

EMPIRE ENERGY CORPORATION INTERNATIONAL
CONSOLIDATED BALANCE SHEET
December 31, 2006

	December 31, 2006	December 31, 2005
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	1,457,267	6,084
Receivables net of impairment	94,605	22,884
Prepayments	1,951,181	—
Inventory Advances	520,020	—
Value of put option	<u>2,655,000</u>	<u>—</u>
TOTAL CURRENT ASSETS	6,678,073	28,968
MARKETABLE SECURITIES	157,677	—
EQUITY INVESTMENT IN ZEEHAN ZINC LTD.	3,012,956	5,969,000
EQUITY INVESTMENT IN CHINA FOOD BRANDS	80,000	—
INVESTMENT IN TECHNOLOGY LICENSE	3,925,000	—
PROPERTY AND EQUIPMENT, NET	<u>1,359,554</u>	<u>3,874</u>
TOTAL ASSETS	<u>15,213,260</u>	<u>6,001,842</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade and other payables	2,780,518	1,329,339
Accrued Liabilities	67,500	—
Current portion of long term debt	<u>117,409</u>	<u>269,956</u>
TOTAL CURRENT LIABILITIES	2,965,427	1,599,295
LONG TERM TRADE AND OTHER PAYABLES		
Trade and other payables	212,011	2,733,255
Long term debt	<u>4,762,118</u>	<u>—</u>
TOTAL LIABILITIES	<u>7,939,556</u>	<u>4,332,550</u>
COMMITMENTS AND CONTINGENCIES	—	—
MINORITY INTEREST, PACIFIC RIM FOODS	<u>951,830</u>	<u>—</u>
STOCKHOLDERS' EQUITY		
Class A Common stock, (300,000,000 authorized) issued with a par value of \$0.001, 198,878,921 and 114,660,042 shares respectively outstanding	198,879	114,660
Class B Common stock, issued with a par value of \$0.001, 101,782 and 103,386 shares respectively	102	103
Additional paid-in capital	26,543,332	12,728,396
Accumulated deficit during the development stage	(19,946,878)	(10,916,398)
Accumulated other comprehensive income (loss)	<u>(473,561)</u>	<u>(257,469)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>6,321,874</u>	<u>1,669,292</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>15,213,260</u>	<u>6,001,842</u>

See summary of significant accounting policies and notes to financial statements

EMPIRE ENERGY CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2006

	<u>2006</u>	<u>2005</u>	<u>March 15, 1995 (Inception) to December 31, 2006</u>
TOTAL REVENUES	\$ —	\$ —	\$ —
COSTS AND EXPENSES			
Selling, general & administrative	5,160,355	1,486,000	11,786,668
Exploration	1,794,831	276,513	5,848,615
TOTAL COSTS AND EXPENSES	<u>6,955,186</u>	<u>1,762,513</u>	<u>17,635,283</u>
LOSS FROM OPERATIONS	(6,955,186)	(1,762,513)	(17,635,283)
OTHER INCOME (EXPENSE)			
Loss on sale of Zeehan shares	(1,227,512)	(31,000)	(1,227,512)
Other income	105,182	18,552	153,104
Loss on Zeehan's equity investment	(698,000)	—	(729,000)
Minority interest	195,418	—	195,418
Interest (expense)	<u>(450,382)</u>	<u>(122,886)</u>	<u>(703,605)</u>
LOSS BEFORE INCOME TAXES	(9,030,480)	(1,897,847)	(19,946,878)
INCOME TAXES	—	—	—
NET LOSS	<u>\$ (9,030,480)</u>	<u>\$ (1,897,847)</u>	<u>\$ (19,946,878)</u>
NET LOSS PER COMMON SHARE:			
Basic and diluted	<u>\$ (0.06)</u>	<u>\$ (0.02)</u>	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:			
Basic and diluted	<u>155,660,052</u>	<u>76,997,008</u>	

See summary of significant accounting policies and notes to financial statements

EMPIRE ENERGY CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
Period From March 1995 (inception) Through December 31, 2006

	Common No	Stock - A \$	Common No	Stock - B \$	Additional Paid-In Capital \$	Accumulated Other Comprehensive Gain (Loss) \$	Deficit Accumulated during the Development Stage \$	Total Stockholders' Equity (Deficit) \$
Balance at March 15, 1995	—	—	—	—	—	—	—	—
Reverse Acquisition of GSLM	8,747,012	8,747	105,857	106	(8,853)	—	—	—
Issuance of common stock: cash	1,000	1	—	—	745	—	—	746
Net loss	—	—	—	—	—	—	—	—
Balance at June 30, 1996	8,748,012	8,748	105,857	106	(8,108)	—	—	746
Issuance of common stock: cash	59,000	59	—	—	53,977	—	—	54,036
Issuance of common stock: share premium	—	—	—	—	391,761	—	—	391,761
Net loss	—	—	—	—	—	—	(477,078)	(477,078)
Foreign currency translations	—	—	—	—	—	24,122	—	24,122
Balance at June 30, 1997	8,807,012	8,807	105,857	106	437,630	24,122	(477,078)	(6,413)
Issuance of common stock: cash	138,688	139	—	—	86,318	—	—	86,457
Issuance of common stock: share premium	—	—	—	—	857,737	—	—	857,737
Net loss	—	—	—	—	—	—	(1,247,314)	(1,247,314)
Foreign currency translations	—	—	—	—	—	185,864	—	185,864
Balance at June 30, 1998	8,945,700	8,946	105,857	106	1,381,685	209,986	(1,724,392)	(123,669)
Issuance of common stock: cash	69,581	70	—	—	328,899	—	—	328,969
Net loss	—	—	—	—	—	—	(267,403)	(267,403)
Foreign currency translations	—	—	—	—	—	(106,064)	—	(106,064)
Balance at June 30, 1999	9,015,281	9,016	105,857	106	1,710,584	103,922	(1,991,795)	(168,167)
Issuance of common stock: cash	35,971	36	—	—	137,205	—	—	137,241
Issuance of common stock: services	23,214	23	—	—	151,099	—	—	151,122
Net loss	—	—	—	—	—	—	(186,666)	(186,666)
Foreign currency translations	—	—	—	—	—	22,585	—	22,585
Balance at June 30, 2000	9,074,466	9,075	105,857	106	1,998,888	126,507	(2,178,461)	(43,885)

See summary of significant accounting policies and notes to financial statements

EMPIRE ENERGY CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (Continued)
Period From March 1995 (inception) Through December 31, 2006

	Common No	Stock - A \$	Common No	Stock - B \$	Additional Paid-In Capital \$	Accumulated Other Comprehensive Gain (Loss) \$	Deficit Accumulated during the Development Stage \$	Total Stockholders' Equity (Deficit) \$
Balance at July 1, 2000	9,074,466	9,075	105,857	106	1,998,888	126,507	(2,178,461)	(43,885)
Issuance of common stock: cash	348,214	348	—	—	1,174,477	—	—	1,174,825
Issuance of common stock: services	23,317	23	—	—	67,863	—	—	67,886
Issuance of common stock: bonus issue	51,911,055	51,911	—	—	(51,911)	—	—	—
Net loss	—	—	—	—	—	—	(1,767,759)	(1,767,759)
Foreign currency translations	—	—	—	—	—	73,133	—	73,133
Balance at June 30, 2001	61,357,052	61,357	105,857	106	3,189,317	199,640	(3,946,220)	(495,800)
Issuance of common stock: cash	609,000	609	—	—	590,642	—	—	591,251
Issuance of common stock: services	3,955,125	3,955	—	—	530,778	—	—	534,733
Stock issuance costs	—	—	—	—	(44,109)	—	—	(44,109)
Net loss	—	—	—	—	—	—	(1,382,217)	(1,382,217)
Foreign currency translations	—	—	—	—	—	(83,949)	—	(83,949)
Balance at June 30, 2002	65,921,177	65,921	105,857	106	4,266,628	115,691	(5,328,437)	(880,091)
Issuance of common stock: cash	1,028,764	1,029	—	—	607,613	—	—	608,642
Issuance of common stock: services	3,955,125	3,955	—	—	2,119,156	—	—	2,123,111
Stock issuance costs	—	—	—	—	(286,040)	—	—	(286,040)
Net loss	—	—	—	—	—	—	(2,901,629)	(2,901,629)
Foreign currency translations	—	—	—	—	—	(233,528)	—	(233,528)
Balance at June 30, 2003	70,905,066	70,905	105,857	106	6,707,357	(117,837)	(8,230,066)	(1,569,535)
Issuance of common stock: cash	246,800	247	—	—	159,926	—	—	160,173
Issuance of common stock: services	21,928	22	—	—	16,238	—	—	16,260
Stock issuance costs	—	—	—	—	2,007	—	—	2,007
Net loss	—	—	—	—	—	—	(599,870)	(599,870)
Foreign currency translations	—	—	—	—	—	(24,630)	—	(24,630)
Balance at June 30, 2004	71,173,794	71,174	105,857	106	6,885,528	(142,467)	(8,829,936)	(2,015,595)

See summary of significant accounting policies and notes to financial statements

EMPIRE ENERGY CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (Continued)
Period From March 1995 (inception) Through December 31, 2006

	Common No	Stock-A \$	Common No	Stock-B \$	Additional Paid-In Capital \$	Accumulated Other Comprehensive Gain (Loss) \$	Deficit Accumulated during the Development Stage \$	Total Stockholders' Equity (Deficit) \$
Balance at July 1, 2004	71,173,794	71,174	105,857	106	6,885,528	(142,467)	(8,829,936)	(2,015,595)
Net loss for 6 months	—	—	—	—	—	—	(188,615)	(188,615)
Foreign currency translations for 6 months	—	—	—	—	—	(274,088)	—	(274,088)
Balance at December 31, 2004	71,173,794	71,174	105,857	106	6,885,528	(416,555)	(9,018,551)	(2,478,298)
Issuance of common stock:								
debt	29,458	29	—	—	(29)	—	—	—
Issuance of common stock:								
services	2,634,319	2,634	—	—	(2,634)	—	—	—
Conversion of Class B stock into Class A	2,471	3	(2,471)	(3)	—	—	—	—
Reverse Acquisition of GSLM	—	—	—	—	(213,249)	—	—	(213,249)
Issuance of common stock:								
contingency	2,490,000	2,490	—	—	(2,490)	—	—	—
Issuance of common stock:								
Acquisition of Cyber Finance	37,500,000	37,500	—	—	5,962,500	—	—	6,000,000
Issuance of common stock:								
services	830,000	830	—	—	98,770	—	—	99,600
Net loss for year	—	—	—	—	—	—	(1,897,847)	(1,897,847)
Foreign currency translations	—	—	—	—	—	159,086	—	159,086
Balance at December 31, 2005	114,660,042	114,660	103,386	103	12,728,396	(257,469)	(10,916,398)	1,669,292
Issuance of common stock: HEM convertible debenture	6,222,675	6,223	—	—	498,500	—	—	504,723
Issuance of common stock: services	21,185,493	21,186	—	—	2,398,121	—	—	2,419,307
Conversion of Class B stock into Class A	1,604	1	(1,604)	(1)	—	—	—	—
Issuance of common stock: Exchange for debt	19,360,774	19,361	—	—	1,895,665	—	—	1,915,026
Issuance of common stock: Cash	17,933,333	17,933	—	—	2,013,067	—	—	2,031,000
Issuance of common stock: Libertas, less stock fees of \$359,400	4,065,000	4,065	—	—	205,935	—	—	210,000
Issuance of common stock: exercise of options	450,000	450	—	—	2,835	—	—	3,285
Issuance of common stock: License Beneficial conversion feature; convertible debenture	—	—	—	—	837,173	—	—	837,173
Vesting of Common Stock Options	—	—	—	—	323,640	—	—	323,640
Warrants Issued: Wind City put option	—	—	—	—	2,655,000	—	—	2,655,000
Net loss for period	—	—	—	—	—	—	(9,030,480)	(9,030,480)
Marketable securities, unrealized loss	—	—	—	—	—	(15,006)	—	(15,006)
Foreign currency translations	—	—	—	—	—	(201,086)	—	(201,086)
Balance at December 31, 2006	198,878,921	198,879	101,782	102	26,543,332	(473,561)	(19,946,878)	6,321,874
Comprehensive Net Loss, 2006							<u>(9,246,572)</u>	
Comprehensive Net Loss, 2005							<u>(1,738,761)</u>	

See summary of significant accounting policies and notes to financial statements

EMPIRE ENERGY CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENTS OF CASH FLOWS
Year Ended December 31, 2006

	<u>2006</u>	<u>2005</u>	<u>March 15,</u> <u>1995</u> <u>(Inception) to</u> <u>December 31,</u> <u>2006</u>
	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	(9,030,480)	(1,897,847)	(19,946,878)
Adjustments to reconcile net loss to net cash used in operating activities:			
Share-based payment agreements	2,419,306	99,600	5,412,018
Stock options vested	323,640	—	323,640
Depreciation and impairment	33,722	9,276	68,320
Loss on disposition of investment	1,227,512	—	1,227,512
Loss on disposal of fixed assets	—	—	207
Loss on unconsolidated subsidiary	698,000	31,000	729,000
Change in minority interest	170,089	—	170,089
Changes in operating assets and liabilities:			
(Increase) Decrease in receivables	(71,721)	6,440	(199,075)
(Increase) Decrease in prepaid expenses and other assets	(2,471,201)	173,069	(2,366,731)
Increase (Decrease) in payables	<u>1,325,360</u>	<u>1,067,567</u>	<u>5,174,705</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(5,375,773)</u>	<u>(510,895)</u>	<u>(9,407,193)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds of Zeehan Zinc, Ltd. stock sales	105,532	—	105,532
Investment in China food brands	(80,000)	—	(80,000)
Purchase of property and equipment	(1,337,548)	—	(1,376,227)
Investment in Marketable Securities	<u>(172,683)</u>	<u>—</u>	<u>(172,683)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,484,699)</u>	<u>—</u>	<u>(1,523,378)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital raising costs	—	—	(328,142)
Proceeds from the sale of minority interests	781,741	—	781,741
Proceeds from issuance of notes payable	5,700,000	352,568	5,969,956
Proceeds from the sale of common stock	<u>2,031,000</u>	<u>—</u>	<u>6,422,838</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>8,512,741</u>	<u>352,568</u>	<u>12,846,393</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>(201,086)</u>	<u>159,086</u>	<u>(458,555)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,451,183	759	1,457,267
CASH AND CASH EQUIVALENTS – beginning of period	6,084	5,325	—
CASH AND CASH EQUIVALENTS – end of period	<u>1,457,267</u>	<u>6,084</u>	<u>1,457,267</u>
CASH PAID FOR:			
Taxes	—	—	—
Interest	<u>10,878</u>	<u>—</u>	<u>156,361</u>
	<u>2006</u>	<u>2005</u>	
	\$	\$	
NON-CASH INVESTING AND FINANCING TRANSACTIONS			
Batega license acquired with Empire stock	3,000,000	—	
Batega license acquired with Zeehan stock	925,000	—	
Debt settled with Empire stock	2,423,034	—	
New borrowing fees paid with Empire stock or warrants	1,047,173	—	
Put option acquired with Empire warrants	2,655,000	—	
Equipment acquired with debt	69,323	—	

See summary of significant accounting policies and notes to financial statements

EMPIRE ENERGY CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

NOTE 1—ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization: Empire Energy Corporation International (“EEGC” or “the Company”) was incorporated in Utah on November 10, 1983. EEGC commenced commercial activity in the oil and gas industry on May 17, 1999. The primary prospect was in Nicaragua. EEGC also participated in an exploration program in Tennessee in 1999 and continuing until 2002. During 2000 and 2001, EEGC acquired additional production and/or prospects in Texas, Oklahoma and Wyoming.

