

Bidder's Statement

By

Empire Energy Corporation International

Relating to Proposed Offers for Shares in

Great South Land Minerals Ltd

(ACN 068 650 386)

A copy of this Bidder's Statement was lodged with the Australian Securities and Investments Commission on 4 March 2005.

The Australian Securities and Investments Commission does not take any responsibility as to its contents.

Corporate Directory

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Share registry (for Great South Land Minerals Ltd. Takeover Offer)

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Important dates

Date bidder's statement was lodged with ASIC and date of bidder's statement	Friday 4 March 2005
Date of Offer	Friday 4 March 2005
Offer closes (unless extended)	5.00pm on 7 April 2005 (Salt Lake City, USA time), or 12pm, 8 April 2005 (Australian Eastern Standard Time)

Defined terms

A number of defined terms are used in this booklet. Unless the contrary intention appears, the context requires otherwise or words are defined in clause 14 of the bidder's statement (which is in part B of this booklet), words and phrases in this booklet (including in the bidder's statement) have the same meaning as in the Corporations Act 2001.

All references throughout this document to \$ or dollars are to Australian dollars, unless directly specified otherwise.

Important note

An investment in Empire is a speculative investment.

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Empire Energy Corporation International

4 March 2005

Dear Great South Land Minerals Ltd. shareholder

On behalf of the Directors of Empire Energy Corporation International (**Empire Energy**), I am pleased to enclose Empire Energy's offer for all of your shares in Great South Land Minerals Ltd. (**GSLM**).

The Offer consists of approximately 62.43 million shares in Empire Energy being offered in exchange for all the shares on issue in GSLM.

Empire Energy is a US public reporting company quoted on the OTC Bulletin Board overseen by the National Association of Securities Dealers. By enabling GSLM to become a subsidiary of Empire Energy, the directors believe the Merged Group will have greater access to the enhanced capital raising opportunities of an OTC Bulletin Board quoted company, which in turn would assist in the funding required for the exploration activities of GSLM in the Tasmanian Basin. In addition, the directors believe that, being an OTC Bulletin Board company means that shares in Empire Energy will be more readily tradable than shares in GSLM, giving the shareholders greater liquidity opportunities for their investment.

I note that when the transaction was originally contemplated nearly 3 years ago, it was proposed that if all shareholders of GSLM accepted the Offer, the existing GSLM shareholders would then own 95% of the issued capital of Empire. Unfortunately, the transaction has taken longer than expected. In the interim, Empire has supported both companies by obtaining further funding through issuance of common stock, warrants and convertible debt, the proceeds of which were both loaned to GSLM and used to pay legal, due diligence, regulatory approval and other transaction costs for both companies. If this Offer is accepted, Empire does not intend to require GSLM to repay these loans. As a result, if all shareholders of GSLM were to accept this Offer, those shareholders will then own approximately 84% of Empire and former Empire shareholders will then own approximately 4% of Empire. Shares representing 12% of total shares on issue (assuming 100% take up of the Offer by GSLM Shareholders) were sold throughout December 2004 and January 2005 to provide funding to complete the Acquisition. Further details are set out in section 4.1.

This Offer is subject to a number of conditions which are set out in section 13.9. Further, there are a number of risks associated with accepting Empire Energy Shares under the Offer. You should therefore read this document in its entirety including the risk section as set out in Section 10. Further, acceptance of this Offer may have tax consequences which are more fully set out in Section 11. Before accepting this Offer, you should seek appropriate financial and taxation advice.

To accept the scrip offer of 1 Empire Energy share for each of your GSLM shares, please complete and return the enclosed acceptance form and return it to Interwest Inc, the Transfer Agent appointed by Empire Energy, by no later than 5pm, 7 April 2005 (Salt Lake City USA time) or 12pm, 8 April 2005 (Australian Eastern Standard Time).

We look forward to receiving your acceptance and welcoming you as a new shareholder of Empire Energy.

Yours sincerely



John Garrison
Director

Empire Energy Corporation International

Part A Summary of Empire Energy's Offer and How to Accept

What is Empire Energy offering to buy?

Empire Energy is offering to buy 100% of GSLM's Shares on the terms set out in clause 13 of the bidder's statement in part B of this booklet.

You may only accept this Offer in respect of 100% of the GSLM Shares held by you.

What will you receive if you accept the Offer?

Consideration

If you accept this Offer, for every 1 of your GSLM Shares, you will receive 1 Empire Energy Share, provided that the conditions of the Offer are satisfied.

Empire Energy Shares

Empire Energy is a reporting company under the Securities Exchange Act of 1934 (the **Exchange Act**) whose common shares trade on the OTC bulletin board under ticker symbol EEGC. Refer to section 3 below for further details about Empire Energy. An investment in Empire Energy is a speculative investment.

How do I accept the Offer?

To accept this Offer, you must complete and sign the Acceptance Form enclosed with this booklet and return it to the address indicated on the form before the Offer closes.

Further details

Full details on how to accept are set out in clause 13 of the bidder's statement in part B of this booklet and also on the enclosed Acceptance Form.

When will I be issued with the new shares?

To receive their Empire Energy Shares, tendering shareholders of GSLM will need to confirm to Empire Energy's transfer agent, Interwest Transfer Company, Inc. (**Interwest**), that their full name and address as it appears on the GSLM share register and the Acceptance Form attached to this Bidder's Statement is correct. If you hold a GSLM share certificate and you accept the Offer, provided that the conditions of the Offer are satisfied, your GSLM share certificate will be deemed to be cancelled and record of your ownership interest in GSLM will be struck from the GSLM shareholder register from the date you are issued with your new Empire Energy Shares. If your GSLM shares are represented only in GSLM's share register and you accept the Offer, provided that all the conditions of the Offer are satisfied, record of your ownership interest in GSLM will be struck from the GSLM register from the date you are issued new Empire Energy Shares. If the minimum acceptance level and other conditions of the Offer are met as set out in clause 2.4, Interwest will, within three days of the close of the Offer, issue new Empire Energy Shares to the GSLM Shareholders who accepted the Offer. The shareholders will be included in the Empire shareholders' register immediately and will have all the rights pertaining to shareholders from the date of issue of their Empire Energy Shares.

Tax considerations

You should carefully read section 11 of this bidder's statement. The Offer is conditional on, amongst other things, shareholders holding more than 50% of the share capital in GSLM accepting the Offer. If the Acquisition results in the acquisition by Empire Energy of more than 50% of the GSLM shares, but less than 80%, this means that for Australian resident shareholders of GSLM, any capital gain arising from the exchange of the shares may be taxable in the hands of the relevant shareholder. You should seek appropriate professional advice on the legal and taxation consequences of exchanging your shares in GSLM for shares in Empire Energy.

Will I pay stamp duty if I accept?

You will not pay stamp duty if you accept.

When does the Offer close?

The Offer closes at 5.00 pm on 7 April 2005 (Salt Lake City, USA time) or 12pm 8 April 2005 (Australian Eastern Standard Time), unless it is extended under the Corporations Act 2001.

What conditions attach to the Offer?

The Offer is subject to a number of conditions. In summary, these conditions are:

- (a) Shareholders having more than 50% of the share capital in GSLM must accept the Offer.
- (b) GSLM does not suffer any material adverse change in relation to it or its business between the date of this Offer and the date of closing of this Offer and GSLM shall be free from any material pending or threatened litigation, claims, or contingent liabilities, other than as disclosed in its financial statements for the year ended 30 June 2004.

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- (c) GSLM shall be in good standing in the Australian state of Tasmania and shall be duly qualified to do business in those jurisdictions which require such qualification.
- (d) The proposed Acquisition shall not violate the terms and conditions of the petroleum licence held by GSLM, known as SEL 13/98 and such licence shall be in good standing as at the date of closing of the Offer.
- (e) None of the following occurrences happening during the period from the date of this bidder's statement to the end of the Offer period:
- GSLM resolving that it be wound up;
 - The appointment of a liquidator or provisional liquidator of GSLM;
 - The making of an order by a court for the winding up of GSLM;
 - An administrator of GSLM being appointed under section 436A, 436B, or 436C of the Corporations Act 2001;
 - GSLM executing a deed of company arrangement; or
 - The appointment of a receiver, receiver and manager, other controller (as defined in the Corporations Act 2001) or similar official in relation to the whole, or a substantial part, of the property of GSLM.

Further information

For queries on how to accept the Offer or in relation to your GSLM shareholding, see the enclosed Acceptance Form or call Mr Rod Tabor at GSLM on + 61 3 6234 5908.

For queries in relation to the Offer, please contact the Exchange Agent appointed by Empire Energy to manage this transaction, being Interwest Transfer Company, Inc. on + 1 (801) 272 9294 or by mail at the following address:

Attn: Kurtis D. Hughes
Interwest Transfer Company, Inc.
1981 E. Murray Holiday Road, Suite 100
Salt Lake City, UT 84117

Important notice

The information in this Part A of this booklet is a summary only of Empire Energy's Offer and is qualified by the detailed information set out elsewhere in this booklet.

You should read the entire bidder's statement (including the risk factors in section 10 and the tax considerations in Section 11) and the separate target's statement to be issued by GSLM in relation to the Offer before deciding whether to accept the Offer. Importantly, you should seek appropriate independent financial and taxation advice before deciding whether to accept this Offer.

Important notice for US investors

This Offer is for the securities of an Australian company. The Offer is subject to the disclosure requirements of Australia that are different to those of the United States. Some of the Financial Statements included in this document have been prepared in accordance with foreign accounting standards that may not be comparable to the financial statements of United States companies. You should be aware that the issuer may purchase securities otherwise than under the Offer, such as in open market or privately negotiated purchases.

Part B Bidder's Statement

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1 Important Information

1.1 Lodgement under the Corporations Act 2001

A copy of this bidder's statement was lodged with the Australian Securities and Investments Commission (**ASIC**) on 4 March 2005. ASIC takes no responsibility for the content of this bidder's statement.

This bidder's statement is given by Empire Energy Corporation International (**Empire Energy**), the bidder, to Great South Land Minerals Ltd. ACN 068 650 386 (**GSLM**), the target, under Part 6.5 of the Corporations Act 2001.

1.2 Date of bidder's statement and Offer

This bidder's statement is dated 4 March 2005. It includes an Offer dated 7 March 2005 on the terms set out in clause 13 of this bidder's statement.

1.3 Defined terms

A number of defined terms are used in this bidder's statement. Unless the contrary intention appears, the context requires otherwise or words are defined in clause 14 of this bidder's statement, words and phrases in this bidder's statement have the same meaning and interpretation as in the Corporations Act 2001.

1.4 Disclaimer

This is an important document. This document should be read in its entirety. In preparing this bidder's statement, Empire Energy has not taken into account the individual financial position and investment strategies of individual GSLM shareholders. Further, acceptance of this Offer may have tax consequences for you. Accordingly, before accepting the Offer contained in clauses 2 and 13 of this bidder's statement, you should consult with your financial, taxation or other professional adviser. This document is subject to a number of conditions. Further, there are a number of risks associated with accepting Empire Energy Shares under the Offer. You should therefore read this document in its entirety including the risk section as set out in Section 10.

If this document contains forward looking statements in respect of the future performance of Empire Energy, GSLM or the consolidated group of Empire Energy and GSLM, no guarantee is given that these statements will be achieved. They are simply the statements which Empire Energy believes are reasonable and achievable given the level of knowledge available at the date of writing this bidder's statement.

2 The Offer

2.1 Empire Energy's Offer

Empire Energy offers to acquire 100% of your GSLM shares, on and subject to the terms and conditions set out in this Offer on the basis of 1 Empire Energy Share for every 1 of your GSLM shares (the **Consideration**), in accordance with Part 6.5 of the Corporations Act together with all Rights attaching to those shares.

