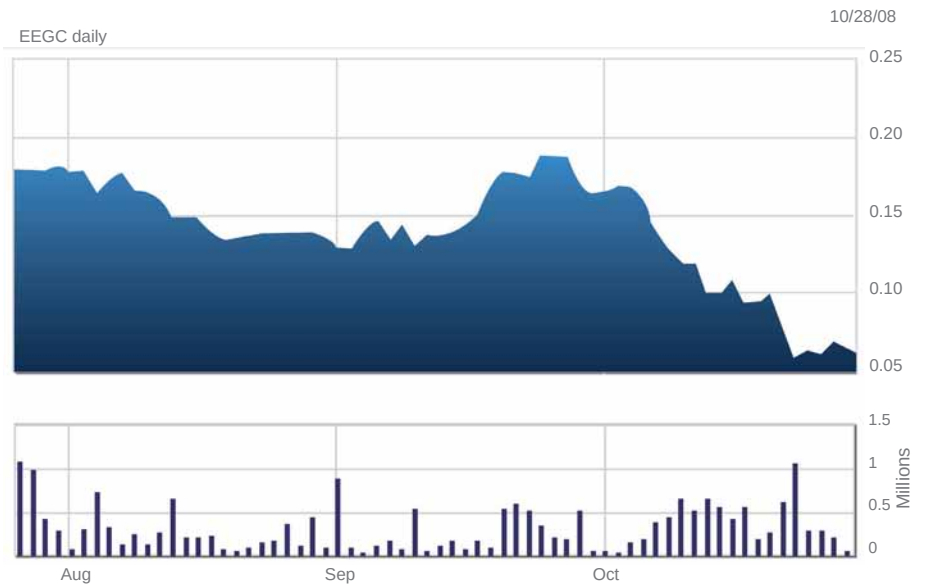
BEACON EQUITY RESEARCH

Analyst: Victor Sula, Ph.D.
Initial Report
October 29th, 2008



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MARKET DATA

Symbol	EEGC
Exchanges	OTCBB
Current Price	$0.0725
Price Target	$0.94
Rating	Speculative Buy
Outstanding Shares	250 Million
Market Cap.	$17.8 Million
Average 50-day Volume	392,959

Source: Yahoo Finance, Analyst Estimates

Company Introduction

Empire Energy Corporation International (EEGC) is exploring for oil and natural gas in onshore areas of Tasmania, the southern island state of Australia. The Company commenced oil and gas operations in April 2005 when it acquired Great South Land Minerals Limited (GSLM), a publicly-traded Australian company, through a reverse merger. EEGC is still in the exploration stage and is not yet producing oil or gas.

Since January 2007, EEGC raised approximately $16 million of capital. Of this amount, approximately $9 million was raised through the sale of non-core assets. These funds were used for oil and gas exploration activities and to reduce notes payable. To date, the Company has invested over $35 million in developing its Tasmanian Basin energy assets and gathering data regarding the Basin's potential energy resource. EEGC has compiled an extensive database of seismic, gravity and magnetic data and paid for several independent expert reports. These reports indicate large oil and natural gas resources may be found in the geological structures of onshore Tasmania.

The Company commenced an exploration drilling program in September 2008, beginning with the Bellevue #1D well which will be followed by two additional wells. Drilling costs for each well are estimated at approximately $3.5 million. If commercial quantities of hydrocarbons are found, EEGC estimates additional spending of $1.5 million to complete each well before production can begin. The Company contracted with an Australian company, Hunt Energy, to supply a drilling rig and drilling services.

EEGC also holds a controlling interest in Pacific Rim Foods Lim-

ited, a China-based food processing business. The Company is seeking a suitable investment vehicle for taking Pacific Rim Foods Limited public and is also considering the sale of its Pacific Rim Foods stake to raise additional capital for oil and gas exploration.

Investment Highlights

A business model capitalizing on Tasmanian oil and gas potential

EEGC is pursuing oil and gas exploration and development projects in Tasmania. To date, there have been no commercial oil or gas discoveries in the Tasmania Basin although oil seeps have been found in Tasmania. Data from the Company's exploration program indicates that commercial quantities of hydrocarbons may be present in the Larapintine and Gondwanan Systems of the Tasmania Basin.

Onshore Tasmania may yield as much as 3 billion barrels of oil equivalent

It is estimated that one square meter (10 square feet) of surface area of the Tasmanian Basin may contain as much as nine barrels of oil. Taking into account source rock distribution, loss to the system due to leakage, faulting and metamorphism and recovery suggests there is a potential resource of as much as three billion barrels of oil. Using the Zeta Ware program, and conservative assumptions regarding source rock distribution and recovery factors, EEGC estimates onshore Tasmania could yield as much as 346 million barrels of recoverable oil plus 6 trillion cubic feet of methane or a possible aggregate recoverable resource of 1.346 billion BOE.

Exploration interests cover 3.8 million acres

Through its GSLM wholly-owned subsidiary, the Company has exploration rights to an onshore petroleum license in Tasmania, Australia. Special Exploration License 13/98 (SEL 13/98) covers 15,410 km² (3,807,894 acres) in one of the most prospective areas of the Tasmania Basin.

The license permits the Company to explore anywhere within the license area, including on private land. Any oil and gas (other than coal seam methane) discovered in the license area will belong to the Company.

Value of unrisked prospective resources may exceed $7 billion

RPS Energy, an independent consultant specializing in petroleum reservoir evaluation and petroleum geology, has identified several fault block traps and small anticlines in the SEL 13/98 license area with shallow targets in the Gondwanan Petroleum System.

RPS Energy has identified numerous structures which may contain significant oil or gas resources. These include the Bellevue Feature and the Interlaken Feature. RPS Energy estimates unrisked prospective oil resources contained in these two features could range from 67 to 145 million barrels; natural gas resources could range

from 344 to 799 billion cubic feet. EEGC estimates that, at current energy prices, the value of the Company's prospective resources could exceed $7 billion and range as high as $15 billion.

Exploration licenses

The Tasmanian Department of Industry, Energy and Resources originally granted SEL 13/98 to the Company for a five-year term from 1999 to 2004 and extended the license for another five years to September 2009. The terms of the lease require exploration expenditures totaling at least AUD $21.5 million over five years. The Company has already spent AUD $36.8 million for exploration activities in the license area and should thus be in a favorable position to negotiate extensions and the granting of licences and production leasesable when the license expires in 2009. Empire plans to spend an additional $31 million on drilling and $5 million on seismic activities within the remaining license period.

Drilling activities commenced in September 2008

Seismic programs conducted by EEGC in 2001, 2006 and 2007 have identified and clarified several major structures and numerous smaller structures. A major 2007 gravity survey added significant data to the regional database and provided important additional information regarding the geology of the Central Highlands. Additional seismic work is planned for the southern hemisphere during the summer of 2008. The Company is also planning a significant drilling program for 2008-2009 and anticipates drilling between eight and fifteen wells to test the petroleum systems of onshore Tasmania. The initial exploration effort will focus on eight drilling targets and have a cumulative budget of $31 million.

In February 2008, EEGC announced that it had contracted with drilling contractor Hunt Energy to move a Hunt drilling rig from Adelaide, Australia to Tasmania. The rig will be used for EEGC's drilling activities and arrived in the northern part of the Company's license area in September 2008. Drilling of the first well commenced in September 2008 using a mineral rig to drill the top 270m (885.6 feet) of the Bellevue #1 hole. This will be the first well of an ongoing drilling program.