During 2002, EEGC sold most of its oil and gas properties and entered into an agreement to acquire Great South Land Minerals (“GSLM”). Effective April 12, 2004, EEGC changed its name from Empire Energy Corporation to Empire Energy Corporation International, reincorporated in the state of Nevada, increased the authorized shares from 50 million to 100 million and affected a 1 for 10 reverse stock split. During 2003 and 2004, EEGC sold all properties, settled some debts and pursued the acquisition of GSLM, which was completed April 7, 2005.

Reverse Acquisition: On April 7, 2005 (acquisition date) Empire Energy received 96.4% acceptances for its bid to acquire all the common stock in GSLM and on June 15, 2005 Empire Energy compulsorily acquired the remaining common stock of GSLM. All of the outstanding shares of GSLM were exchanged for 62,426,782 shares of Empire Energy common stock in a one for one scrip issue.

Pursuant to the guidance in Appendix B of SEC Accounting Disclosure Rules and Practices Official Text, the merger of a private operating company into a non-operating public shell corporation with nominal net assets typically results in the owners and management of the private company having actual or effective operating control of the combined company after the transaction, with the shareholders of the former public shell continuing only as passive investors. These transactions are considered by the staff to be capital transactions in substance, rather than business combinations. That is, the transaction is equivalent to the issuance of stock by the private company for the net monetary assets of the shell corporation, accompanied by a recapitalization. Accordingly, the reverse acquisition has been accounted for as a recapitalization. For accounting purposes, GSLM is considered the acquirer in the reverse acquisition and all history presented is that of GSLM. Operating results of EEGC are included in these consolidated financial statements from the date of the reverse acquisition, April 7, 2005. References to EEGC in the remainder of these notes will refer to the consolidated company including the operating history of GSLM unless otherwise specified.

The costs of the reverse acquisition (transaction costs) have been charged to expense.

The accompanying consolidated financial statements of the Company reflect the historical results of GSLM, and the consolidated results of operations of the Company and GSLM subsequent to the date of acquisition.

Principles of Consolidation: The consolidated financial statements include the accounts of EEGC (the “Parent” entity) and its wholly owned or controlled subsidiaries. All significant inter-company balances and transactions have been eliminated on consolidation.

Equity Investment: In November 2005, EEGC acquired a British Virgin Islands Company, Cyber Finance, Ltd. (Cyber) in exchange for 37.5 million shares of newly issued EEGC common stock. The sole asset of Cyber was an investment of 12,745,407 shares of common stock in Zeehan Zinc Limited (Zeehan), representing at the time approximately 37.5% of the total outstanding shares of Zeehan. This investment was accounted for using the equity method. Under this method the investment is recorded at cost on a single line on the balance sheet when the investment is made and the company records its proportional share of the results of operations on a single line on the statement of operations. After third quarter 2006, EEGC ownership of Zeehan dropped below 20% and the cost method was used to account for this investment. Under this method, no income or loss is reported from the investment unless a transaction is involved.

EMPIRE ENERGY CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

Going Concern and Liquidity: EEGC is in the development stage, devoting substantially all of its efforts to exploration and raising financing. EEGC has substantially funded its operations with proceeds from the issuance of common stock. In the course of its exploration activities, EEGC has sustained operating losses and expects such losses to continue for the foreseeable future. EEGC 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 realized.

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 period 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.
- Current liabilities of \$2,965,427 and current assets of \$6,678,073 including cash or cash equivalents of \$1,457,267 at December 31, 2006.

The exploration license SEL 13/98 has been renewed effective 1 October 2004, and has strict mandatory cumulative expenditure requirements of US\$3,371,239 by 30 September 2005, \$5,277,463 by 30 September 2006, \$8,306,592 by 30 September 2007, \$12,428,328 by 30 September 2008 and \$13,570,800 by 30 September 2009 without which the license may be revoked at the discretion of Mineral Resources Tasmania.

In November 2006, the Minister for Economic Development and Resources wrote to Great South Land Minerals 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. The letter stated that as of 30 September 2006, Mineral Resources Tasmania acknowledged an expenditure of \$2,260,895, which is \$3,016,052 short of the mandatory expenditure required by the end of the second year of the licence.

In November 2006, the company responded to the Minister 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 the on-ground work programme, he will be prepared to recommend to the Minister that the revocation of the licence not proceed. In March 2007, Great South Land Minerals Limited responded and confirmed the company's exploration work program, notwithstanding the fact the company believes it had met the license conditions, having prepaid seismic and secured additional resources such as a 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 Terex Seismic and an amount of \$1,842,381 (AUD2,332,128) was made available to Terex as a prepayment. This prepayment has been partly used to organize seismic trucks, permits and make preliminary arrangements for the seismic testing program to begin in 2007. The total contract is for \$3,160,000 (AUD4,000,000) and Terex Seismic have invoiced the company for the total commitment, including the prepaid component.

EMPIRE ENERGY CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2006

The company has initiated the following activities to address the going concern issue.

- 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. 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 have been transported to Great South Land Minerals 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 4,000,000 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.
- USD 2 million was advanced to Great South Land Minerals by Empire Energy in early 2007 as a result of which the 2007 program is accelerating.
- Empire has indicated a willingness to provide up to AUD 9 million of directly controlled investment funds and a further AUD 6 million as financial market conditions permit, to sustain the 2007-2009 Great South Land Minerals Limited exploration programs.

Emphasis of Matter: The report of the independent registered public accounting firm on EEGC's financial statements for the year ended 31 December 2006 contained an emphasis of matter paragraph regarding the Company's ability to continue as a going concern. The independent audit report on GSLM's financial statements for the year ended 31 December 2006 contained an emphasis of matter paragraph regarding the GSLM's ability to continue as a going concern.

Revenue Recognition: Interest revenue is recognized as it accrues, taking into account the effective yield on the financial asset. Other revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectibles is probable. Generally, these criteria are met at the time product is delivered.

Marketable securities: Investment securities that are held for short-term resale are classified as trading securities and carried at fair value. Debt securities that management has the ability and intent to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for amortization of premium and accretion of discounts using methods approximating the interest method. Other marketable securities are classified as available-for-sale and are carried at fair value, based on quoted market prices. Unrealized gains and losses on securities available-for-sale are reported as a net amount in accumulated other comprehensive loss, net of applicable income taxes. Costs of securities sold are recognized using the specific identification method.

Property and Equipment: The Company evaluates its long-lived assets for indicators of possible impairment by comparison of the carrying amounts to future net undiscounted cash flows expected to be generated by such assets when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Should an impairment exist, the impairment loss would be measured based on the excess carrying value of the asset over the asset's fair value or discounted estimates of future cash flows.

EMPIRE ENERGY CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2006

The successful efforts method of accounting is followed for costs incurred in oil and gas exploration and production operations:

Capitalization of Oil and Gas Expenditures: Acquisitions costs for proved and unproved properties are capitalized when incurred. Costs of unproved properties are transferred to proved properties when proved reserves are found. Exploration costs, including geological and geophysical costs and costs of carrying and retaining unproved properties, are charged against income as incurred. Exploratory drilling costs are capitalized initially; however, if it is determined that an exploratory well does not contain proved reserves, the capitalized costs are charged to expense, as dry hole costs, at that time. Development costs are capitalized. Costs incurred to operate and maintain wells and equipment and to lift oil and gas to the surface are generally expensed.

Leasehold Impairment and Depreciation, Depletion and Amortization: Unproved properties whose costs are individually significant are evaluated for impairment by management. Costs of such properties surrendered or abandoned are charged to exploration expense.

The acquisition costs of proved properties are depleted by the unit of production method based on proved reserves. Capitalized exploratory drilling costs which result in the discovery of proved reserves and development costs are amortized/depreciated by the unit of production method based on proved developed reserves. The unit determination is by field.

Other Property and Equipment: Other property and equipment is depreciated under the straight-line method over the useful lives of the assets ranging from 2 to 9 years.

Dismantlement, Restoration and Abandonment Costs: In accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations", (which became effective for fiscal years beginning January 1, 2003), which addresses financial accounting and reporting for liabilities associated with the retirement of long-lived assets, the Company recognizes the fair value of a liability for asset retirement obligations associated with the retirement of tangible long lived assets and the associated retirement costs in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset as part of depreciation, depletion, and amortization. The effect of the passage of time on the amount of the liability is recognized as accretion expense. If the obligation is settled for other than the carrying amount of the liability, the Company will recognize a gain or loss on settlement. The adoption of SFAS 150 had no effect on the Company's financial statements.

The cost of normal maintenance and repairs is charged to operating expenses as incurred. Material expenditures which increase the life of an asset are capitalized and depreciated over the estimated remaining useful life of the asset. The cost of properties sold, or otherwise disposed of, and the related accumulated depreciation or amortization is removed from the accounts and any gains or losses are reflected in current operations.

Income Taxes: The Company provides for income taxes using the asset and liability method pursuant to SFAS No. 109, *Accounting for Income Taxes* ("Statement 109"). Under the asset and liability method of Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded for deferred tax assets when future realization is uncertain.

EMPIRE ENERGY CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2006

Receivables: The collectibility of receivables is assessed and an allowance is made for any doubtful accounts. Receivables at December 31, 2006 have been reduced by an allowance of \$31,573 compared to \$29,204 the previous year.

Cash and Cash Equivalents: Cash and cash equivalents include all highly liquid investments with original maturities of three months or less.

Concentration of Credit Risk: Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents. Cash and cash equivalents are deposited in demand in two financial institutions in Australia. Deposits held with financial institutions may exceed the amount of insurance provided on such deposits. The Company has not experienced any material losses on its deposits of cash and cash equivalents.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company's financial statements are based on a number of significant estimates including the selection of the useful lives for property, equipment, and oil and gas reserve quantities which are the basis for the calculation of depreciation, depletion and amortization of oil and gas properties. Management emphasizes that reserve estimates are inherently imprecise and that estimates of more recent discoveries are more imprecise than those for properties with long production histories. Accordingly, the Company's estimates are expected to change as future information becomes available and such changes could be material.

As mandated under Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company is required under certain circumstances to evaluate the possible impairment of the carrying value of its long-lived assets. In addition to the uncertainties inherent in the estimation process, these amounts are affected by historical and projected prices for oil and natural gas which have typically been volatile. It is reasonably possible that the Company's oil and gas reserve estimates will materially change in the forthcoming year.

Foreign Currency Translation: The functional currency of GSLM is the Australian dollar. Financial statements for GSLM are translated into United States dollars at year end exchange rates as to assets and liabilities and weighted average exchange rates as to revenues and expenses. Capital accounts are translated at their historical exchange rates when capital transactions occurred.

Stock Issuance Costs: These costs consist primarily of placement fees and expenses and professional fees. These expenses are charged against the related proceeds from the sale of Company stock in the periods in which they occur or are charged to expense in the event of a terminated stock issuance.

Comprehensive Income (Loss): the Company accounts for comprehensive income (loss) under Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes standards for reporting and display of comprehensive income and its components. The foreign currency translation gains (losses) resulting from the translation of the financial statements of GSLM, expressed in Australian dollars, to United States dollars and, changes in the value of marketable securities that have not been realized are reported as other comprehensive income (loss) and as accumulated other comprehensive income (loss) in the Statement of Stockholders' Deficit.

EMPIRE ENERGY CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2006

Net Loss Per Share: The company has presented the basic and diluted net loss per share pursuant to Statement of Financial Accounting Standards (SFAS) No. 128, Earnings Per Share. In accordance with SFAS No. 128, basic and diluted net loss per share has been computed using the weighted average number of shares of common stock outstanding during the period. Dilutive net loss per share would give affect to the dilutive effect of common stock equivalents consisting of option and warrants. Potentially dilutive securities have been excluded from the net loss per common share calculation as the effects would be antidilutive.

Basic and diluted net loss per share calculations are presented in accordance with Financial Accounting Standards Statement 128, and are calculated on the basis of the weighted average number of common shares outstanding during the year. They include the dilutive effect of common stock equivalents in years with net income.

Stock Options: The Company and its subsidiaries have issued options to Directors, Director-related entities and Officers. The Company measures compensation cost as prescribed by FAS 123R, "Accounting for Share Based Payments". Compensation cost relating to the granting options has been included in the financial statements as option grants are vested.

Recently Issued Accounting Pronouncement: SFAS No. 151, "Inventory Costs," is effective for fiscal years beginning after June 15, 2005. This statement amends the guidance in Accounting Research Bulletin ("ARB") No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). The adoption of SFAS 151 had no impact on the Company's financial statements.

SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions," is effective for fiscal years beginning after June 15, 2005. This statement amends SFAS No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in American Institute of Certified Public Accountants Statement of Position 04-2, Accounting for Real Estate Time-Sharing Transactions. The adoption of SFAS No. 152 had no impact on the Company's financial statements.

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), *Share-Based Payment*, which revised SFAS 123, *Accounting for Stock-Based Compensation*. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. SFAS 123(R) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This statement is effective as of the beginning of the first annual reporting period that begins after June 15, 2005. Since the issuance of SFAS 123(R), three FASB Staff Positions (FSPs) have been issued regarding SFAS 123(R): FSP FAS 123(R)-1—*Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under FASB Statement No. 123(R)*, FSP FAS 123(R)-2—*Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R)*, and FSP FAS 123(R)-3—*Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*. These FSPs will be applicable upon the initial adoption of FAS 123(R). The effect of SFAS 123(R) is more fully described in Note 6.

SFAS No. 153, "Exchanges of Non-monetary Assets"—an amendment of APB Opinion No. 29, is effective for fiscal years beginning after June 15, 2005. This statement addresses the measurement of exchange of non-monetary assets and eliminates the exception from fair-value measurement for non-monetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, "Accounting for Non-monetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. The adoption of SFAS No. 153 had no impact on the Company's financial statements.

FIN No. 46(R) revised FIN No. 46, "Consolidation of Variable Interest Entities," requiring the consolidation by a business of variable interest entities in which it is the primary beneficiary. The adoption of FIN No. 46 had no impact on the Company's financial statements.

In March 2005, the FASB issued FASB Interpretation No. (FIN) 47, *Accounting for Conditional Asset Retirement Obligations*. FIN 47 specifies the accounting treatment for conditional asset retirement obligations under the provisions of SFAS 143. FIN 47 is effective no later than the end of the fiscal year ending after December 15, 2005. Implementation of FIN 47 had no impact on our financial statements.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3*. SFAS 154 requires retrospective application to prior period financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle should be recognized in the period of the accounting change. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005. The impact of SFAS 154 will depend on the nature and extent of any voluntary accounting changes and correction of errors after the effective date, but the Company does not

currently expect SFAS 154 to have a material impact on our financial statements.

