended to 12 November 2021) were entitled to receive replacement incentive warrants ("Substitute Warrants" and "Bonus Warrants"), resulting in an additional 3,808,333 Substitute Warrants and 3,808,333 Bonus Warrants being issued on exercise of Placement Warrants. The Substitute Warrants have an exercise price of £0.12 and expire on 22 October 2022. The Bonus Warrants have an exercise price of £0.18 and expire on 22 July 2023. The Substitute and Bonus Warrants have been valued using a Black-Scholes model and the fair value of US\$109,000 was recorded as a derivative financial liability. As a financial liability at fair value through profit or loss these were revalued at the year end. Refer to Note 14 for valuations and assumptions of the warrants.

Note 13. Reconciliation of Net Loss

	2022 US\$'000	2021 US\$'000
Loss before taxation	(8,109)	(953)
Share-based payments	66	100
Finance expense (non-cash)	148	7
Impairment – exploration and evaluation assets	4,127	3
Cyber fraud loss	1,981	-
Forex loss/(gain)	518	(20)
Decrease/(increase) in trade receivables relating to operating activities	-	(1)
Increase in trade payables relating to operating activities	-	-
Increase in provisions	29	33
Net cash outflow from operating activities before taxation	(1,240)	(831)
Receipt of corporation tax	358	-
Net cash outflow from operating activities	(882)	(831)

Notes to the Financial Statements (continued)
For the Year Ended 31 March 2022

Note 14. Share Capital

	2022 US\$'000	2021 US\$'000
646,070,780 (2021: 489,430,615) ordinary shares of 0.2p each	1,809	1,398
	2022 No.	2021 No.
a) Fully Paid Ordinary Shares of 0.2p each – Number of Shares		
At the beginning of the reporting year	489,430,615	447,597,577
Shares issued during the year:		
• Placements ^{(a)(b)}	144,081,832	-
• Partial conversion of Convertible Note ^(c)	8,750,000	-
• Exercise of warrants	3,808,333	-
• Placements & Subscriptions – prior year	-	41,833,038
Total at the end of the reporting year	646,070,780	489,430,615
	2022 US\$'000	2021 US\$'000
b) Fully Paid Ordinary Shares of 0.2p each – Value of Shares		
At the beginning of the reporting year	1,398	1,291
Shares issued during the year:		
• Placements ^{(a)(b)}	378	-
• Partial conversion of Convertible Note ^(c)	23	-
• Exercise of warrants	10	-
• Placements & Subscriptions – prior year	-	107
Total at the end of the reporting year	1,809	1,398

(a) In July 2021 the Company completed a Placing to raise US\$6.92 million (£5.02 million) before costs, issuing 83,698,498 new ordinary shares at a price of 6.0p per Share.

(b) On 16 December 2021, the Company advised that it has secured funding totalling US\$10.14 million (£7.62 million) through an equity placing and convertible loan note issue. Pursuant to the equity placing, the Company issued 60,383,334 new ordinary shares at a price of 6.0p per Share to raise US\$4.89 million (£3.62 million) before costs.

(c) On 22 March 2022 the Company advised that it had received a conversion notice to convert 8,750,000 Ordinary Shares at a conversion price of 8.0p per share under the existing Convertible Loan Note Agreement. The partial conversion reduced the amount owing on the Convertible Note by US\$0.92 million (£0.7 million).

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.

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2022

Share options and warrants

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

	Weighted Average Exercise Price 2022	Number of Options & Warrants 2022	Weighted Average Exercise Price 2021	Number Of Options 2021
Outstanding at the beginning of the year	£0.094	20,233,334	£0.145	5,500,000
Issued during the year ^{(a)(b)}	£0.125	49,465,915	£0.088	17,233,334
Cancelled during the year	-	-	£0.170	(2,500,000)
Exercised during the year	£0.120	(3,808,333)	-	-
Outstanding at the end of the year	£0.116	65,890,916	£0.094	20,233,334

(a) 41,849,249 Placement Warrants were issued to subscribers of the Placement announced on 9 July 2021. The warrants have an exercise price of £0.12 and expire on 22 July 2022. The warrants have been valued using a Black-Scholes model and the fair value of US\$489,000 was recorded as a derivative financial liability (Note 12).