Rising oil demand and prices spurs exploration activity

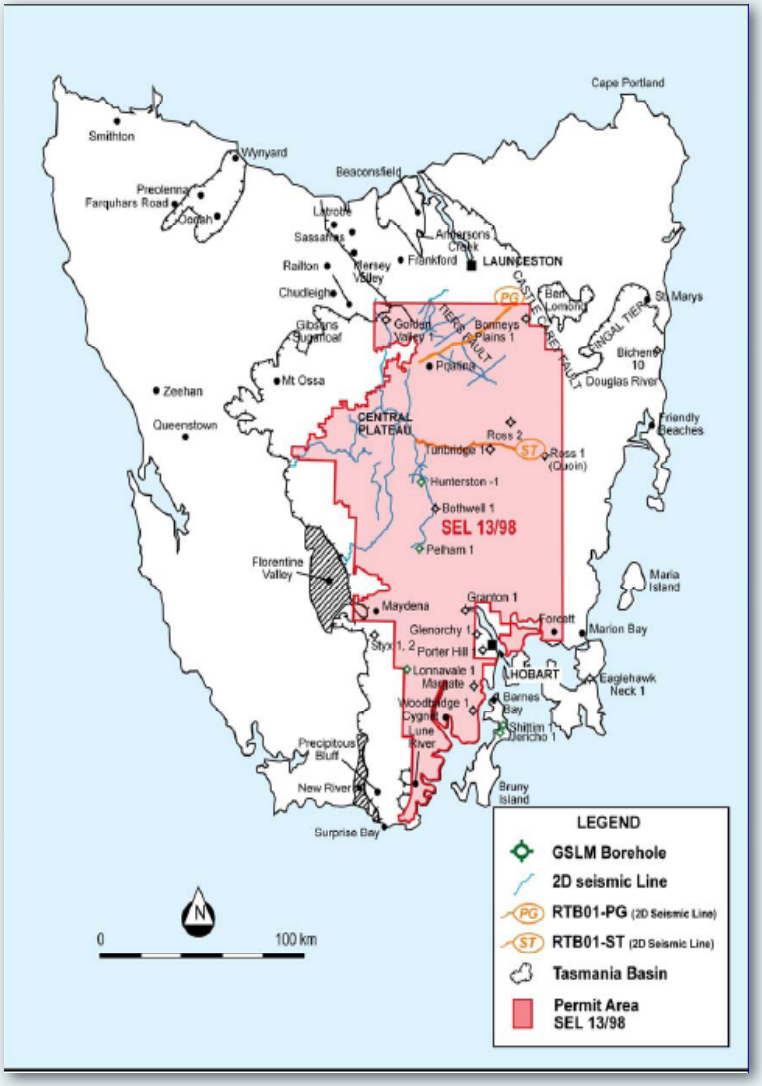
Despite slowed economic growth, worldwide oil consumption is forecast to continue to rise in 2008 and 2009. After surging nearly 58% in 2007 for the biggest annual gain in a decade, oil prices reached $100 per barrel in early 2008 and soared to $150 per barrel in the summer of 2008. Since, then, the price has dropped to under $70 per barrel in October 2008 due to fears of a global recession. Despite recent price volatility, the long-term outlook for oil suggests rising demand and higher prices. EEGC estimates it can maintain production costs at approximately $20 per barrel.

Oil and Natural Gas Properties

Through its GSLM wholly-owned subsidiary, the Company holds an onshore exploration license in Tasmania, Australia. Special Exploration License 13/98 (SEL 13/98) was originally awarded in 1999. The license covers 15,410 km² (3,807,894 acres) in one of the most prospective areas of the Tasmanian Basin.

Under the terms of the license, EEGC may explore anywhere within the license area, including on private land. Any oil and gas (other than coal seam methane) found on the SEL area becomes the Company's property.

EEGC believes its exploration prospects contain commercial quantities of oil, hydrocarbon gases and helium. The Tasmanian Department of Industry, Energy and Resources granted SEL 13/98 for an initial period of five years expiring in May 2004, and subsequently extended the license for another five years to September 2009. Special Exploration License 13/98 initially covered 30,356 square kilometers and the entire Tasmanian Basin. When the license was renewed on October 2004, the coverage area was reduced to 15,410 square kilometers. To retain the license, EEGC must spend AUD $21.5 million on exploration activities over five years.



Required and actual exploration expenditures for SEL 13/98 license, 2004-2009

Year and quarter		Annual expenditure requirement (AUD $)	Cumulative expenditure requirements (AUD $)	Cumulative Mandatory expenditure 80% (AUD $)	Actual claimed expenditure (AUD $)	Actual claimed expenditure (USD $)	Claimed cumulative expenditure (by year)(AUD $)
Year 1, 1998 – to Year 5—2004					$6,636,518	$5,818,434	$6,636,518
2005 License Requirements	AUD	$5,341,000	$5,341,000	$4,272,800	$17,981,424	$15,764,854	$24,617,942
	USD	$4,682,615	$4,682,615	$3,746,092			$21,583,288
2006 License Requirements	AUD	$3,020,000	$8,361,000	$6,688,800	$2,919,413	$2,559,537	$27,537,355
	USD	$2,647,725	$7,330,340	$5,864,272			$24,142,825
2007 License Requirements	AUD	$4,799,000	$13,160,000	$10,528,000	$8,961,762	$7,857,046	$36,499,117
	USD	$4,207,427	$11,537,767	$9,230,213			$31,999,871
2008 License Requirements	**AUD**	**$6,530,000**	**$19,630,000**	**$15,752,000**	**$5,362,947**	**$4,290,357**	**$41,862,064**
	USD	**$5,725,047**	**$17,210,210**	**$13,810,251**			**$36,290,228**
2009 License Requirements	AUD	$1,810,000	$21,500,000	$17,200,000			
	USD	$1,586,881	$18,849,695	$15,079,756			

Source: SEC Filings

The table above indicates that, by September 30, 2008, EEGC had spent AUD $41.8 million on exploration activities, thus satisfying the renewal terms for SEL 13/98. The Company's expenditures, claimed and reported to Mineral Resources Tasmania, are based on the contract's October to September reporting year.

Exploration Plan

Previous seismic programs undertaken by the Company identified and clarified several major and numerous minor structures within the exploration area. A major 2007 gravity survey provided qualitative information regarding the geology of the Central Highlands. Further seismic survey work is planned for the southern hemisphere during the summer of 2008. Seismic data has identified several fault block traps and small anticlines with shallow targets (1,000 meters to 1,800 meters) in the Gondwanan Petroleum System. Deeper targets have been found in the Larapintine Petroleum System, primarily in the Central Highlands, with Ordovician targets at depths of 1,800 to 2,600 meters.

The Company's current exploration program plans to collate extensive gravity, seismic and drilling data with an additional 2,000 line kilometers of seismic data. The Company has already accumulated 1,350 line kilometers of seismic information. The exploration program is designed to:

- Improve the definition of currently identified world class anticlines (domes) and other suitable reservoir structures;
- Determine the extent of the two main petroleum systems that have been outlined within the Special Exploration License 13/98 leasehold; and
- Define more potential targets.

The Company is undertaking an extensive drilling program for 2008-2009 and plans to drill between eight and fifteen wells that will test the petroleum systems of the onshore Tasmanian Basin. The initial drilling program focuses on eight exploration targets and has a cumulative budget of $31 million.

2008/09 projected drilling expenditures, $

Well	P&A	C&S
Bellevue #1	$5,880,000	$6,231,000
Thunderbolt #1	$4,731,000	$5,019,000
Lonnavale	$2,930,000	$2,998,000
Bracknell #1	$3,000,000	$3,500,000
Butlers Rise #1	$3,298,000	$3,489,000
Interlaken #1	$2,800,000	$2,964,000
Quamby #1	$2,680,000	$2,820,000
Cressy #1	$3,080,000	$3,260,000
Hummocky Hills #1	$3,080,000	$3,260,000
Mobilization/Demobilization	$2,000,000	$2,000,000
Total (with 10% contingency)	**$33,479,000**	**$35,541,000**

Source: SEC Filings

The first drilling target was the Bellevue #1 well; drilling commenced in September 2008. The next two drilling targets are the Thunderbolt#1 and Lonnavale#2 wells. Based on 2D seismic interpretation and in-depth basin studies of the Central Tasmanian Highlands, EEGC has compiled the following estimates for the first three exploration targets:

Wellbore estimates

Wellbore Name	Bellevue #1	Thunderbolt#1
Surface Co-Ordinates^ (AMG 66, Zone 55)	465660E 5338904N	466,844 E 5287200 N
Total Depth^	2,800 meters	2,600 meters
Petroleum System/Age (source)#	GL*/Ordovician, Permian (450 Ma, 280Ma)	GL/Ord.Permian (450Ma,280 Ma)
Expected Hydrocarbon Type#	Oil/Gas/Condensate	Oil/Gas/Condensate
Trapping Mechanism/Closure^	Anticline/4 way	Anticline/4 way
Prospective STOOIP (MMbbls)–MeanEstimate#	1318 (Combined Upper & Lower Unit)	61

Source: #RPS Energy (August 2008), ^GSLM Drill Applications (2008) * G= Gondwanan L=Larapintine

The Hunt Energy number 3 rig was shipped from the mainland of Australia to the north of Tasmania in September 2008. A local Tasmanian drilling company has drilled and cased the Bellevue #1 top hole. The Tasmanian government regulators have given permission for the Hunt rig to move to the Bellevue site and for drilling to commence on Thunderbolt#1.

Hunt Energy is a well-respected Australian oil and gas drilling company. Since 1990, Hunt Energy has completed approximately 100 wells in several different basins across Australia. Hunt Energy's Managing Director Larry Werecky has over 40 years of drilling experience and has provided drilling services to major oil companies and drilling contractors both in Australia and internationally.

Hunt Energy Rig 3 has been contracted by the Company and shipped to northern Tasmania.

Tasmania Basin Characteristics

Tasmania, the southern island state of Australia, is approximately the same size as Ireland or West Virginia and covers an area of 68,332 square kilometers or about 26,383 square miles. Tasmania has a population of about half a million people and has good road, industrial, rail, Internet, electricity, air and seaport infrastructure. The University of Tasmania is rated among the top ten in Australia and the Tasmanian population is generally well educated and skilled.

