

# **GREAT SOUTH LAND MINERALS LIMITED**

ABN 54 068 650 386

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## **FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2006**

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**GREAT SOUTH LAND MINERALS LIMITED**

**ABN 54 068 650 386**

**FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2006**

**DIRECTORS' REPORT**

Your directors present their report on the company for the financial year ended 31 December 2006.

**Directors**

The names of the directors in office at any time during or since the end of the year are:

Mr Malcolm Bendall            Chairman – Executive            Current

Dr Clive Burrett,                Executive Director                Current

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

**Operating Results**

The operating loss of the company for the financial year after providing for income tax amounted to (\$3,109,019).

**Principal Activities**

The principal activities of the company during the financial year were exploration for petroleum and natural gas in Tasmania.

No significant change in the nature of these activities occurred during the year.

**Review of Operations**

**Exploration Licence Renewal**

The exploration licence SEL 13/98 has been renewed effective 1 October 2004 with strict mandatory cumulative expenditure requirements.

The renewal, signed on 28 October 2004, covers an area of 15,035 square kilometres with a commitment by the company to a seismic and drilling expenditure program of AUD 21,500,000 over the five-year period.

**Exploration and Development Activities - SEL 13/98**

Great South Land Minerals Limited (Great South Land Minerals) commissioned Terratek Petroleum Consultants Pty Ltd to prepare a summary seismic interpretation of data resulting from the seismic survey TB01. The results of this interpretation were used to plan the line location for the next regional seismic survey, TB02. This was undertaken in autumn 2006. A total of 1347 kilometres of seismic data acquisition was undertaken and an extension of the survey, TB03 is proposed to cover up to 15 line kilometres within application area SL 29/2005. As most of the TB01 survey was not along roads, the TB02 and TB03 survey lines have been located wherever possible along public roads in order to minimise the impact of the survey on private land and environmentally sensitive areas.

From surveys TB01 and TB02 and the resulting interpretation work, a further program of seismic testing is being planned for 2007.

In November 2006, the company negotiated the purchase of a state-of-the art drill rig. This was paid for by Wind City Inc, and will arrive in Tasmania in 2007. It is planned to use the drill rig to test for gas and oil once the seismic program is completed and areas of interest identified.

### Going Concern

The company is in the development stage, devoting substantially all of its efforts to exploration and raising financing. In the course of its exploration activities, the company has sustained operating losses and expects such losses to continue for the foreseeable future. The company will finance its operations primarily through cash and cash equivalents on hand, future financing from the issuance of debt or equity instruments and through the generation of revenues once commercial operations get underway. However, the Company has yet to generate any significant revenues and has no assurance of future revenues. To management's knowledge, no company has yet successfully developed sub-surface hydrocarbons in commercial quantities in Tasmania. Even if development efforts are successful, substantial time may pass before revenues are realised.

The financial statements are prepared on a going concern basis. However significant uncertainties exist in relation to conditions that cast doubt upon the Company's ability to continue as a going concern. These are:

- Substantial losses incurred through supporting the ongoing exploration expenditure during the year and since the inception of the company;
- Uncertainties in terms of the ability to generate cash flows in the future considering that production operations have not yet commenced;
- Extensive commitments for expenditure under the company's key mineral exploration license; and
- Current liabilities of \$2,143,204 and current assets of \$3,811,820 including cash and cash equivalents of \$1,332,931.

The exploration licence SEL 13/98 has been renewed effective 1 October 2004, and has strict mandatory cumulative expenditure requirements of \$4,272,800 by 30 September 2005, \$6,688,800 by 30 September 2006, \$10,528,000 by 30 September 2007, \$15,752,000 by 30 September 2008 and \$17,200,000 by 30 September 2009 without which the licence may be revoked at the discretion of Mineral Resources Tasmania.

In November 2006, the Minister for Economic Development and Resources wrote to the company noting their intention to revoke Special Exploration Licence 13/98 on the grounds of the failure of the company to comply with the mandatory cumulative expenditure requirements. This letter stated that "As of 30 September 2006, Mineral Resources Tasmania acknowledged an expenditure of \$2,865,689 which is \$3,823,111 short of the mandatory expenditure required by the end of the second year of the licence".

In November 2006, the company responded with a submission requesting the withdrawal of the notice of intention to revoke the licence and submitted numerous reasons why the licence should not be revoked. As a consequence of the submission, in January 2007 the Director of Mines responded and advised "that subject to an agreement being reached on your on-ground work programme, I will be prepared to recommend to the Minister that the revocation of your licence not to proceed". In March 2007, the company responded and confirmed the company's exploration work program, notwithstanding the fact the company believes it had met the licence conditions, having prepaid the seismic and secured additional resources such as new GEFCO Drill Rig from the United States to engage in an extensive ongoing seismic and drilling program during 2007.

A contract was entered into with Terrex Seismic and an amount of \$2,332,128 was made available to Terrex as a prepayment. This prepayment has been partly used to organise seismic trucks, permits and make preliminary arrangements for the seismic testing program to begin in 2007. The total contract is for \$4,000,000 and Terrex Seismic have invoiced the company for the total commitment, including the prepaid component.

The company has initiated the following activities and the following activities exist to address the above going concern issue:

These include:

- The directors have reviewed their short-term cash flow requirements and consider that the company has or has access to sufficient funds to meet the financial obligations of the company.