(b) As detailed in the announcement on 9 July 2021, any Placement Warrants that were exercised by 22 October 2021 (subsequently extended to 12 November 2021) were entitled to receive replacement incentive warrants ("Substitute Warrants" and "Bonus Warrants"), resulting in an additional 3,808,333 Substitute Warrants and 3,808,333 Bonus Warrants being issued on exercise of Placement Warrants. The Substitute Warrants have an exercise price of £0.12 and expire on 22 October 2022. The Bonus Warrants have an exercise price of £0.18 and expire on 22 July 2023. The Substitute and Bonus Warrants have been valued using a Black-Scholes model and the fair value of US\$109,000 was recorded as a derivative financial liability (Note 12).

Valuation and assumptions of options and warrants at 31 March 2022

	Employee Options	Employee Options	Equity Facility Options	Equity Facility Options	Subscriber Warrants	Placement Warrants	Substitute Warrants	Bonus Warrants
Number of Options	2,500,000	2,500,000	500,000	500,000	14,233,334	41,849,249	3,803,333	3,803,333
Grant date	17/09/19	15/09/20	24/12/19	11/09/20	11/09/20	09/07/21	12/11/21	15/11/21
Expiry date	30/09/22	10/09/23	24/12/22	17/09/23	25/09/22	22/07/22	22/10/22	22/07/23
Share price	£0.098	£0.05	£0.084	£0.047	£0.047	£0.063	£0.073	£0.063
Exercise price	£0.125	£0.075	£0.123	£0.1014	£0.09	£0.12	£0.12	£0.18
Volatility	79%	81%	79%	81%	81%	82%	79%	79%
Option life	3.00	3.00	3.00	3.00	2.00	1.00	1.00	1.70
Expected dividends	-	-	-	-	-	-	-	-
Risk-free interest rate (based on national government bonds)	0.49%	0.14%	0.52%	0.14%	0.14%	0.08%	0.08%	0.08%

The options outstanding at 31 March 2022 have an exercise price in the range of £0.075 to £0.18 (2021: £0.075 to £0.125) and a weighted average remaining contractual life of 0.95 years (2021: 1.64 years).

Note 15. Reserves

Reserve	Description and purpose
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Notes to the Financial Statements (continued)

For the Year Ended 31 March 2022

Warrant and share-based payment reserve	Records items recognised as expenses on valuation of employee share options and subscriber warrants.
Retained losses	All other net gains and losses and transactions with owners not recognised elsewhere.

Note 16. Related Party Transactions

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

There were no related party transactions during the year ended 31 March 2022 other than those disclosed in Note 4.

Note 17. Financial Risk Management

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

Credit risk

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

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.

	2022 US\$'000	2021 US\$'000
Cash and cash equivalents		
AA-rated	19	150
Total cash and cash equivalents	19	150

Price risk

Commodity price risk

The Company is not directly exposed to commodity price risk. However, there is a risk that the changes in prevailing market conditions and commodity prices could affect the viability of the projects and the ability to secure additional funding from equity capital markets.

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2022

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
Convertible loan note (2022)	-	4,125	-	4,125
Trade and other payables (2022)	1,299	-	-	1,299
Trade and other payables (2021)	667	-	-	667

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. 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 2022 the Company's gross exposure to foreign exchange risk was as follows:

	2022 US\$'000	2021 US\$'000
Gross foreign currency financial assets		
Cash and cash equivalents - GBP	10	133
Total gross exposure	10	133

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\$1,000 (2021: US\$13,300).

Fair value

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2022

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.

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

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

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

Financial Instruments Measured at Fair Value

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

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

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

Financial Instruments at Fair Value	31 March 2022 Fair Value US\$'000	31 March 2021 Fair Value US\$'000
Financial liabilities		
Derivative financial liabilities (Level 3)	722	-
Total financial liabilities	722	-

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2022

Financial instruments by category are summarised below:

Financial Instruments by Category	Fair Value Through Profit or Loss		Amortised Cost	
	31 March 2022	31 March 2021	31 March 2022	31 March 2021
	US\$'000	US\$'000	US\$'000	US\$'000
Financial assets				
Cash and cash equivalents	-	-	19	150
Trade and other receivables	-	-	36	36
Total financial assets	-	-	55	186
Financial liabilities				
Trade and other payables	-	-	1,299	504
Convertible loan notes	-	-	4,125	-
Derivative financial liabilities	722	-	-	-
Total financial liabilities	722	-	5,424	504

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 18. Events After the Reporting Date

Significant events post reporting date were as follows:

On 1 April 2022 the Company issued 18,750,000 Ordinary Shares at a conversion price of 8.0p per share under the existing Convertible Loan Note Agreement, as announced on 28 March 2022. The partial conversion reduced the amount owing on the Convertible Note by US\$1.97 million (£1.5 million).