The Empire Energy Shares issued in accordance with this Offer will participate in all dividends (if any) and rank equally in all respects with all issued Class A ordinary common stock of Empire Energy on and from the date of issue.

Empire Energy is relying upon a limited exemption from the registration requirements of the Securities Act, available for scrip for scrip offers such as this Offer, where less than 10% of the outstanding shares in GSLM are held by US residents. The effect of this exemption is that, with limited exceptions, shareholders whose GSLM shares would have been viewed to be 'restricted' under US Securities laws will receive restricted Empire Energy Shares which will generally remain 'restricted' until the earlier of (i) Empire filing an effective registration statement with the SEC or (ii) two years from the original purchase of shares. Shareholders whose GSLM shares would not have been viewed to be restricted will receive unrestricted Empire Energy Shares immediately. Section 4.8 below sets out a detailed explanation of the criteria to assist GSLM shareholders in determining if they are eligible to receive unrestricted Empire Energy Shares initially, together with a summary of the implications of the receipt of restricted Empire Energy Shares. As at the date of this bidder's statement, the board of Empire Energy believes that the only shareholders who will receive 'restricted' shares will be GSLM officers or their related bodies corporate.

2.2 Background to the Offer

On July 15 2002, the Board of Directors of Empire Energy unanimously approved the terms and conditions for the acquisition of GSLM as established by a letter of intent between GSLM and Empire Energy dated 9 July 2002 and amended on 10 December 2002 and 16 October 2003 (the **Letter of Intent**).

At a meeting of shareholders of Empire Energy held on 29 March 2004, all of the necessary shareholder approvals required by the Empire Energy shareholders were obtained. On May 27, 2004, an agreement was entered into by GSLM and Empire Energy to actively pursue the merger (the **Merger Agreement**), subject to acceptance of the Offer by the shareholders of GSLM and satisfaction of the necessary regulatory requirements in Australia and the United States.

2.3 Letter of Intent

The Letter of Intent set out certain actions which were to form part of the completion of the Offer. These included the following:

- (a) Empire Energy undertook a 1 for 10 reverse-split of its shares, so that following the share split there were 3,100,000 Empire Shares on issue and 58,900,000 shares of GSLM on issue. The share split took place in April 2004. Having regard to further securities issued for the purpose of working capital since the date of the Letter of Intent, GSLM shareholders should refer to section 4.1 for current details in relation to Empire's capital structure.

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- (b) Empire Energy re-domiciled its operations into Nevada and sold its subsidiaries, being Alberta 638260, a Canadian company, Commonwealth Energy Corporation, a Canadian company, and Blue Mountains Resources Inc, a wholly owned subsidiary of Commonwealth Energy Corporation. This has been completed.
 - (c) All other assets of Empire Energy have either been sold or assigned to Norman Peterson, the former CEO of Empire Energy in exchange for his assumption of the liabilities of Empire and purchase of the subsidiary companies. Further, Mr Peterson has signed an Affidavit indemnifying Empire Energy in relation to any and all lawsuits and claims whatsoever arising from the operations of Empire or its subsidiaries up until 30 March 2004, being the date of his resignation as an officer and director of Empire. Empire has not conducted independent investigations to determine if the indemnity would be enforceable or as to whether Mr Peterson would be able to satisfy a claim under that indemnity. However, as at the date of this bidder's statement, Empire has not received notice of any claim or lawsuit which may require it to enforce the indemnity against Mr Peterson.
 - (d) As at the time at which the Offer is closed, the total authorised common stock of Empire Energy will be 100,000,000 shares.
 - (e) This transaction is intended to qualify as a tax-free reorganisation under Section 368 of the US Internal Revenue Code such that the shares of Empire Energy received by the shareholders of GSLM will be received on a tax-free basis. Shareholders should be aware that the Offer may not be 'tax free' under Australian taxation laws. Some commentary in relation to the Australian taxation position is outlined in section 11.

2.4 Conditions to the Offer

The following events constitute conditions to the Offer, being items which must occur for the Offer to proceed and the transaction to be concluded:

- (a) Shareholders having more than 50% of the share capital in GSLM must accept the Offer.
- (b) GSLM does not suffer any material adverse change in relation to it or its business between the date of this Offer and the date of closing of this Offer and GSLM shall be free from any material pending or threatened litigation, claims, or contingent liabilities, other than as disclosed in its financial statements as at 30 June 2004.
- (c) GSLM shall be in good standing in the Australian state of Tasmania and shall be duly qualified to do business in those jurisdictions which require such qualification.
- (d) The proposed Acquisition shall not violate the terms and conditions of the petroleum licence held by GSLM, known as SEL 13/98, and such licence shall be in good standing as at the date of closing of the Offer.
- (e) None of the following occurrences happening during the period from the date of this bidder's statement to the end of the Offer period:

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- GSLM resolving that it be wound up;
 - The appointment of a liquidator or provisional liquidator of GSLM;
 - The making of an order by a court for the winding up of GSLM;
 - An administrator of GSLM being appointed under section 436A, 436B, or 436C of the Corporations Act 2001;
 - GSLM executing a deed of company arrangement; or
 - The appointment of a receiver, receiver and manager, other controller (as defined in the Corporations Act 2001) or similar official in relation to the whole, or a substantial part, of the property of GSLM.

3 Profile of Empire Energy

3.1 Overview of Empire Energy

Empire Energy is a company domiciled in Nevada in the United States of America. Its shares are quoted on the OTC Bulletin Board overseen by the National Association of Securities Dealers, Inc.

The OTC Bulletin Board is an electronic quotation system that displays real-time quotes, last-sale prices, and volume information for many over-the-counter securities that are not listed on the NASDAQ Stock Market or a national securities exchange. Brokers who subscribe to the system can use the OTC Bulletin Board to look up prices or enter quotes for OTC securities. Although the National Association of Securities Dealers, Inc. oversees the OTC Bulletin Board, the OTC Bulletin Board is not part of the NASDAQ Stock Market.

3.2 Directors

Empire Energy currently has 2 directors. As at the date of this bidder's statement it is not intended to increase the number of directors on the Empire Energy board.

Malcolm Bendall

Mr Bendall was a founding director of GSLM and was appointed to the Board of Empire Energy on 4 June 2004 for the purpose of progressing the merger between GSLM and Empire Energy. Mr Bendall has been involved in organisations investigating the viability of petroleum resources in SEL 13/98 since 1978. Mr Bendall has worked as a mine manager and drill supervisor and has been published in 2 international petroleum journals, Geochemical and the Australian Petroleum Exploration Association Journal. He is a fellow of the Institute of Company Directors, Tasmania. In recent times, Mr Bendall's focus has been upon procuring the conclusion of the merger contemplated by this document, including raising capital for both of the constituent companies and preparing for the post merger strategies of the Merged Group.

John Garrison

John C. Garrison has been a director of Empire Energy since 24 March 1999. Mr Garrison is a certified public accountant with over twenty-five years of experience in accounting, auditing and financial management. He served as corporate secretary, director and chief accounting officer of Infinity, Inc., a publicly traded oilfield service and oil and gas exploration and development company from April 1995 to August 1999. He is also a director of one other public traded energy company, Quest Resources, Inc. He is licensed to practice public accountancy in Kansas and Missouri and has been involved in an active practice since 1976. Mr. Garrison received a degree in business administration and accounting from Kansas State University.

3.3 History and simplified corporate structure

3.3.1 History

Empire is a reporting company under the Exchange Act whose common shares trade on the OTC bulletin board under ticker symbol EEGC. Empire Energy is headquartered in Overland Park, Kansas. Empire was incorporated in November of 1983 in the state of Utah under the name of Medivest, Inc.

Medivest engaged in various business enterprises and eventually filed for protection under the bankruptcy laws. Empire emerged from bankruptcy and had its corporate charter reinstated in 1995 but remained inactive until 1999.

At that time, Peterson & Sons Holding Company acquired control by purchasing a majority of the then outstanding shares of Empire from the majority shareholder. Neither Empire nor any of its affiliates received any of the proceeds from the sale. On May 17, 1999, the shareholders of Medivest approved a change of name from Medivest Inc. to Empire Energy Corporation and Empire commenced commercial activity in the oil and gas industry. Empire was previously financed through the issuance of convertible debentures (now converted) at USD1.00 per Empire share, raising USD500,000 in 1999.

Empire Energy was subsequently reorganised with new management with the objective of accumulating oil and gas production and properties at a time when oil and gas prices were at 25-year lows. The primary prospect, at inception, was the opportunity presented in the country of Nicaragua. In the interim, Empire began participating in an exploration program in Tennessee and realised its first revenues from that program in late 1999. In November 2000, Empire Energy acquired a working interest in a natural gas field in Texas.

On 29 June 2001, Empire acquired Commonwealth Energy Corporation, a Canadian company primarily engaged in the acquisition and exploration of petroleum and natural gas properties in the United States. Commonwealth had two wholly owned subsidiaries, Blue Mountain Resources Inc. and Commonwealth Energy (USA) Inc. (**Commonwealth**) with production and/or prospects located in the states of Oklahoma, Texas and Wyoming.

During 2001 and 2002 Empire Energy experienced liquidity problems related to the Commonwealth merger cost being more than expected and the cost associated with the unsuccessful attempt to establish economic production from the Bedsole No. 1 well in Leon County Texas. As a result, during 2002 Empire sold its interest in the Bedsole Unit, the Parker County, Texas properties and the Tennessee production to partially pay liabilities. Empire Energy sold the Coleman County, Texas properties in 2003 and continued to own the interest in the Nicaraguan Project.

During 2002, the Board of Directors approved a change in the company's direction. Empire had generated significant operating losses, experienced continued cash flow challenges, depressed share price and the inability to raise either debt or equity capital having regard to (amongst other things), its underlying assets at that time. Empire adopted a plan to dispose of assets to reduce liabilities and merge with a company on terms that would be beneficial to the shareholders.

On 15 July 2002, the Board of Directors unanimously approved the terms and conditions for the acquisition of GSLM, as established in the Letter of Intent dated 9 July 2002 and amended on 10 December 2002 and 16 October 2003. Approval of the Company's shareholders was obtained at a shareholders meeting held on 29 March 2004. (see section 2.3 for further detail on the Letter of Intent)

As of 30 June 2004, the company had disposed of all of its oil and gas properties. In preparation for the Offer for the GSLM shares, Empire formed a wholly owned subsidiary and transferred all rights and ownership interest in Industria Oklahoma-Nicaragua, S.A., to that subsidiary and subsequently authorised the distribution of the subsidiary's shares to the Empire shareholders of record as of 7 July, 2002. Also in anticipation of the Offer for the GSLM shares, Empire received shareholder approval of the assignment of certain companies to its then Chairman, Norman Peterson who agreed to take an assignment of these assets and who entered into an Affidavit indemnifying Empire from any lawsuits or claims relating to those assets or his conduct of the Company's affairs prior to 30 March, 2004.

On 30 March, 2004, all members of the Board of Directors of Empire (except John Garrison) resigned their positions. Malcolm Bendall was appointed to the Board of Directors on 4 June 2004 after negotiation of the Acquisition and approval by Empire Shareholders.

3.4 Principal activities of Empire Energy

As at the date of this document, Empire Energy is essentially a non-trading company, with its only activity being to pursue the Acquisition of GSLM actively. It is the opinion of the Directors of Empire Energy that the structure of Empire Energy as a fully reporting trading public company listed on the OTC Bulletin Board makes it an attractive merger candidate for GSLM. In preparation for the proposed Offer to be made to GSLM, during 2003, Empire Energy continued to sell its property and assets and to settle its debts. In furtherance of the proposed Acquisition, during 2004 and 2005 Empire Energy has actively raised substantial funds as set forth in the following section, the proceeds of which have been exclusively used to finance GSLM and expenses related to the Acquisition. During 2003 and 2004 Empire Energy had no revenue from operating activities or the sale of oil and gas. Empire Energy no longer has any oil or gas reserves and has discontinued all oil and gas operations.