In June 2005, the EITF reached a consensus on Issue No. 04-10, *Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds*. EITF Issue 04-10 confirmed that operating segments that do not meet the quantitative thresholds can be aggregated only if aggregation is consistent with the objective and basic principles of SFAS 131, *Disclosure about Segments of an Enterprise and Related Information*. The consensus in this issue should be applied for fiscal years ending after September 30, 2005, and the corresponding information for earlier periods, including interim periods, should be restated unless it is impractical to do so. The adoption of EITF Issue 04-10 did not have a material impact on our disclosures.

EMPIRE ENERGY CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2006

In September 2005, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 04-13, *Accounting for Purchases and Sales of Inventory with the Same Counterparty*. EITF Issue 04-13 requires that purchases and sales of inventory with the same counterparty in the same line of business should be accounted for as a single non-monetary exchange, if entered into in contemplation of one another. The consensus is effective for inventory arrangements entered into, modified or renewed in interim or annual reporting periods beginning after March 15, 2006. The adoption of EITF Issue 04-13 did not have a material impact on our financial statements.

In February 2006, the FASB issued Statement No. 155, *Accounting for Certain Hybrid Financial Instruments* ("SFAS No. 155"), which amends FASB Statements No. 133 and 140. SFAS No. 155 permits fair value re-measurement for any hybrid financial instrument containing an embedded derivative that would otherwise require bifurcation, and broadens a Qualified Special Purpose Entity's permitted holdings to include passive derivative financial instruments that pertain to other derivative financial instruments. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to a re-measurement event occurring after the beginning of an entity's first fiscal year beginning after September 15, 2006. SFAS No. 155 has no current applicability to the Company's financial statements. Management plans to adopt SFAS No. 155 on January 1, 2007 and it is anticipated that the initial adoption of this statement will not have a material impact on the financial statements.

In June 2006, the FASB issued Interpretation 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 clarifies the accounting and reporting for income taxes where interpretation of the law is uncertain. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax returns. FIN 48 is effective for fiscal years beginning after December 15, 2006 and has no current applicability to the Company's financial statements. Management plans to adopt FIN 48 on January 1, 2007 and it is anticipated that the initial adoption of FIN 48 will not have a material impact on the Company's financial statements.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under GAAP. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands the required disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. Management is assessing the impact of the adoption of SFAS No. 157.

In September 2006, the Securities Exchange Commission issued Staff Accounting Bulletin No. 108 ("SAB No. 108"). SAB No. 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB No. 108 requires companies to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. When the effect of initial adoption is material, companies will record the effect as a cumulative effect adjustment to beginning of year retained earnings and disclose the nature and amount of each individual error being corrected in the cumulative adjustment. SAB No. 108 will be effective beginning January 1, 2007 and it is anticipated that the initial adoption of SAB No. 108 will not have a material impact on the Company's financial statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159"), an amendment of FASB Statement No. 115. SFAS No. 159 addresses how companies should measure many financial instruments and certain other items at fair value. The objective is to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. Management is assessing the impact of the adoption of SFAS No. 159.

NOTE 2—TAXATION

In assessing the realisability of deferred tax assets, the Company applies SFAS No. 109 to determine whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. As a result, the Company's valuation allowance at December 31, 2006 and 2005 reduces the net deferred tax assets to \$0.

EMPIRE ENERGY CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2006

Deferred tax assets consist of:

	2006	2005
Net operating losses	\$ 5,886,524	\$ 2,545,246
Valuation allowance	5,886,524	(2,545,246)
	—	—

At December 31, 2006, the Company has net operating loss carry forwards of approximately \$19,946,878 that will expire through to the year 2006. The benefit of tax losses will be available provided the following are met:

The Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realized;

The Company continues to comply with the conditions for deductibility imposed by the law; and

No changes in tax legislation adversely affect the Company in realizing the benefit from the deductions for the losses.

The increase in the valuation allowance was \$3,341,278 and \$540,319 during 2006 and 2005, respectively.

NOTE 3—RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions not more favorable than those available to other parties unless otherwise stated. Transactions with related parties are as follows:

Directors and Director Related Transaction

A number of directors of the Company or their director related entities hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

The terms and conditions of the transactions with directors and their director related entities were no more favorable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arms length basis.

The aggregate amounts recognized during the year relating to directors and their director related entities were as follows:

Directors	Transactions	2006	2005
		\$	\$
M.R. Bendall	Rental	28,986	28,986
M.R. Bendall	Consulting (unpaid at December 31, 2006)	157,704	450,973
K. W. Laing		—	—
M. R. Ballantyne		—	—
C. F. Burrett		—	—
J.C. Garrison	Consulting (unpaid at December 31, 2006)	190,000	88,000

EMPIRE ENERGY CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2006

Consultancy Agreement

Effective April 1, 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 April 1, 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 are entitled to receive \$13,142 per month from GSLM.

Guarantees

The Company provides an environmental Bond in the form of guarantee in favor of Mineral Resources Tasmania ("MRT") totaling \$54,758, and relates to future rehabilitation costs that may arise in respect of the license.

Working Capital Facility & Share settlement

From time to time the Company requires funding for short term needs which are supplied by an entity associated with a director. In December 2006, the company issued 26,000,000 shares of its common stock to M.R. Bendall and related entities in settlement of loans to the company that had accumulated over several years in the amount of \$1.4 million and as bonus compensation of \$939,000 for his services over many years in completing the Empire GSLM merger, acquiring the license property, arranging technical evaluation and negotiating financing. The transaction was valued at the market price of the common stock on the date of the issuance.

Share Options

From January 1, 2006 to December 31, 2006 the Company did not issue any shares or options to Directors, Director Related entities or officers of the company. Details of options issued in earlier periods are given below. The options issued in October 2003, were exercised by Empire in 2006 at a price of AUD \$0.01 and shares were issued accordingly.

Name	Position	Exercise Prices	December 31, 2006	
			Number outstanding	Value
M.R. Bendall	Chairman	\$0.007301	50,000	\$ 365
C. Burrett	Director	\$0.007301	50,000	365
S. Powell	Former Director	\$0.007301	50,000	365
P. Simpson	Former Director	\$0.007301	50,000	365
D. Tanner	Former Director	\$0.007301	50,000	365
R. Watson	Former Director	\$0.007301	50,000	365
K. Gumley	Former Company Secretary	\$0.007301	50,000	365
A. Steel	Accountant	\$0.007301	50,000	365
R. Tabor	Former Chief Executive Officer	\$0.007301	50,000	365
			<u>450,000</u>	<u>3,285</u>

EMPIRE ENERGY CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2006

The following conditional offers of share options were made in earlier periods to Directors, Director Related Entities and officers of the company. The issue of these options was conditional and the conditions were achieved in 2006.

These options will have a term of three years and an exercise price of AUD \$0.20. The exercise price of each option at December 31, 2006 in US\$ is \$0.1579.

Name	Position	Exercise Prices	December 31, 2006	
			Number outstanding	Value
M.R. Bendall	Chairman	\$0.1579	6,000,000	\$ 947,400
C. Burrett	Director	\$0.1579	600,000	94,740
S. Powell	Former Director	\$0.1579	400,000	63,160
P. Simpson	Former Director	\$0.1579	400,000	63,160
D. Tanner	Former Director	\$0.1579	400,000	63,160
R. Watson	Former Director	\$0.1579	400,000	63,160
K. Gumley	Former Company Secretary	\$0.1579	400,000	63,160
R. Tabor	Former Chief Executive Officer	\$0.1579	400,000	63,160
			<u>9,000,000</u>	<u>1,421,100</u>

NOTE 4—COMMITMENTS

Environmental Remediation Liabilities

Great South Land Minerals Limited provides an environmental bond to the State Government department to cover any potential environmental liabilities. As of December 31, 2006, the Company is not aware of any issues that would give rise to any environmental remediation liabilities.

Exploration Expenditure Commitments

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 December 31, 2006, these obligations, expressed at exchange rates of the balance date (0.7893), are as follows:

Expenditure required by MRT Report Year: (September 30 th each year)	2006	2006
	USD	AUD
September 30, 2007	3,030,281	3,839,200
September 30, 2008	3,981,229	5,044,000
September 30, 2009	<u>1,142,906</u>	<u>1,448,000</u>
	<u>8,154,416</u>	<u>10,331,200</u>

As of September 30, 2006, Mineral Resources Tasmania acknowledged an expenditure of \$2,260,895, which is \$3,016,052 short of the mandatory expenditure required by the end of the second year of the license. The shortfall of \$3,016,052 is not included in the table above.

The company claims to have met its cumulative expenditure 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.

EMPIRE ENERGY CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2006

Seismic Services Commitments

On 1 October 2006, the company agreed to purchase seismic services for a total amount of approximately USD \$3.5 million. The services had been engaged but had not commenced on-ground operations as at December 31, 2006. Approximately USD \$1.8 million has been pre-paid as at 31 December 2006. Following extensive planning during quarter 04 2006, the seismic operations commenced on-ground early March 2007.

Operating Lease Commitments

Future operating lease rentals at December 31, 2006 not provided for in the financial statements are as follows:

<u>Expenditure required by year ended:</u>	<u>2006</u>	<u>2005</u>
	\$	\$
December 31, 2007	167,186	5,169
December 31, 2008	167,186	5,169
December 31, 2009	167,186	5,169
December 31, 2010	167,186	5,169
December 31, 2011	<u>167,186</u>	<u>5,169</u>
	<u>835,930</u>	<u>25,845</u>

Rental expense was \$80,838 and \$59,838 during the year ended December 31, 2006 and 2005, respectively.

From December 31 2006, the rental on the Murray Street Hobart Seismic centre is USD20,838 pa , at present a 1 year lease renewable at the Boards discretion. The new Macquarie Street premises are rented at USD \$55,654 per annum, the Kansas offices cost USD \$60,000 pa renewable annually at the boards discretion. An additional USD \$5,169 of computer equipment rentals.

NOTE 5—CONTINGENT LIABILITIES

Common stock issuance

During December 2004 and January 2005, the company sold 3,420,000 and 1,460,000 shares of common stock for \$342,000 and \$146,000, respectively. Terms of the sales included a provision that allowed the purchasers of these shares to receive an additional 50% of shares if the acquisition of Great South Land Minerals was not completed within 90 days of their purchase. The purchase of Great South Land Minerals Limited was completed on April 6, 2005. In September 2005 the company issued 2,490,000 additional shares of common stock to settle this contingency. With these sales of the common stocks, the company issued 1,500,000 warrants to the broker as its offering costs.

NOTE 6—PROPERTY AND EQUIPMENT

Property and equipment at cost, less accumulated depreciation, is as follows:

	<u>2006</u>	<u>2005</u>
	\$	\$
Property under construction	1,310,372	—
Property and equipment	126,820	47,790
Less: accumulated depreciation	<u>(77,638)</u>	<u>(43,916)</u>
Written down value	<u>1,359,554</u>	<u>3,874</u>

The expense for depreciation and impairment for year ended December 31, 2006 and 2005 was \$33,722 and \$9,276 accordingly.

EMPIRE ENERGY CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2006

NOTE 7—LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2006</u>	<u>2005</u>
	\$	\$
Wind City Loan	4,100,000	—
HEM Loan	—	261,703
RAB Loan	610,174	—
Pacific Rim Loan	100,000	—
Asset Purchase loan for vehicle, due monthly to 2011	69,353	—
Asset purchase loan for vehicle, due monthly to 2006	—	8,253
	<u>4,879,527</u>	<u>269,956</u>
Less: current portion	(117,409)	(269,956)
Long term debt	<u>4,762,118</u>	<u>—</u>

The maturities of the Company's long-term debts consist of the following:

<u>Year Ending December 31,</u>	<u>2006</u>
	\$
2007	117,409
2008	4,716,941
2009	13,873
2010	15,025
2011	16,279
	<u>4,879,527</u>

NOTE 8—CONVERTIBLE DEBENTURES AND NOTES PAYABLE

On July 2, 2004, EEGC obtained \$500,000 for operating capital by assuming notes payable to HEM Mutual Assurance LLC ("HEM"). The notes accrue interest at 1.5% per annum. \$485,000 is convertible to common shares of EEGC at the lower of \$1.30, 125% of the average of the five days closing price preceding the conversion date, or 100% of the average of the three lowest closing prices for the 40 days preceding the conversion date, \$15,000 is convertible at \$0.01 per share. There is no collateral for the notes. The notes mature on May 19, 2009.

The notes called for an original cap on convertible shares of 1,650,000. However, the debtor has the ability to force additional shares to be issued, therefore, no cap on shares was used when calculating the beneficial conversion feature of the notes. The \$500,000 in proceeds is convertible into 2,063,953 shares, for a fair value per share of \$0.24.

The notes have been discounted for fair value of stock issued for the purchase of BOCI and the beneficial conversion feature. As of December 31, 2005, 700,000 shares of common stock were issued for \$7,000 of debt. The value of the stock converted, \$169,577 (700,000 times \$0.24), was amortized in 2005 with the remaining discounts to be amortized over the life of the note. During the first quarter of 2006, the entire remaining balance and accrued interest under this HEM financing arrangement was converted to approximately 6.2 million shares of common stock and was fully settled. As a result of the early conversion of the balance due, the remaining discount of \$231,297 was charged to operations in 2006.

EMPIRE ENERGY CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2006

A summary of the notes is as follows:

	<u>2006</u>	<u>2005</u>
	\$	\$
Notes payable:		
Beginning balance	261,703	—
Gross proceeds from notes	—	500,000
Less: beneficial conversion feature	—	(410,000)
Less: fair value of stock issued for note	—	(90,000)
Less: principal value of debt converted	(493,000)	(7,000)
Add: fair value of stock converted for debt	—	169,577
Add: amortization discounts	<u>231,297</u>	<u>99,126</u>
Book value of note on December 31, 2006	<u>—</u>	<u>261,703</u>

In March 21, 2006, pursuant to a subscription agreement with RAB Special Situations (Master) Fund Limited, a British investment fund, the Company issued 17,100,000 shares of our Class A Common Stock, together with warrants entitling the holder to acquire an additional 8,550,000 shares, in exchange for \$1,881,000, which the Company is using for general corporate purposes. The warrants are exercisable at a price of \$0.13 over an exercise period of three years. The Company covenanted in the subscription agreement to register the issued shares as well as the shares underlying the warrants. On the same date, the Company sold \$1.5 million of our 6% convertible debenture and a Class B Warrant offering up to 5 million shares exercisable at \$.18 per share for 3 years. The initial conversion price for the debenture is \$0.18 per share. RAB Special Situations also purchased this offering. RAB Special Situation (Master) Fund Limited represented itself as a non U.S. person. The Company was represented in the offerings by Libertas Capital Corporate Ventures Limited, a U.K. investment banking firm received 4,065,000 shares of our Class A common stock (equal to 10% of the RAB shares issuable) as their fees for those services. Shares issued to Libertas that are related to the sale of stock, valued at \$359,100 have been charged to capital and the shares related to the convertible debenture, valued at \$210,000 have been charged to the debenture and will be amortized to income over the term of the debenture. The Company relied on Regulation S as the exemption from registration as the offering was conducted entirely overseas and the investor is a non-U.S. person.