## Great South Land Minerals Ltd ABN 54 068 650 386

- In order to ensure sufficient funds for on-going exploration, Great South Land Minerals Limited entered into a Convertible Note Agreement dated 14 December 2006 with Wind City Inc for a value of USD 4 million. This arrangement was backed with a corresponding Warrant Purchase between Empire Energy International, its subsidiary Cyber Finance Group Limited and Wind City Inc on 5 January 2007.
- Under the Purchase Agreement, Wind City loaned USD 4,000,000 to Great South Land Minerals and Great South Land Minerals issued a floating rate note. GSLM's parent entity, Empire Energy, issued warrants in two tranches. Great South Land Minerals paid for and acquired a newly constructed drilling rig from George E. Failing Company and related support equipment. These assets will be transported to the company's site in Tasmania for the purpose of exploring the licence area in compliance with the licence requirements. The proceeds from the loan were also used to fund seismic services by Terrex Seismic.
- In a separate guarantee agreement, Empire guaranteed payment of all amounts owing by Great South Land Minerals under the Floating Rate Note.
- Under a separate Security Agreement, Empire Energy pledged its equity interest in Pacific Rim Foods Limited (including any future-acquired securities issued by Pacific Rim) as security for performance of both its and Great South Land's obligations under the Purchase Agreement.
- On 5 January 2007 Cyber Finance, on behalf of Empire Energy, exercised the put option, and Empire Energy received USD 4,500,000 in consideration of the 4,500,000 ordinary shares of Zeehan Zinc, Ltd. In January 2007 USD 2,000,000 was advanced to Great South Land Minerals by Empire Energy to support its seismic, drilling and related head office activities within Great South Land Minerals' licence area.
- As additional security, a related company, Cyber Finance Group Limited ("Cyber Finance") granted Wind City a security interest in the form of an Equitable Mortgage of Shares over Cyber Finance's 7,281,407 ordinary shares of Zeehan Zinc, Ltd., an Australian mining concern.

### **Dividends Paid or Recommended**

No dividends were paid or recommended during the financial year or to the date of this report.

### **Significant Changes in State of Affairs**

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

### **Options**

No options over issued shares or interests in the company were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

### **Future Developments, Prospects and Business Strategies**

Likely developments in the operations of the company and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the company.

### **Indemnifying Officers or Auditor**

No indemnities have been given or insurance premiums paid during or since the end of the financial year, for any person who is or has been an officer or auditor of the company.

### **Proceedings on Behalf of Company**

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

From time to time, the company may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. On June 19, 2006, Great South Land Minerals received notice of a Statutory Demand under Australian law totaling AUD 584,478 filed by a former executive officer

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seeking reimbursement for wages and employment expenses as at December 2005. This amount had been accrued for in the 31 December 2005 payables. This claim was settled in full during 2006.

### Information on Directors

#### Mr Malcolm Bendall, Chairman

Age 46

Mr Bendall was a founding Director of Great South Land Minerals Limited. Mr Bendall has published in an international petroleum journal and worked as a mine manager and drilling supervisor. He is a Fellow of the Institute of Company Directors Tasmania.

#### Dr Clive F Burrett

Age 57

Dr Burrett was a founding Director of Great South Land Minerals Limited. He was Head of the School of Earth Sciences at the University of Tasmania from 1997 to 2000.

### After Balance Date Events

On 5 January 2007 Cyber Finance, on behalf of Empire Energy, exercised the put option, and Empire Energy received USD 4.5 million in consideration of the 4,500,000 ordinary shares of Zeehan Zinc, Ltd. USD 2 million of the proceeds from the exercise was advanced to Great South Land Minerals in support of its seismic, drilling and related head office activities within the licence area.

In April 2007, the Company entered into agreement with an investment banker to introduce Empire Energy International, holding company and/or Great South Land Minerals Limited to the Alternative Investment Market, a subsidiary of the London Stock Exchange, for the purpose of raising additional equity capital for the entity.

### FUTURE DEVELOPMENTS

#### Exploration Activity

In November the board resolved to purchase a state-of-the-art drill rig and also arranged funding to pay for a significant seismic program for 2007. In January 2007, a third round of seismic testing was begun, with Terrex Seismic arriving in March 2007. By March 2007, the areas of interest had been identified and the roads were pegged ready for the Terrex Seismic crew to begin their testing.

The drill rig arrived in Devonport in March 2007, after AQIS clearance in Melbourne. Further equipment needs have been identified and these will be purchased before the end of April 2007.

The seismic and drilling programs have been significantly enabled by funding received from Empire Energy. A total of USD 5 million was received in 2006, with a further USD 2 million received in January 2007.

#### Environmental Issues

The Company's operations are subject to significant environmental regulation under the laws of the Commonwealth and the State of Tasmania. The company has provided an environmental bond to MRT. As at the date of this report the directors are not aware of any issues that would give rise to any non-compliant environmental matter.

Great South Land Minerals operations are under the operational jurisdiction of Mineral Resources Tasmania, a state government body designated to govern mining and resource development within the State of Tasmania, Australia. Various pieces of legislation govern administration of natural resources businesses such as Great South Land Minerals, including The Mineral Resources Development Act, 1995, which provides for the development of mineral resources consistent with sound economic and environmental land use under Australian law.