3.5 Access to funding going forward

3.5.1 The HEM Agreement

As part of a financing arrangement, on 30 June 2004, with final closing documents executed on 2 July 2004, Empire Energy merged with Bob Owen and Company Inc., a Kansas Corporation (**BOCI**). As a result of the merger, BOCI became a wholly-owned subsidiary of Empire Energy and all outstanding shares of BOCI capital stock held by its sole shareholder were converted into 100,000 shares of Empire Energy common stock. BOCI is a private, development stage company formed to pursue opportunities for investment in the area of real estate and oil and gas and had no material assets and liabilities as at July 2, 2004, other than its rights and obligations under the proceeds from the debentures described below.

Immediately prior to the merger, BOCI entered into a Convertible Debenture Purchase Agreement (the **Purchase Agreement**) dated 20 May 2004, with closing on 2 July 2004, with HEM Mutual Assurance LLC, an accredited investor located in Minneapolis, Minnesota (**HEM**) pursuant to which BOCI sold and issued convertible debentures to HEM in an aggregate principal amount of up to USD1,000,000 in a private placement pursuant to Rule 504 of Regulation D under the Securities Act. Two debentures in the aggregate principal amount of USD500,000 were issued for gross proceeds of USD500,000 in cash (the **Initial Debentures**) and an additional debenture in the aggregate principal amount of USD500,000 (the **Contingent Debenture** and collectively with the Initial Debentures, the **Debentures**), in exchange for a promissory note from HEM in the principal amount of USD500,000 (the **Note**). Each of the Debentures has a maturity date of July 1, 2009, subject to earlier conversion or redemption pursuant to its terms, and bears interest at the rate of 1.5% per year, payable in cash or common stock at the option of the holder of the Debentures. As a result of the merger with BOCI, Empire has assumed the rights and obligations of BOCI in the private placement, including acquiring the gross proceeds raised through the sale of the Debentures, the Note issued by HEM to BOCI, and BOCI's obligations under the Debentures and the Purchase Agreement.

The USD500,000 Contingent Debenture may not be converted, does not accrue interest and is not subject to repayment at maturity unless and until:

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- (i) the closing per share bid price for the Common Stock has been at least USD1.30 for 30 consecutive trading days from July 2, 2004 to July 1, 2009;
 - (ii) a sufficient number of shares of Common Stock are then held in escrow to cover at least 200% of the number of shares that would then be necessary to satisfy the full conversion of all then outstanding converted Debentures; and
 - (iii) the Note has been paid in full by HEM.

The Note becomes payable in full by HEM to Empire upon conversion by Empire Energy and at a time after the Acquisition has been successfully concluded. If and when the Initial Debenture becomes convertible, it will be convertible into unrestricted shares of Empire Energy Common Stock at a conversion price that is the lower of USD1.30 or the average of the three lowest closing per share bid prices for the Common Stock during the 40 trading days prior to conversion. If and when the Contingent Debenture becomes convertible, it will be convertible into unrestricted shares of Empire energy Common Stock at a conversion price that is the lower of 125% of \$US1.30 or the average of the three lowest closing per share bid prices for the common stock during the 40 trading days prior to conversion.

As a result of the Acquisition, USD485,000 in principal of the Initial Debentures is now convertible by HEM into unrestricted shares of Empire common stock (the **Common Stock**) at a conversion price that is the lower of USD1.30 or the average of the three lowest closing per share bid prices for the Common Stock during the 40 trading days prior to conversion. In addition, USD15,000 in principal of the Initial Debentures is now convertible into unrestricted shares of Common Stock at a conversion price of USD0.01 per share. As at the date of this bidder's statement, HEM has converted a portion of the Initial Debenture into 700,000 unrestricted shares of Empire Common Stock at a conversion price of USD0.01 per share and has converted no shares that convert at a price that is to be determined from the market value of the Empire Common Stock.

The conversion price and number of shares of Common Stock issuable upon conversion of the Debentures is subject to adjustment for stock splits and combinations and other dilutive events. To satisfy its conversion obligations under the Debentures, Empire has placed 50,000,000 shares of Common Stock into escrow for potential issuance to HEM upon conversion of the Debentures on 2 July 2004. The Board has commercially agreed to reduce the number of shares in escrow to facilitate the completion of the Acquisition without potentially resulting in Empire exceeding its authorised capital levels of 100 million common stock. Whilst commercial agreement has been reached, the formal documentation is in the process of being finalised as at the date of this document.

The Debentures may never be converted into an aggregate of more than 1,650,000 shares of Common Stock unless Empire Energy elects to increase this maximum number. If the conversion rate of the Debentures would require Empire Energy to issue more than an aggregate of 1,650,000 shares of Common Stock upon conversion of the Debentures and Empire has not elected to increase this maximum number, Empire will be required to redeem the unconverted amount of the Debentures for 125% of the principal amount thereof, plus accrued and unpaid interest. If Empire Energy is unable to pay this amount it will be required to increase the maximum number of shares in an amount equal to the difference.

In addition, the Debentures may not be converted if after such conversion the holder would beneficially own more than 5% of Empire's then outstanding Common Stock, unless the holder waives this limitation by providing Empire 75 days prior notice.

Further, if at any time any of the Debentures are outstanding and Empire receives debt or equity financing in an amount equal to or exceeding USD5 million in a single transaction or a series of related transactions, Empire is required to immediately redeem the outstanding Debentures in full for 150 per cent of the amount of the then outstanding Debentures.

Under the terms of the Debentures, certain events would be termed an 'Event of Default' including each of the following:

- Any default in payment of the principal or interest owing on the Debenture.
- Breach of the debenture if not remedied within 5 days of notice of such breach.
- Breach of one of the contracts signed in relation to the purchase of the Debentures, if not cured or remedied as provided in such agreement.
- Commencement of a voluntary case under the US Bankruptcy Code.
- Default by Empire under any of its obligations under any mortgage, indenture or instrument signifying indebtedness of Empire in excess of USD100,000 and where such default results in the indebtedness becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable.
- Empire having its common stock delisted from OTCBB or other national securities exchange or market on which such common stock is listed for trading or suspended from trading on such an exchange or market, and not having the stock relisted or suspension listed within ten trading days from the beginning of such delisting or suspension.
- Empire failing to deliver share certificates to the escrow agent representing shares to be issued upon conversion of the Debentures within three business days of Empire receiving notice from the Escrow Agent that additional shares are required to be placed in escrow pursuant to the purchase agreement and escrow agreement;
- Empire publicly declaring that it is not honouring a properly executed and duly delivered notice of conversion.
- Empire issues or enters into an agreement to issue any equity line of credit, other than to HEM or any of its affiliates or assigns for a period starting on the date of the closing of that transaction and extending for five years thereafter.

If an Event of Default occurs and continues beyond a cure period, HEM has the right to accelerate all payment owing under the Debentures by declaring them immediately due. Moreover, as a non-exclusive remedy, HEM may convert the remaining principal amount of the Debentures and accrued interest thereon at a price equal to the lesser of (i) USD1.30 per share or (ii) the average of the three lowest closing bid prices per share of the common stock during the 40 trading days immediately preceding the conversion.

Upon the occurrence of certain Events of Default or a failure by Empire to respond adequately to material changes in federal or certain state security laws, and in each case upon Empire's failure to remedy adequately the underlying problem within a reasonable time, Empire may be held liable to HEM for compensation damages equal to USD3,000,000 payable on demand. On receipt of such payment, HEM is obliged to return any unconverted debentures.

Until such time that it no longer holds any debentures, neither HEM nor its affiliates may engage in any short sales of the common stock if there is no offsetting long position in the common stock then held by HEM or such affiliates.

As at 21 February 2005, HEM had converted the Debentures into 700,000 shares of Empire common Stock. A further 2,325 shares have been accrued but not issued to HEM in respect of interest payable on the Debentures. Of the USD15,000 portion of the Initial Debenture which is convertible at US0.01 per share, USD8,000 remains outstanding to be converted at 21 February 2005-03-04, for a total of 800,000 shares, plus some amount for interest accrued at a rate of 1.5%.

As at 31 December 2004, Empire had included the Initial Debenture as notes payable in the balance sheet at an amount of USD195,620. This was shown in the financial statements to be calculated as follows:

Notes Payable	
Gross proceeds from notes	USD 500,000
Less: Beneficial conversion feature	(410,000)
Less: Fair value of stock issued for note	(90,000)
Less: Principal value of debt converted	(7,000)
Add: Fair value of stock converted for debt	169,577
Add: Amortization of discounts	33,042

Book Value of note on December 31, 2004	USD 195,620
	=====

This essentially represents the discounted principal balance of the liability at 31 December 2004. The balance of the liability will increase over the term of the note as the carrying cost (interest) expense is recognised as an expense and added to the Note balance. At the end of the term of the note, the liability will be equal to the balance due. The Beneficial Conversion Feature referred to in the table above recognises the value to the creditor of the ability to convert the Note to common stock at deeply discounted prices over a period of time.

The Contingent Debenture is not included in the balance sheet as Empire has not yet met the requirements to draw on and has no balance drawn against it.

As at 23 February 2005, Empire Energy had loaned \$291,399.02 to GSLM from the cash proceeds of the issue of the Initial Debenture. This is in addition to other funds lent to GSLM by Empire as set out in more detail in section 5.3.4. It is the present intention of Empire not to call upon the repayment of this loan throughout the period of this Offer. Should the Offer not be accepted, the loan would become due and payable.

3.5.2 Future funding required by Empire

The directors believe that funding opportunities for Empire will be enhanced if the Acquisition proceeds. In the immediate short term, both Empire and GSLM are in need of either debt or equity facilities. Empire has been able to raise some capital in recent months, notwithstanding its poor balance sheet. Empire has been able to achieve raising of capital amounts during a period of great uncertainty and when its focus has been on completing the Acquisition. The directors believe that if the Acquisition is settled, this will create an environment of greater certainty for Empire which in turn should result in greater capital raising opportunities.

If the Acquisition is completed, the first task of the directors will be to concentrate on funding opportunities for the Company.

In particular, if the Acquisition is completed, Empire intends to immediately:

- explore the possibility of capital raising with investors who have previously expressed an interest in Empire or the underlying assets of GSLM. In this respect, the original letter of intent was signed between Empire and GSLM in July 2002 so for some time there has been speculation in the market about the proposed Acquisition but without the ability for Empire to sell direct interests in Empire on the basis that the Acquisition was complete. In this respect and mindful of their legal obligations, the directors believe that some of the groundwork has already been laid for future funding. This includes possible funding resulting from potential joint venture arrangements which will be sought by Empire following the Acquisition.
- consider whether it should seek to obtain further funding under the terms of the Contingent Debenture as referred to in section 3.5.1. In doing so, the directors would be mindful of the dilution impact such a decision would have on shareholders of Empire at that time.
- seek to find new potential investors having regard to the new form of Empire with its new subsidiary. In this respect, Empire directors believe they have the opportunity to promote the license in US markets at a time when market interest in energy investments is relatively high.
- consider applying for quotation on AIM, operated by the London Stock Exchange which in turn would give it further opportunities for funding through, for example, a potential equity line facility. However, the directors note that considerable funding will be required in order to effect a possible quotation on AIM and the directors have not fully assessed whether Empire would meet any prerequisites for quotation on AIM. In this respect, preliminary steps have been undertaken, including the retention of UK legal counsel.