The notes have been discounted to record the fair value of the included warrants issued, the beneficial conversion feature imbedded in the debenture and the transaction costs. As of December 31, no shares of common stock had been issued in conversion of the debenture and no warrants had been exercised. The discounts will be amortized over the term of the debenture.

	<u>2006</u>
	\$
Notes payable:	
Gross proceeds from notes	1,500,000
Less: beneficial conversion feature	(420,181)
Less: fair value of warrants included	(416,991)
Less: shares issued as transaction costs	(210,000)
Add: fair value of stock converted for debt	—
Add: amortization discounts	<u>157,346</u>
Book value of note on December 31, 2006	<u>610,174</u>

The terms and exercise prices of the warrants are set out in the table below.

Number of shares	Exercise price	Warrant expiration date
8,550,000	\$0.13	March 24, 2009
5,000,000	\$0.18	March 24, 2009

Each warrant may be exercised in whole or in part at any time to purchase shares of common stock at the respective exercise price, subject to adjustment from time to time upon certain the occurrence of certain events. All shares, warrants and underlying shares were registered in September 2006.

EMPIRE ENERGY CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2006

The Company 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, Great South Land issued a floating rate note and Wind City loaned \$4,000,000 to Great South Land and Wind City agreed to buy 4,500,000 shares of Zeehan Zinc common stock in 2007 for a total price of \$4,500,000. Great South Land 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 the Company sold a warrant to acquire 26,666,667 shares of the Company's class A common stock and a second warrant to acquire 33,333,333 shares of the Company's class A common stock, exercisable in each case prior to November 30, 2007 at a price of \$0.15; and (ii) Wind City acquired and Great South Land issued a floating rate note. If the floating rate note is still outstanding at the time of 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 payment of all amounts owing by Great South Land under the Floating Rate Note. The net cash proceeds received by the Company from any exercise of the warrants (after repayment of the loan) would be used by the Company to fund continuing exploration of the petroleum license held by Great South Land. 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. The Company pledged as security for performance of both its and Great South Land'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, the Company 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 of 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.

Wind City granted the Company a put option with an exercise period of January 1, 2007 to January 15, 2007 to require Wind City to purchase 4,500,000 ordinary shares of Zeehan Zinc at a price of \$1.00 per share. On January 5, 2007, the Company exercised the put option and Empire received \$4,500,000 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 corporate purposes, including development of Great South Land's license area.

Using proceeds from the transaction, Great South Land 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 Great South Land's property in Tasmania for the purpose of exploring the license area in compliance with the license requirements.

This multipart financing arrangement was recorded in the financial statements in three components. The note payable was recorded as long-term debt of \$4,000,000, payable in May 2008. It accrues interest payable quarterly at the rate of four percent over the Wall Street Journal prime rate. The value of the put option at December 31, 2006 was determined to be \$2,655,000 based on the proceeds of \$4,500,000 received in January less the value of the shares of Zeehan stock sold under the put of \$1,845,000. The warrants were recorded as a credit to capital in the amount of \$2,655,000 based on the value of the put option received in exchange for issuance of the warrants. The proceeds of the exercise of the put option in January 2007 will be recorded at no gain or loss. The stated price paid for the Zeehan stock was higher than the value of the Zeehan stock. The excess payment was compensation Empire received for issuing Wind City warrants to purchase 60 million shares of Empire Common Stock at US\$ 0.15 per share. As a result the warrant was valued at the amount of the expected gain on the sale of the Zeehan stock and was recorded in December 2006 as the value of the put. It was the intention of the Directors that the value was in the Put Option and not in the value of the detachable warrants.

EMPIRE ENERGY CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2006

NOTE 9—STOCKHOLDERS' DEFICIT

	<u>2006</u>	<u>2005</u>
	No.	No.
Issue of Class A common stock:		
2005 conversion of shares from B stock	—	2,471
April 7, 2005 to Owen Enterprises LLC on the successful completion of the merger in payment of services	—	2,534,319
April 7, 2005 to P&S Investment Management Inc. on the successful completion of the merger in payment of services	—	100,000
April 7, 2005 to Peterson in return for debt release	—	29,458
Additional shares issued due to contingency in prior sale	—	2,490,000
November 2005 to acquire Cyber Finance	—	37,500,000
December 2005 for public relations services	—	830,000
2006 conversion of shares from B stock	1,604	—
Shares sold to RAB for cash	17,100,000	—
Shares sold to Libertas for cash	833,333	—
Shares issued in conversion of HEM Debenture	6,222,675	—
Share Issued to exercise GSLM Options	450,000	—
Shares issued to settle debt	5,099,600	—
Shares issued to First Global for services	4,380,000	—
Shares issued to Mackay Partnership for services	1,500,000	—
Shares issued to Libertas related to RAB financing	4,065,000	—
Shares issued to Libertas for advisory fee	3,566,667	—
Shares issued to Batega to acquire technology license	15,000,000	—
Shares issued to Bendall to settle debt and for services	26,000,000	—
	<u>84,218,879</u>	<u>43,486,248</u>
Issue of Class B Common stock:		
2005 conversion of B shares into A shares	—	(2,471)
2006 conversion of B shares into A shares	(1,604)	—
	<u>(1,604)</u>	<u>(2,471)</u>

EMPIRE ENERGY CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2006

NOTE 10—OPTIONS/WARRANTS

The following table summarizes the movements in warrants in the year to December 31, 2006:

	2006		2005	
	Shares	Weighted Average Price	Shares	Weighted Average Price
Warrants outstanding:				
Beginning of period	2,390,000	\$ 0.31	—	\$ —
Warrants taken over on merger	—	—	2,390,000	0.31
Warrants granted	73,550,000	0.15	—	—
Warrants exercised	—	—	—	—
Warrants expired	(140,000)	0.80	—	—
End of period	<u>75,800,000</u>	<u>\$ 0.15</u>	<u>2,390,000</u>	<u>\$ 0.31</u>
Warrants exercisable	<u>75,800,000</u>	<u>\$ 0.15</u>	<u>2,390,000</u>	<u>\$ 0.31</u>

The warrants have a weighted average remaining contractual life of 1.18 years, are fully vested and have a weighted average exercise price of \$0.15.

The following table summarizes information about warrants outstanding at December 31, 2006:

	2006		
	Exercise Prices	Number outstanding	Average remaining life in years
First Global Securities, Inc Common Stock, rights expiring March 31, 2008	\$ 0.10	1,500,000	1.25
Avalor Capital LLC and Frank W Bachinsky, III Common Stock, rights expiring October 10, 2009	0.50	750,000	2.78
RAB Special Situations (Master) Fund Limited Common Stock, rights expiring March 31, 2009	0.13	8,550,000	2.25
RAB Special Situations (Master) Fund Limited Common Stock, rights expiring March 31, 2009	0.18	5,000,000	2.25
Wind City, Inc Common Stock, rights expiring November 30, 2007	0.15	26,666,667	.92
Wind City, Inc Common Stock, rights expiring November 30, 2007	0.15	<u>33,333,333</u>	.92
		<u>75,800,000</u>	

With regard to the Wind City warrants, we have not valued the detachable warrants because when the transaction was completed it was determined that the value of the warrants was in the Put Option received in exchange.

EMPIRE ENERGY CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2006 and 2005

The following table summarizes the movements in options in the year to December 31, 2006 and 2005:

	2006		2005	
	Shares	Weighted Average Price	Shares	Weighted Average Price
Options outstanding:				
Beginning of period	507,631	\$ 3.41	450,000	\$0.0078
Foreign exchange adjustment	—	—	—	0.0005
Options taken over on merger	—	—	68,464	26.93
Options vested	9,000,000	0.16	—	—
Options exercised	(450,000)	0.0078	—	—
Options expired	(57,631)	—	(10,833)	10.615
End of period	<u>9,000,000</u>	<u>\$ 0.16</u>	<u>507,631</u>	<u>\$ 3.41</u>
Options exercisable	<u>9,000,000</u>	<u>\$ 0.16</u>	<u>507,631</u>	<u>\$ 3.41</u>

The options have a weighted average remaining contractual life of 3.0 years, are fully vested and have a weighted average exercise price of \$0.16.

The following table summarizes information about stock options outstanding at December 31, 2006.

	2006		
	Exercise Prices	Number outstanding	Average remaining life in years
Issued to directors and officers of GSLM in October 2003, as detailed in Related Parties Note to the Accounts:	\$ 0.16	<u>9,000,000</u>	3.00
		<u>9,000,000</u>	

With regard to the 9,000,000 options issued to Directors and Officers of Great South Land Minerals, the Company recorded this stock-based compensation in December 2006 at the fair value of the equity instruments granted on the measurement date, which is the date on which the final condition was achieved. The fair value of the equity instrument is determined using the Black-Scholes option-pricing model, using 89% volatility, no dividends, 4.5% discount rate and a three year term. The fair value of option's vested and included in expense in the year to December 31, 2006 and December 31, 2005 were \$323,640 and Nil, respectively.

NOTE 12—MERGER WITH GREAT SOUTH LAND MINERALS LIMITED AND INVESTMENT IN ZEEHAN ZINC LIMITED

Overview of GSLM: GSLM is a development stage company that was incorporated in Tasmania, Australia in 1995. The principal activity of GSLM is the exploration and development of sub-surface hydrocarbons in Tasmania.

Background to the Merger: On July 15, 2002, the Board of Directors of EEGC unanimously approved the terms and conditions for the acquisition of GSLM as established by a letter of intent between GSLM and EEGC dated July 9, 2002 and amended on December 10, 2002 and October 16, 2003. Under this agreement, shareholders of GSLM would own approximately 95% of the EEGC common stock upon completion of this reverse acquisition.

At a shareholders meeting of EEGC held on March 29, 2004, all of the necessary shareholder approvals required by EEGC were obtained. On May 27, 2004, an agreement was entered into by GSLM and EEGC to actively pursue the merger of the two companies.

EMPIRE ENERGY CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2006 and 2005

On March 4, 2005, EEGC lodged a Bidder's Statement with the Australian Securities and Investment Commission to acquire all the share capital of GSLM in a one for one scrip issue. On April 7, 2005, EEGC announced that it had received 96.4% acceptances and on June 15, 2005 it compulsorily acquired the remaining common stock of GSLM.

ACQUISITION OF PACIFIC RIM FOODS, LTD

In March 2006, Empire issued 9 million shares of common stock to acquire a 51% interest in Pacific Rim Foods, Ltd., a company newly created to develop food production and canning operations in China. The shares are a primary asset of Pacific Rim Foods and are intended to be used to acquire operations and facilities. Pacific Rim Foods transferred 1,500,000 of the shares to a management company controlled by a company director as compensation for services. At December 31, 2006, 7,500,000 of the shares remained in the treasury of Pacific Rim Foods and were eliminated in consolidation.

In May 2006, Pacific Rim Foods, completed a net \$435,000 private placement of their Convertible Preferred Stock. In July 2006 Pacific Rim completed a net \$346,741 private placement of their common stock. Proceeds of this fundraising, along with \$300,000 provided by Empire, are intended to be used to acquire operations and facilities in China to allow expansion of the intended shelf stable food processing operations. Pacific Rim spent approximately net \$340,000 to prepay contracts to purchase product that would be available for processing in summer of 2006, and a combined \$80,001 to acquire a 49% ownership interest in Jilin Jimei Foods and acquire an interest in trade names, leases, facilities and licenses. Attached to the sale of common shares, Pacific Rim issued warrants to allow the purchase of 1,000,000 shares of Empire common stock for a period of five years at an exercise price of \$0.05 per share.

The Company entered into an agreement on August 2, 2006 with a shareholder of Pacific Rim Foods to allow the Company to acquire and maintain voting control over Pacific Rim Foods, avoid potential Investment Company Act issues and establish and maintain consolidated operations. Equity of shareholders other than Empire, including capital paid to directly acquire preferred and common shares of Pacific Rim, is included on the financial statements as Minority interest on the balance sheet and the change in this minority interest is included in the statement of operations.

TECHNOLOGY LICENSE

In June 2006, Empire acquired 100% of Expedia International Limited. This subsidiary entered into an agreement to license and promote certain nano-key technology. Cost of the license agreement was the issuance of fifteen million Empire common shares and transfer of five million Zeehan Zinc shares, valued at a total of \$3,925,000. Expedia is negotiating a development agreement with Zeehan Zinc to employ this technology at the mine sites. This technology is still under development and is yet to be commercialized.

NOTE 13—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 \$789,300. The charge is both fixed and floating.

NOTE 14—SUBSEQUENT EVENTS

In January 2007 the Company exercised its rights under the Put option with Wind City and sold 4,500,000 shares of Zeehan common stock for total proceeds of \$4,500,000. The value of this put option was recorded as an asset in 2006 so this transaction will be reported without gain or loss in 2007.

In April 2007, the Company entered into agreements with an investment banker to introduce Pacific Rim Foods and Empire or Great South Land Minerals to the Alternative Investment Market, a subsidiary of the London Stock Exchange, for the purpose of raising additional equity capital for both entities.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EMPIRE ENERGY CORPORATION INTERNATIONAL

By: /s/ MALCOLM R. BENDALL
Malcolm R. Bendall, President, Chief Executive Officer (*Principal Executive Officer*) and Chief Financial Officer (*Principal Financial Officer and Principal Accounting Officer*)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ MALCOLM R. BENDALL</u> Malcolm R. Bendall	President, Chief Executive Officer, Chief Financial Officer and Director	April 16, 2007
<u>/s/ JOHN C. GARRISON</u> John C. Garrison	Secretary and Director	April 16, 2007
<u>/s/ TAD M. BALLANTYNE</u> Tad M. Ballantyne	Director	April 16, 2007
<u>/s/ KEITH LAING</u>	Director	April 16, 2007
<u>/s/ CLIVE F. BURRETT</u> Clive F. Burrett	Director	April 16, 2007

STRICTLY PRIVATE & CONFIDENTIAL

Libertas Capital Group plc
16 Berkeley Street
London
W1J 8DZ
UK

3 April 2007

The Directors
Great South Land Minerals Limited
Level 3/65 Murray Street
Hobart
Tasmania 7000
Australia

The Directors
Empire Energy Corporation International
Commerce Terrace
11011 King Street
Suite 260B
Overland Park
KS 66210
USA

For the Attention of: Malcolm Bendall

Dear Sir,

**Introduction of the oil assets of Empire Energy Corporation International onto AIM
and fundraise**

We are writing to confirm the basis on which Libertas Capital Group plc, through its subsidiary companies, Libertas Capital Corporate Finance Limited ("LCCF") and Libertas Capital Securities Limited ("LCS") (together "Libertas Capital"), is to provide corporate finance advice and broking services in relation to an introduction of the oil assets currently held by Empire Energy Corporation International ("Empire Energy") to trading on AIM ("Introduction") and fundraising (together the "Engagement").