Environmental controls are imposed within the provisions of the Environmental Management and Pollution Control Act 1994 which has, as its fundamental basis, the prevention, reduction and remediation of environmental harm, including environmental nuisance and its adverse effect on the environment. Permits are issued in accordance with Land Use Planning and Approvals Act 1993 in respect of proposed use or development affecting the leased land. Great South Land has a guarantee and bond in the amount of AUD 75,000. This took the form of a guarantee by two former directors. In

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March 2007, this was converted into a fixed deposit with National Australia Bank and the former directors were released from their guarantees.

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 7.

Signed in accordance with a resolution of the Board of Directors:

Director 

Dr Clive Burrett

Dated this 15 day of May 2007

GREAT SOUTH LAND MINERALS LIMITED ABN 54 068 650 386

**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF GREAT SOUTH LAND MINERALS LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2006 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



**Mark Nicholaeff**  
Partner



**UHY Haines Norton**  
Chartered Accountant

Signed at Sydney on 15th May, 2007

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INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Year Ended 2006 \$	18 month Period Ended 31 December 2005 \$
Total Revenue	2	139,533	39,202
Occupancy expenses		(40,556)	(45,408)
Administrative Expenses		(189,149)	(438,485)
Consultants Fees		(240,620)	(475,995)
Depreciation and amortisation expenses		(3,796)	(16,981)
Impairment of plant and equipment		(31,000)	-
Employee benefits expense		(192,534)	(157,983)
Exploration & Development Costs		(2,380,993)	(363,248)
Other expenses		(72,466)	(113,542)
Merger costs		(24,491)	(356,210)
Total Finance costs	3	<u>(72,947)</u>	<u>(97,532)</u>
Loss before income tax		(3,109,019)	(2,026,182)
Income tax expense	4	<u>-</u>	<u>-</u>
Loss attributable to members of the company		<u>(3,109,019)</u>	<u>(2,026,182)</u>

The accompanying notes form part of these financial statements.

## BALANCE SHEET AS AT 31 DECEMBER 2006

	Note	2006 \$	2005 \$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7	1,332,931	7,117
Trade and other receivables	8	17,444	31,345
Other current assets	9	<u>2,461,445</u>	<u>427</u>
<b>TOTAL CURRENT ASSETS</b>		<u><b>3,811,820</b></u>	<u><b>38,889</b></u>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	8	143,065	-
Plant and equipment	10	52,120	5,306
Plant and equipment to be commissioned	11	<u>1,658,699</u>	<u>-</u>
<b>TOTAL NON-CURRENT ASSETS</b>		<u><b>1,853,884</b></u>	<u><b>5,306</b></u>
<b>TOTAL ASSETS</b>		<u><b>5,665,704</b></u>	<u><b>44,195</b></u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12	2,119,566	2,828,947
Provisions	14	1,582	7,540
Borrowings	13	<u>22,056</u>	<u>-</u>
<b>TOTAL CURRENT LIABILITIES</b>		<u><b>2,143,204</b></u>	<u><b>2,836,487</b></u>
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables	12	268,596	197,154
Long-term borrowings	13	<u>11,308,989</u>	<u>1,956,620</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u><b>11,577,785</b></u>	<u><b>2,153,774</b></u>
<b>TOTAL LIABILITIES</b>		<u><b>13,720,789</b></u>	<u><b>4,990,261</b></u>
<b>NET ASSETS</b>		<u><b>(8,055,085)</b></u>	<u><b>(4,946,066)</b></u>
<b>EQUITY</b>			
Issued capital	15	7,316,711	7,316,711
Accumulated losses		<u>(15,371,796)</u>	<u>(12,262,777)</u>
<b>TOTAL EQUITY</b>		<u><b>(8,055,085)</b></u>	<u><b>(4,946,066)</b></u>

The accompanying notes form part of these financial statements.

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STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 31 DECEMBER 2006

	Share Capital			
	Note	Ordinary	Retained earnings	Total
		\$	\$	\$
Balance at 1 July 2004		7,316,711	(10,236,594)	(2,919,883)
Loss attributable to members of the company			(2,026,183)	(2,026,183)
<b>Balance at 31 December 2005</b>		<u>7,316,711</u>	<u>(12,262,777)</u>	<u>(4,946,066)</u>
Loss attributable to members of the company			(3,109,019)	(3,109,019)
<b>Balance at 31 December 2006</b>		<u>7,316,711</u>	<u>(15,371,796)</u>	<u>(8,055,085)</u>

The accompanying notes form part of these financial statements.

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CASH FLOW STATEMENT FOR YEAR ENDED 31 DECEMBER 2006

	Note	Year Ended 2006 \$	18 month period ended 31 December 2005 \$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Receipts from customers		139,533	39,202
Payments to suppliers and employees		(6,250,310)	(2,199,058)
Interest paid		(38,151)	(1,990)
Net cash (used in) operating activities	18a	<u>(6,148,928)</u>	<u>(2,161,846)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(1,828,058)	(1,000)
Net cash (used in) investing activities		<u>(1,828,058)</u>	<u>(1,000)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		<u>9,302,800</u>	<u>2,158,123</u>
Net cash provided by financing activities		<u>9,302,800</u>	<u>2,158,123</u>
Net increase/(decrease) in cash held		1,325,814	(4,723)
Cash at beginning of year		7,117	11,840
Cash at end of year	7	<u>1,332,931</u>	<u>7,117</u>

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

**Note 1: Statement of Significant Accounting Policies**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Great South Land Minerals Limited a company limited by shares, incorporated and domiciled in Australia.