In April 2022, Emphyrean announced that the Jade well had reached a final total depth of 2,849 metres MD and the interpretation from LWD and mud logging equipment indicated no oil pay in the target reservoir. As a result of the unsuccessful well at Jade, Emphyrean has, in accordance with applicable accounting standards, written off all historical expenditure incurred on Block 29/11 and also the dry hole costs associated with the Jade drilling program subsequent to year end, together being US\$22.04 million.

In May 2022 Emphyrean completed a Placing to raise US\$2.25 million (£1.83 million) with funds raised under this Placing to primarily be used to complete further post well analysis of the Jade well, satisfy any further costs associated with the Jade drilling, conduct a comprehensive oil migration study in conjunction with CNOOC for potential oil charge to the Topaz prospect, and for the Company's general working capital requirements.

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2022

In May 2022, following the announcement regarding the Jade well on 27 April 2022, the Company and the Lender proactively entered discussions to amend the key repayment terms of the Convertible Note, which included the right by the Lender to redeem the Convertible Note within five business days of the announcement of the results of the Jade well. The parties agreed the following key amendments to the terms of the Convertible Note:

1. The face value of the Convertible Note is increased to £3.3 million;
2. The Company may, at its sole and absolute discretion, redeem the Convertible Note at any time;
3. The Lender will not redeem the Notes prior to 31 July 2022;
4. If a binding GSA is entered into with regard to the Mako Gas Discovery in Indonesia on or before 31 July 2022, the Lender will not redeem the Convertible Note prior to 1 December 2022, with interest accruing thereafter at a rate of £330,000 per calendar month;
5. If a binding GSA is not entered into with regard to the Mako Gas Discovery in Indonesia on or before 31 July 2022, the Lender may redeem the Convertible Note at any time thereafter, in which circumstances the face value of the Convertible Note will be reduced to £2.67 million;
6. If the Company completes a sale of its interest in the Mako Gas Discovery, it will redeem the Convertible Note contemporaneously with that agreement; and
7. The Company will not execute any agreement in respect of a sale of its interest in the Mako Gas Discovery if the proceeds are less than the expected value of the Convertible Note on the date of completion of that agreement.

In June 2022 Empyrean announced that following the completion of post well analysis at Jade it would be entering the second phase of exploration and drilling the Topaz prospect at its 100% owned Block 29/11 permit, offshore China. The second phase of exploration requires the payment to CNOOC of US\$250,000 and the work obligation is the drilling of an exploration well within 2 years.

In September 2022 the Company announced that the partners in the Duyung PSC had approved the updated POD and have secured alignment with SKK Migas on the plan. The POD has been submitted to the Indonesian Ministry of Energy and Mineral Resources for approval and an Operator commissioned Competent Persons Report has been prepared by GCA for the Mako development.

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 19. 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. In April 2022, Empyrean announced that the Jade well had reached a final total depth of 2,849 metres MD and the interpretation from logging while drilling (LWD) and mud logging equipment indicated no oil pay in the target reservoir. In June 2022 Empyrean announced that following the completion of post well analysis at Jade it would be entering the second phase of exploration and drilling the Topaz prospect at its 100% owned Block 29/11 permit, offshore China. The second phase of exploration requires the payment to CNOOC of US\$250,000 and the work

Notes to the Financial Statements (continued)

For the Year Ended 31 March 2022

obligation is the drilling of an exploration well within 2 years. It is estimated that the cost of drilling this well would be approximately US\$12 million.

Additional commitments for the 2022/23 financial year consist of an annual assistance fee to CNOOC of US\$67,000, an annual personnel representative fee to CNOOC of approximately US\$260,000 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 2020. Emphyrean 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.

Note 20. Ultimate Controlling Party

The Directors consider that there is no ultimate controlling party of the Company.