In 2002, Duke Energy, a U.S. company, constructed a pipeline to bring natural gas from petroleum fields offshore Australia to Tasmania. Gas is now supplied to the industrial centers of northwest Tasmania and to the population centers of Launceston in the north, and Hobart in the south. This pipeline provides a built infrastructure that can connect newly discovered onshore Tasmanian gas to the entire eastern seaboard gas pipeline network.

The Company is required to pay a 12% royalty on the well-head value to the state government and a 30% corporate tax rate on profits to the Australian federal government.

EEGC and its predecessor companies have invested substantial amounts in exploration activities. Over 1,350 line km of 2D seismic have already been acquired, processed and interpreted. Magnetic, gravity and geochemistry data has been acquired and down hole velocity tests have been conducted in deep stratigraphic wells:

- 1987 200 kilometers shallow water 2-D seismic
- 1988 66 kilometers shallow water 2-D seismic
- 2001 660 kilometers onshore 2-D seismic
- 2006 153 kilometers onshore 2-D seismic
- 2007 271 kilometers onshore 2-D seismic
-

As a result, the Company has a good understanding of the existing geotechnical and drilling environment.

Although Tasmania is regarded as a frontier basin, it is now geologically and geophysically well understood and progress has been made mapping the inherent petroleum systems. Mineral Resources Tasmania (MRT) has geologically mapped much of the state, and EEGC and MRT have both drilled several stratigraphic wells. Many hundreds of studies, including numerous major theses and monographs, have been written on the geology of the Tasmanian Basin rocks, including its stratigraphy, geochemistry, paleogeography, sedimentology and paleontology. In 2002, the Australian government (with $300,000 of matching funds from the Company) awarded a $400,000 grant to the University of Tasmania to study the petroleum systems onshore Tasmania. The results of that study have helped substantially reduce exploration risk in the Tasmanian Basin.

Two major petroleum systems have been identified in the Tasmanian Basin: the Larapintine Petroleum System and the Gondwanan Petroleum System. A third system, the Centralian Petroleum System, may exist in the Precambrian rocks which have been proven to be resources of dry gas and oil where exposed at surface both inside and outside of the Tasmanian Basin.

Gondwanan Petroleum System

The Permian to Triassic Gondwanan Petroleum System is well studied and consists of: tasmanite (glacialmarine algal source and the world standard of type I kerogen); Triassic coals type II and III kerogen; Permian coals type II and III kerogen; Pelionite (fresh water algae) type I kerogen and Quamby Mudstone (200 meters thick) types I, II and III kerogens.

Source - Early Permian carbonaceous shales (Quamby Fm in the north and Woody Island Fm in the south) including tasmanite oil shale plus mid-and-late-Permian shales and coals. An oil seep at Lonnavale in southern Tasmania is derived from the oil shale and is a migrated low sulfur, heavy crude. The tasmanite was quarried in outcrop in northern Tasmania in the 1920s and 1930s and was distilled into a wide variety of petroleum products from 250,000 gallons of production.

It has been estimated that one square meter (10 square feet) of surface area of the Tasmanian Basin could yield as much as nine barrels of oil. Given conservative estimates regarding source rock distribution, loss to the system due to leakage, faulting and metamorphism and recovery, this suggests a total resource of about three billion barrels of oil.

Based on the widely-used Zeta Ware program, and conservative assumptions regarding source rock distribu-

tion and recovery factors, experts estimate that onshore Tasmania could contain as much as 346 million barrels of recoverable oil plus 6 trillion cubic feet of methane or a possible total recoverable potential resource of 1.346 billion BOE. Non-tasmanite-derived bitumen and oil occurs within Permian sandstones in western Tasmania and is geochemically similar to other sampled seeps found near Hobart, indicating generation from another, as yet unknown, source rock. Inclusions of oil are found in Permo-Triassic sandstones in western, central, and eastern parts of the Tasmania Basin.

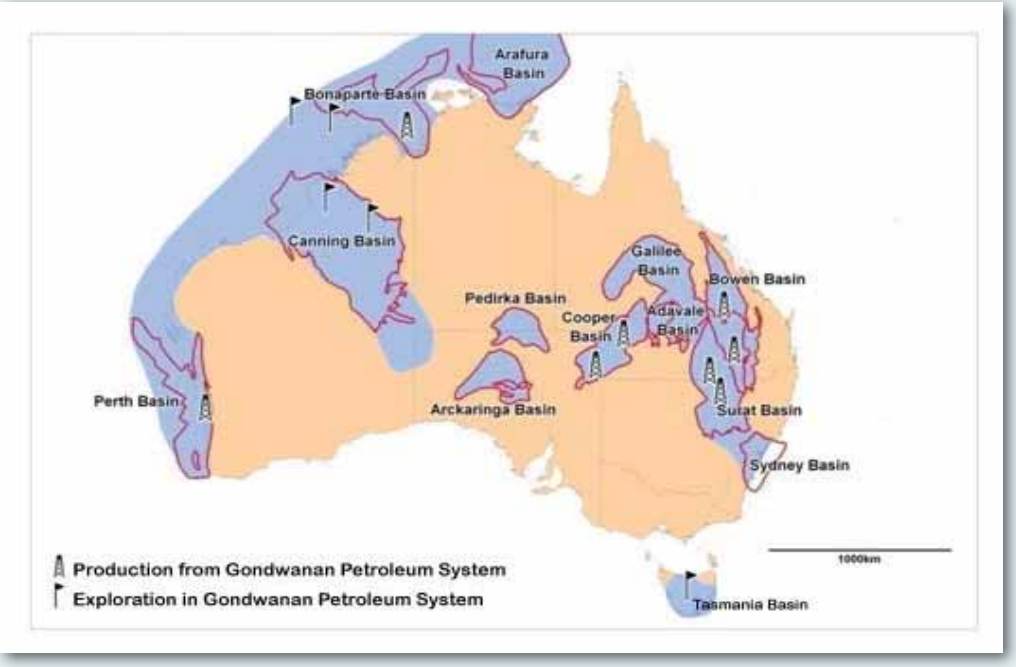
Maturation – The Basin is immature for oil (0.5 vitrinite reflectance equivalence) in the north of the state where outcrops of oil shale were quarried in the 1920s to 1930s to mature over the remainder of the Basin (0.5 to 1.5 vitrinite reflectance equivalence).

Reservoir - Consists of about 20 to 30 meters of mid-Permian terrestrial sandstones, some thinner late- Permian sandstones and 200 meters of early-Triassic terrestrial sandstones.

Seals - Fine grained mudstones of the late Permian Ferntree Fm and correlates are widespread and constitute a regional seal. Jurassic dolerite (diabase) intrusive sheets are also very effective seals as evidenced by their very high seismic velocities.

Traps - These consist of gentle domal structures draping over the Devonian domes within the fold-thrust belt, plus numerous flower structures, fault blocks and some anticlines. Many of the fault blocks were formed after the most likely time for migration. As a result, timing of traps and migration times remain a risk factor. Re-mobilization and secondary migration are possible scenarios. However, EEGC has recently identified several early Jurassic (pre-Dolerite) Age traps which were formed well before the peak oil generation in the Cretaceous/Early Tertiary.
Analogues - The Gondwanan Petroleum System of the Tasmania Basin resembles petroleum systems of the producing Australian onshore Cooper, Bowen and Perth Basins and the South Oman Basin.

Distribution of Gondwanan Basins



Source: Company's presentations

The Larapintine Petroleum System (Ordovician to Devonian):

Platform Ordovician to early Devonian formations shape the Larapintine Petroleum System. Essentially, onshore Tasmania consists of a Devonian fold-thrust belt containing thick tropical platform, Ordovician limestones overlain by Siluro-Devonian siliciclastic formations, unconformably overlain by glacimarine Permian and terrestrial Triassic siliciclastics.

Source -The Larapintine Petroleum System of onshore Tasmania is less well-studied than the Gondwanan System. For many years, a petroliferous odor has been noted from the mile-thick Gordon Group. Recently, wet gas has been extracted from the limestone in central Tasmania. The limestone in central Tasmania is in the wet to dry gas windows whereas, in western Tasmania, association with Devonian granites has led to metamorphic temperatures of over 300 degrees centigrade. However, studies by mining companies in western Tasmania have shown that substantial oil was generated and reservoired within the Ordovician limestone after Devonian orogeny. This oil is now represented by very abundant bitumen in good porosity in the Gordon Group limestone. Further away from the granites in central Tasmania, the Ordovician remains in the wet to dry gas windows.