3.5.3 Agreement with Anadarko Energy Services Company

During August, 2001, Empire agreed to sell the gas production from its Bedsole #1 well in Leon county, Texas to Anadarko Energy Services Company. The primary term of the agreement was 2 years with provision to be extended year to year thereafter. The gas price was an indexed based price reduced by an amount that allows Anadarko to recover the cost of measurement equipment normally paid for by the producer. Once 200,000 MMBTU's of gas was delivered during the primary term of the contract the price reduction was eliminated. If the wells do not deliver 200,000 MMBTU's during the primary term Empire must pay USD0.30 per MMBTU for any shortage. The property was sold to Carr Resources in August 2002 but the potential liability from the gas contract remained with Empire. Carr drilled an additional productive well on the unit in September 2002, which reduced the required production. Total production since sale of the property in 2002 and the expiration of the agreement in August 2003 is unknown but no claim has been made to Empire and no claim is expected by the directors of Empire. Based on the known production information, the directors have calculated the maximum potential liability to be USD35,000.

3.6 Recent financial position and performance of Empire Energy

The annual financial report for Empire Energy for the financial year ended 31 December 2003 was filed with the Securities and Exchange Commission (SEC) on 14 May 2004. Further, the auditor

reviewed statement for the quarter ended 31 March was filed on 24 May, the quarter ended 30 June was filed on 17 September and the quarter ended 30 September 2004 was filed with the SEC on 13 December 2004.

The annual financial report for Empire Energy for the financial year ended 31 December 2004 was finalised shortly before the issue of this document and filed with the SEC on 3 March 2005. A copy of the 31 December 2004 accounts are attached in Annexure A.

Copies of any of these documents can be downloaded free of charge from the SEC website at www.sec.gov.

3.6.1 Financial report overview

In summary, the 2003 annual financial reports showed that Empire had negligible assets at 31 December, 2003 and approximately USD380,000 in liabilities. Effective 29 March 2004, the shareholders approved the sale of all remaining assets and subsidiaries in exchange for the assumption of corporate liabilities to allow pursuit of this proposed Acquisition. At 31 March 2004, Empire had no assets and no operations. At 31 December 2004, Empire had assets of approximately USD300,000, including cash of approximately USD50,000, loans outstanding to GSLM of approximately USD280,000 and payment of Acquisition costs, and liabilities of approximately USD925,000. Included in the liabilities are the following amounts:

- Approximately USD260,000 that, under the affidavit entered into by the former President of Empire, Norm Peterson, will be assumed by him;
- Approximately USD320,000 that will offset loans receivable from GSLM; and
- Approximately USD195,000 that is due under the Convertible Debenture Purchase Agreement with HEM (refer to section 3.5.1 for further detail on this agreement).

The value of the loans outstanding from GSLM are not included in the assets on Empire's 31 December audited balance sheet because US GAAP accounting standards require that a valuation allowance be recorded due to the poor financial condition of GSLM. Substantially all activities of 2004 were related to the support of GSLM and pursuit of this proposed Acquisition.

3.6.2 Historical financial information

The following sets out summaries of certain historical financial information about Empire Energy. It is historical information that does not take into account the effects of the proposed Acquisition of GSLM by Empire Energy (see clause 8 for information in relation to this issue). It is a summary only and the full financial accounts for Empire Energy for the year ended 31 December 2004, which include the notes to the accounts, are attached as Annexure A to this document.

(a) Historical consolidated Empire Energy profit and loss statements

The Company has no current operations. Activities of 2003 and 2004 were substantially the sale of assets, settlement of liabilities, support of GSLM and pursuit of the proposed Acquisition. Expenses incurred were substantially legal, consulting, accounting, auditing and financing costs associated with this proposed Acquisition.

Set out below is a summary of Empire's audited consolidated statement of financial performance (profit and loss statements) for the three years ended 31 December 2004.

Summarised Statement of Financial Performance

	2002 USD'000	2003 USD'000	2004 USD'000
Revenue	71	0	0
Selling, general and administrative expenses	628	346	1,578
Impairment of oil and gas properties	8,447		
Expenses	9,075	346	1,578
Loss before income tax expense	(9,004)	(346)	(1,578)
Income tax expense	-	-	
Net loss	(9,004)	(346)	(1,578)

Source: Annual Financial Reports

(b) Historical consolidated Empire Energy balance sheets

Empire's financial statements reflect nominal assets aside from loans to GSLM, and approximately USD925,000 of liabilities at 31 December 2004. During 2004 the company made loans totalling approximately USD280,000 to GSLM. At December 31, 2004, this amount remains due to Empire but a reserve against these loans has been included in the financial statements because repayment could not be assured prior to completion of this Acquisition. In addition, Empire owes convertible debentures with a face liability of USD493,000 that are included in the financial statements as a liability of approximately USD195,000 due to recording of the discounted value of the included equity beneficial conversion features.

Set out below is Empire's audited consolidated statement of financial position (balance sheet) as at 31 December 2003 and as at 31 December 2004.

Summarised Statement of Financial Position

	2003 USD'000	2004 USD'000
Current Assets		
Cash assets	3	47
Loans to GSLM, net of allowance ¹	-	-
Short Term Investments	2	0
Total Current Assets	5	47
Total Assets	5	47
Current Liabilities		
Accounts payable	378	727
Convertible Debentures	-	196
Total Current Liabilities	378	923
Total Liabilities	378	923
Deficiency in Net Assets	(373)	(876)

¹ As at 31 December 2004 Empire had loaned GSLM approximately USD280,000 and Empire is required by US GAAP accounting standards to make an allowance in the Empire financials to take account of GSLM's poor financial condition.

(c) Historical consolidated Empire Energy cash flow statements

During 2003, proceeds from the sale of assets and shares of Empire's common stock were used to settle liabilities. During 2004, in pursuit of this Acquisition, Empire raised approximately USD500,000 from the sale of convertible debentures and raised approximately USD315,000 from the sale of common stock. Of these funds, approximately USD280,000 was loaned to GSLM and approximately USD515,000 was used for activities substantially in pursuit of the proposed Acquisition.

3.7 Public announcements by Empire Energy

3.7.1 Disclosure required by the SEC

All publicly-listed companies in the United States are required by the Exchange Act to file with the SEC certain reports on a timely basis by means of its electronic filing system 'EDGAR'. These filings include annual and quarterly reports as well as ongoing reports on Form 8-K if certain significant events occur. Large shareholders and corporate insiders will also be required to file certain schedules setting out details in respect of their shareholdings.

Copies of the following documents can be downloaded, free of charge from the SEC website at www.sec.gov, by accessing the links noted below

- Articles of Incorporation for Empire Energy
(<http://www.sec.gov/Archives/edgar/data/788206/000103883804000118/defr14a123103.txt>).
- Annual report for Empire Energy for the year ended 31 December 2004.
- Quarterly report for Empire Energy for the quarters ended 31 March, 30 June and 30 September 2004 (both accessible at <http://www.sec.gov/cgi-bin/browse-edgar?company=empire+energy&CIK=&filenum=&State=&SIC=&owner=include&action=getcompany>)

3.7.2 Approval by Empire Energy shareholders of Empire Energy's Offer

On 15 July 2002, the Board of Directors of Empire, unanimously approved the terms and conditions for the acquisition of GSLM as established in the Letter of Intent. Approval of Empire's shareholders was obtained at a shareholder's meeting held 29 March 2004.

4 Information about Empire Energy securities

4.1 Empire Energy's issued securities

On 29 March 2004 Empire shareholders approved the proposal to redomicile the company into the state of Nevada and as part of the redomiciliation to issue one new share in the Nevada corporation for each 10 shares of the old corporation. This change in structure became effective 26 April 2004.

At the date of this bidder's statement, Empire has the following equity:

- 8,775,753 Class A Ordinary Common Stock on issue of 100,000,000 authorised common stock; and
- 106,574 Class B Ordinary Common Stock.

Refer to section 4.13 for a description of the rights and liabilities attaching to these respective classes of shares.

4.2 Outstanding options

As at the date of this bidder's statement Empire Energy has 68,464 outstanding options in respect of Class A Ordinary Common Stock, broken down as follows:

- 833 at an exercise price of USD18.00 with an expiry date of 17 April 2005.
- 10,000 at an exercise price of USD10.00, with an expiry date of 23 October 2005.
- 57,631 at an exercise price of USD30.00, with an expiry date of 19 June 2006.

4.3 Outstanding warrants

As at the date of this bidder's statement, Empire Energy has 2,390,000 warrants outstanding with rights to purchase Class A Common Stock, broken down as follows:

- 15,000 at an exercise price of USD7.00 with an expiry date of 6 September 2006.
- 125,000 at an exercise price of USD0.80 with an expiry date of 6 September 2006.
- 1,500,000 at an exercise price of USD0.10, available for exercise on the date the Offer is successfully accepted and closed, with an expiry date of 31 March 2008.
- 750,000 at an exercise price of USD0.50, available for exercise from 10 October 2005, with an expiry date of 11 October 2009. These are described in further detail below.

On 11 October, 2004, in consideration of certain consultancy services provided by Avalor Capital, LLC and its sole owner Frank W. Bachinsky, III (collectively the **Purchaser**), Empire Energy issued to the Purchaser warrants entitling the warrant-holder the right to purchase 750,000 shares of Empire stock at a price equal to USD0.50 per share, with such warrants available to exercise on 11 October 2005 and expiring on 11 October 2009.

In the event that the number of Empire shares outstanding exceeds 75 million shares by the earlier of (i) 11 October 2005 or (ii) the date that the underlying consultancy agreement is cancelled or terminated, then the warrant-holder is entitled to purchase a number of additional shares equal to the difference of 750,000 shares and 1% of the total shares issued and outstanding (determined on a fully diluted basis). If the Acquisition is completed, the number of Empire Energy Shares outstanding may exceed 75 million.

In the event of reorganisation, reclassification, consolidation, merger or sale of all or substantially all of the company's assets where shareholders will receive stock, securities or assets in exchange for their equity interest, the warrant-holder will have the right to exercise and receive the benefits of the distribution commensurate with what he would have received had he been a shareholder at the time of the distribution.

4.4 Investment Agreement

In December 2004, Empire Energy entered into an Investment Agreement authorising the issue of 5 million additional shares of Empire Energy common stock at a purchase price of USD0.10 per share

to various new Empire Energy shareholders. Notwithstanding the description in Note 14 to the Empire financial statements for the year ended 31 December 2004, the terms of this Investment Agreement state that in the event that the average bid price of Empire's common stock for the 10 days between the 80th and 90th day after the date of that document, is not USD1.00 or more, then Empire must issue and deliver to the respective purchasers, pro rata, an additional 2,490,000 shares of its common stock for no consideration. In the event that this further issue causes Empire to breach its maximum level of authorised shares, then the Investment Agreement provides that Empire must amend its certificate of incorporation to increase its authorised common stock to enable the further issue. It is the understanding of the Board of Empire that if this bidder's statement is lodged with ASIC on or before 7 March 2005, none of the additional shares for no consideration referred to above will be required to be issued.

4.5 Shares due to associated parties of Empire

In August 2002, Owen Enterprises LLC lent USD50,000 to GSLM, followed by a further loan of USD25,000 in December 2002, to provide funding for costs associated with the Acquisition. These loans were repaid in July 2004 from proceeds of the convertible debentures sold by Empire and loaned to GSLM. Owen Enterprises LLC also agreed to provide consulting services to both Empire and GSLM in connection with the Acquisition in consideration of USD250,000 (of which USD50,000 has been paid from proceeds from the convertible debentures) and 2,534,419 shares of Class A common stock in Empire, which shares are only deliverable upon the success of the Acquisition.

In December 2002, P & S Investment Management, Inc lent USD75,000 to GSLM to provide funding for costs associated with the Acquisition. These loans were repaid in July 2004 from proceeds of the convertible debentures sold by Empire and loaned to GSLM. As part of this agreement, P & S Investment Management, Inc. will receive 100,000 shares of Class A common stock in Empire, following the completion of the Acquisition.