The financial report of Great South Land Minerals Limited complies with all Australian equivalents to International Financial Reporting Standards (IFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

a) **Basis of Preparation**

*First-time Adoption of Australian Equivalents to International Financial Reporting Standards*

Great South Land Minerals Limited has prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (IFRS) from 1 January 2006.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the company accounts resulting from the introduction of IFRS have been applied retrospectively to 18 months period ended 31 December 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of Great South Land Minerals Limited to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years/periods presented. The company has however elected to adopt the exemptions available under AASB 1 relating to AASB 132: Financial Instruments: Disclosure and Presentation, and AASB 139: Financial Instruments: Recognition and Measurement. Refer Note 23 for further details.

There are no transition adjustment between previous Australian GAAP and IFRS.

*Reporting Basis and Conventions*

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

b) **Going Concern**

The company is in the development stage, devoting substantially all of its efforts to exploration and raising financing. In the course of its exploration activities, the company has sustained operating losses and expects such losses to continue for the foreseeable future. The company will finance its operations primarily through cash and cash equivalents on hand, future financing from the issuance of debt or equity instruments and through the generation of revenues once commercial operations get underway. However, the Company has yet to generate any significant revenues and has no assurance of future revenues. To management's knowledge, no company has yet successfully developed sub-surface hydrocarbons in commercial quantities in Tasmania. Even if development efforts are successful, substantial time may pass before revenues are realised.

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A contract was entered into with Terex Seismic and an amount of \$2,332,128 was made available to Terex as a prepayment. This prepayment has been partly used to organise seismic trucks, permits and make preliminary arrangements for the seismic testing program to begin in 2007. The total contract is for \$4,000,000 and Terex Seismic have invoiced the company for the total commitment, including the prepaid component.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**

The company has initiated the following activities and the following activities exist to address the above going concern issue:

These include:

- The directors have reviewed their short-term cash flow requirements and consider that the company has or has access to sufficient funds to meet the financial obligations of the company.
- In order to ensure sufficient funds for on-going exploration, Great South Land Minerals Limited entered into a Convertible Note Agreement dated 14 December 2006 with Wind City Inc for a value of USD 4 million. This arrangement was backed with a corresponding Warrant Purchase between Empire Energy International, its subsidiary Cyber Finance Group Limited and Wind City Inc on 5 January 2007.
- Under the Purchase Agreement, Wind City loaned USD 4,000,000 to Great South Land Minerals and Great South Land Minerals issued a floating rate note. GSLM's parent entity, Empire Energy, issued warrants in two tranches. Great South Land Minerals paid for and acquired a newly constructed drilling rig from George E. Failing Company and related support equipment. These assets will be transported to the company's site in Tasmania for the purpose of exploring the licence area in compliance with the licence requirements. The proceeds from the loan were also used to fund seismic services by Terrex Seismic.
- In a separate guarantee agreement, Empire guaranteed payment of all amounts owing by Great South Land Minerals under the Floating Rate Note.
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- On 5 January 2007 Cyber Finance, on behalf of Empire Energy, exercised the put option, and Empire Energy received USD 4,500,000 in consideration of the 4,500,000 ordinary shares of Zeehan Zinc, Ltd. In January 2007 USD 2,000,000 was advanced to Great South Land Minerals by Empire Energy to support its seismic, drilling and related head office activities within Great South Land Minerals' licence area.
- As additional security, a related company, Cyber Finance Group Limited ("Cyber Finance") granted Wind City a security interest in the form of an Equitable Mortgage of Shares over Cyber Finance's 7,281,407 ordinary shares of Zeehan Zinc, Ltd., an Australian mining concern.

**c) Accounting Policies**

**(i) Income Tax**

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Future income tax benefits and liabilities are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain. The tax effects of capital losses are not recorded unless realisation is virtually certain.

(ii) **Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

**Plant and equipment**

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the company includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of plant and equipment are credited to a revaluation reserve in shareholder' equity decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Plant and equipment not commissioned is carried at cost.

**Depreciation**

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(iii) **Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the company are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the company will obtain ownership of the asset or over the term of the lease.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(iv) **Financial Instruments**

**Recognition**

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

**Financial assets at fair value through profit and loss**

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

**Financial liabilities**

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

**Fair value**

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

**Impairment**

At each reporting date, the company assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

(v) **Impairment of Assets**

At each reporting date, the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(vi) **Exploration and Development Expenditure**

**Exploration and Evaluation Assets**

A contract was entered into with Terrex Seismic and an amount of AUD 2,332,128 was made available to Terrex Seismic as a prepayment. This prepayment has been partly used to organise seismic trucks, permits and make preliminary arrangements for the seismic testing program to begin in 2007.

(vii) **Foreign Currency Transactions and Balances**

**Transaction and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange difference arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

(viii) **Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(ix) **Provisions**

Provisions are recognised when the company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(x) **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(xi) **Revenue**

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

(xii) **Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use of sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

(xiii) **Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(xiv) **Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Due to the change in financial year end, comparative figures as at 31 December 2005 for the income statement and cash flow statement are for an eighteen month period.