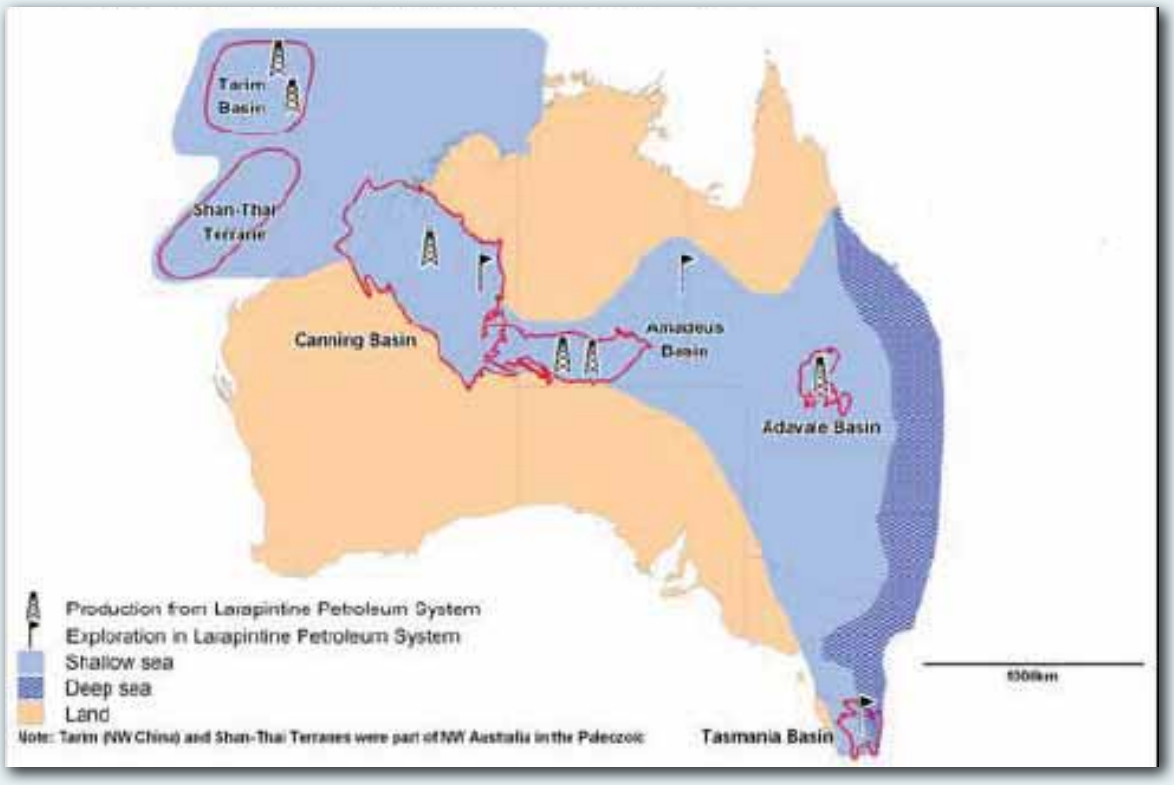
Maturation of Reservoirs - Good porosity may be found in coarse carbonate sands and within reef developments and within dolomitized zones. Devonian karsting (cave formation) of the Ordovician limestone has been demonstrated in several parts of Tasmania and may be detected on the seismic sections. Paleokarst is therefore a major drilling target for the Company. Sandstone formations within the overlying Siluro-Devonian Eldon and Tiger Range Groups may also have reservoir potential at depth.

Seals - Seals are developed as thick fine grained units within the Ordovician limestone and as shale formations within the Silurian and Devonian. Permian tillite constitutes a topseal for the paleokarst reservoirs of the Ordovician limestone.

Traps - Large anticlines have been identified seismically under the Permo-Triassic of the Tasmania Basin infill. These were formed in the Devonian orogeny and constitute an Appalachian-style 'valley and ridge' province that merges eastwards into a more strongly thrusted zone. The overlying Permian and Triassic and the intrusive Jurassic follow the same fold trends but with shallower dips than in the unconformably underlying Early Paleozoics. This allows both petroleum systems to be targeted by one drill hole.

Analogues – Productive, biologically similar sequences of Ordovician limestones are found in eastern North America such as the Trenton Limestone and in the Viola Formation and in the Tarim Basin of NW China.

Paleogeographic map of the Larapintine Sea in the Mid-Ordovician



Source: Company's presentations

Pacific Rim Foods

On March 10, 2006, EEGC acquired 51% of the then-issued voting securities of Pacific Rim Foods Ltd., a Mauritius corporation, in exchange for 9,000,000 shares of the Company's Class A common stock. At present, Pacific Rim Foods is 45% (37% fully diluted) owned by EEGC. Pacific Rim Foods plans to build a branded shelf stable food business in the Asia Pacific Rim market, initially focusing on China. Pacific Rim Food's target capacity is eight processing plants, which operating at 80% of capacity, would achieve target production of 20,000,000 cases of shelf stable food items. PRF's initial product offerings will be corn, milk and water. It plans to grow by partnering with other entities in China that have a high food quality and safety focus.

In March 2004, Pacific Rim Foods acquired an ownership interest in Jilin Jimei Foods Limited, providing it with access to one plant. Pacific Rim Foods is currently reviewing two potential acquisitions in the canning industry as well as exploring a reverse merger opportunity with a public company. EEGC does not anticipate providing any additional financing to Pacific Rim Foods and is considering opportunities to sell its ownership stake in Pacific Rim Foods to generate funding for oil and gas exploration activities.

Energy Industry Outlook

World oil demand is expected to remain strong for the foreseeable future due to population and economic growth, technology improvement and rising standards of living in developing nations. The United Nations predicts the world's population will increase from 6.4 billion in 2004 to 8.1 billion by 2030 and the U.S. Department of Energy forecasts a 70% increase in world energy consumption by 2030.

Oil consumption will track world GDP growth, which is expected to rise over the next 25 years as emerging economies such as China, India and Russia comprise an increasing share of the global economy.

GDP growth by selected countries and regions, % per year (based on year 2000 dollars)

	2004	2005	2006	2007	1980-2004	2004-2030
TOTAL OECD	**7.9**	**7.3**	7.5	**7**	**3.9**	**3.0**
OECD						
North America	3.9	3.2	3.4	2.6	3	3.4
OECD Europe	2.6	2.1	3	2.3	2.4	2.7
TOTAL NON-OECD	**5.4**	**4.9**	**5.3**	**4.8**	**3.3**	**5.8**
China	10.1	9.9	10.5	9.5	9.8	7.0
India	7.2	6.4	6.4	5.7	-0.4	6.1
Russia	8.5	8.7	7.9	7.6	5.8	4.2
TOTAL WORLD	**5.4**	**4.9**	**5.3**	**4.8**	**3.3**	**4.5**

Source: www.eia.doe.gov/oiaf/ieo/pdf/0484(2007).pdf

Oil supply and demand

The U.S. Energy Information Administration (EIA) expects global oil consumption to rise by 1.6 million barrels per day in both 2008 and 2009. The major growth driver will be economic expansion in non-OECD countries.

Oil demand, millions of barrels per day

	2006	2007	2008E	2009E
Total OECD	**49.3**	**49.1**	**49.5**	**49.8**
North America	22.9	23.1	23.3	23.5
Europe	15.6	15.3	15.4	15.4
Other	10.8	10.7	10.8	10.9
Total non-OECD	**35.5**	**36.7**	**37.9**	**39.2**
Former Soviet Union	4.3	4.5	4.6	4.7
China	7.3	7.7	8.1	8.6
Other Asia	8.7	8.8	8.9	9.0
Other non-OECD	15.3	0.0	0.0	0.0
Overall total	**84.8**	**85.9**	**87.4**	**89.0**

Source:http://tonto.eia.doe.gov/cfapps/STEO_Query/steotables.cfm?periodType=Annual&startYear=2005&startMonth=1&endYear=2009&endMonth=12&tableNumber=6

On the supply side, the EIA projects OPEC crude oil production will average about 32.6 million barrels per day in 2008 and 31.8 million barrels per day in 2009.