For the avoidance of doubt the Engagement may constitute the Introduction of Great South Land Minerals ("GSLM") or a special purpose vehicle established for the transaction, a dual listing of Empire Energy onto AIM or other means to obtain a listing such as an AIM Investment Company. Empire Energy and GSLM will be referred to as the "Company" herein as appropriate.

The Engagement will also include any private fundraise undertaken prior to completion of the Introduction or any fundraise at the time of or following the Introduction.

1. Nature of the Engagement

Under the Engagement, Libertas Capital will act as the Company's Nominated Adviser ("Nomad") and Broker. As part of our role we will provide advice and services detailed in Part A of Schedule 1.

We set out in Part B of Schedule 1 a list of the services we will provide to the Company after the Introduction as a retained corporate client.

We shall not be obliged to provide any other advice or services unless we expressly agree to do so.

Following completion of the Introduction and for so long as Libertas Capital provides the Company's nominated adviser and/or broker services, we shall have the right to pitch as financial adviser for any type of investment banking transaction including, without limitation, any equity financing, disposal, acquisition, merger or other business combination in which the Company is involved and any refinancing or sale of the Company or any part thereof and the Company agrees that Libertas Capital shall have right of first refusal on providing such services provided, however, that Libertas Capital offers such services on terms and conditions, including fees, which are comparable with the terms and conditions for such services provided by comparable institutions. Such services shall be offered pursuant to an additional agreement or agreements between the Company and Libertas Capital. The Company acknowledges that this paragraph does not constitute a commitment (express or implied) by Libertas Capital to provide any such additional services or to purchase or place securities, or to provide or be responsible for providing any financing.

2. Resources

Jakob Kinde and Aamir Quraishi from LCCF will be in charge of this assignment. It is intended that the team will include members from LCS including Raj Karia and Peter Dupont. Other members of Libertas Capital may be used as Libertas Capital considers necessary. Libertas Capital reserves the right to change or amend the team members working on the Engagement, in discussion with the Company.

3. Fees, Commissions and Expenses for the Engagement

The Company will pay Libertas Capital the following cash fees and commissions:

- In relation to a private fundraise prior to the Introduction, the Company will pay Libertas Capital a broking commission of 5 per cent., payable in cash, on the gross value of funds raised and equity in the Company equivalent in value to 3 per cent. of the gross funds raised;
- On completion of the Introduction:
 - a) a Nomad fee of £200,000, payable in cash; and
 - b) a broking commission of 5 per cent., payable in cash, on the gross value of funds raised either at the time of the Introduction or post the Introduction once the Company's shares have been admitted to trading on AIM. In the event that the funds are raised following the Introduction, we would intend to complete the fundraising within 3 months following the Introduction, or as agreed with the Company.

The Company will pay Libertas Capital a monthly cash retainer in relation to the Engagement of £10,000 commencing on the date of this letter. This retainer will be payable in arrears each month and only up to £50,000 in aggregate will be offset against the success fees detailed above.

Following the Introduction, the Company will pay Libertas Capital an annual retainer in respect of ongoing Nomad and Broker services to the Company of £50,000 per annum (payable in cash half yearly in advance).

In addition to the fees referred to above, the Company shall reimburse Libertas Capital for its reasonable out-of-pocket expenses (such as legal fees, travel, fax, courier and other incidental expenses) properly incurred in connection with the Engagement (plus applicable VAT), including the cost of any regulatory news service (RNS) announcements released by Libertas Capital on behalf of the Company to the London Stock Exchange.

All fees, commissions and expenses shall be payable in pounds sterling and in cash in London together with any Value Added Tax (if applicable) and in accordance with the terms and conditions set out in this Engagement.

4. Standard Terms and Conditions

The standard terms and conditions of business contained in Schedule 2 and the indemnity contained in Schedule 2 are deemed to be part of this letter. By executing the counterpart of this letter the Company accepts such terms and conditions and agrees to be bound by the indemnity contained in Schedule 2.

5. Status of the Company

The Company is an Intermediate Customer as defined by the Rules of the FSA. As such, the Company will not obtain the benefit of the FSA Rules designed exclusively for the protection of private customers.

6. Compliance

During the period of the Engagement of Libertas Capital as the Company's Nomad following an Introduction, the Company shall:

- a) notify in advance of, and discuss with, Libertas Capital any announcement of profits or losses or dividends in respect of any reporting period and any other information which is likely to affect the general character or nature of the business of the group or may be necessary to be disclosed to the public in order to enable shareholders and the public to appraise the position of the Company and to avoid the existence of a false market in securities of the Company;
- b) forward to Libertas Capital for perusal before their issue in final form all proofs of all Stock Exchange announcements, circulars to holders of shares in the Company (including without limitation notices of meetings, forms of proxy and the Directors' report and annual accounts), documents relating to takeovers, mergers, share issues, re-organisations or other schemes (including employee profit share schemes or share option schemes) and all press announcements;

- c) report its interim and annual results within three and four months respectively of the end of each reporting period;
- d) ensure that all dealings by Directors in the Company, in compliance with AIM Rule 21, should be effected through Libertas Capital, as the Company's stockbrokers as long as Libertas Capital offer comparable market terms;
- e) without previously discussing with Libertas Capital, not enter into any related party transaction, agreement or arrangement which would be a transaction with a related party for the purposes of the AIM Rules for Companies; and
- f) notify and consult with Libertas Capital prior to entering into any commitment or agreement relating to the issue of any shares exceeding in aggregate five per cent. of the entire issued share capital of the Company or involving securities convertible or exchangeable into shares.

7. General

This letter does not affect any other agreement which Libertas Capital has entered into with the Company in respect of any other transaction or matter, nor any other agreement which it may enter into in connection with the Introduction.

This letter does not oblige Libertas Capital to sell, acquire, place, underwrite or sub-underwrite any investments, or to lend monies, unless and until it is expressly agreed otherwise in writing. This letter supersedes other letters in relation to advising on an AIM listing for the oil assets of the Company.

Please note that by entering into or performing our obligations under this letter, Libertas Capital is not representing that it is or will be possible or advisable for the Introduction to proceed. The conclusions which Libertas Capital may reach in respect of the Engagement may change. Our obligation in this respect is to advise the Company as we see fit, in what we perceive to be the Company's best interests, in the light of circumstances prevailing at the time at which such advice is given.

Any remedy or right conferred on Libertas Capital upon breach of this Agreement shall be in addition to and without prejudice to all other rights and remedies available to it.

Libertas Capital is a financial institution which is a member of the London Stock Exchange plc and regulated by the Financial Services Authority pursuant to the provisions of the Financial Services and Markets Act 2000.

Please sign and return the attached copy of this letter to indicate your agreement to its terms.

Yours faithfully

Accepted by

Jakob Kinde
Chairman, Libertas Capital Group plc

Malcolm Bendall
Director
Great South Land Minerals Limited

Jonathan Flory
Head of Corporate Finance

Malcolm Bendall
Director
Empire Energy Corporation International

SCHEDULE 1
ADVICE AND SERVICES

Part A - Introduction and fundraise:

- (a) Advice on the structure and mechanics of the Introduction and fundraising.
- (b) Co-ordination of the relevant professional advisers in producing their reports and advice to achieve the Introduction within an agreed timetable.
- (c) Co-ordination of the production, verification and despatch of the admission document to be circulated in respect of the Introduction (the "Admission Document") and other supporting documentation.
- (d) Taking responsibility for communications with the London Stock Exchange, lodging with the London Stock Exchange all documents supporting the application for admission to AIM and preparing in conjunction with the Company and its other advisers, but not approving, all requisite public announcements in connection therewith.
- (e) Planning and co-ordination of the marketing programme designed to introduce potential institutional and other investors, and preparing with your input an investor presentation in connection therewith.
- (f) Advice on the pricing and timing of the Introduction and fundraise in the light of the market conditions and other related factors.
- (g) Advice on compliance by the Company with the AIM Rules of the London Stock Exchange and all other regulations applicable to the Introduction.
- (h) In the event of a fundraise at the Introduction and subject to the transaction proceeding and subject to our agreeing an acceptable placing agreement, placing the Company's shares to be issued with institutional clients of Libertas Capital. The Company shall be consulted by Libertas Capital before Libertas Capital finalises its list of placees, although the Company acknowledges that this is only a right to be consulted and not a right to veto any proposed placee which is an institutional fund/investor.
- (i) In conjunction with the Introduction, oversee and co-ordinate the setting up of a facility for the electronic settlement of the Company's shares as required by the AIM Rules for Companies.

SCHEDULE 1
ADVICE AND SERVICES

Part B - Routine ongoing services following the Introduction

- (a) Attendance at regular meetings with the directors, as requested by the Company.
- (b) Provision to the Company of a periodic analysis of, and commentary on, the make up of its shareholder register.
- (c) Advice on and co-ordination of an appropriate investor liaison programme for the Company.
- (d) Monitoring and reporting to the Company where appropriate or as requested by the Company on the trading of its shares and significant movements in its share price.
- (e) Maintaining liaison with, and assisting the Company in complying with the regulations of, the London Stock Exchange and The Panel on Takeovers and Mergers.
- (f) Advice to the Company on anticipated market reactions to new corporate initiatives including, for example, acquisitions, disposals and fund raising.
- (g) Advice to the directors on a preliminary basis, where requested, in respect of potential offers, acquisitions, disposals, finance raising and other corporate or financial matters.
- (h) Periodically (and no less than twice per year) preparing analysts' reports or comment on the Company.
- (i) Advising the Company when requested on corporate governance issues and on compliance with the guidelines issued by the investor protection committees.
- (j) Advising the Company when requested on directors' share sales and on compliance with AIM Rule 21 on directors' dealings adopted by the Company which we expect to be substantially in the form set out in the UK Listing Authority's listing rules).
- (k) When requested and subject to regulatory requirements, co-ordinate transactions in the Company's shares.
- (l) Generally act as the Company's nominated adviser and broker and be responsible to the London Stock Exchange PLC for fulfilling the responsibilities set out in Rules 35, 39 and Part 2 of the AIM Rules for Companies and the provisions of the AIM Rules for Nominated Advisers.

SCHEDULE 2
STANDARD TERMS AND CONDITIONS

1. Application

These are the standard terms and conditions, on and subject to which, Libertas Capital will provide any services to the Company. Where there is any conflict between the express terms of any letter of engagement and these terms and conditions, these terms will prevail.

2. Libertas Capital advice

The Company agrees that any advice given by Libertas Capital is provided solely for the purpose of the Engagement and for the use and benefit of the Company and may not be used or relied on for any other purpose or disclosed to any other person (excluding the Company's professional advisers, who may place no reliance on such advice) without the prior written approval of Libertas Capital. Any valuations and other written reports or material produced by Libertas Capital and any information memoranda issued by Libertas Capital to third parties in connection with the Engagement will contain Libertas Capital's normal disclaimers and exclusions of liability.

Libertas Capital's role in relation to due diligence will be to assist the Company in coordinating the work of the other advisers to the Company (in the light of Libertas Capital's actual knowledge of that work and the proposed timetable for the Engagement). Libertas Capital will not otherwise be responsible for any due diligence for the Company in relation to the Engagement (whether in terms of nature, extent, adequacy or performance). In particular, Libertas Capital will not have any responsibility for due diligence which would normally be carried out by a specialist adviser (such as, for example, a legal, accountancy, valuation, tax or environmental adviser), notwithstanding any information or advice from these advisers which may be passed to Libertas Capital or passed on by Libertas Capital to the Company. Libertas Capital will not be responsible for providing advice in connection with those matters for which the Company has agreed to provide or arrange, or a company would usually provide or arrange, advice (such as, for example, legal, regulatory, accounting, taxation or environmental matters).

It is the responsibility of the Company to ensure that the advice from its other advisers in relation to the Engagement is received and considered by the Company and is adequate for the purposes of the Engagement. Libertas Capital will not have any liability in respect of any services or advice provided to the Company by persons other than Libertas Capital.

In rendering its services to the Company hereunder, Libertas Capital is not assuming any responsibility for the Company's underlying business decision to effect any transaction.

3. Provision of information

In order to carry out the Engagement, Libertas Capital will have full access to directors and other staff of the Company and its Affiliates associated with the Engagement. Libertas Capital will also have full access to other data and information as Libertas Capital may require and the Company shall provide Libertas Capital with reasonable access to its accountants and other advisors.

In addition, the Company agrees to keep Libertas Capital informed of any material developments or proposals in relation to the business or operations of the Company and its subsidiaries, in particular where these may have any effect on the Engagement.

In completing its engagement hereunder, Libertas Capital will be using and relying on publicly available information and information provided by or on behalf of the Company. The Company represents that all information furnished by it or on its behalf to Libertas Capital will be accurate and complete in all material respects. It is understood that Libertas Capital may assume and rely upon the accuracy and completeness of, and is not assuming any responsibility for independent verification of, such publicly available information and/or information so furnished by the Company.

4. Documents, announcements and other financial promotions

The Company or the Directors of the Company will accept full responsibility for the contents of any document, announcement or other financial promotion issued in connection with the Engagement.

Notwithstanding the above, Libertas Capital reserves the right (but is under no duty whatsoever) at its absolute discretion and for its own purposes to take whatever steps it may consider appropriate to satisfy itself as to the accuracy and completeness of any public documents or other financial promotions issued in connection with the Engagement and the Company agrees to co-operate fully with Libertas Capital in the taking of such steps (including by providing access to Libertas Capital as set out in Section 3 above).

Libertas Capital retains the right to refuse to issue or approve, or arrange for the issue of, a particular document, announcement or other financial promotion and to require the Company to cease to distribute a document, announcement or other financial promotion which, in Libertas Capital's opinion, has any connection with or potential effect on the Engagement if at any time Libertas Capital becomes aware of information which, in its opinion, renders the document, announcement or other financial promotion untrue, incomplete or misleading in a material respect.

The Company agrees that it will not publish, or arrange for the publication of, any document or announcement in relation to, or having any effect on, the Engagement without the prior written consent of Libertas Capital. Further, the Company shall promptly inform Libertas Capital of any discussions, negotiations or inquiries regarding a possible sale/acquisition/placing etc.

Libertas Capital shall have the right to place advertisements in financial and other newspapers and journals at its own expense describing its services to the Company hereunder, provided that Libertas Capital will submit a copy in advance of any such advertisement to the Company for its approval, which approval shall not be unreasonably withheld or delayed.

5. Indemnity

The Company agrees to indemnify (on an after-tax basis) and hold harmless Libertas Capital (including its directors, officers, employees and agents), for its own account and as trustee for its Affiliates (each an "Indemnified Party"), from and against any losses, claims, demands, damages, costs, charges, expenses or liabilities (or actions, proceedings or investigations in respect thereof) which the Indemnified Party may

suffer or incur or which may be made against the Indemnified Party relating to or arising directly or indirectly out of Libertas Capital's provision of services in connection with the Engagement; and the Company will reimburse the Indemnified Parties for all costs and expenses (including professional and legal fees) which are incurred by the Indemnified Parties in connection with investigating, preparing or defending any such action or claim, whether or not in connection with pending or threatened litigation or arbitration, in which any Indemnified Party is a party or otherwise involved, and whether or not resulting in liability on the part of any Indemnified Party. Libertas Capital will, to the extent reasonable and practicable in the circumstances and subject to any requirement imposed by an insurer of Libertas Capital or any Indemnified Party, consult with the Company and keep the Company informed in relation to any action or claim of this kind. The Company will not, however, be responsible for any losses, claims, demands, damages, costs, charges, expenses or liabilities incurred by an Indemnified Party that are determined to be in bad faith or arising from negligence, wilful default or fraud of an Indemnified Party or, breach of the Financial Services and Markets Act 2000, the FSA Rules in relation to the Company and this agreement or material breach of this agreement. The provisions of this indemnity are not affected by any other terms (including any limitations) set out in this letter.