**Critical accounting estimates and judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company.

*Key estimates — Impairment*

The company assesses impairment at each reporting date by evaluating conditions specific to the company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

*Key judgments — Doubtful debts provision*

Included in Loans at 31 December 2006 is an amount receivable from a loan made to Expedia during the current financial year amounting to AUD 50,000. Expedia is an associated company and the directors believe that AUD 40,000 of this debt may not be recoverable.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

Note 2: Revenue

	Year ended 2006	18 month period ended 31 December 2005
	\$	\$
Other Income	139,364	39,125
Interest Income	169	77
Total Revenue	<u>139,533</u>	<u>39,202</u>

Note 3: Loss from Ordinary Activities

	2006	2005
	\$	\$
a. Expenses		
Finance costs:		
— related entities	58,679	2,970
— Others	14,268	94,562
Total finance costs	<u>72,947</u>	<u>97,532</u>
Impairment of plant and equipment	31,000	-
Bad and doubtful debts:		
— Associated company receivables	40,000	-
— trade receivables	-	40,000

Note 4: Income Tax Expense

	Year ended 2006	18 month Period Ended 31 December 2005
	\$	\$
a. The components of tax expense comprise:		
Current tax	(910,967)	(592,651)
b. The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2005: 30%)		
— Entity	(932,706)	(607,855)
Tax effect of:		
— Non-deductible depreciation and amortisation	10,481	2,660
— Other non-allowable items	11,258	12,544
Tax effect of:		
— recoupment of prior year tax losses not previously brought to account	(2,496,250)	(2,387,276)
Potential future deferred tax asset at 31 December 2006 related to exploration expenditure not brought to account is	<u>(3,210,548)</u>	<u>(2,496,250)</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

**Note 5: Key Management  
Personnel Compensation**

Key Management Personnel	2006		Total
	Fees	Expenses	
	\$	\$	\$
<b>Directors</b>			
Mr Malcolm Bendall	237,600	-	237,600
Dr Clive Burrett	71,055	-	71,055
<b>Other Key Management Personnel</b>			
Nicolle Chesterman	-	2,639	2,639
Allan Steel	-	2,079	2,079
Total compensation	<u>308,655</u>	<u>4,718</u>	<u>313,373</u>

**Note 6: Auditors' Remuneration**

	2006	2005
	\$	\$
Remuneration of the auditor of the parent entity for:		
— auditing or reviewing the financial report	56,750	39,669
— due diligence services	-	45,219
— auditing or reviewing the financial report of related companies	60,450	-
Remuneration of other auditor for taxation services	14,280	-
	<u>131,480</u>	<u>84,888</u>

**Note 7: Cash Assets**

	2006	2005
	\$	\$
Cash at bank and in hand	1,332,931	7,117
	<u>1,332,931</u>	<u>7,117</u>
Reconciliation of cash		
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the balance sheet as follows:		
Cash and cash equivalents	<u>1,332,931</u>	<u>7,117</u>
	<u>1,332,931</u>	<u>7,117</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

Note 8: Receivables	2006 \$	2005 \$
<b>CURRENT</b>		
Trade receivables	17,444	71,345
Provision for impairment of receivables	-	(40,000)
	<u>17,444</u>	<u>31,345</u>
<b>NON-CURRENT</b>		
Amount receivable from associated companies	143,065	-

Unsecured interest-free loans are made to associated companies on an arm's length basis. Repayment terms are set for each loan which range from 1 to 3 years.

Note 9: Other Assets	2006 \$	2005 \$
GST claimable	34,145	427
Prepayments	89,141	-
Prepayments for exploration and assets	2,338,159	-
	<u>2,461,445</u>	<u>427</u>

Prepayment for exploration and assets consists of

Prepayment to Terrex Seismic	2,332,128	-
Competent Persons Report	6,031	-
Total Exploration and evaluation prepayment	<u>2,338,159</u>	<u>-</u>

Note 10: Plant and Equipment	2006 \$	2005 \$
<b>PLANT AND EQUIPMENT</b>		
Plant and equipment: available for use		
At cost	147,067	65,458
Accumulated depreciation	(63,947)	(60,152)
Accumulated impairment losses	(31,000)	-
Total Plant & equipment	<u>52,120</u>	<u>5,306</u>

a. **Movements in Carrying Amounts**

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year

	Plant and Equipment \$	Total \$
Balance at the beginning of year	5,306	5,306
Additions	81,610	81,610
Impairment	(31,000)	(31,000)
Depreciation expense	(3,796)	(3,796)
Carrying amount at the end of year	<u>52,120</u>	<u>52,120</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

<b>Note 11: Plant and Equipment to be commissioned</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>PLANT AND EQUIPMENT</b>		
Plant and equipment: to be commissioned		
At cost	1,658,699	-
Total Plant & equipment to be commissioned	<u>1,658,699</u>	<u>-</u>

**a. Movements in Carrying Amounts**

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year

	Plant and Equipment \$	Total \$
Balance at the beginning of year	-	-
Additions	1,658,699	1,658,699
Carrying amount at the end of year	<u>1,658,699</u>	<u>1,658,699</u>

<b>Note 12: Payables</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>CURRENT</b>		
Unsecured liabilities		
Trade payables	1,946,267	2,738,696
Sundry payables and accrued expenses	173,299	90,251
	<u>2,119,566</u>	<u>2,828,947</u>
<b>NON CURRENT</b>		
Unsecured Liabilities		-
Amounts payable to related parties	268,596	197,154

<b>Note 13: Borrowings</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>CURRENT</b>		
Unsecured Liabilities		
Lease liability	22,056	-
	<u>22,056</u>	<u>-</u>

**Great South Land Minerals Ltd ABN 54 068 650 386**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**

**NON-CURRENT**

**a) Unsecured Liabilities**

Lease liability	65,694	-
Amount payable to holding company(note a(1))	6,022,137	1,956,620
	6,087,831	1,956,620

a(1) Amount payable to holding company, Empire Energy International.