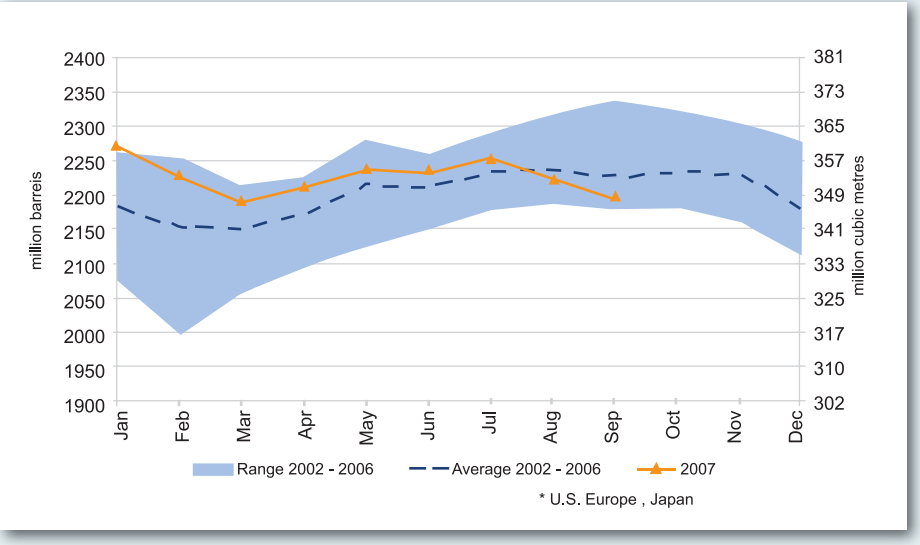
Oil supply, millions of barrels per day

	2006	2007	2008E	2009E
Total Non-OPEC	**48.8**	**49.4**	**50.2**	**51.8**
North America	15.3	15.4	15.5	15.9
Other OECD	6.3	6.1	5.8	5.7
Former Soviet Union	12.2	12.6	13.0	13.8
China	3.8	3.9	3.9	4.0
Others	11.2	11.4	12.0	12.3
OPEC	**35.8**	**35.5**	**37.5**	**37.5**
Overall total	**84.6**	**84.8**	**87.7**	**89.2**

Source:http://tonto.eia.doe.gov/cfapps/STEO_Query/steotables.cfm?periodType=Annual&startYear=2005&startMonth=1&endYear=2009&endMonth=12&tableNumber=6

Supply/demand imbalances are made worse by declining oil inventories. OECD commercial inventories fell to 2.54 billion barrels in 2007, which is about 19 million barrels below the 5-year average.

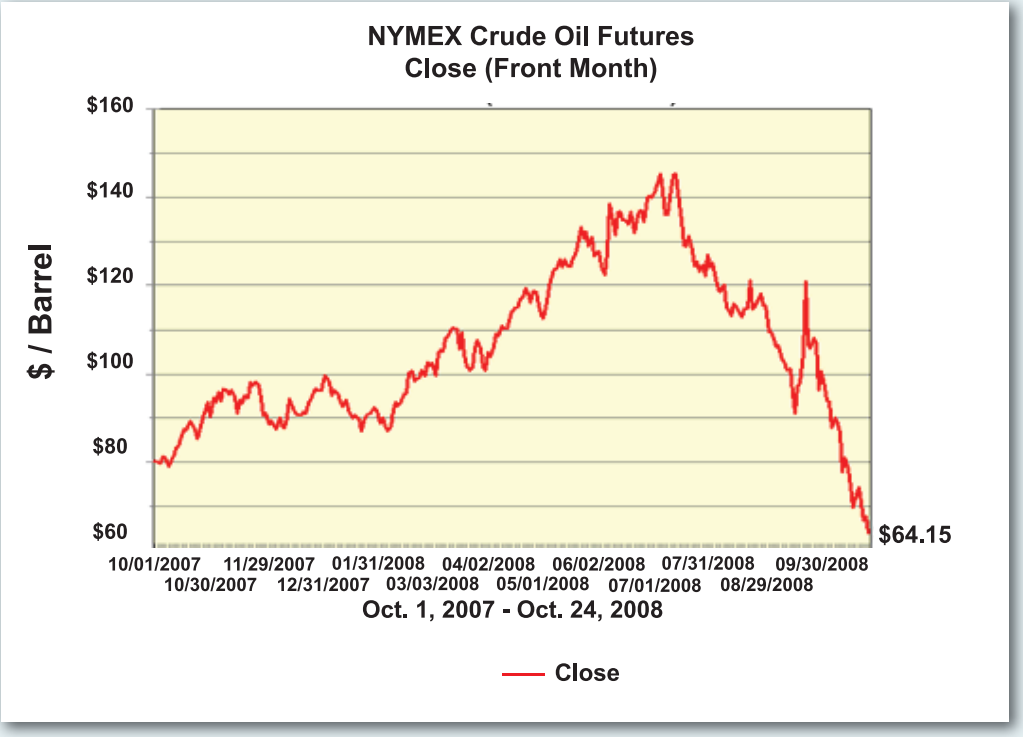
Inventories in three major OECD Markets



Source: http://www.neb.gc.ca/clf-nsi/rnrgynfmtn/nrgyrprt/nrgytlk/tlkwntr/tlkwntrprsnttn-eng.html

Oil prices

After surging nearly 58% in 2007, oil prices reached a high of approximately $150 per barrel in the summer of 2008 before falling to approximately $65 per barrel in October due to fears of a global recessions. West Texas Intermediate (WTI) crude oil prices averaged $72.30 per barrel in 2007 and are projected to average above $87 per barrel in 2008.



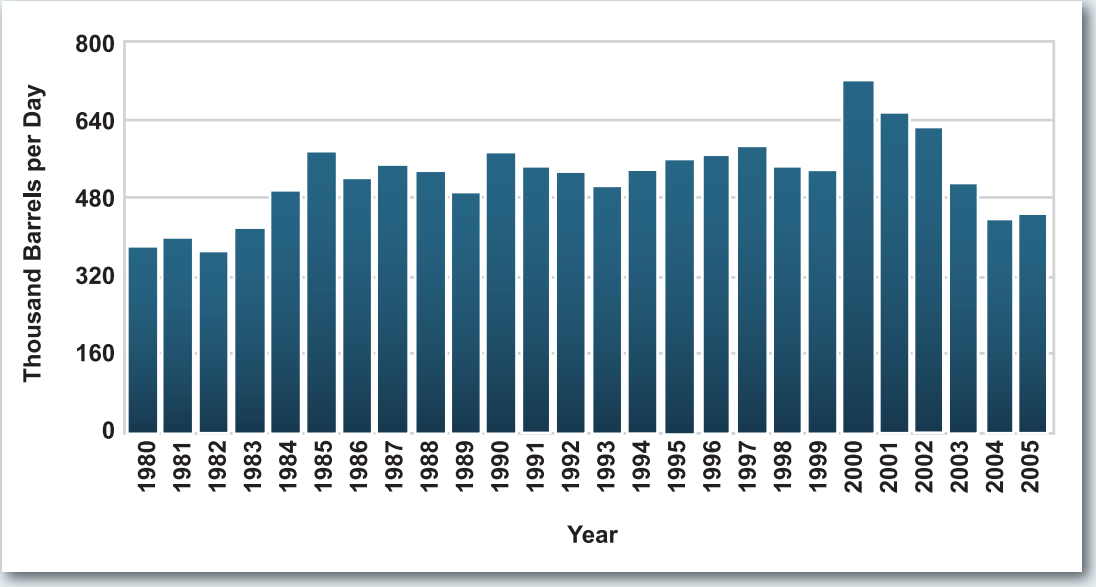
Source: www.wtrg.com/daily/crudeoilprice.html

Despite recent price volatility, the long-term demand outlook suggests that oil prices will recover as the world economy strengthens and remain at high levels for the foreseeable future.

Oil exploration and production in Australia

Oil was first discovered in Australia in the Gondwanan System (Perth, Cooper and Bowen Basins), the Larapintine System (Amadaus Basin) and the Centralian System (Northern Territory) and in the younger, offshore Gippsland Basin. Current production is mainly from the Gippsland, Cooper, Bowen, Adavale, Eromanga, Perth, Otway and Barrow Basins. There is modest production in several additional basins and extensive exploration activity in many other basins. An extensive network of gas pipelines has been constructed in western and eastern Australia. Tasmania is connected to the eastern gas grid and there are plans to connect the western and eastern Australian grids.

Australian crude oil production



Source: http://www.indexmundi.com/energy.aspx?country=au&product=oil&graph=production

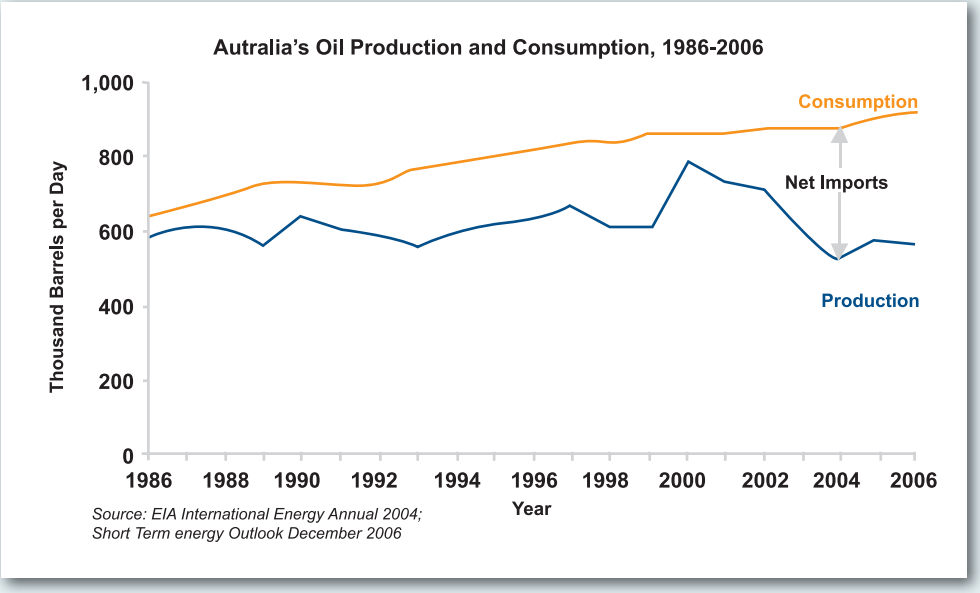
Australian oil production declined from 772,000 bbl/day in 2000 to 562,000 bbl/day in 2006. Gas production has gradually increased from 29.8 billion cubic meters in 1996 to 39 billion cubic meters in 2006. Australia has experienced decreasing oil production due to oil producing basins such as Cooper-Eromanga and Gippsland experiencing natural declines, coupled with a lack of new fields coming online.