750,000 shares of treasury stock in Empire Energy were transferred to Bryan Ferguson, the previous President of Empire Energy, as a bonus for negotiating the Acquisition. This transfer was completed by issuing Bryan Ferguson with 75,000 post split shares in Empire in August 2002.

4.6 Substantial holders

As at the date of this bidder's statement, the following shareholders are known to Empire Energy to be substantial shareholders, having greater than a 5% beneficial interest in Empire Energy Shares:

<u>Name</u>	<u>Amount</u>	<u>Percent of class</u>
Norman Lowe	500,000	5.8%
Michael Portnoy	500,000	5.8%

Further, HEM Mutual Assurance LLC (**HEM**) is shown on the register of shareholders maintained by the Transfer Agent as having 150,000 shares of common stock in Empire. However, HEM also has an entitlement to a further 800,000 shares of Common Stock in Empire available within 60 days from the conversion of the Debentures at a price of USD0.01 per share and an entitlement to 2,325 shares of Common Stock in respect of interest accrued on the Debentures, giving it a potential interest in 952,325 shares of Common Stock, being 9.9% of total Empire Energy Common Stock.

Shareholders in Empire Energy who have bought Empire shares in the secondary markets or who have placed their shares with a broker may have their ownership reflected on Empire Energy's

shareholder register as being held in the street name of Cede & Co. Accordingly, although Cede & Co is indicated as being the single largest shareholder of Empire Energy, the Directors expect that beneficial ownership of the shares is held by numerous other parties.

4.7 Historic trading of Empire Energy Shares

The latest recorded sale price of Empire Energy Shares on the OTC Bulletin Board before the date on which this bidder's statement was lodged with ASIC was USD0.40.

The highest recorded sale price of Empire Energy Shares on the OTC Bulletin Board in the 4 months before this bidder's statement was lodged with ASIC was USD0.63.

The lowest recorded sale price of Empire Energy Shares in the last 4 months before this bidder's statement was lodged with ASIC was USD0.21.

Over the past two years, Empire's share price has averaged USD1.00 with a peak of USD2.80 in July 2003. Since that date, the share price has declined to as low as USD0.21 in February 2005. The Empire directors believe the decline in the share price is likely to reflect the lack of current operations and the delay in successfully completing the proposed Acquisition. In addition, the decline may have been influenced by 700,000 shares issued in conversion of debentures during the later part of 2004.

Volumes traded over the three years to 31 December 2004 and the percentage turnover compared to the number of issued shares at the end of each respective financial year is as follows:

Financial Year	Volume Trade m	Issued Capital m	Turnover %
2004	3.38	3.17*	107%
2003	1.18	62.16	2%
2002	1.80	57.17	3%

**restructure of 1 for 10 in April 2004 - majority of volume traded post restructure*

In the 2002 and 2003 calendar years, Empire's stock was fairly illiquid with very small volumes of shares sold. In the latter part of the 2004 calendar year, the volume of shares traded increased significantly, possibly due to 700,000 shares issued in conversion of debentures and interest created by apparent progress toward completion of the proposed Acquisition.

4.8 Restrictions on trading of new Empire Energy Shares following completion of the Acquisition

Empire Energy is relying on a limited exemption from the registration requirements of the Securities Act, available for exchange offers where the target is a 'foreign private issuer' under US securities laws and where less than 10% of the outstanding shares of GSLM are held by US residents. Empire & GSLM calculated in the manner required by Rule 800 under the Securities Act that on 2 February 2005, thirty days prior to this Offer, considerably less than 10% of GSLM shares were held by US residents.

The effect of this exemption is that, with limited exceptions, shareholders whose GSLM shares would have been viewed to be "restricted" under US securities laws will receive restricted Empire Energy Shares until such time as Empire files a registration statement. Shareholders whose GSLM

shares would not have been viewed as restricted will receive unrestricted shares immediately. Empire Energy has committed itself to file a registration statement with the SEC without undue delay to register the restricted shares, which, when declared effective, will make them freely tradeable.

Empire Energy has set out below the criteria to assist GSLM shareholders in determining whether they are eligible to receive unrestricted Empire Energy Shares initially. We include in Section 4.10 below a description of the effects of holding restricted shares and the result of filing a registration statement.

Determination of Restricted Status

The information enclosed with this bidder's statement includes an Acceptance Form which must be submitted with any shares tendered to Interwest, Empire Energy's transfer agent. Shareholders agreeing to accept the Offer and tendering their GSLM shares without the Acceptance Form or without signing the Acceptance Form or otherwise filling the Acceptance Form out completely will either have their GSLM shares returned to them for future proper delivery or may be issued restricted Empire Energy Shares.

Empire Energy offers the following guidelines to assist tendering shareholders in determining whether their tendered shares would be viewed to be restricted and, accordingly, whether restricted Empire Energy Shares will be issued to them. If either of the circumstances below describes the GSLM shares in your possession, then the Empire Energy Shares issued to you can be issued as unrestricted. However, any shareholder deemed to be an 'affiliate' of either GSLM or Empire Energy will receive restricted securities in the initial Offer, notwithstanding the fact that such shareholder might otherwise have been entitled to unrestricted shares.

For the purposes of this discussion, the Securities Act provides that 'Affiliate', an 'affiliate' of, or a person "affiliated with", a specified person is a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with the person specified. 'Control' refers to the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a company, whether through the ownership of voting securities, by contract, or otherwise. Typically, all officers and directors are viewed as affiliates as well as shareholders with ownership of 10% or more of the voting securities of a company, although a person could be viewed to be an affiliate with a smaller shareholding if other factors indicate that such a person could control or influence management.

(a) Duration of shareholding

Any GSLM shareholder who purchased their shares and tendered payment in full more than two years prior to the date of this bidder's statement or who, together with another prior owner who was not an affiliate, collectively owned the shares for at least two years, may be entitled to unrestricted Empire Energy Shares provided they have retained beneficial ownership of the GSLM shares for the entire two-year period and provided they are not and have not been for a period of three months prior to the date of this bidder's statement an affiliate of GSLM.

(b) Manner of purchase.

Any non-affiliate GSLM shareholder who has held their shares for less than two years may nonetheless be eligible to receive unrestricted Empire Energy Shares provided they were not in the United States when the Offer and sale of the GSLM shares was made.

4.9 Australian Securities and Investment Commission relief

One consequence of the restriction only applying to Affiliate shareholders is that this Offer will have benefits for some but not all of the GSLM shareholders. This will cause a technical breach of section 623(1) of the Corporations Act which prohibits a bidder from offering unequal benefits to target shareholders in a takeover bid. As a result, to ensure compliance with the takeovers procedure set out in the Corporations Act, Empire Energy has received a modification order from ASIC dated 4 March 2005 exempting Empire Energy from the operation of this provision, to facilitate all non-Affiliates being able to receive non-restricted Empire Energy Shares from the date of their issue. A copy of this modification order is available to GSLM shareholders free of charge upon request from GSLM or Empire Energy.

4.10 US regulatory requirements in the Offer of restricted Empire Energy Shares

To the extent a GSLM shareholder would receive restricted Empire Energy Shares, the following text provides important information regarding the effects of the restricted status on such shares.

The restricted Empire Energy Shares to be issued under this Offer may not be resold to the public except upon registration of the shares with the SEC or in a transaction exempt from the registration requirements of the Securities Act. The shares in certificated form will contain a legend substantially to the effect:

THE SHARES REPRESENTED BY THIS CERTIFICATE
HAVE NOT BEEN REGISTERED UNDER THE US
SECURITIES ACT OF 1933, AS AMENDED (THE
"SECURITIES ACT"), OR ANY STATE SECURITIES LAWS,
AND MAY ONLY BE OFFERED, SOLD, PLEDGED OR
OTHERWISE TRANSFERRED OUTSIDE THE UNITED
STATES IN A TRANSACTION MEETING THE
REQUIREMENTS OF RULE 903 OR 905 OF REGULATION S
UNDER THE SECURITIES ACT OR PURSUANT TO A VALID
REGISTRATION STATEMENT OR PURSUANT TO A VALID
EXEMPTION FROM SUCH REGISTRATION.

For so long as the shares are restricted, any shareholder wishing to sell its Empire Energy Shares may be required to provide a legal opinion to the transfer agent that the sale is being made in compliance with the US securities laws and will be required to receive from any prospective purchaser written representations to the effect that:

1. The purchaser
 - a) is not a US Person and is not acquiring the shares for the account or benefit of a US Person; or
 - b) is a US Person purchasing the shares in a transaction not requiring registration under the Securities Act; and
2. The purchaser agrees to resell such shares only in accordance with the provisions of Regulation S, pursuant to registration under the Securities Act, or pursuant to an available exemption from registration; and
3. The purchaser agrees not to engage in any hedging transactions with regard to the shares unless in compliance with the Securities Act; and

-
4. The purchaser acknowledges that Empire Energy will not register any transfers not made in compliance with these requirements.

The 'restricted' Empire Energy Shares issued as part of the Offer will be restricted until the earlier of twelve months from the date of acquisition or the registration of the shares. Registration occurs when Empire Energy files a registration statement in respect of the shares with the SEC and the SEC declares the statement 'effective'.

If after twelve months Empire Energy has failed to file a valid registration statement, shareholders, other than insiders or affiliates, holding restricted shares may begin limited sales of shares. In any three month period they can sell no more than 1% of the total shares outstanding. Based on the currently contemplated Offer the directors of Empire expect this would restrict each shareholder to selling no more than approximately 750,000 shares during each three-month period aggregated across all accounts held for his or her benefit (not only name accounts). Any shareholder holding restricted shares wishing to sell more than 500 shares in any 3 month period will be required to file 3 copies of a Form 144 notifying the SEC of the intent to sell. All sales in the United States during this period must be by means of a broker.

If after two years Empire Energy has failed to file a valid registration statement, all requirements as to quantity, manner of sale and SEC notification will fall away for all shareholders not deemed to be 'affiliates'.

4.11 How can you trade the Empire Energy Shares you receive upon acceptance of the Offer?

Provided that you are entitled to receive unrestricted Empire Energy Shares upon acceptance of this Offer pursuant to the qualifications set out in section 4.8 and 4.9, you will be required to appoint a registered broker with the facilities to trade in US OTC Bulletin Board stocks if you wish to dispose of, or acquire Empire Energy Shares on the public markets following the close of this Offer. You will need to make your own enquiries to determine which brokers have the relevant facilities to be able to effect a trade in Empire Energy Shares. You will need to send an authorisation letter to Interwest to notify the transfer agent that the broker-dealer you appoint has authority to trade your shares.

Provided that you are entitled to receive unrestricted Empire Energy Shares upon acceptance of this Offer pursuant to the qualifications set out in sections 4.8 and 4.9, you will be eligible to trade your new Empire Energy Shares freely.

Generally in the United States it is customary for corporations to provide share certificates representing the shareholders' interests in the company. Because transfer and settlement of physical securities is cumbersome and time-consuming, most corporations, like Empire Energy, offer an alternative to maintain record of ownership of shares in a book-entry form. Unless you expressly request a share certificate, your interest in Empire Energy Shares will be registered in book entry form and you can trade your shares through the "FAST" system run by the Depositary Trust Company. The FAST system allows electronic trading in shares without having to deliver a properly executed share certificate to a broker prior to trading. It does require, however, a registered broker with the facilities to trade in US OTC Bulletin Board stocks and you will need to send an authorisation letter to Interwest to notify the transfer agent that the broker-dealer you appoint has authority to trade your shares. You will need to make your own enquiries to determine which brokers have the relevant facilities to be able to effect a trade in Empire Energy Shares. You will still, however, be able to trade privately in Empire Energy Shares outside the United States without needing a broker-dealer.