The amount is interest free.

**b. Secured liabilities**

Amount due to Wind City *	5,221,158	-
<b>Total Non –Current Liabilities</b>	<b>11,308,989</b>	<b>1,956,620</b>

\* GSLM's parent entity, Empire Energy, closed a financing transaction with Wind City, Inc., a Delaware corporation pursuant to a Note and Warrant Purchase Agreement and related documents. Under the Purchase Agreement, Empire issued warrants in two tranches for a total of 60,000,000 shares of common stock, GSLM issued a floating rate note and Wind City loaned USD 4,000,000 to GSLM. Wind City agreed to buy 4,500,000 shares of Zeehan Zinc common stock in 2007 for a total price of USD 4,500,000 from Cyber Finance Group Limited, another subsidiary of Empire Energy. GSLM used the proceeds from the loan to fund seismic services by Terrex Seismic, to purchase the new mobile oil drill rig and related support equipment and for general corporate purposes.

Under the terms of the Purchase Agreement (i) Wind City acquired and Empire sold a warrant to acquire 26,666,667 shares of Empire's class A common stock and a second warrant to acquire 33,333,333 shares of Empire's class A common stock, exercisable in each case prior to November 30, 2007 at a price of USD0.15; and (ii) Wind City acquired and GSLM issued a floating rate note. If the floating rate note is still outstanding at the time of the exercise of the warrant relating to the 26,666,667 shares, the note will be tendered as consideration for the shares in lieu of cash payment. The Note carries interest at 4% over the prime rate and is repayable on or before May 31, 2008. After exercise of either warrant, the Purchase Agreement requires Empire within thirty days to file with the Securities and Exchange Commission a registration statement with respect to the issued shares of common stock underlying the warrant. Empire guaranteed payments of all amounts owing by GSLM under the Floating Rate Note. The net cash proceeds received by Empire from any exercise of the warrants (after repayment of the loan) would be used by Empire to fund continuing exploration of the petroleum licence held by GSLM. The Purchase Agreement permits Wind City to name one member to the registrant's board of directors for so long as Wind City, its affiliates and funds managed by Wind City or its affiliates hold in the aggregate at least 10% of the registrant's common stock. Empire pledged as security for performance of both its and GSLM's obligations under the Purchase Agreement, its equity interest in Pacific Rim Foods Limited including any future-acquired securities issued by Pacific Rim. As additional security, Empire granted Wind City a security interest in the form of an Equitable Mortgage of Shares over 7,281,407 ordinary shares of Zeehan Zinc Ltd., an Australian zinc mining concern. The Mortgage, governed by Australian Law, serves as a security interest in the Zeehan Zinc shares and allows direct enforcement by the mortgagee in the event of default as well as restricting transfer of, sale of and encumbrances over the collateral except in certain limited circumstances. The Mortgage permits disposal of the subject shares in any of the following circumstances: (a) if counsel to the registrant provides an opinion to Wind City that such a sale is necessary to avoid the registrant being required to register as an investment company under the Investment Company Act of 1940; (b) a sale made at arms length for fair market value; or (c) pursuant to the put option described below. With respect to disposals other than through exercise to the put option, the proceeds from any such disposal shall be placed in an escrow account and shall serve as continuing security for Wind City.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**

Wind City granted Cyber Finance Group Limited a put option with an exercise period of January 1 to January 15, 2007 to require Wind City to purchase 4,500,000 ordinary shares of Zeehan Zinc at a price of USD1.00 per share. On January 5, 2007 Cyber Finance Group Limited exercised the put option and Cyber Finance Group Limited received USD4,500,000 in consideration of the 4,500,000 ordinary shares of Zeehan Zinc Ltd. Proceeds from the exercise will be used to cover certain costs of closing and for general purposes, including development of GSLM's license area.

Using USD 2,000,000 proceeds from the transaction, GSLM paid for and acquired a newly constructed drilling rig from George E. Failing Company and will acquire certain related support equipment. These assets will be transported to GSLM's property in Tasmania for the purpose of exploring the license area in compliance with the license requirements.

**Note 14: Provisions**

	Employee Entitlements \$	Total \$
Opening balance at 1 January 2006	7,540	7,540
Additional provisions raised during year	-	-
Amounts used	(5,958)	(5,958)
Balance at 31 December 2006	<u>1,582</u>	<u>1,582</u>

**Analysis of Total Provisions**

	2006 \$	2005 \$
Current	1,582	7,540
Non-current	-	-
	<u>1,582</u>	<u>7,540</u>

A provision has been recognised for employee entitlements relating to annual leave for employees. The measurement and recognition criteria for employee benefits have been included in Note 1.