In 2006, Australia consumed approximately 925,000 bbl/d of oil, which resulted in net imports of around 362,200 bbl/d, or 39% of total consumption.

According to Business Monitor "The Australia Oil and Gas Report 2008", consumption is forecast to increase by around 1.5% per annum through 2011, implying demand of 964,000 bbl/d by the end of the forecast period. The import requirement would therefore approximate 418,000 bbl/d by 2011[1].

The Australian government expects petroleum import dependency to increase to around 80% by 2010. Australia's key oil producers, Santos and Woodside, have indicated plans to increase domestic exploration and bring new projects online with the goals of increasing domestic oil supplies and reducing imports.

1. http://www.businessmonitor.com/oilgas/australia.html



Source: http://www.eia.doe.gov/emeu/cabs/Australia/Oil.html

Petroleum exploration in Australia is at an all-time high and major discoveries are anticipated. Australian reserves currently stand at 4.2 billion barrels of oil and 2.6 trillion cubic meters of gas. At current production levels, oil reserves are likely to be exhausted over the next eight years. If additional resources are not discovered, Australia would be required to import oil in quantities that, at today's prices, would generate an AUD $28 billion per annum trade deficit.

Australia's oil and gas industry is asking for government help to encourage exploration The Australian government is considering the development of "exploration incentives" including a Canadian-style flow through share scheme for active explorers, which would benefit EEGC significantly and allow the Company to command premium prices for its oil and gas discoveries.

Financial Analysis

Income statement

Since merging with GSLM in 2005, EEGC's operations have focused mainly on various start-up activities relating to oil and gas exploration, including pursuing institutional investors, identifying joint venture partners, contracting for seismic surveys and other studies to guide drilling activity and developing a long-term business plan.

During 2007, the Company generated no revenues and recorded a $7.0 million net loss. General and administrative expenses totaling $5.5 million consisted mainly of legal and consulting fees. EEGC spent approximately $3.3 million on exploration activities last year. During 2006, the Company produced no revenues and reported a $9.0 million net loss, which included general and administrative expenses of $5.2 million and exploration expenses of $1.8 million.

Income statement, $

	2006	2007	% Chg
Total revenues	-	-	
Selling, general & administrative	5,160,355	5,533,444	7.2%
Exploration	1,794,831	3,298,256	83.8%
Total costs and expenses	**6,955,186**	**8,831,700**	**27.0%**
Operating loss	**-6,955,186**	**-8,831,700**	**n/m**
Other income (expense)	-1,624,912	2,581,477	n/m
Interest (expense)	-450,382	-729,339	n/m
Net Loss	**-9,030,480**	**-6,979,562**	**n/m**
Diluted EPS	**-0.0580**	**-0.0361**	**n/m**

Source: SEC Filings

Liquidity and capital resources

At year-end 2007, the Company had $1.2 million in cash and $2.8 million in current liabilities. During 2007, EEGC consumed $3.3 million in financing activities, primarily for the repayment of notes payable. In addition, officers and directors have recently supplied $2 million in financing to the Company to help fund 2008 exploration activities.

Balance sheet, $

	31-Dec-06	31-Dec-07
Cash and cash equivalents	1,457,267	1,228,903
Total current assets	6,678,073	1,279,142
Long term assets	8,535,187	472,452
Total assets	**15,213,260**	**1,751,594**
Current liabilities, including	2,965,427	2,838,618
Current portion of long term debt	*117,409*	*640,086*
Long term liabilities, including	4,974,129	1,732,435
Long term debt	*4,762,118*	*873,372*
Total stockholders' equity, including	6,321,874	-3,639,148
Accumulated deficit	*-20,420,439*	*-27,042,966*

Source: SEC Filings

EEGC will likely be required to secure additional financing to further develop its license and fully implement its 2008/2009 drilling program. The Company estimates it will need approximately $53.6 million to fund its near-term exploration activities.

2008-09 financing requirements

Drilling program (9 wells)	$35,500,000
Seismic Program 2008/2009	$6,000,000
Core Office & Analytics	$7,500,000
Total 2008/9 Exploration Program	$49,000,000

Source: SEC Filings

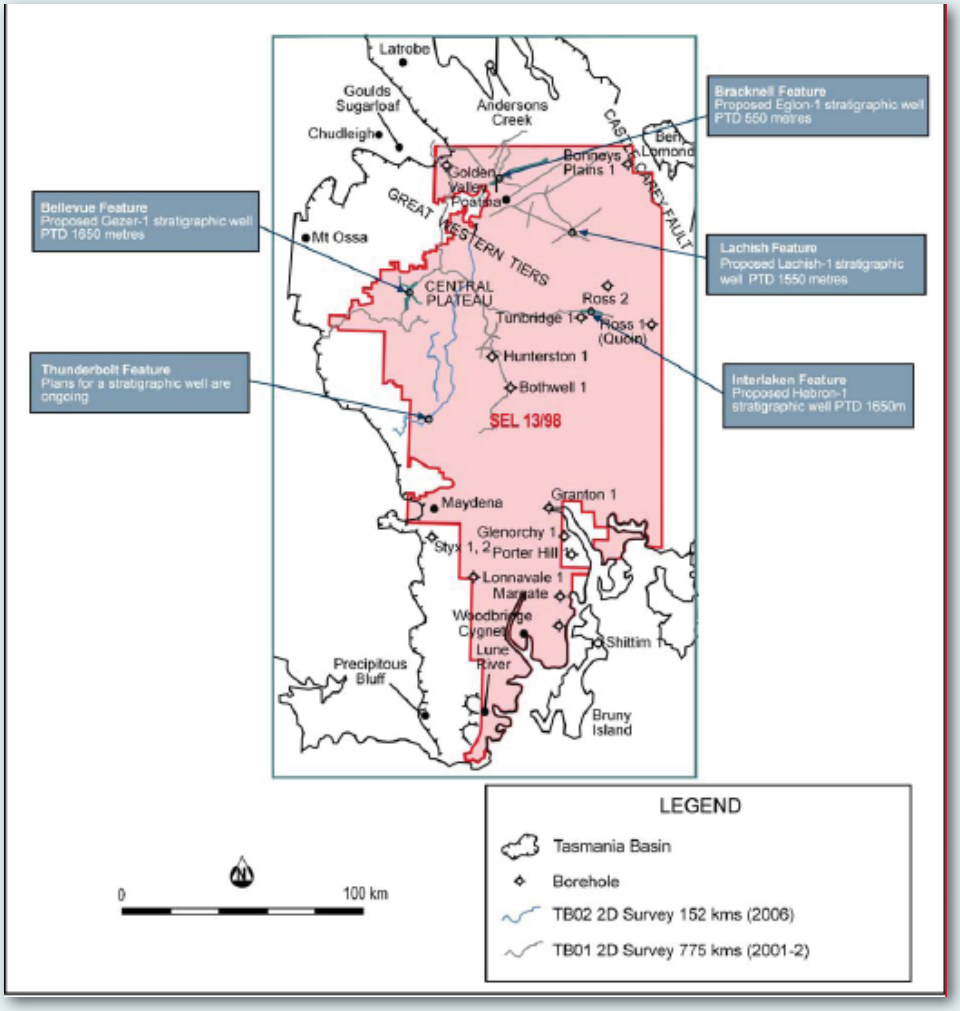
Valuation

EEGC holds a 100% interest in Special Exploration License SEL 13/98, which covers promising oil and gas prospects in the Tasmanian Basin. The permit area (approximately 15,410 square kilometers) covers about 23% of the island of Tasmania. The permit expires on October 1, 2009.

Although no exploration wells have been drilled yet in the permit area, seismic programs have helped to identify several major and many minor structures. Interpretation of the acquired seismic data indicates several fault block traps and small anticlines with shallow targets in the Gondwanan Petroleum System. Deeper targets have also been identified in the Larapintine Petroleum System, mainly Ordovician in the Central Highlands.