4.12 Dividend history

No dividends have been paid by Empire Energy in the past 2 years. It is not intended that dividends will be payable in the foreseeable future.

4.13 Comparative rights of Empire Energy shareholders and GSLM shareholders

4.13.1 Introduction

When this Offer is complete, those GSLM shareholders who elect to participate will become shareholders of Empire Energy. The rights and liabilities attaching to the Shares which will be issued as part of the Consideration under the Offer are set out in Empire Energy's Articles of Association and in the Nevada Corporation Act. The rights and liabilities attaching to the GSLM shares currently held by GSLM shareholders are provided for by the constitution of GSLM and the Corporations Act 2001 (C'th).

There are currently 2 classes of shares on issue in Empire Energy, being Class A Common Stock (**Common Shares**) and Class B Redeemable Common Stock (**Redeemable Shares**). If the conditions of this Offer are met, GSLM shareholders who accept the Offer shall receive Common Shares.

The main rights and liabilities attaching to the Empire Energy Shares, as opposed to the rights and liabilities attaching to the GSLM shares are summarised below.

Empire Energy

Authorised Capital Stock and Par Value

We are authorised to issue 100,000,000 shares of Empire Energy capital stock, consisting of 99,000,000 shares of Class A common stock with USD0.001 par value, and 1,000,000 shares of Class B Redeemable voting common stock with USD0.0001 par value.

The Redeemable Shares will automatically convert to Common Stock upon their onsale.

Number and Election of Directors

Our articles of incorporation, as amended, and bylaws, as amended, collectively provide for the minimum and maximum number of directors with directors in each class being elected for a one, two or three-year term with the term of years being equal to the numbers of directors classes. Nevada law requires corporations to have at least one director. When Empire re-domiciled to Nevada, John Garrison was listed as the one director in the Articles of Incorporation. Malcolm Bendall was subsequently appointed on 4 June 2004.

GSLM

Authorised Capital Stock and Par Value

There is no restriction on the number of shares which may be issued in GSLM. The issue price of those shares is set by the directors of GSLM as at the time of issue.

Number and Election of Directors

The number of directors is such number approved by the members of the company from time to time.

As a public company in Australia, GSLM must have no fewer than 3 directors, at least one of whom must reside in Australia, together with a company secretary at all times.

Empire Energy

Removal of Directors

At a meeting expressly called for that purpose, one or more directors may be removed by a vote of a majority of the shares of outstanding stock of Empire entitled to vote at an election of directors. Under Nevada law and Empire's Articles and By-laws, all directors, including casual directors appointed to fill a vacancy on the Board, hold position only until the time of the next AGM of Empire, when they are eligible for re-election if they wish to stand.

Vacancies on the Board of Directors

If any vacancies shall occur in the Board of Directors by reason of death, resignation or otherwise, or if the number of directors shall be increased, the directors then in office shall continue to act and such vacancies or newly-created directorships shall be filled by a vote of the directors then in office, though less than a quorum, in any way approved by the meeting. Any directorship to be filled by reason of removal of one or more directors by the shareholders may be filled by election by the shareholders at the meeting at which the director or directors are removed.

Dividends

The Board of Directors may from time to time declare, and the corporation may pay, dividends on its outstanding shares of Class A Common Stock, and the corporation may pay, dividends on its outstanding shares.

Voting Rights

Each share of our common stock entitles its holder to one vote upon all matters upon which our shareholders may vote.

Liquidation Rights

The Class B Redeemable Common Stock shall not be entitled to receive any assets of Empire upon the dissolution or liquidation of Empire, except their par value.

GSLM

Removal of Directors

The procedure for the removal of directors is prescribed by the Corporations Act.

The company may, by ordinary resolution approve the removal of any director throughout the term of their directorship.

Vacancies on the Board of Directors

The directors may at any time appoint any person to be a director, either to fill a casual vacancy or as an addition to the existing directors, but so that the total number of directors does not at any time exceed the number approved by the company from time to time.

Dividends

The company in general meeting may declare a dividend if, and only if the directors have recommended a dividend. A dividend shall not exceed the amount recommended by the directors.

Voting Rights

On a vote on a show of hands, each shareholder present in person or by proxy is entitled to one vote.

On a poll vote, each shareholder present in person or by proxy is entitled to one vote for every share held in the company.

Liquidation Rights

If the company is wound up, the liquidator may, with the sanction of a special resolution by shareholders, divide among the members in kind the whole or any part of the property of the company and may for that purpose set such value as he or she considers fair upon any property to be so divided.

Empire Energy

Preemptive Rights and Other Rights

Our common shareholders do not have preemptive rights. Upon the issuance of any shares of Class A Common Stock to a holder of Class B Redeemable Common Stock the shares of Class B Redeemable Stock equal in number to the shares of Class A Common Stock issued on conversion shall be automatically redeemed by the Corporation for par value. Empire has no obligation to convert B Stock for A Stock until the holder of B Stock surrenders a duly endorsed certificate or other such form acceptable to the company. Our Common Stock does not have any sinking fund provisions.

Annual Meeting of Shareholders

The annual meeting for our shareholders is held in May or as otherwise designated by the board of directors.

Shareholder Action by Written Consent

Shareholders may take any action required or permitted under Nevada law to be taken at an annual or special meeting of shareholders without a meeting, without prior notice, and without a vote, if consents in writing and setting forth the action taken are signed by the holders of all of the outstanding shares of stock entitled to vote on the matter.

Amendment to Incorporating Instruments

We have the right to amend, alter, change or delete any provision contained in our articles of incorporation, as amended, in accordance with the requirements of our articles or any applicable law.

Amendment to Bylaws

Our board of directors may alter, amend, change, add to, repeal or substitute provisions in the bylaws by affirmative vote of a majority of the board, unless the articles, the bylaws or Nevada law provides otherwise. Shareholders may amend, alter, change, add to, repeal or substitute provisions by the affirmative vote of a majority of shares entitled to vote thereon if notice of such action is contained in the notice of the meeting. No Bylaws adopted as

GSLM

Preemptive Rights and Other Rights

There are no pre-emptive rights attaching to shares in GSLM.

Annual Meeting of Shareholders

The Annual General Meeting of GSLM shareholders is held each year within 5 months of the end of its financial year at a date and time set and notified by directors.

Shareholder Action by Written Consent

Shareholders in GSLM may pass a resolution in relation to any matter requiring shareholder approval, by virtue of a circular resolution signed by all current shareholders in GSLM as at the time of the resolution.

Amendment to Incorporating Instruments

GSLM can modify, alter or replace its existing constitution in accordance with the Corporations Act 2001, which presently provides that such change must be approved by a special resolution of GSLM shareholders.

Amendment to Bylaws

Australian companies do not have Bylaws so this is not relevant for GSLM.

However, as noted above, the GSLM constitution can be modified, altered or replaced with the approval of a special resolution of GSLM Shareholders.

Empire Energy

amended by Shareholders shall be altered or repealed by the Board of Directors. Furthermore, no Bylaws shall be adopted by the Board of Directors which shall require more than a majority of the voting shares for a quorum at a meeting of the shareholders, except where higher percentages are required by law; provided, however, that (i) if any bylaw regulating an impending election of directors is adopted or amended or repealed by the Board of Directors, there shall be set forth in the notice of the next meeting of shareholders for the election of directors, the Bylaws so adopted or amended or repealed together with a concise statement of the changes made; and (ii) only the Shareholders are permitted to amend, alter or repeat the provisions in the By-laws regarding amending of the By-laws.

Calling of Special Meeting of Shareholders

Special meetings of the shareholders may be called at any time by the chairman of the board, the president, or by the Board of Directors, or in their absence or disability, by any vice president, and shall be called by the president or, in his or her absence or disability, by a vice president, or by the secretary on the written request of the holders of not less than one-tenth of all the shares entitled to vote at the meeting, such written request to state the purpose or purposes of the meeting and to be delivered to the president, each vice president, or secretary. In case of failure to call such meeting within 60 days after such request, such shareholder or shareholders may call the same.

Anti-Takeover Measures

The existence of unissued Empire Energy common stock and other provisions in our articles of incorporation, as amended, and bylaws, as amended, could permit our board of directors to render more difficult or to discourage a merger, tender offer, proxy contest or other transaction aimed at obtaining control of Empire Energy.

GSLM

Calling of Special Meeting of Shareholders

A director of the company may call a general meeting of shareholders at any time and for any reason.

In addition, upon receiving a request from either shareholders having 5% of the total votes which may be cast at a members' meeting or 100 members who are entitled to vote at the meeting, the directors must call and hold a meeting within 2 months of receipt of such request.

However, the recent Corporations Amendment Bill (No. 2) 2005 has sought to remove the 100 member voting rule and, should this Bill be passed in its current form, GSLM Shareholders will no longer be entitled to require a meeting by providing directors with a request from 100 members to do so.

Anti-Takeover Measures

The ability for GSLM directors to issue additional unlimited numbers of shares in GSLM could facilitate the GSLM board rendering it more difficult or discouraging a merger, takeover or tender offer or other transaction aimed at obtaining control of GSLM. However, all share issues permitted by directors can only be done for a proper purpose and in accordance with their duties as directors.

Empire Energy

GSLM

Our articles of incorporation do not provide for cumulative voting and as a result a relatively small group of shareholders may be prevented from electing directors. The classified board provisions in our articles could have the effect of prolonging the time required for a shareholder or shareholders with significant voting power to gain majority representation on the board. This inability to immediately gain a majority representation on the board at an annual meeting of shareholders could discourage takeovers and tender offers where board approval requires a majority or a super majority to facilitate success.

Shareholder Rights Plan

Empire Energy does not have a shareholder rights plan.

Indemnification

Our articles of incorporation, as amended, provide that we must indemnify our directors and officers against liability and expenses and must advance expenses to our directors and officers in connection with any proceeding to the fullest extent permitted by the Nevada Corporations Act as now in effect or as it may be amended or substituted from time to time.

Advance Notice

Our bylaws require our shareholders to provide advance notice of any business to be brought before a shareholders meeting.

Shareholder Rights Plan

GSLM does not have a shareholder rights plan.

Indemnification

The constitution of GSLM indemnifies every officer, auditor or agent of the company against any liability incurred by that person acting in their capacity as officer, auditor or agent in defending any proceedings in which judgment is given in such person's favour or in which they are acquitted or relief is granted by the court.

Advance Notice

At least 21 days notice must be given of an extraordinary general meeting of shareholders.

4.14 Directors' interests in Empire Energy securities

As at the date of this bidder's statement, the directors of Empire Energy had the following relevant interests in Empire Energy securities:

Director	Class of security	Number	Nature of relevant interest
Malcolm Bendall	Common A	NIL	
John Garrison	Common A	22,288	Direct ownership

Malcolm Bendall, a director of GSLM was appointed as a director of Empire Energy with effect from 4 June 2004. The sole purpose of this appointment of Mr Bendall to the Board of Empire Energy was in contemplation of this Offer and the proposed Acquisition of GSLM by Empire Energy. As at the date of this document, Malcolm Bendall has an interest in 7,739,434 ordinary shares in GSLM through his associations with Condor Oil Investments, The Bendall Family Trust and LOGOK Pty Limited. Malcolm Bendall has also been granted 50,000 options in GSLM which may be exercised at a price of \$0.01 and which expire on 31 December 2005. Further, subject to the satisfaction of

certain conditions, Malcolm Bendall may be granted a further 6,000,000 options in GSLM, the expiry date of which is 30 September 2005 and details of which are set out in section 6.1. Mr Bendall has entered into an agreement with both Empire and GSLM that if the Offer is successful, these options (including the 6 million conditional options) will be cancelled and Mr Bendall will be issued with an equivalent number of options in respect of Empire Energy stock carrying identical terms and conditions to his current GSLM options.