**Note 15: Issued Capital**

	2006 \$	2005 \$
62,426,782 fully paid ordinary shares (2005: 62,426,782)	7,316,711	7,316,711
	<u>7,316,711</u>	<u>7,316,711</u>
a. Ordinary Shares	No.	No.
At the beginning of reporting year	62,426,782	62,426,782
At reporting date	<u>62,426,782</u>	<u>62,426,782</u>

Ordinary shares participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

Note 16: Capital and Leasing Commitments	2006	2005
	\$	\$
<b>a. Finance Lease Commitments</b>		
Payable — minimum lease payments		
— not later than 12 months	22,056	-
— Between 12 months and 5 years	86,394	-
— greater than 5 years	-	-
Minimum lease payments	108,450	-
Less future finance charges	20,700	-
Present value of minimum lease payments	<u>87,750</u>	-

<b>b. Operating Lease Commitments</b>		
Non-cancellable operating leases contracted for but not capitalised in the financial statements.		
Payable — minimum lease payments		
— not later than 12 months	136,639	74,528
— between 12 months and 5 years	273,277	298,114
— greater than 5 years	-	-
	<u>409,916</u>	<u>372,642</u>

<b>c. Capital Expenditure Commitments</b>		
Capital expenditure commitments contracted for:		
Plant and equipment purchases	<u>1,800,000</u>	-

As part of the exploration program, the purchase of a drill rig was committed in November 06 for \$3,459,000. A sum of \$1,659,000 has been paid during the year.

<b>d. Exploration Expenditure Commitment:</b>		
In order to maintain current rights of tenure to exploration tenements, the company is required to perform minimum exploration work to meet the minimum expenditure requirements specified by the Tasmanian State Government. These obligations are subject to renegotiation when application for a mining lease is made and at other times. At 31 December, 2006, these obligations, are as follows:		
	2006	2005
	\$	\$
— September 30, 2006	-	2,416,000
— September 30, 2007	3,839,200	3,839,200
— September 30, 2008	5,224,000	5,224,000
— September 30, 2009	1,448,000	1,448,000
	<u>10,511,200</u>	<u>12,927,200</u>

As of 30 September, 2006, Mineral Resources Tasmania acknowledged an expenditure of \$2,865,869, which is, \$3,823,111 short of the mandatory expenditure required by the end of the second year of the license. The shortfall of \$3,823,111 is not included in the above.

The company claims to have met its cumulative commitments, and is currently in discussions with Mineral Resources Tasmania on the issue of the recognition of exploration expenditures that form part of the license conditions.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**

<b>Note 17: Contingent Liabilities and Contingent Assets</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
Estimates of the <b>potential financial effect</b> of contingent liabilities that may become payable:		
<b>Contingent Liabilities</b>		
<b>Related Party Guarantees Provided by the Parent Entity</b>		
Empire Energy has provided a guarantee to Wind City on behalf of its associate Great South Land Minerals Limited.	5,221,158	-
Fees payable and dependent on a public float of shares of Great South Land Minerals Limited for secretarial services supplied by K Gumley		87,945
	<hr/>	<hr/>
	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>Note 18: Cash Flow Information</b>		
<b>a. Reconciliation of Cash Flow from Operations with Profit from Ordinary Activities after Income Tax</b>		
Profit from ordinary activities after income tax	(3,109,019)	(2,026,182)
Non-cash flows in profit from ordinary activities		
Depreciation	3,796	16,981
Impairment of plant and equipment	31,000	-
Changes in assets and liabilities, net of the effects of purchase and disposal of associate company	1,705,512	(15,981)
(Increase)/decrease in trade and term debtors	(13,902)	16,530
(Increase) in other assets	(1,865,433)	(200,158)
(Increase) in exploration expenditure	(2,380,993)	(363,248)
(Decrease)/increase in payables	(513,931)	402,673
(Decrease)/increase in provisions	(5,958)	7,539
	<hr/>	<hr/>
	<b>(6,148,928)</b>	<b>(2,161,846)</b>
<b>b. Non-cash Financing and Investing Activities</b>		
Property, plant and equipment:	81,000	-
During the financial year, the company acquired a motor vehicle with an aggregate value of AUD 81,000 by means of hire purchase agreements. This acquisition is not reflected in the statement of cash flows.		

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

Note 19: Related Party Transactions	2006 \$	2005 \$
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated		
Transactions with related parties		
a. The parent entity is Empire Energy International and has provided the following loans to Great South Land Minerals.	6,022,137	1,956,620
b. Amount receivable from associated companies	160,509	31,345
c. Consultancy Agreement		
Effective 1 April 2002, GSLM signed a consultancy agreement with Bass Gas and Oil Pty Ltd to provide the services of M R Bendall. The agreement continues until 1 April, 2007. This agreement is expected to be renewed in 2007 for a further 5 years. M R Bendall is to provide the company with professional guidance, advice and assistance in the general area of oil and gas exploration. These services are expected to require an average commitment of 12 days per month. In return for providing these services, Bass Gas and Oil Pty Ltd is entitled to receive \$18,000 per month from GSLM.	216,000	
d. Professional fees		
A director of the company, Dr C Burrett charged professional fees for consulting work undertaken for Great South Lands Minerals	71,055	
e. Rental of Office Accommodation		
A related company has a lease on office accommodation which GSLM uses for its business premises. A rental of \$2,000 per month was charged by the related company	24,000	24,000
f. Guarantees		
Two former directors of the company have personally provided joint and several guarantees, on behalf of the company, in favour of Mineral Resources of Tasmania (MRT), the government body responsible for the activities of the company. This guarantee is for a total of \$75,000, and relates to future rehabilitation costs that may arise in respect of the licence.		