In this letter, an "Affiliate" shall mean a person controlling, controlled by or under common control with that person, including their respective directors, officers, employees and agents.

Each Affiliate of Libertas Capital shall have the right under the Contracts (Rights of Third Parties) Act 1999 to enforce its rights against the Company under this Section 6 provided that:

- (i) Libertas Capital may, by agreement with the Company, vary the rights conferred on any Affiliate by this Section 5 (without the consent of any Affiliate and shall not be liable to any Affiliate for any of its acts or omissions under this Section 5); and
- (ii) only Libertas Capital may decide whether or not to enforce an Affiliate's right under this Section 5 (and only it may decide the terms and conditions of that enforcement).

Except as provided above, a person who is not a party to this letter has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this agreement.

6. Company agreement

The Company agrees that, if it accepts any limitation ("Limitation") on the extent to which it may claim against any third party in connection with matters on which Libertas Capital is advising the Company, then the Company shall hold Libertas Capital harmless and shall procure that Libertas Capital shall have no greater overall liability than it would have done in the absence of the Limitation.

It is agreed by the Company that any Limitation will not affect the extent to which Libertas Capital relies upon any work of, actions of, or statements made by, the relevant third party.

7. Conflicts of interests

It is possible that during the Engagement conflicts of interest may arise between the interests of the Company and the interests of other clients that Libertas Capital acts for, including in particular clients of our sales desks who may wish to subscribe for shares. Conflicts of interest could also arise between the Company and Libertas Capital itself, or those of other companies within Libertas Capital Group plc.

Because of potential conflicts of interest and to preserve confidentiality of client information, Libertas Capital has established, as permitted under the FSA Rules, appropriate "Chinese Walls" and conflicts management procedures. When acting under the Engagement, Libertas Capital's duty is to act in the best interests of the Company. We must manage any conflicts of interest that may arise in a way that is consistent with that duty.

The Company acknowledges that Libertas Capital may therefore have interests or duties which conflict with the Company's interests and would otherwise conflict with the duties owed by Libertas Capital to the Company and agree that Libertas Capital may retain any profit or fees derived from such other clients or interest provided that Libertas Capital does not utilise any confidential and/or insider information regarding the Company disclosed to it by the Company.

Potential conflicts may on occasion arise between Libertas Capital's duties to the Company and to its other clients and between its duties to the Company and its own interests. Libertas Capital has established, as permitted under the Rules of the FSA, "Chinese Wall" procedures designed to ensure that in providing corporate finance services to any particular client, the individuals are insulated from information known to individuals working in other divisions.

The Company accepts that Libertas Capital and/or any holding or subsidiary company may, for reasons such as are described above, have interests or duties which conflict with the Company's interests and would otherwise conflict with the duties owed by Libertas Capital to the Company. When acting under the Engagement Libertas Capital's duty is to act in the best interests of the Company. We must manage any conflicts of interest that may arise in a way that is consistent with that duty.

The Engagement will be led by members of our Corporate Finance Department, who act solely for corporate finance clients. Analysts and salespersons from Libertas Capital's sales desks will however be involved in certain aspects of the transaction, including the marketing of the issue to investors. It is also likely that they will have an input into Libertas Capital's advice on the pricing and timing of the issue as well as our advice on the allocation of shares. We believe that such individuals are well placed to provide advice on these matters, because of their understanding of both market conditions and individual clients. The Company should however be aware that such individuals can be as exposed to a conflict of interest, because they derive business from clients of Libertas Capital's sales desks whose interests will not necessarily be the same as those of the Company.

Libertas Capital will only recommend allocations to such parties if it believes that they would be consistent with the Company's interests. Furthermore, Libertas Capital will invite the Company to participate actively in the allocation process and provide it with appropriate information to support its recommendations. We will write to you separately on how we propose to manage the allocation process.

The Company also accepts that, in acting for it, Libertas Capital will not be required to disclose to it, nor to make use for its benefit of, any information known to Libertas Capital which (i) belongs to or is confidential to another client of Libertas Capital or (ii) belongs to or is confidential to any holding company, subsidiary or fellow subsidiary or (iii) which belongs to or is confidential to Libertas Capital and relates to some other part of its business than the provision of corporate finance services.

8. Confidentiality

Subject to the conditions set out below, all confidential information which Libertas Capital receives from the Company will be held in strict confidence unless and until the Company specifically consents to the disclosure of that confidential information. Libertas Capital will take reasonable steps as it considers appropriate to ensure that confidential information provided by the Company for the purpose of the Engagement is not used by Libertas Capital for other purposes which are contrary to the Company's interests. All original share certificates and other documents of title held to the order of the Company and all other papers held by Libertas Capital which were supplied to Libertas Capital by the Company will be returned by Libertas Capital to the Company after receipt of a request from the Company subject to Libertas Capital being entitled to retain copies in order to comply with its regulatory or other record-keeping requirements.

In addition to any other obligation by virtue of which Libertas Capital or any Affiliate may be bound by law to disclose information, Libertas Capital will be entitled, if requested or required to do so, at Libertas Capital's discretion, to disclose any information known to Libertas Capital or any Affiliate, and/or to produce any documents, relating to the Company's business or affairs to any governmental or regulatory agency or authority (whether in the United Kingdom or elsewhere). In addition, Libertas Capital will, where reasonably practicable, seek to impose a confidentiality requirement in any case where the information is not subject to statutory restrictions on disclosure by the recipient. Libertas Capital will, if it makes any disclosure or production of the kind contemplated by this section, notify the Company of that disclosure or production if it is not restricted from doing so.

Neither Libertas Capital nor any Affiliate will have any duty to disclose to the Company any information which comes to their notice (or the notice of any Affiliate) in the course of carrying on any other business or as a result of or in connection with the provision of services to other persons. The Company accepts that Libertas Capital and its Affiliates may be prohibited from disclosing, or it may be inappropriate for Libertas Capital and its Affiliates to disclose, information to the Company even if it relates to the Company or to the Engagement.

The Company agrees that it will keep in strict confidence Libertas Capital's confidential information (which shall include, but not be limited to, all information marked as "confidential") that it receives from Libertas Capital unless and until Libertas Capital specifically consents to the disclosure of that confidential information or to the extent it is required by a court of law or an applicable regulatory body.

9. Company's money

Funds belonging to the Company which come under the custody or control of Libertas Capital or any Libertas Capital Affiliate during the provision of its services hereunder shall not be treated as client money for the purposes of the Financial Services (Clients Money) Regulations 1991 (as amended). In all instances where this may apply, the Company will be asked to sign a separate document agreeing to this.

10. Authorisation

Except where the Company expressly instructs Libertas Capital otherwise, Libertas Capital is entitled to assume that instructions (whether or not in writing and howsoever communicated) have been properly authorised by the Company if they are given or purport to be given by an individual or person who is or purports to be and is reasonably believed by Libertas Capital to be a director or authorised agent of the Company. Instructions may be given by telephone or in writing. Material actions discussed over the telephone are to be confirmed in writing.

11. Legal and regulatory requirements

The Company confirms and undertakes that it has all necessary powers and has obtained all necessary authorisations, consents and approvals validly and lawfully to enter into any relevant engagement letter and these terms and conditions.

The Company undertakes that (save as expressly disclosed to Libertas Capital in writing) it has and undertakes that it shall maintain all necessary consents and authorisations for Libertas Capital to carry out the Engagement. The Company agrees that it will comply and will procure that all its Affiliates will comply with all relevant laws and regulations in any jurisdiction including, in relation to the United Kingdom, the Companies Acts, the Financial Services and Markets Act 2000, the Criminal Justice Act 1993, the City Code on Takeovers and Mergers, the instructions of the Panel on Takeovers and Mergers and the Rules and Regulations of the London Stock Exchange and the Financial Services Authority ("the UK Listing Authority"). In carrying out its obligations to the Company pursuant to the Engagement, Libertas Capital is also subject to (as well as the range of applicable laws) a number of rules and regulations and the requirements of a number of regulators. The Company agrees that the duties of Libertas Capital to it will not restrict the freedom of Libertas Capital to take all steps which Libertas Capital considers to be necessary to comply with the laws, rules and regulations applicable to Libertas Capital.

The Company undertakes to obtain appropriate advice (including legal advice) in respect of all laws and regulations which may be applicable to it in the UK or any other jurisdiction in connection with the Engagement and to communicate such advice to Libertas Capital if it is or may be relevant to the carrying out by Libertas Capital of its services to the Company.

12. Transactions in investments

Any transactions in investments undertaken by Libertas Capital for or on behalf of the Company will be undertaken subject to the Rules of the FSA and the rules and customs of the exchange or market and/or any clearing house on or through which such transactions are undertaken, settled or executed.

The Company will consult Libertas Capital before any dealings take place in its securities or those of any company in relation to which Libertas Capital is advising the Company, by the Company or any of its directors or employees (and connected persons within the meaning of the AIM Rules of the London Stock Exchange).

13. Use of sub-agents

Libertas Capital may in providing services to the Company hereunder employ such sub-agents (including any Libertas Capital Affiliates) as it may reasonably determine and on such terms and on such conditions as it may reasonably determine and the fees and expenses of any such sub-agent shall be paid or reimbursed by the Company pursuant to the terms of their engagement letter, provided that such sub-agents fees and expenses are not greater than the fees and expenses which would otherwise have been paid by the Company to Libertas Capital for the same services pursuant to the Engagement.

14. Force Majeure

In the event of any failure, interruption or delay in the performance of the obligations of Libertas Capital hereunder resulting from acts, events or circumstances not reasonably in its control, including, but not limited to, industrial disputes, acts or regulations of any governmental or supranational bodies or authorities, breakdown, failure or malfunction of any telecommunication or computer services, Libertas Capital shall not be liable or have any responsibility of any kind for any loss or damage incurred or suffered by the Company or any Affiliate as a result thereof.

15. Obligations as nominated adviser ("NOMAD")

Under the AIM Rules of the London Stock Exchange where Libertas Capital is acting as nominated adviser to the Company, Libertas Capital is required to ensure that the directors of an applicant for listing have been made aware of and understand their responsibilities and obligations under the AIM Rules and certain requirements of the general law. If requested by Libertas Capital, the Company and the directors agree to provide such written confirmation to Libertas Capital as Libertas Capital may reasonably request that the Company and the directors have been made aware of such responsibilities, obligations and requirements.

16. Recording of telephone conversations

Libertas Capital may use voice recording procedures when receiving instructions or orders or when giving advice. Such recordings will be the sole property of Libertas Capital and will be kept confidential other than to assist in the resolution of any relevant dispute, or as required by law or other regulatory authority, in either case, where reasonable, Libertas Capital will endeavour to give prior notice of such disclosure to the Company.

18. Amendments

These terms and conditions are subject to change at any time by Libertas Capital sending to the Company a written notice describing the relevant change(s) and such change(s) will become effective on the date specified in the notice, which will be on or after the date on which the notice is deemed to be received by the Company. No such change will affect any legal rights or obligations which may have previously accrued to or been incurred by Libertas Capital or the Company. The Company is free to terminate these arrangements if it does not accept the revised terms and conditions.

19. Notices

Any written notice to be given hereunder may be delivered in person, by letter (sent by first class post) or be sent by facsimile transmission to the registered office of

Libertas Capital, in the case of notices to Libertas Capital and to the address last notified by the Company to Libertas Capital in the case of notices to the Company. All such notices shall be deemed to have been received at the times when in the ordinary course they have been received.

20. Illegality

If any part of the engagement letter or its schedules shall become or be declared illegal, invalid or unenforceable for any reason whatsoever, such part shall be deemed to be deleted, provided always that if any such deletion substantially affects or alters the commercial basis of these terms and conditions, the parties shall negotiate in good faith to amend and notify them as may be necessary or desirable in the circumstances.

21. Termination

Libertas Capital's services in relation to this letter may be terminated by the Company or by Libertas Capital at any time by written notice without liability or continuing obligation to the Company or to Libertas Capital except for any rights or obligations that have accrued prior to termination or expiry and sections 3 and section 5 of Schedule 2 of this letter and the confidentiality provisions contained herein.

If Libertas Capital's services are terminated before completion of the Introduction, the Company will pay Libertas Capital any outstanding retainer payments pro-rata to the date of termination and will reimburse Libertas Capital for all reasonable out-of-pocket expenses incurred up to the date of termination. If Libertas Capital's services are terminated by the Company before completion of the Introduction and the Introduction is completed within a period of 12 months after the effective date of termination, the Company shall pay Libertas Capital a fee of to £200,000, subject to such termination not being due to negligence or incompetence on the part of Libertas.

If Libertas Capital's services are terminated by the Company following completion of the Introduction, yet prior to completion of the anticipated fundraising and the anticipated fundraising is completed within a period of 12 months after the effective date of termination, the Company shall in addition pay Libertas Capital a cash commission of 5 per cent. of gross funds raised from investors introduced to the Company by Libertas Capital.

22. Entire agreement

The accompanying engagement letter and the Schedules thereto set out the entire agreement and understanding between the Company and Libertas Capital in connection with the Engagement.

23. Governing law

The accompanying engagement letter and these terms and conditions shall be governed and construed in accordance with English law and the Company hereby submits to the non-exclusive jurisdiction of the English courts.

STRICTLY PRIVATE & CONFIDENTIAL

Libertas Capital Group plc
16 Berkeley Street
London
W1J 8DZ
UK

The Directors
Pacific Rim Foods Limited
3505 Chatham Street
Racine, WI 53402

3 April 2007

The Directors
Empire Energy Corporation International
Commerce Terrace
11011 King Street
Suite 260B
Overland Park
KS 66210
USA

For the Attention of: Malcolm Bendall

Dear Sir,

Introduction of the food assets of Empire Energy Corporation International onto AIM

We are writing to confirm the basis on which Libertas Capital Group plc, through its subsidiary companies, Libertas Capital Corporate Finance Limited (“LCCF”) and Libertas Capital Securities Limited (“LCS”) (together “Libertas Capital”), is to provide corporate finance advice and broking services in relation to an introduction of the food assets currently held by Empire Energy Corporation International (“Empire Energy”) to trading on AIM (“Introduction”) and fundraising if appropriate (together the “Engagement”).

For the avoidance of doubt the Engagement may constitute the Introduction of Pacific Rim Foods Limited (“Pacific Rim”) or a special purpose vehicle established for the transaction, or other means to obtain a listing such as an AIM or other Investment Company. Empire Energy and Pacific Rim will be referred to as the “Company” herein as appropriate.

The Engagement will also include any private fundraise undertaken by Libertas Capital prior to completion of the Introduction or any fundraise at the time of or following the Introduction.