4.15 Transactions in GSLM and Empire Energy securities by Empire Energy

Neither Empire Energy, nor any of its subsidiaries has purchased securities in Empire Energy or GSLM in the 4 months prior to the issue of this document. The Bendall Family Trust, a trust associated with Malcolm Bendall purchased 200,000 shares in GSLM on 30 November 2004, at a price of \$0.15 per share. Other than as disclosed, no director or related bodies corporate of a director or secretary of Empire Energy has purchased securities in Empire Energy or in GSLM in the 4 months prior to the issue of this document.

4.16 Loans and indemnities by directors of Empire Energy

There are no current loans or indemnity entitlements outstanding in favour of the directors of Empire Energy as at the date of this bidder's statement. John Garrison accrued approximately USD60,000 in fees throughout 2004, of which USD40,000 remained unpaid as at 31 December 2004. There are no outstanding fees or accrued entitlements payable to Malcolm Bendall at the date of this document.

5 Profile of GSLM

5.1 Disclaimer

The following description of the profile of GSLM and all the financial information concerning it contained in this clause has been prepared for the most part using publicly available information or information made available at the request of Empire Energy. Subject to the Corporations Act 2001, Empire Energy makes no representation or warranty, express or implied, as to the accuracy or completeness of the information.

5.2 Overview of GSLM's activities

5.2.1 Introduction

GSLM is an unlisted public company incorporated in Tasmania in 1995 for the specific purpose of exploring for oil and gas in the onshore Tasmania Basin

5.2.2 Review of operations

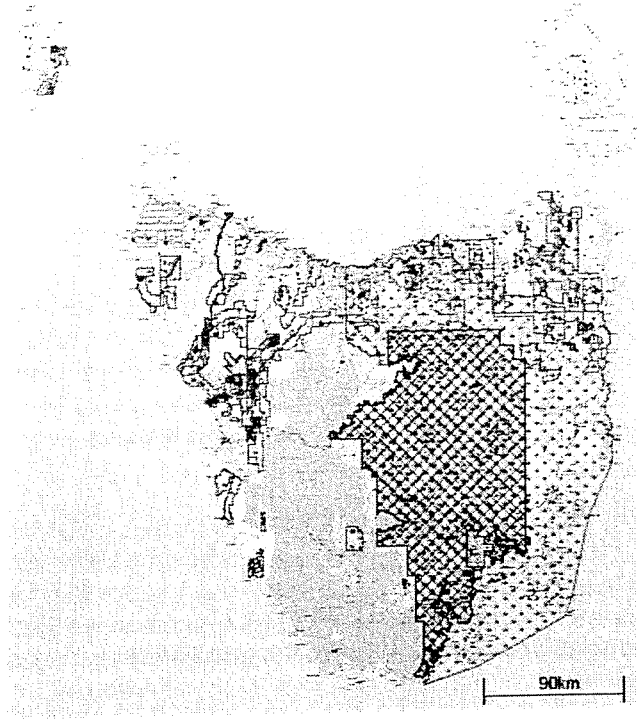
GSLM owns an onshore petroleum licence, SEL 13/98.

SEL 13/98 was created in June 1999 by incorporating areas covered by permits EL-1/88, EL-9/95 and EL-21/95. SEL 13/98 was granted to GSLM for an initial period of 5 years expiring on 18 May 2004, with the ability to extend the licence for another 5 years at the discretion of the Minister.

A renewal application was lodged on 6 May 2004 and granted on 28 October 2004. SEL 13/98 initially comprised 30,356 square kilometres and covered the whole Tasmania Basin or about half

the State. The renewed SEL 13/98 now covers a reduced area of 15,035 square kilometres and requires an exploration expenditure of \$21.5 million over 5 years.

Following is a map of Tasmania illustrating the area covered by SEL 13/98. The cross-hatched area highlighted in the centre of the map is the area within Tasmania in which SEL 13/98 permits GSLM to conduct exploratory work to uncover potential petroleum reservoirs suitable for developing.



We understand that the GSLM Board is of the view that the Tasmania Basin is prospective for oil, hydrocarbon gases and helium.

In 2001, the Australian Federal Government, through the Australian Research Grants Scheme awarded the University of Tasmania and GSLM a \$417,000 Research and Development grant to study the petroleum systems in Tasmania. This grant is enabling a team of university and GSLM geoscientists to develop a computer model for the geological, tectonic and fluid flow evolution of central Tasmania for the last 500 million years. The grant is supported by a \$268,000 commitment from GSLM. A number of research projects have been completed by students at the University of Tasmania and these are discussed in further detail in the 2004 Financial Report for GSLM.

In 2000, GSLM undertook the first major regional seismic survey to be carried out on onshore Tasmania, completing in 2001. It is the understanding of the director's of Empire that the 660 line kilometre survey, coupled with prior studies established that large geographical structures, with the potential to be petroleum traps, exist south of Launceston and under the Central Highlands.

Early in 2002, GSLM signed an Exploration Agreement (**EA**) with OME Resources Australia Pty Limited (**OMERA**) by which OMEIRA would earn a joint venture interest of 15% in SEL 13/98 by conducting drilling and related work. This commitment by OMEIRA was intended to satisfy the minimum work requirements for SEL 13/98 until June 2003.

However, a dispute subsequently arose between GSLM and OMEIRA as to whether OMEIRA had complied with certain of its obligations under the EA. The parties were able to settle their differences and recorded their agreed position in a settlement agreement dated 8 August 2003. One of the terms of that settlement agreement was to the effect that GSLM and OMEIRA would jointly approach

the Tasmanian Minister for Infrastructure Energy and Resources for his consent to vary the terms of SEL 13/98 held by GSLM in accordance with the variance agreed between OMERA and GSLM. The effect of that variance was that GSLM would surrender the right to explore for coal bed methane over the area of SEL 13/98 to OMERA.

The varied SEL 13/98 was signed by the Minister on 28 October 2004. OMERA and GSLM entered into a further agreement on 14 September 2004 confirming that there are no outstanding claims or disputes between the parties and that the EA is terminated and of no further effect.

5.3 Recent financial position and performance of GSLM

5.3.1 Financial year ended 30 June 2004

The annual financial report for GSLM for the year ended 30 June 2004 was lodged with ASIC on 29 December 2004. Set out below is a summary of the key figures from that financial report. This is intended to be a summary only and the full financial accounts for GSLM for the year ended 30 June 2004, which include the notes to the accounts, are annexed as Annexure B.

So far as is known to Empire Energy, other than as set out in clause 5.3.2 below, GSLM's financial position has not materially changed since 30 June 2004 (being the date of the annual financial report most recently lodged with ASIC by GSLM) other than as set out in the description of the after balance date events within the annual financial report.

In summary, that annual financial report showed (note all amounts are in Australian dollars):

- The operating loss after providing for income tax was \$7,006,422 bringing accumulated losses at the end of the financial year to \$10,236,593.
- No dividends were paid or recommended.
- Total assets of the company were valued at \$58,970 and total liabilities at \$2,978,852 as at 30 June 2004, giving rise to a net asset value of negative \$2,919,882.

In addition, Empire Energy has received unaudited management accounts for GSLM for the six months ended 31 December 2004. In summary the unaudited balance sheet in those management accounts shows:

- The operating loss after providing for income tax was \$332,537 bringing accumulated losses at the end of the financial year to \$10,569,130.
- No dividends were paid or recommended.
- Total assets of the company were valued at \$207,609 and total liabilities at \$3,460,028 as at 31 December 2004, giving rise to a net asset value of negative \$3,252,419.

5.3.2 Historical financial information

The following sets out summaries of certain historical financial information about GSLM. It is historical information that does not take into account the effects of the acquisition of GSLM by Empire Energy (see clause 8 for information relating to this issue). It is a summary only.

All amounts are quoted in Australian dollars.

(a) **Historical consolidated GSLM profit and loss statements**

	Six months end 31-Dec-04	For the Year Ended June 30,	
		2004	2003
REVENUE FROM ORDINARY ACTIVITIES	\$ 10,884	\$ 8,480	\$ 42
EXPENSES			
Exploration accumulated	11,417	6,240,787	-
Interest	6,166	116,156	27,235
Merger costs	29,889		
General and administrative	207,447	657,959	768,304
TOTAL EXPENSES	254,919	7,014,902	795,539
OPERATING LOSS	(244,035)	(7,006,422)	(795,497)
Provision for income taxes	-	-	-
Net Loss	\$ (244,035)	\$ (7,006,422)	\$ (795,497)

(b) **Historical consolidated GSLM balance sheets**

	31-Dec-04	June 30,	
		2004	2003
<u>ASSETS</u>			
CURRENT ASSETS			
Cash	\$ 5,325	\$ 11,840	\$ 13,165
Accounts receivable, net	29,324	16,453	69,586
Other	114,157	9,390	146,893
TOTAL CURRENT ASSETS	148,806	37,683	229,644
PROPERTY AND EQUIPMENT, NET	13,150	21,287	25,632
EXPLORATION EXPENDITURE	-	-	6,166,092
TOTAL ASSETS	161,956	58,970	6,421,368
<u>LIABILITIES</u>			
TOTAL CURRENT LIABILITIES	221,278	650,364	2,590,430
LONG TERM LIABILITIES	2,486,801	2,328,489	16,562
TOTAL STOCKHOLDERS' EQUITY	\$ (2,699,168)	\$ (2,919,883)	\$ 3,814,376

5.3.3 Dividends

GSLM has not paid any dividends to shareholders in the past 2 years.

5.3.4 Loans from associated entities

The annual financial report for GSLM reported that throughout the 2004 financial year an entity associated with Malcolm Bendall, a director of both GSLM and Empire had advanced \$890,028 to GSLM to enable short term funding obligations to be met. As at 30 June 2004, this entity was owed \$814,546 and a further \$173,000 was advanced after 1 July 2004. The advances are reported to be unsecured, not repayable before 1 June 2006 and to that date have been interest free. As at 23

February 2005, we are informed that the total amount of advances made by Mr Bendall or an associated entity of Mr Bendall to GSLM is equal to \$957,545.81.

As at 25 February 2005, Empire Energy has loaned a total of \$506,962.26 to GSLM. In addition, Empire paid Trace Services USD43,478.00 to satisfy a debt owed by GSLM to Trace Services of \$72,486.01.

We are informed that it is the present intention of all entities associated with Empire which have lent funds to GSLM, not to call upon the repayment of those funds throughout the Offer period. Should the Offer not be accepted the loans will become due and payable.

6 Information on GSLM securities

6.1 GSLM's issued securities

According to documents provided by GSLM to Empire Energy and searches of the public records by Empire Energy, as at the date of this bidder's statement, GSLM's issued securities consisted of 62,426,782 ordinary shares.

6.2 Outstanding options

According to the annual report for GSLM, as at 31 December 2004, GSLM had the following options outstanding.

- 450,000 options at an exercise price of \$0.01, expiring on 31 December 2005. The options are comprised of 9 parcels held by each of the directors of, and other persons associated with, GSLM, broken down as follows:

Name	Position	Number of Options
MR Bendall	Chairman	50,000
C Burrett	Director	50,000
S Powell	Director	50,000
P Simpson	Director	50,000
D Tanner	Director	50,000
R Watson	Director	50,000
K Gumley	Company Secretary	50,000
A Steel	Accountant	50,000
R Tabor	Chief Executive Officer	50,000

- 9,000,000 conditional offers of share options to GSLM directors and officers in the following amounts:

Name	Position	Number of Options
MR Bendall	Chairman	6,000,000
C Burrett	Director	600,000
S Powell	Director	400,000
P Simpson	Director	400,000
D Tanner	Director	400,000
R Watson	Director	400,000
K Gumley	Company Secretary	400,000
R Tabor	Chief Executive Officer	400,000

If issued, these options will have a term of 3 years and an exercise price of \$1.00.

