

Form 10-K/A for EMPIRE ENERGY CORP

27-Mar-2009

Annual Report

Item 7

Financial Statements

This Amendment does not reflect events that have occurred after the filing date of the Annual Report on Form 10-KSB that the

Company originally filed with the Securities and Exchange Commission, or modify or update the disclosures presented in the original Form 10-KSB,

except to reflect the corrections described above. Accordingly, this Form 10-KSB/A should be read in conjunction with our filings with the Securities

and Exchange Commission subsequent to the filing of the original Form 10-KSB.

Form 10-Q/A for EMPIRE ENERGY CORP

27-Mar-2009

Quarterly Report

Item 2. Managements Discussion and Analysis or Plan of Operation

Our twelve-month plan of operation:

Our primary focus is the discovery and exploitation of oil and gas and we intend to apply all resources to that purpose. We currently have three wholly-owned subsidiaries: Great South Land Minerals Limited, Cyber Finance Group Limited and Expedia Limited. We also own approximately 38% of Pacific Rim Foods Limited and include Pacific Rim Foods in our consolidated financial statements on the basis that Empire is the primary beneficiary of Pacific Rim and control is established by a voting agreement with another substantial shareholder who is also a director of Empire. Our primary endeavor is the exploration for and development of oil and natural gas in the state of Tasmania, Australia undertaken by GSLM and our resources are being focused on that activity. Cyber holds our initial investment in Zeehan Zinc Limited, a Tasmanian mining company which we sold in 2007. Expedia held our investment in certain technology licenses that were rescinded in 2007. Pacific Rim Foods has interests in the Chinese shelf stable foods and agriculture industries.

Great South Land Minerals Limited's principal asset is its exploration license in Tasmania, 15,035 km² (37.2 million acres) Special Exploration License 13/98. According to independent consulting firm RPS Energy, this license area holds prospective oil resources of 67 to 145 million barrels and prospective natural gas resources of from 347 to 799 billion cubic feet. These resources have a current value of from \$7 to \$15 billion. With the raising of funds from Smart Win Limited, Empire began drilling in September of this year. The terms of the Great South Land Minerals Limited Special Exploration License 13/98 have been contractually agreed with Mineral Resources Tasmania, the local authority under the Department of Industry, Energy and Resources of Tasmania. The Company has expenditure as defined under contract which the directors believe meets its expenditure obligations under the license conditions. The conditions require scheduled reported expenditure of AUD \$21.5 million (US \$17.65 million), by September 2009. The company has claimed reported cumulative expenditure to date of AUD \$37.5 million (US \$30.79 million), exceeding the license conditions.

Terrex Seismic completed an AUD \$4.4 million seismic survey which was a continuation of the approximately AUD \$2.23 million 2006 program. In the 2001 survey, we acquired 660 line kilometers of survey. A total of 1149 line kilometers have been acquired. These surveys have indicated the presence of over 14 structures which have the potential to have trapped oil and gas. Our two largest structures, the Bellevue Dome (anticline) and the Thunderbolt Dome (anticline) are structures over 1000 sq km (2.47 million acres) in area and have the potential to contain substantial volumes of oil and gas. In addition we

have entered an application for addition exploration area in Tasmania that, if granted, would nearly double our total exploration area to approximately 30,000 km² (65 million acres).

In July, with the guarantee of our Chief Executive Officer, we obtained a secured loan in the amount of AU\$5 million to pursue the drilling program on SEL 13/98. Initial draw on this loan of approximately AU\$2.7 million allowed mobilization of the drilling contractor, prepaid initial drilling cost and provided working capital to the Company. Additional drawing under this note is expected to fund the drilling program and complete at least the first well. In conjunction with this note, we agreed to a memorandum of understanding that could bring up to AU\$45 million to the drilling program in exchange for up to a 50% interest in the license property. This additional funding should allow drilling of up to an additional 14 wells over the coming year.

We have analyzed the data collected over the past thirty years, have selected prospective sites, arranged a drilling contractor, arranged interim funding and are aggressively pursuing additional funding to drill wells on these sites as well as continue to expand the seismic and other technical knowledge on this license area.

During August and September we commenced drilling on the Bellevue # 1 site and completed the pre collar hole to 272 meters. However, we ran short of funds and since the initial rig was removed to make way for the deep drilling Hunt Energy rig, we have been unable to raise the necessary funds to get the Hunt rig on site to finish the project. This includes the failure of SmartWin to advance the remaining AUD\$1.1 million due under the AU\$5 million Note. We believe that this is the result of the global financial crisis and the apparent refusal of creditors to advance funds on almost any new projects and the failure of historic sources of those funding. Management remains confident that this shortage of operating capital will ease very soon but there can be no guaranty that we will be able to finance the balance of our project at this juncture, while the current market conditions continue to affect credit facilities, which could cause the failure of our business. We have accrued approximately \$1.6 million in additional drillings and standby charges since September 30, 2008 and continue to costs at a rate over \$ 10,000 per day.