1. Nature of the Engagement

Under the Engagement, Libertas Capital will act as the Company's Nominated Adviser ("Nomad") and Broker. As part of our role we will provide advice and services detailed in Part A of Schedule 1.

We set out in Part B of Schedule 1 a list of the services we will provide to the Company after the Introduction as a retained corporate client.

We shall not be obliged to provide any other advice or services unless we expressly agree to do so.

Following completion of the Introduction and for so long as Libertas Capital provides the Company's nominated adviser and/or broker services, we shall have the right to pitch as financial adviser for any type of investment banking transaction including, without limitation, any equity financing, disposal, acquisition, merger or other business combination in which the Company is involved and any refinancing or sale of the Company or any part thereof and the Company agrees that Libertas Capital shall have right of first refusal on providing such services provided, however, that Libertas Capital offers such services on terms and conditions, including fees, which are comparable with the terms and conditions for such services provided by comparable institutions. Such services shall be offered pursuant to an additional agreement or agreements between the Company and Libertas Capital. The Company acknowledges that this paragraph does not constitute a commitment (express or implied) by Libertas Capital to provide any such additional services or to purchase or place securities, or to provide or be responsible for providing any financing.

2. Resources

Jakob Kinde and Aamir Quraishi from LCCF will be in charge of this assignment. It is intended that the team will include members from Libertas Capital Asia and LCS as appropriate. Other members of Libertas Capital may be used as Libertas Capital considers necessary. Libertas Capital reserves the right to change or amend the team members working on the Engagement, in discussion with the Company.

3. Fees, Commissions and Expenses for the Engagement

The Company will pay Libertas Capital the following cash fees and commissions:

- In relation to a private fundraising prior to the Introduction, the Company will pay Libertas Capital a broking commission of 5 per cent., payable in cash, on the gross value of funds raised by Libertas Capital and equity in the Company equivalent in value to 2 per cent. of the gross funds raised;
- On completion of the Introduction:
 - a) a Nomad fee of £250,000, payable in cash; and
 - b) a broking commission of 5 per cent., payable in cash, on the gross value of funds raised by Libertas Capital and equity in the Company equivalent in value to 1 per cent. of the gross funds raised, either at the time of the Introduction or post the Introduction once the Company's shares have been admitted to trading on AIM. In the event that the funds are raised following the Introduction, we would intend to complete the fundraising within 3 months following the Introduction, or as agreed with the Company.

The Company will pay Libertas Capital a monthly cash retainer in relation to the Engagement of £10,000 commencing on a date to be agreed between the Company and Libertas Capital. This retainer will be payable in arrears each month and only up to £50,000 in aggregate will be offset against the success fees detailed above.

Following the Introduction, the Company will pay Libertas Capital an annual retainer in respect of ongoing Nomad and Broker services to the Company of £50,000 per annum (payable in cash half yearly in advance).

In addition to the fees referred to above, the Company shall reimburse Libertas Capital for its reasonable out-of-pocket expenses (such as legal fees, travel, fax, courier and other incidental expenses) properly incurred in connection with the Engagement (plus applicable VAT), including the cost of any regulatory news service (RNS) announcements released by Libertas Capital on behalf of the Company to the London Stock Exchange.

All fees, commissions and expenses shall be payable in pounds sterling and in cash in London together with any Value Added Tax (if applicable) and in accordance with the terms and conditions set out in this Engagement.

4. Standard Terms and Conditions

The standard terms and conditions of business contained in Schedule 2 and the indemnity contained in Schedule 2 are deemed to be part of this letter. By executing the counterpart of this letter the Company accepts such terms and conditions and agrees to be bound by the indemnity contained in Schedule 2.

5. Status of the Company

The Company is an Intermediate Customer as defined by the Rules of the FSA. As such, the Company will not obtain the benefit of the FSA Rules designed exclusively for the protection of private customers.

6. Compliance

During the period of the Engagement of Libertas Capital as the Company's Nomad following an Introduction, the Company shall:

- a) notify in advance of, and discuss with, Libertas Capital any announcement of profits or losses or dividends in respect of any reporting period and any other information which is likely to affect the general character or nature of the business of the group or may be necessary to be disclosed to the public in order to enable shareholders and the public to appraise the position of the Company and to avoid the existence of a false market in securities of the Company;
- b) forward to Libertas Capital for perusal before their issue in final form all proofs of all Stock Exchange announcements, circulars to holders of shares in the Company (including without limitation notices of meetings, forms of proxy and the Directors' report and annual accounts), documents relating to takeovers, mergers, share issues, re-organisations or other schemes (including employee profit share schemes or share option schemes) and all press announcements;

- c) report its interim and annual results within three and four months respectively of the end of each reporting period;
- d) ensure that all dealings by Directors in the Company, in compliance with AIM Rule 21, should be effected through Libertas Capital, as the Company's stockbrokers as long as Libertas Capital offer comparable market terms;
- e) without previously discussing with Libertas Capital, not enter into any related party transaction, agreement or arrangement which would be a transaction with a related party for the purposes of the AIM Rules for Companies; and
- f) notify and consult with Libertas Capital prior to entering into any commitment or agreement relating to the issue of any shares exceeding in aggregate five per cent. of the entire issued share capital of the Company or involving securities convertible or exchangeable into shares.

7. General

This letter does not affect any other agreement which Libertas Capital has entered into with the Company in respect of any other transaction or matter, nor any other agreement which it may enter into in connection with the Introduction.

This letter does not oblige Libertas Capital to sell, acquire, place, underwrite or sub-underwrite any investments, or to lend monies, unless and until it is expressly agreed otherwise in writing. This letter supersedes other letters in relation to advising on an AIM listing for the oil assets of the Company.

Please note that by entering into or performing our obligations under this letter, Libertas Capital is not representing that it is or will be possible or advisable for the Introduction to proceed. The conclusions which Libertas Capital may reach in respect of the Engagement may change. Our obligation in this respect is to advise the Company as we see fit, in what we perceive to be the Company's best interests, in the light of circumstances prevailing at the time at which such advice is given.

Any remedy or right conferred on Libertas Capital upon breach of this Agreement shall be in addition to and without prejudice to all other rights and remedies available to it.

Libertas Capital is a financial institution which is a member of the London Stock Exchange plc and regulated by the Financial Services Authority pursuant to the provisions of the Financial Services and Markets Act 2000.

Please sign and return the attached copy of this letter to indicate your agreement to its terms.

Yours faithfully

Accepted by

Jakob Kinde
Chairman, Libertas Capital Group plc

Tad Ballantyne
Director
Pacific Rim Foods Limited

Jonathan Flory
Head of Corporate Finance

Malcolm Bendall
Director
Empire Energy Corporation International

SCHEDULE 1
ADVICE AND SERVICES

Part A - Introduction and fundraise:

- (a) Advice on the structure and mechanics of the Introduction and fundraising.
- (b) Co-ordination of the relevant professional advisers in producing their reports and advice to achieve the Introduction within an agreed timetable.
- (c) Co-ordination of the production, verification and despatch of the admission document to be circulated in respect of the Introduction (the "Admission Document") and other supporting documentation.
- (d) Taking responsibility for communications with the London Stock Exchange, lodging with the London Stock Exchange all documents supporting the application for admission to AIM and preparing in conjunction with the Company and its other advisers, but not approving, all requisite public announcements in connection therewith.
- (e) Planning and co-ordination of the marketing programme designed to introduce potential institutional and other investors, and preparing with your input an investor presentation in connection therewith.
- (f) Advice on the pricing and timing of the Introduction and fundraise in the light of the market conditions and other related factors.
- (g) Advice on compliance by the Company with the AIM Rules of the London Stock Exchange and all other regulations applicable to the Introduction.
- (h) In the event of a fundraise at the Introduction and subject to the transaction proceeding and subject to our agreeing an acceptable placing agreement, placing the Company's shares to be issued with institutional clients of Libertas Capital. The Company shall be consulted by Libertas Capital before Libertas Capital finalises its list of placees, although the Company acknowledges that this is only a right to be consulted and not a right to veto any proposed placee which is an institutional fund/investor.
- (i) In conjunction with the Introduction, oversee and co-ordinate the setting up of a facility for the electronic settlement of the Company's shares as required by the AIM Rules for Companies.

SCHEDULE 1
ADVICE AND SERVICES

Part B - Routine ongoing services following the Introduction

- (a) Attendance at regular meetings with the directors, as requested by the Company.
- (b) Provision to the Company of a periodic analysis of, and commentary on, the make up of its shareholder register.
- (c) Advice on and co-ordination of an appropriate investor liaison programme for the Company.
- (d) Monitoring and reporting to the Company where appropriate or as requested by the Company on the trading of its shares and significant movements in its share price.
- (e) Maintaining liaison with, and assisting the Company in complying with the regulations of, the London Stock Exchange and The Panel on Takeovers and Mergers.
- (f) Advice to the Company on anticipated market reactions to new corporate initiatives including, for example, acquisitions, disposals and fund raising.
- (g) Advice to the directors on a preliminary basis, where requested, in respect of potential offers, acquisitions, disposals, finance raising and other corporate or financial matters.
- (h) Periodically (and no less than twice per year) preparing analysts' reports or comment on the Company.
- (i) Advising the Company when requested on corporate governance issues and on compliance with the guidelines issued by the investor protection committees.
- (j) Advising the Company when requested on directors' share sales and on compliance with AIM Rule 21 on directors' dealings adopted by the Company which we expect to be substantially in the form set out in the UK Listing Authority's listing rules).
- (k) When requested and subject to regulatory requirements, co-ordinate transactions in the Company's shares.
- (l) Generally act as the Company's nominated adviser and broker and be responsible to the London Stock Exchange PLC for fulfilling the responsibilities set out in Rules 35, 39 and Part 2 of the AIM Rules for Companies and the provisions of the AIM Rules for Nominated Advisers.

**SCHEDULE 2
STANDARD TERMS AND CONDITIONS**

1. Application

These are the standard terms and conditions, on and subject to which, Libertas Capital will provide any services to the Company. Where there is any conflict between the express terms of any letter of engagement and these terms and conditions, these terms will prevail.

2. Libertas Capital advice

The Company agrees that any advice given by Libertas Capital is provided solely for the purpose of the Engagement and for the use and benefit of the Company and may not be used or relied on for any other purpose or disclosed to any other person (excluding the Company's professional advisers, who may place no reliance on such advice) without the prior written approval of Libertas Capital. Any valuations and other written reports or material produced by Libertas Capital and any information memoranda issued by Libertas Capital to third parties in connection with the Engagement will contain Libertas Capital's normal disclaimers and exclusions of liability.

Libertas Capital's role in relation to due diligence will be to assist the Company in coordinating the work of the other advisers to the Company (in the light of Libertas Capital's actual knowledge of that work and the proposed timetable for the Engagement). Libertas Capital will not otherwise be responsible for any due diligence for the Company in relation to the Engagement (whether in terms of nature, extent, adequacy or performance). In particular, Libertas Capital will not have any responsibility for due diligence which would normally be carried out by a specialist adviser (such as, for example, a legal, accountancy, valuation, tax or environmental adviser), notwithstanding any information or advice from these advisers which may be passed to Libertas Capital or passed on by Libertas Capital to the Company. Libertas Capital will not be responsible for providing advice in connection with those matters for which the Company has agreed to provide or arrange, or a company would usually provide or arrange, advice (such as, for example, legal, regulatory, accounting, taxation or environmental matters).

It is the responsibility of the Company to ensure that the advice from its other advisers in relation to the Engagement is received and considered by the Company and is adequate for the purposes of the Engagement. Libertas Capital will not have any liability in respect of any services or advice provided to the Company by persons other than Libertas Capital.

In rendering its services to the Company hereunder, Libertas Capital is not assuming any responsibility for the Company's underlying business decision to effect any transaction.

3. Provision of information

In order to carry out the Engagement, Libertas Capital will have full access to directors and other staff of the Company and its Affiliates associated with the Engagement. Libertas Capital will also have full access to other data and information as Libertas Capital may require and the Company shall provide Libertas Capital with reasonable access to its accountants and other advisors.

In addition, the Company agrees to keep Libertas Capital informed of any material developments or proposals in relation to the business or operations of the Company and its subsidiaries, in particular where these may have any effect on the Engagement.

In completing its engagement hereunder, Libertas Capital will be using and relying on publicly available information and information provided by or on behalf of the Company. The Company represents that all information furnished by it or on its behalf to Libertas Capital will be accurate and complete in all material respects. It is understood that Libertas Capital may assume and rely upon the accuracy and completeness of, and is not assuming any responsibility for independent verification of, such publicly available information and/or information so furnished by the Company.

4. Documents, announcements and other financial promotions

The Company or the Directors of the Company will accept full responsibility for the contents of any document, announcement or other financial promotion issued in connection with the Engagement.

Notwithstanding the above, Libertas Capital reserves the right (but is under no duty whatsoever) at its absolute discretion and for its own purposes to take whatever steps it may consider appropriate to satisfy itself as to the accuracy and completeness of any public documents or other financial promotions issued in connection with the Engagement and the Company agrees to co-operate fully with Libertas Capital in the taking of such steps (including by providing access to Libertas Capital as set out in Section 3 above).

Libertas Capital retains the right to refuse to issue or approve, or arrange for the issue of, a particular document, announcement or other financial promotion and to require the Company to cease to distribute a document, announcement or other financial promotion which, in Libertas Capital's opinion, has any connection with or potential effect on the Engagement if at any time Libertas Capital becomes aware of information which, in its opinion, renders the document, announcement or other financial promotion untrue, incomplete or misleading in a material respect.

The Company agrees that it will not publish, or arrange for the publication of, any document or announcement in relation to, or having any effect on, the Engagement without the prior written consent of Libertas Capital. Further, the Company shall promptly inform Libertas Capital of any discussions, negotiations or inquiries regarding a possible sale/acquisition/placing etc.

Libertas Capital shall have the right to place advertisements in financial and other newspapers and journals at its own expense describing its services to the Company hereunder, provided that Libertas Capital will submit a copy in advance of any such advertisement to the Company for its approval, which approval shall not be unreasonably withheld or delayed.

5. Indemnity

The Company agrees to indemnify (on an after-tax basis) and hold harmless Libertas Capital (including its directors, officers, employees and agents), for its own account and as trustee for its Affiliates (each an "Indemnified Party"), from and against any losses, claims, demands, damages, costs, charges, expenses or liabilities (or actions, proceedings or investigations in respect thereof) which the Indemnified Party may

suffer or incur or which may be made against the Indemnified Party relating to or arising directly or indirectly out of Libertas Capital's provision of services in connection with the Engagement; and the Company will reimburse the Indemnified Parties for all costs and expenses (including professional and legal fees) which are incurred by the Indemnified Parties in connection with investigating, preparing or defending any such action or claim, whether or not in connection with pending or threatened litigation or arbitration, in which any Indemnified Party is a party or otherwise involved, and whether or not resulting in liability on the part of any Indemnified Party. Libertas Capital will, to the extent reasonable and practicable in the circumstances and subject to any requirement imposed by an insurer of Libertas Capital or any Indemnified Party, consult with the Company and keep the Company informed in relation to any action or claim of this kind. The Company will not, however, be responsible for any losses, claims, demands, damages, costs, charges, expenses or liabilities incurred by an Indemnified Party that are determined to be in bad faith or arising from negligence, wilful default or fraud of an Indemnified Party or, breach of the Financial Services and Markets Act 2000, the FSA Rules in relation to the Company and this agreement or material breach of this agreement. The provisions of this indemnity are not affected by any other terms (including any limitations) set out in this letter.