Consulting firm RPS Energy has identified several features which may contain significant oil or gas resources such as the Bellevue , Thunderbolt and the Interlaken Features. These are considered high-risk due to limited seismic and well control.

Locations of features of interest



Source: RPS Energy Report

Oil and gas resource estimates were obtained using a probabilistic method. Through this exercise, RPS Energy compiled the following estimates of unrisked oil and gas resources:

Unrisked oil volumes of Upper Unit of the Bellevue Prospect

	Low Estimate	Best Estimate	High Estimate	Mean
Prospective STOIIP (MMbbls)	160	587	1732	808
Prospective Resource (MMbbls)	38	151	484	220

Source: RPS Energy Report

Unrisked oil volumes of Lower Unit of the Bellevue Prospect

	Low Estimate	Best Estimate	High Estimate	Mean
Prospective STOIIP (MMbbls)	100	368	1094	510
Prospective Resource (MMbbls)	24	95	307	139

Source: RPS Energy Report

Unrisked oil volumes of Lower Unit of the Bellevue Prospect

	Low Estimate	Best Estimate	High Estimate	Mean
Prospective STOIIP (MMbbls)	49	206	717	61
Prospective Resource (MMbbls)	12	53	198	88

Source: RPS Energy Report

An extensive drilling program to confirm these estimates is scheduled in 2008/09.

Typically, the hydrocarbon discovery will be either gas or oil but not both so it is not appropriate to add the prospective gas and oil resources. RPS Energy estimates SEL 13/98 unrisked prospective oil resources in a range of 67 to 145 million barrels and natural gas resources in the range of 347 to 799 billion cubic feet. EEGC estimates, that, at current energy prices, the value of the Company's prospective resources could exceed $7 billion and range as high as $15 billion. Going forward, increasing worldwide energy demand and depleting fossil fuel resources should continue to push oil and gas prices higher and increase the value of EEGC's energy resources.

The Company's current seismic program is targeting potential resources in the range of 3 billion barrels of oil. We believe RPS Energy's best-case scenario estimating 0.3-0.8 billion barrels of oil for SEL 13/98 is conservative and reliable for our valuation case.

For valuation purposes we estimate the gross value of the Company's energy resources at $7 billion. EEGC's current $25 million market capitalization represents a tiny fraction of the estimated value of prospective oil and gas resources. As a result, we believe a higher valuation is warranted for EEGC.

Our valuation analysis incorporates the following assumptions regarding exploration and production:

- Unrisked recoverable oil resources conservatively estimated at 67 million barrels;
- Oil prices at $115 per barrel in 2008 and 3% annual price inflation. We anticipate that the Company will be able to sell its crude oil at 85% of the market price;
- Production period of 20 years beginning in 2010;
- 50% EBIT margin;
- Required exploration spending of $60 million. EEGC will raise the necessary funds through equity sales of 200 million additional shares;
- Required capital expenditures of $2-5 million per well;
- 12% Tasmanian government royalty; and
- Weighted average cost of capital (WACC) of 15%.

Free cash flows forecast

Year	Production, Bbls	Estimated oil price, $/bbls	EEGC's oil price, $/bbls	Revenue, $	EBIT, $	EBIT(1-t), $	Capital expenditures, $	Free Cash Flow, $	Present Value of Free Cash Flow, $
2010	1,100,000	125.7	106.8	117,495,471	58,747,735	51,698,007	120,000,000	(68,301,993)	(44,909,669)
2011	1,700,000	129.4	110.0	187,031,427	93,515,713	82,293,828	70,000,000	12,293,828	7,029,036
2012	2,200,000	132.0	112.2	246,881,483	123,440,741	108,627,853	50,000,000	58,627,853	29,148,404
2013	2,700,000	134.7	114.5	309,050,729	154,525,365	135,982,321	50,000,000	85,982,321	37,172,530
2014	3,200,000	137.4	116.8	373,607,993	186,803,996	164,387,517	50,000,000	114,387,517	43,002,504
2015	3,700,000	140.1	119.1	440,623,926	220,311,963	193,874,528	10,000,000	183,874,528	60,108,909
2016	3,700,000	142.9	121.5	449,436,405	224,718,202	197,752,018	10,000,000	187,752,018	53,370,842
2017	3,700,000	145.8	123.9	458,425,133	229,212,566	201,707,058	10,000,000	191,707,058	47,387,053
2018	3,700,000	148.7	126.4	467,593,636	233,796,818	205,741,200	10,000,000	195,741,200	42,073,244
2019	3,700,000	151.7	128.9	476,945,508	238,472,754	209,856,024	10,000,000	199,856,024	37,354,520
2020	3,800,000	125.7	106.8	405,893,444	202,946,722	178,593,115	10,000,000	168,593,115	27,401,095
2021	3,800,000	129.4	110.0	418,070,247	209,035,124	183,950,909	10,000,000	173,950,909	24,584,249
2022	3,800,000	132.0	112.2	426,431,652	213,215,826	187,629,927	10,000,000	177,629,927	21,829,738
2023	3,800,000	134.7	114.5	434,960,285	217,480,143	191,382,526	10,000,000	181,382,526	19,383,402
2024	3,800,000	137.4	116.8	443,659,491	221,829,746	195,210,176	10,000,000	185,210,176	17,210,820
2025	3,800,000	140.1	119.1	452,532,681	226,266,341	199,114,380	10,000,000	189,114,380	15,281,410
2026	3,700,000	142.9	121.5	449,436,405	224,718,202	197,752,018	10,000,000	187,752,018	13,192,456
2027	3,700,000	145.8	123.9	458,425,133	229,212,566	201,707,058	10,000,000	191,707,058	11,713,355
2028	3,700,000	148.7	126.4	467,593,636	233,796,818	205,741,200	10,000,000	195,741,200	10,399,863
2029	3,700,000	151.7	128.9	476,945,508	238,472,754	209,856,024	10,000,000	199,856,024	9,233,466
TOTAL	**67,000,000**								**481,967,226**

Source: Analyst estimates

Our estimate of the present value of future free cash flows is $482 million. Excluding the $60 million cost of the 2008/09 exploration program, we derive a market capitalization target of $422 million for EEGC. Assuming 450 million shares outstanding, this implies a $0.94 price target for EEGC shares.
We think our valuation is conservative based on the following factors:

1. Our valuation case assumes oil resources of 67 million barrels. However, the Company estimates its total reserve potential could be considerably higher and in the range of 1.0 billion to 3.0 billion barrels of oil;

2. While oil prices have fallen from their summer peak of approximately $150 per barrel to around $65 per barrel currently due to global recession fears, most industry analysts think the long-term outlook suggests oil prices will recover as the world economy strengthens and prices will trend higher in the future.;

3. Above average profitability as Special Exploration License 13/98 is an onshore project. Drilling costs for onshore wells range around $2-5 million per well versus costs of $50-100 million for drilling deep water offshore wells;

4. Australian government exploration incentives may provide EEGC with access to financing at favorable rates and enable the Company to command premium prices for oil and gas discoveries;

5. Production from the Australia's Bass Strait fields is declining. Offshore resources are expensive to develop since they require a high infrastructure cost. EEGC's onshore resources offer advantages in both market timing and development costs.

As a result, we think the Company could easily outperform our production and cash flow targets and create significant value for its shareholders. We are initiating coverage of Empire Energy Corporation International with a Speculative Buy rating and a $0.94 price target. However, we strongly advise investors to consider the risk factors mentioned below since the Company faces many challenges in achieving its production goals.

Investment Risks

Risks related to ability to find, develop and acquire oil and gas resources.

There is no guarantee that EEGC will be able to find economic oil and gas resources. Future drilling activities carry inherent risks and there is a risk that the Company will not identify commercially productive reservoirs. Drilling for oil and natural gas can be unprofitable, not only from dry wells, but from producing wells that do not produce in sufficient quantities to return a profit. Also, title problems, weather conditions, governmental requirements and shortages or delays in the delivery of equipment and services can hamper drilling operations or result in their cancellation. The cost of drilling, completing and operating wells is often uncertain, and new wells may not be productive. As a result, EEGC may not recover all or any portion of its investment.

Loss of exploration license

If the Company's capital resources diminish as a result of operating difficulties, it may lack sufficient capital to fund drilling programs and lose its exploration license, its most important asset. Losing its exploration license would substantially reduce the likelihood that EEGC will ever become profitable. The terms of SEL 13/98 require exploration expenditures of AUD $21.5 million over five years.

Going concern viability

EEGC has net losses, negative working capital and an accumulated stockholders' equity deficit that raises doubts about its viability as a going concern. The Company is still in an early development stage and is unlikely to report revenues before 2010. Moreover, there is no assurance that EEGC will ever report revenues and profits.

Need for additional financing

The Company must rely on external financing to fund its ongoing operations. Management estimates EEGC must raise at least $54 million to fund its 2008/2009 business plan. Additional equity sales will cause dilution and borrowings will increase the Company's debt service requirements.