Results of operations

Since the inception of our current business plan following our merger with GSLM in 2005, our operations have consisted primarily of various exploration and start-up activities relating to our license property and our current business, including acquiring and analyzing seismic data, seeking institutional investors, locating joint venture partners, engaging firms to comply with leasehold conditions, incurring strategic investments and developing our long term business strategies.

During the quarter ended September 30, 2008, the combined Company generated no revenue. The combined Company generated an operating loss of \$1,066,000 primarily by incurring general & administrative expenses of \$760,000, including legal, accounting, auditing, consulting and public relations expenses required to pursue funding and GSLM

exploration activities. During the quarter ended September 30, 2007, the Company also generated no revenue. The Company generated an operating loss of \$1,636,000 primarily by incurring exploration expenses of \$165,000 and general and administrative expenses of \$1,472,000, primarily legal, accounting, auditing and consulting expenses required to pursue funding and GSLM exploration activities. In order to conservatively estimate the recoverability of notes receivable by Pacific Rim in the amount of \$189,000 and of prepayments by Pacific Rim for product purchases in the amount of \$520,000, management had recorded a reserve for losses and impairments in the amount of \$704,000 at September 30, 2008, a reduction of \$50,000 during the quarter ended September 30, 2008.

During the nine months ended September 30, 2008, the combined Company generated no revenue. The combined Company generated an operating loss of \$5,450,000 primarily by incurring GSLM seismic and exploration expenses of \$1,195,000 and general & administrative expenses of \$4,255,000, primarily personnel, consulting and legal required to pursue funding and planning for GSLM exploration activities and oversee the seismic and gravity evaluation work. During the nine months ended September 30, 2007, the Company also generated no revenue. The Company generated an operating loss of \$6,105,000 primarily by incurring exploration expenses of \$2,787,000 and general and administrative expenses of \$3,318,000, primarily legal, accounting, auditing and consulting expenses required to maintain the corporate existence and pursue funding for and planning for the exploration and drilling program.

Liquidity and Capital Resources

On September 30, 2008, the Company had \$284,000 in cash, \$3,245,000 in prepayments of exploration costs and other expenses, \$111,000 in receivables and \$7,571,000 in current liabilities including trade payables, accrued liabilities, and current maturities of debt. Additional liabilities include approximately \$1,010,000 in long-term debt. Approximately \$4 million of debt includes provisions by which the holder may convert the debt to common equity. Net cash used in operating activities for the nine months ended September 30, 2008 was \$4,934,000 compared to \$4,700,000 for the nine months ended September 30, 2007. Cash used by investing activities was \$1,970,000 during the nine months ended September 30, 2008 primarily due to costs of drilling the first well. Cash provided in investing activities during the nine months ended September 30, 2007 was \$3,807,000, primarily as a result of the 4,500,000 received from the sale of Zeehan Zinc shares. Net cash provided in financing activities during the nine months ended September 30, 2008 was \$5,328,000, primarily convertible loans from a director and Smart Win Limited. Net cash provided by financing activities was \$166,000, including \$259,000 received as equity invested in the Pacific Rim subsidiary, reduced by repayment of notes payable during the nine months ended September 30, 2007. Additional financing will be needed during 2008 to continue to develop the license property and pursue the company's business plan.

Our subsidiary, Pacific Rim Foods Ltd. has interests in the Chinese shelf stable foods industry, notably through the investment in corn canneries, distributed under one of the oldest brand names in China. We have an economic interest of 38% and by means of a voting agreement, have a controlling interest (75%) in Pacific Rim Foods. We currently

have identified a suitable public entity that we are planning to merge Pacific Rim Foods Limited into, therefore potentially giving the option of Empire to liquidate its position in Pacific Rim Foods for the purpose of financing the oil and exploration project if necessary.

In July, with the guarantee of our Chief Executive Officer, we obtained a secured loan in the amount of AU\$5 million to pursue the drilling program on SEL 13/98. Initial draw on this loan of approximately AU\$2.7 million allowed mobilization of the drilling contractor, prepaid initial drilling cost and provided working capital to the Company. Additional drawing under this note is expected to fund the drilling program and complete at least the first well. The lender suspended funding under this note after providing AU\$3.9 million. Leaving approximately AU\$1.1 million unfunded while we have continued to incur contracted charges. In conjunction with this note, we agreed to a memorandum of understanding that, if reinstated, could bring up to AU\$45 million to the drilling program in exchange for up to a 50% interest in the license property. This additional funding should allow drilling of up to an additional 14 wells over the coming year.

Off Balance Sheet Arrangements

Empire Energy has no off-balance sheet arrangements.