In this letter, an "Affiliate" shall mean a person controlling, controlled by or under common control with that person, including their respective directors, officers, employees and agents.

Each Affiliate of Libertas Capital shall have the right under the Contracts (Rights of Third Parties) Act 1999 to enforce its rights against the Company under this Section 6 provided that:

- (i) Libertas Capital may, by agreement with the Company, vary the rights conferred on any Affiliate by this Section 5 (without the consent of any Affiliate and shall not be liable to any Affiliate for any of its acts or omissions under this Section 5); and
- (ii) only Libertas Capital may decide whether or not to enforce an Affiliate's right under this Section 5 (and only it may decide the terms and conditions of that enforcement).

Except as provided above, a person who is not a party to this letter has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this agreement.

6. Company agreement

The Company agrees that, if it accepts any limitation ("Limitation") on the extent to which it may claim against any third party in connection with matters on which Libertas Capital is advising the Company, then the Company shall hold Libertas Capital harmless and shall procure that Libertas Capital shall have no greater overall liability than it would have done in the absence of the Limitation.

It is agreed by the Company that any Limitation will not affect the extent to which Libertas Capital relies upon any work of, actions of, or statements made by, the relevant third party.

7. Conflicts of interests

It is possible that during the Engagement conflicts of interest may arise between the interests of the Company and the interests of other clients that Libertas Capital acts for, including in particular clients of our sales desks who may wish to subscribe for shares. Conflicts of interest could also arise between the Company and Libertas Capital itself, or those of other companies within Libertas Capital Group plc.

Because of potential conflicts of interest and to preserve confidentiality of client information, Libertas Capital has established, as permitted under the FSA Rules, appropriate "Chinese Walls" and conflicts management procedures. When acting under the Engagement, Libertas Capital's duty is to act in the best interests of the Company. We must manage any conflicts of interest that may arise in a way that is consistent with that duty.

The Company acknowledges that Libertas Capital may therefore have interests or duties which conflict with the Company's interests and would otherwise conflict with the duties owed by Libertas Capital to the Company and agree that Libertas Capital may retain any profit or fees derived from such other clients or interest provided that Libertas Capital does not utilise any confidential and/or insider information regarding the Company disclosed to it by the Company.

Potential conflicts may on occasion arise between Libertas Capital's duties to the Company and to its other clients and between its duties to the Company and its own interests. Libertas Capital has established, as permitted under the Rules of the FSA, "Chinese Wall" procedures designed to ensure that in providing corporate finance services to any particular client, the individuals are insulated from information known to individuals working in other divisions.

The Company accepts that Libertas Capital and/or any holding or subsidiary company may, for reasons such as are described above, have interests or duties which conflict with the Company's interests and would otherwise conflict with the duties owed by Libertas Capital to the Company. When acting under the Engagement Libertas Capital's duty is to act in the best interests of the Company. We must manage any conflicts of interest that may arise in a way that is consistent with that duty.

The Engagement will be led by members of our Corporate Finance Department, who act solely for corporate finance clients. Analysts and salespersons from Libertas Capital's sales desks will however be involved in certain aspects of the transaction, including the marketing of the issue to investors. It is also likely that they will have an input into Libertas Capital's advice on the pricing and timing of the issue as well as our advice on the allocation of shares. We believe that such individuals are well placed to provide advice on these matters, because of their understanding of both market conditions and individual clients. The Company should however be aware that such individuals can be as exposed to a conflict of interest, because they derive business from clients of Libertas Capital's sales desks whose interests will not necessarily be the same as those of the Company.

Libertas Capital will only recommend allocations to such parties if it believes that they would be consistent with the Company's interests. Furthermore, Libertas Capital will invite the Company to participate actively in the allocation process and provide it with appropriate information to support its recommendations. We will write to you separately on how we propose to manage the allocation process.

The Company also accepts that, in acting for it, Libertas Capital will not be required to disclose to it, nor to make use for its benefit of, any information known to Libertas Capital which (i) belongs to or is confidential to another client of Libertas Capital or (ii) belongs to or is confidential to any holding company, subsidiary or fellow subsidiary or (iii) which belongs to or is confidential to Libertas Capital and relates to some other part of its business than the provision of corporate finance services.

8. Confidentiality

Subject to the conditions set out below, all confidential information which Libertas Capital receives from the Company will be held in strict confidence unless and until the Company specifically consents to the disclosure of that confidential information. Libertas Capital will take reasonable steps as it considers appropriate to ensure that confidential information provided by the Company for the purpose of the Engagement is not used by Libertas Capital for other purposes which are contrary to the Company's interests. All original share certificates and other documents of title held to the order of the Company and all other papers held by Libertas Capital which were supplied to Libertas Capital by the Company will be returned by Libertas Capital to the Company after receipt of a request from the Company subject to Libertas Capital being entitled to retain copies in order to comply with its regulatory or other record-keeping requirements.

In addition to any other obligation by virtue of which Libertas Capital or any Affiliate may be bound by law to disclose information, Libertas Capital will be entitled, if requested or required to do so, at Libertas Capital's discretion, to disclose any information known to Libertas Capital or any Affiliate, and/or to produce any documents, relating to the Company's business or affairs to any governmental or regulatory agency or authority (whether in the United Kingdom or elsewhere). In addition, Libertas Capital will, where reasonably practicable, seek to impose a confidentiality requirement in any case where the information is not subject to statutory restrictions on disclosure by the recipient. Libertas Capital will, if it makes any disclosure or production of the kind contemplated by this section, notify the Company of that disclosure or production if it is not restricted from doing so.

Neither Libertas Capital nor any Affiliate will have any duty to disclose to the Company any information which comes to their notice (or the notice of any Affiliate) in the course of carrying on any other business or as a result of or in connection with the provision of services to other persons. The Company accepts that Libertas Capital and its Affiliates may be prohibited from disclosing, or it may be inappropriate for Libertas Capital and its Affiliates to disclose, information to the Company even if it relates to the Company or to the Engagement.

The Company agrees that it will keep in strict confidence Libertas Capital's confidential information (which shall include, but not be limited to, all information marked as "confidential") that it receives from Libertas Capital unless and until Libertas Capital specifically consents to the disclosure of that confidential information or to the extent it is required by a court of law or an applicable regulatory body.

9. Company's money

Funds belonging to the Company which come under the custody or control of Libertas Capital or any Libertas Capital Affiliate during the provision of its services hereunder shall not be treated as client money for the purposes of the Financial

Services (Clients Money) Regulations 1991 (as amended. In all instances where this may apply, the Company will be asked to sign a separate document agreeing to this.

10. Authorisation

Except where the Company expressly instructs Libertas Capital otherwise, Libertas Capital is entitled to assume that instructions (whether or not in writing and howsoever communicated) have been properly authorised by the Company if they are given or purport to be given by an individual or person who is or purports to be and is reasonably believed by Libertas Capital to be a director or authorised agent of the Company. Instructions may be given by telephone or in writing. Material actions discussed over the telephone are to be confirmed in writing.

11. Legal and regulatory requirements

The Company confirms and undertakes that it has all necessary powers and has obtained all necessary authorisations, consents and approvals validly and lawfully to enter into any relevant engagement letter and these terms and conditions.

The Company undertakes that (save as expressly disclosed to Libertas Capital in writing) it has and undertakes that it shall maintain all necessary consents and authorisations for Libertas Capital to carry out the Engagement. The Company agrees that it will comply and will procure that all its Affiliates will comply with all relevant laws and regulations in any jurisdiction including, in relation to the United Kingdom, the Companies Acts, the Financial Services and Markets Act 2000, the Criminal Justice Act 1993, the City Code on Takeovers and Mergers, the instructions of the Panel on Takeovers and Mergers and the Rules and Regulations of the London Stock Exchange and the Financial Services Authority ("the UK Listing Authority"). In carrying out its obligations to the Company pursuant to the Engagement, Libertas Capital is also subject to (as well as the range of applicable laws) a number of rules and regulations and the requirements of a number of regulators. The Company agrees that the duties of Libertas Capital to it will not restrict the freedom of Libertas Capital to take all steps which Libertas Capital considers to be necessary to comply with the laws, rules and regulations applicable to Libertas Capital.

The Company undertakes to obtain appropriate advice (including legal advice) in respect of all laws and regulations which may be applicable to it in the UK or any other jurisdiction in connection with the Engagement and to communicate such advice to Libertas Capital if it is or may be relevant to the carrying out by Libertas Capital of its services to the Company.

12. Transactions in investments

Any transactions in investments undertaken by Libertas Capital for or on behalf of the Company will be undertaken subject to the Rules of the FSA and the rules and customs of the exchange or market and/or any clearing house on or through which such transactions are undertaken, settled or executed.

The Company will consult Libertas Capital before any dealings take place in its securities or those of any company in relation to which Libertas Capital is advising the Company, by the Company or any of its directors or employees (and connected persons within the meaning of the AIM Rules of the London Stock Exchange).

13. Use of sub-agents

Libertas Capital may in providing services to the Company hereunder employ such sub-agents (including any Libertas Capital Affiliates) as it may reasonably determine and on such terms and on such conditions as it may reasonably determine and the fees and expenses of any such sub-agent shall be paid or reimbursed by the Company pursuant to the terms of their engagement letter, provided that such sub-agents fees and expenses are not greater than the fees and expenses which would otherwise have been paid by the Company to Libertas Capital for the same services pursuant to the Engagement.

14. Force Majeure

In the event of any failure, interruption or delay in the performance of the obligations of Libertas Capital hereunder resulting from acts, events or circumstances not reasonably in its control, including, but not limited to, industrial disputes, acts or regulations of any governmental or supranational bodies or authorities, breakdown, failure or malfunction of any telecommunication or computer services, Libertas Capital shall not be liable or have any responsibility of any kind for any loss or damage incurred or suffered by the Company or any Affiliate as a result thereof.

15. Obligations as nominated adviser ("NOMAD")

Under the AIM Rules of the London Stock Exchange where Libertas Capital is acting as nominated adviser to the Company, Libertas Capital is required to ensure that the directors of an applicant for listing have been made aware of and understand their responsibilities and obligations under the AIM Rules and certain requirements of the general law. If requested by Libertas Capital, the Company and the directors agree to provide such written confirmation to Libertas Capital as Libertas Capital may reasonably request that the Company and the directors have been made aware of such responsibilities, obligations and requirements.

16. Recording of telephone conversations

Libertas Capital may use voice recording procedures when receiving instructions or orders or when giving advice. Such recordings will be the sole property of Libertas Capital and will be kept confidential other than to assist in the resolution of any relevant dispute, or as required by law or other regulatory authority, in either case, where reasonable, Libertas Capital will endeavour to give prior notice of such disclosure to the Company.

18. Amendments

These terms and conditions are subject to change at any time by Libertas Capital sending to the Company a written notice describing the relevant change(s) and such change(s) will become effective on the date specified in the notice, which will be on or after the date on which the notice is deemed to be received by the Company. No such change will affect any legal rights or obligations which may have previously accrued to or been incurred by Libertas Capital or the Company. The Company is free to terminate these arrangements if it does not accept the revised terms and conditions.

19. Notices

Any written notice to be given hereunder may be delivered in person, by letter (sent by first class post) or be sent by facsimile transmission to the registered office of

Libertas Capital, in the case of notices to Libertas Capital and to the address last notified by the Company to Libertas Capital in the case of notices to the Company. All such notices shall be deemed to have been received at the times when in the ordinary course they have been received.

20. Illegality

If any part of the engagement letter or its schedules shall become or be declared illegal, invalid or unenforceable for any reason whatsoever, such part shall be deemed to be deleted, provided always that if any such deletion substantially affects or alters the commercial basis of these terms and conditions, the parties shall negotiate in good faith to amend and notify them as may be necessary or desirable in the circumstances.

21. Termination

Libertas Capital's services in relation to this letter may be terminated by the Company or by Libertas Capital at any time by written notice without liability or continuing obligation to the Company or to Libertas Capital except for any rights or obligations that have accrued prior to termination or expiry and sections 3 and section 5 of Schedule 2 of this letter and the confidentiality provisions contained herein.

If Libertas Capital's services are terminated before completion of the Introduction, the Company will pay Libertas Capital any outstanding retainer payments pro-rata to the date of termination and will reimburse Libertas Capital for all reasonable out-of-pocket expenses incurred up to the date of termination. If Libertas Capital's services are terminated by the Company before completion of the Introduction and the Introduction is completed within a period of 12 months after the effective date of termination, the Company shall pay Libertas Capital a fee to be agreed, subject to such termination not being due to negligence or incompetence on the part of Libertas.

If Libertas Capital's services are terminated by the Company following completion of the Introduction, yet prior to completion of the anticipated fundraising and the anticipated fundraising is completed within a period of 12 months after the effective date of termination, the Company shall in addition pay Libertas Capital a cash commission of 5 per cent. of gross funds raised from investors introduced to the Company by Libertas Capital.

22. Entire agreement

The accompanying engagement letter and the Schedules thereto set out the entire agreement and understanding between the Company and Libertas Capital in connection with the Engagement.

23. Governing law

The accompanying engagement letter and these terms and conditions shall be governed and construed in accordance with English law and the Company hereby submits to the non-exclusive jurisdiction of the English courts.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

Securities and Exchange Commission
Washington, D.C. 20549

We consent to the use of our report dated April 16, 2007, being the Independent Auditors' Report to Empire Energy Corporation International for the year ended December 31, 2006 and the accompanying schedules referred to therein, in the Company's annual report for fiscal year 2006 filed with the Securities and Exchange Commission on Form 10-KSB.

/s/ M D NICHOLAEFF

M D Nicholaeff
Partner

/s/ UHY HAINES NORTON

UHY Haines Norton
Chartered Accountants

Dated 16 April 2007
Sydney, Australia

UHY Haines Norton – ABN 85 140 758 156 NSWBN 98 133 826
Level 11, 1 York Street Sydney NSW 2000
GPO Box 4137 Sydney NSW 2001

An association of independent firms throughout Australia and a member of UHY, an international association of independent accounting and consulting firms

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CERTIFICATION

I, Malcolm Bendall, certify that:

1. I have reviewed this annual report on Form 10-KSB of Empire Energy Corporation International;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designated under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designated under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal controls over financial reporting.

Date: April 16, 2007

/s/ MALCOLM BENDALL

Malcolm Bendall
Chief Executive Officer
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Empire Energy Corporation International (the "Company") on Form 10-KSB for the period ending December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Malcolm Bendall, Chief Executive Officer and Chief Financial Officer of the Company, hereby certifies, pursuant to and solely for the purpose of 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge and belief, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 16, 2007

/s/ MALCOLM BENDALL

Malcolm Bendall
Chief Executive Officer
Chief Financial Officer