Management Team

In March 2008, the Company expanded its Board of Directors to include its founder Malcolm Bendall, Phil Simpson and elected Dr. Clive Burrett to be Chairman of the Board. The Board has appointed Malcolm Bendall as CEO and previous CEO John Garrison as President and CFO.

Malcolm R. Bendall,
CEO

Malcolm Bendall was a Founding Director of GSLM and was appointed Chief Executive Officer and Board Chairman of EEGC on June 4, 2004 for the purpose of advancing the merger of GSLM and Empire Energy. He served in that capacity until August 2007. Mr. Bendall has been involved in organizations investigating the viability of petroleum resources in Special Exploration License 13/98 since 1978. He has been employed as a mine manager and drill supervisor and has been published in international petroleum magazines. He is a fellow of the Institute of Company Directors, Tasmania.

John C. Garrison,
President

John C. Garrison has been a Director of the Company since April 1999. Mr. Garrison is a certified public accountant with over 25 years of experience in accounting, auditing and financial management. He served as Corporate Secretary, Director and Chief Accounting Officer of Infinity, Inc., a publicly-traded oilfield service and oil and gas exploration and development company from April 1995 to August 1999. He is also a Director of Quest Resource Corporation, Inc., a publicly-traded energy company. He has been involved in an active practice of public accountancy since 1976. Mr. Garrison received a degree in Business Administration and Accounting from Kansas State University in 1974.

Clive F. Burrett,
Chairman of the Board of Directors

Dr. Clive Burrett of Hobart, Tasmania was appointed to the Board of Directors in October 2005. Dr. Burrett was a founding member of the Board of Directors of GSLM and also served as GSLM's President. He received his Bachelor of Science degree with honors from the University of London in 1970, and a PhD from the University of Tasmania in 1978. He was a Professor of Geology in the School of Earth Sciences at the University of Tasmania. He previously served as Chairman of the Department of Geology from 1998 to 2002. He has published over 100 scientific papers and edited the standard volume on the "Geology of Tasmania." He has supervised numerous graduate students focusing on Paleozoic basin evolution in Tasmania and Asia. Dr. Burrett has consulted on applied aspects of basin evolution, petroleum and lead and zinc deposits to companies such as Shell, CRA, Oxania and BHP in Australia, Oman, Laos, China and Thailand.

Tad Ballantyne,
President of Pacific Rim

Tad M. Ballantyne, was appointed as an independent member of the board of directors in October 2005 and has served as President of Pacific Rim since March 2006. Mr. Ballantyne has been CEO of Hoopeston Foods, Inc. since March of 2004. Mr. Ballantyne is a director and chairman of the audit committee of Life Partners Holdings, Inc. (NASDAQ:LPHI), director of Zeehan Zinc Inc. (LSE:ZZL) and is an officer and director of several private companies including BR Industries, Inc, Hoopeston Foods, Inc., Thomsen Group LLC., Jilin Jimei Foods, Ltd., Pacific Rim, and other companies engaged in manufacturing and food processing industries as well as real estate acquisition. Mr. Ballantyne also serves on advisory board of TCIB an investment firm in China (www.tcib.com.cn) and is international advisor to Creat Group, a China-based holding company. During 2003, Texas Steel Partners Inc., a Texas-based steel foundry, filed for reorganization and was liquidated pursuant to a bankruptcy Chapter 7 conversion. Mr. Ballantyne was an officer and director and 50% owner of Texas Steel Partners.

Phil Simpson,
Executive Director of Great South Land Minerals

Phil Simpson is Executive Director and Field Operation and Logistic of the Company's Great South Land Minerals subsidiary (GSLM). He brings expertise in corporate finance and logistics. He is also to act as a liaison between the local landowners and the Company. Mr. Simpson has 30 years experience in fisheries and agribusiness management and is a consultant to leading banks and superannuation funds. He is also a member in good standing of The Australian Institute of Company Directors (AICD).

APPENDIX : GLOSSARY OF TERMS AND ABBREVIATIONS

bbl(s)	barrels
bbls/d	barrels per day
Bcm	billion cubic meters
bopd	barrels of oil per day
Bscf	billions of standard cubic feet
CO2	Carbon dioxide
M	thousand
MM	million
m3	ubic meters
m3/d	cubic meters per day
MMscf/d	millions of standard cubic feet per day
MMBbls	million barrels.
MBbls	thousand barrels.
MMSTB	million Stock Tank Barrels
Tscf	trillion standard cubic feet

Petroleum A naturally occurring mixture consisting of hydrocarbons in the gaseous, liquid or solid phase. Petroleum may also contain non-hydrocarbon compounds, common examples of which are carbon dioxide, nitrogen, hydrogen sulfide and sulfur. In rare cases, non-hydrocarbon content could be greater than 50%.

Prospective Resources Those quantities of petroleum, which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. Prospective resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub-classified based on project maturity.

Undiscovered Petroleum initially-in-place that quantity of petroleum which is estimated, as of a given date, to be contained in accumulations yet to be discovered. The estimated potentially recoverable portion of Undiscovered Petroleum initially-in-place is classified as Prospective Resources, as defined below.

APPENDIX : GSLM STAFF AND CONTRACTORS

Staff	Qualifications	Role
Malcolm Bendall	FAICD	Chief Executive Officer
Clive Burrett	B.Sc (Hons), Ph.D.	Chairman and Chief Geologist
Phil Simpson		Executive Director and Field Operation & Logistics
Derek Bendall		Human Resources
Duncan New	B.Sc. (Hons)	Drilling Manager
Paule Heath	B.Sc. (Hons)	Executive Geologist
Zohreh Amini	B.Sc, M.Sc, Ph.D.	Geologist, Data Manager Officer
Diego Gonzalez	B.Sc, M.Sc.	Geologist
David Wyatt	B.Sc. (Hons)	Geologist
Shane Bartel	B.Sc., (Hons.), BAEM, AQF5	Environmental Manager
Lucas Jacometti		Field Operation
James Williamson	Business Diploma in Accounting & Economic	Senior Accountant
Gerry Murrell		Accounts Payable Officer
Michael O'Leary	LL.B	Office Adminstrator & Legal Counsel
Len Swan		Operation Officer
Sarah Bendall	Certificate 4 in Business Management & Human Resources	Office Assistant / Receptionist

Contractors

- Hunt Energy – Drilling contractors
- RPS Energy – Independent Reserve Evaluation
- Terrex Ltd – Seismic Acquisition and Processing
- Fox Williams – UK Legal representation
- Phillips Fox – Aust/Tasmania Legal representation Contractors
- Hunt Energy – Drilling contractors
- RPS Energy – Independent Reserve Evaluation
- Terrex Ltd – Seismic Acquisition and Processing
- Fox Williams – UK Legal representation
- Phillips Fox – Aust/Tasmania Legal representation
- Davidson and Shear – SEC Legal representation
- UHY Haines Norton – Auditors of record
- Davidson and Shear – SEC Legal representation
- UHY Haines Norton – Auditors of record

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Information contained in our report will contain "forward looking statements" as defined under Section 27A of the Securities Act of 1933 and Section 21B of the Securities Exchange Act of 1934. Subscribers are cautioned not to place undue reliance upon these forward looking statements. These forward looking statements are subject to a number of known and unknown risks and uncertainties outside of our control that could cause actual operations or results to differ materially from those anticipated. Factors that could affect performance include, but are not limited to, those factors that are discussed in each profiled company's most recent reports or registration statements filed with the SEC. You should consider these factors in evaluating the forward looking statements included in the report and not place undue reliance upon such statements.

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We encourage you to invest carefully and read investment information available at the websites of the SEC at http://www.sec.gov and FINRA at http://www.finra.org.

All decisions are made solely by the analyst and independent of outside parties or influence.

I, Victor Sula, Ph.D, the author of this report, certify that the material and views presented herein represent my personal opinion regarding the content and securities included in this report. In no way has my opinion been influenced by outside parties, nor has my compensation been either directly or indirectly tied to the performance of any security listed. I certify that I do not currently own, nor will own and shares or securities in any of the companies featured in this report.

Victor Sula, Ph.D. - Senior Analyst

Victor Sula, Ph.D. has held the position of Senior Analyst with several independent investment research firms since 2004. Prior to 2004, Mr. Sula held Senior Financial Consultant positions within the World Bank sponsored Agency for Restructuring and Enterprise Assistance and TACIS sponsored Center for Productivity and Competitiveness of Moldova, where he was involved in corporate reorganization and liquidation. He is also employed as Associate Professor at the Academy of Economic Studies of Moldova. Mr. Sula earned his Ph.D. degree in 2001 and bachelor's degree in Finance in 1997 from the Academy of Economic Studies of Moldova. Mr. Sula is currently a level III candidate in the CFA program.