**Note 20: Economic Dependence**

The continuing seismic and drilling programmes are dependent upon renewal of Licence SEL 13/98 which is controlled by statutory authorities of the State Government.

**Note 21: Change in Accounting Policy**

The company has adopted the following Accounting Standards for application on or after 1 January 2006:

AASB Amendment	AASB Standard Affected	Nature of Change in Accounting Policy and Impact	Application Date of the Standard	Application Date for the Company
2005-1	AASB139: Financial Instrument: Recognition and Measurement	No change No impact	1 January 2006	1 January 2006
2005-4	AASB139: Financial Instrument: Recognition and Measurement	No change No impact	1 January 2006	1 January 2006
	AASB132: Financial Instrument: Disclosure and Presentation	No change No impact	1 January 2006	1 January 2006

**Note 22: Financial Instruments**

**a. Financial Risk Management**

The company's financial instruments consist mainly of cash in banks, accounts receivable and payable, loans to and from subsidiaries and leases.

The main purpose of non-derivative financial instruments is to raise finance for the company operations.

The company does not have any derivative instruments at 31 December 2006.

The main risks the company is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

**Foreign currency risk**

The company is not exposed to fluctuations in foreign currencies.

**Liquidity risk**

The company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

**Credit risk**

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

**Interest Rate Risk**

The company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing			
					Within 1 Year		1 to 5 Years	
	2006 %	2005 %	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
<b>Financial Liabilities:</b>								
Trade and other payables	99	100			-	-	11,243,295	1,956,620
Lease Liabilities	1	-			22,056	-	65,694	-
<b>Total Financial Liabilities</b>	<b>100</b>	<b>100</b>			<b>22,056</b>	<b>-</b>	<b>11,308,989</b>	<b>1,956,620</b>

**Great South Land Minerals Ltd ABN 54 068 650 386**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**

	Non-interest Bearing		Total	
	2006 %	2005 %	2006 \$	2005 \$
<b>Financial Assets:</b>				
Cash and cash equivalents	89	19	1,332,931	7,117
Receivables	11	81	160,510	31,345
<b>Total Financial Assets</b>	<b>100</b>	<b>100</b>	<b>1,493,441</b>	<b>38,462</b>
<b>Financial Liabilities:</b>				
Trade and other payables	100	100	2,388,162	3,025,146
<b>Total Financial Liabilities</b>	<b>100</b>	<b>100</b>	<b>2,388,162</b>	<b>3,025,146</b>

**Note 23: Mortgage Guarantee**

Terrex Seismic (formerly Trace Energy Services Pty Ltd) holds a registered mortgage debenture charge over all the assets and undertakings of GSLM, to a maximum prospective liability of \$1,000,000. The charge is both fixed and floating.

**Note 24: Events Subsequent to Balance Date**

On 5 January, 2007, Cyber Finance, on behalf of Empire Energy, exercised the put option, and Empire Energy received USD 4.5 million in consideration of the 4,500,000 ordinary shares of Zeehan Zinc Ltd., in January 2007. USD 2 million of the proceeds from the exercise was advanced to the company in support of its seismic, drilling and related head office activities within the licence area.

In April 2007, the Company entered into agreement with an investment banker to introduce Empire Energy International, holding company and/or Great South Land Minerals Limited to the Alternative Investment Market, a subsidiary of the London Stock Exchange, for the purpose of raising additional equity capital for the entity.

**Note 25: Company Details**

The registered office of the company is:

Great South Land Minerals Limited  
Level 1 199 Macquarie Street, Hobart Tas 7009

The principal place of business is:


Great South Land Minerals Limited  
Level 1 199 Macquarie Street, Hobart Tas 7009

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out in 7 to 29 are in accordance with the *Corporations Act 2001*:
  - a. comply with Accounting Standards and the Corporations Regulations 2001; and
  - b. give a true and fair view of the financial position as at 31 December 2006 and of the performance for the year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Director 

Dr Clive Burrett

Dated this 15 day of May 2007

**GREAT SOUTH LAND MINERALS LIMITED ABN 54 068 650 386**

**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF  
GREAT SOUTH LAND MINERALS LIMITED**

**Scope**

We have audited the financial report of Great South Land Minerals Limited for the financial year ended 31 December 2006 being the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, Notes to the Financial Statements and Directors Declarations.

The company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the company's financial position and performance as represented by the results of their operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.


**Audit Opinion**

In our opinion, the financial report of Great South Land Minerals Limited is in accordance with:

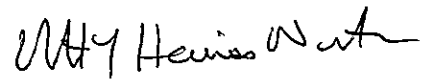
- a. the Corporations Act 2001, including:
  - i. giving a true and fair view of the company's financial position as at 31 December 2006 and of its performance for the year ended on that date; and
  - ii. complying with Accounting Standards in Australia and the Corporation Regulations 2001; and
- b. other mandatory professional reporting requirements.

**Inherent Uncertainty Regarding Continuation as a Going Concern**

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in note 1b, there is significant uncertainty whether Great South Land Minerals Limited will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.



**Mark Nicholaeff**  
Partner



**UHY Haines Norton**  
Chartered Accountant

Signed at Sydney on 15<sup>th</sup> May, 2007