The issue of any of these options is conditional upon the successful completion of the Acquisition, the extension of the licence SEL 13/98 and the securing of additional available funding of at least \$15 million before 31 December 2004. The GSLM Board subsequently approved an extension of the time in which to satisfy the funding condition until 30 September 2005.

Immediately prior to the issue of this bidder's statement, all of the GSLM option holders (including the conditional option holders) agreed with Empire and GSLM as follows:

- (a) none of the Options would be exercised during the period between the date of issue of the bidder's statement until the time at which the Offer is closed; and
- (b) following the successful completion of the Acquisition, all GSLM options (including the 9,000,000 conditional options) would be cancelled and they would then be issued with an equivalent number of options in Empire Energy upon the same terms and conditions as the GSLM Options currently provide for and all of the obligations of GSLM with respect to the options shall become the obligations of Empire.

The Offer is only open to GSLM shareholders holding shares as at the date of this bidder's statement and does not extend to option holders in GSLM.

6.3 Interests in GSLM securities

6.3.1 Empire Energy's relevant interest in GSLM securities

Empire Energy does not have a relevant interest in any of GSLM Shares or GSLM options as at the date of this bidder's statement. However, Malcolm Bendall, a director of Empire Energy and GSLM has an interest in 7,739,434 ordinary shares in GSLM through his association with the companies listed in section 4.14.

Mr Bendall has indicated that he intends to accept the Offer in respect of all GSLM shares which he has an interest in.

6.3.2 Empire Energy's voting power in GSLM

As at the date of this bidder's statement and as at the date immediately before the final Offer is sent, Empire Energy has no voting power in GSLM. However, Malcolm Bendall, a director of Empire Energy and GSLM has an interest in 7,739,434 ordinary shares in GSLM through his association with the companies listed in section 4.14.

6.3.3 Acquisitions of GSLM Shares by Empire Energy or Empire Energy's associates

During the 4 months before the date of this bidder's statement, neither Empire Energy nor an associate of Empire Energy provided, or agreed to provide, consideration for GSLM Shares under a purchase or agreement.

6.4 Collateral benefits

During the period of 4 months before the date of this bidder's statement, neither Empire Energy nor any associate of Empire Energy gave, or offered to give, or agreed to give a benefit to another person which was likely to induce the other person, or an associate of the other person, to:

- accept an Offer under the bid; or
- dispose of GSLM Shares,

and which is not offered to all holders of GSLM Shares under the Offer.

6.5 No escalation agreements

Empire Energy and its associates have not entered into any escalation agreement that is prohibited by section 622 of the Corporations Act 2001.

6.6 Agreement between GSLM and Empire Energy

On 9 July 2002, GSLM and Empire Energy entered into the Letter of Intent agreeing to actively pursue the merger between GSLM and Empire Energy. That Letter of Intent did not specify the terms upon which this Offer would be made or the consideration which Empire proposed to offer to GSLM shareholders in exchange for their shares in GSLM. Details of the Letter of Intent are more fully set out in section 2.3 of this document.

Following this, at a meeting of shareholders of Empire Energy held on 29 March 2004, all of the necessary shareholder approvals required by the Empire Energy shareholders were obtained. On May 27, 2004, an agreement was entered into by GSLM and Empire Energy to actively pursue the merger (the **Merger Agreement**), subject to acceptance of the Offer by the shareholders of GSLM and satisfaction of the necessary regulatory requirements in Australia and the United States.

7 Post takeover intentions

7.1 Approach

This clause 7 sets out Empire Energy's intentions on the basis of facts and information concerning GSLM which are known to Empire at the time of preparation of this bidder's statement. Accordingly, statements of intention set out in this clause represent present intention.

Decisions about intentions may be adjusted in light of material facts and circumstances as they arise. Empire Energy will notify any change to its intentions (if any) as that change happens.

7.2 Intentions for GSLM as a subsidiary of Empire Energy

7.2.1 Strategic review

It is the intention of the Board of directors of Empire Energy to undertake a review of GSLM's activities to more fully evaluate its performance, profitability and prospects in the light of the more detailed information then available to it and in the context of Empire Energy's objective to grow its business and enhance shareholder wealth.

In the immediate short term, both Empire and GSLM are in need of either debt or equity facilities. Empire has been able to raise some capital in recent months, notwithstanding its poor balance sheet.

If the Acquisition is completed, the first task of the directors will be to concentrate on funding opportunities for the Company.

In particular, if the Acquisition is completed, Empire intends to immediately take the action referred to in section 3.5.2.

7.2.2 Board of directors

As at the date of this bidder's statement, it is not proposed to change the board of GSLM as a result of the Offer.

7.2.3 Corporate offices

It is intended that GSLM will continue to run its operations from its current registered offices in Hobart, Tasmania.

7.2.4 General business integration

The Board of directors of Empire Energy intends to continue the business of GSLM with no significant changes to either the management style or company strategy. The GSLM business will continue to operate in much the same manner following the completion of the merger as it presently does. The directors of Empire believe the key distinctions will be the greater access to capital markets which GSLM will experience as a subsidiary of an OTC Bulletin Board company and the enhanced opportunities for liquidity of the Empire Shares which GSLM shareholders who accept the Offer will receive.

7.2.5 Employees

It is not intended to make any changes to the current numbers of employees of GSLM, though this may change depending upon the outcome of available funding and operations going forward.

7.2.6 Dividend Policy

Empire Energy will review the dividend policy of GSLM having regard to any capital funding requirements of GSLM identified in its strategic review. However, it is not anticipated that dividends will be payable in the foreseeable future.

7.3 Business, assets and employees

Except for the changes and intentions set out in this clause, it is the present intention of Empire Energy (based on the information presently available to it) to:

- continue the business of GSLM; and
- not to make any major changes to the business of GSLM (including the redeployment of the fixed assets).

7.4 Implications for minority shareholders

If Empire receives acceptances resulting in it having a relevant interest in at least 90% (by number) of the GSLM shares on issue, Empire will seek to compulsorily acquire the remaining 10% of the GSLM Shares in accordance with clause 13.3. If the conditions to the Offer are satisfied, but not at a 90% level, those GSLM shareholders who do not accept the Offer will continue as minority shareholders of GSLM following completion of the Acquisition.

8 Effect of the Offer on Empire Energy

8.1 Corporate activities and strategy

Empire Energy does not currently have any commercial activities, with its only strategy at present to pursue the proposed Acquisition of GSLM. Assuming the acceptance of the Offer, Empire's sole operations will be to seek to raise funds through its status as an OTC Bulletin Board Company in order to provide additional funding to GSLM to meet the exploration expenditure requirements pursuant to SEL 13/98.

8.2 Dividend policy

Throughout the growth and capital raising stage of the companies which is envisioned to continue for the foreseeable future, it is unlikely that dividends will be paid to investors.

8.3 Pro forma consolidated financial statements for the Merged Group

8.3.1 Introduction

Attached as Annexure B to this bidder's statement are the historical audited financial statements of GSLM for the acquisition of GSLM by Empire. The unaudited pro forma consolidated condensed financial statements have been prepared utilizing the historical financial statements of Empire. The unaudited pro forma consolidated condensed financial statements should be read in conjunction with the attached historical financial statements of Empire at Annexure A and the attached historical financial statements of GSLM.

The following unaudited pro forma consolidated condensed statements of operations for the year ended 31 December, 2004 and the unaudited pro forma consolidated condensed balance sheet as of 31 December, 2004 give effect to the acquisition of GSLM including the related pro forma adjustments described in the notes thereto. The unaudited pro forma consolidated condensed statements of operations for the year ended 31 December, 2004 give effect to the acquisition by Empire as if the acquisition had occurred on 1 January, 2004. The unaudited pro forma consolidated condensed balance sheet as of December 31, 2004 gives effect to the acquisitions as if they had occurred on December 31, 2004.

The unaudited pro forma consolidated condensed financial statements may not be indicative of the results that actually would have occurred if the acquisitions had been effective on the dates indicated or which may be obtained in the future.

Note that these proforma accounts have been prepared in accordance with US GAAP and all amounts have been calculated in accordance with US GAAP accounting standards.

8.3.2 Pro forma historical earnings for the year ended 31 December 2004

	For the Year Ended			
	31-Dec-04 Empire	31-Dec-04 GSLM	Pro Forma Adjustments	Unaudited Pro Forma
OIL AND GAS SALES	\$ -	\$ 13,910	\$ -	\$ 13,910
EXPENSES				
Impairment of advances to GSLM	265,266	- (a)	(265,266)	-
Interest	212,794	47,625	-	260,419
General and administrative	1,100,576	510,256 (d)	(900,576)	710,256
TOTAL EXPENSES	1,578,636	557,881	(1,165,842)	970,675
OPERATING LOSS	(1,578,636)	(543,971)	1,165,842	(956,765)
Provision for income taxes	-	-	-	-
Net Loss	\$ (1,578,636)	\$ (543,971)	\$ 1,165,842	\$ (956,765)

8.3.3 Pro forma consolidated balance sheet as at 31 December 2004

ASSETS	Historical		Pro Forma Adjustments	Unaudited Pro Forma
	31-Dec-04 Empire	31-Dec-04 GSLM		
CURRENT ASSETS				
Cash	\$ 47,021	\$ 5,325	(c) \$ 127,000	\$ 179,346
Accounts receivable, net	-	29,324	-	29,324
Prepays	-	114,157	-	114,157
TOTAL CURRENT ASSETS	47,021	148,806	127,000	322,827
PROPERTY AND EQUIPMENT, NET	-	13,150	-	13,150
OIL AND GAS PROPERTIES, NET	-	-	(b) 22,100,000	22,100,000
TOTAL ASSETS	<u>\$ 47,021</u>	<u>\$ 161,956</u>	<u>\$ 22,227,000</u>	<u>\$ 22,435,977</u>
LIABILITIES				
CURRENT LIABILITIES				
Current liabilities	\$ 727,579	\$ 221,279		\$ 948,858
Long term liabilities		2,477,889	(a) (265,266)	2,212,623
Long-term Convertible debentures	195,619	-	-	195,619
TOTAL LIABILITIES	923,198	2,699,168	(265,266)	3,357,100
Minority interest			9,844,894	9,844,894
STOCKHOLDERS' EQUITY				
STOCKHOLDERS' EQUITY				
Common stock	7,293	-	(b) 33,750	42,453
			(c) 1,410	
Additional paid-in-capital	34,129,788	6,956,808	(b) 12,221,356	19,303,754
			(c) 125,590	
			(b) (34,129,788)	
Accumulated other comprehensive loss	-	(420,048)	-	(420,048)
Accumulated deficit	(35,013,258)	(9,073,972)	(a) 265,266	(9,692,176)
			(b) 34,129,788	
TOTAL STOCKHOLDERS' EQUITY	<u>(876,177)</u>	<u>(2,537,212)</u>	<u>12,647,372</u>	<u>9,233,983</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 47,021</u>	<u>\$ 161,956</u>	<u>\$ 22,227,000</u>	<u>\$ 22,435,977</u>

8.3.4 Notes to unaudited consolidated summaries of proforma financial position

In 2002, Empire entered into an agreement to acquire up to 100% of GSLM. Empire also agreed that it would effect a reverse stock split that would exchange one new share of common stock for ten existing shares of common stock. As a result, assuming 50% acceptance, Empire will issue approximately 35 million shares of its stock to acquire 50% of the issued and outstanding common stock of GSLM. As a result of the change in control of Empire, the operating history of the continuing company will be that of GSLM.

The unaudited pro forma adjustments are as follows:

- To eliminate impairment expense recorded by Empire of loans made to GSLM during last six months of 2004 and eliminate the corresponding liability.
- To record the acquisition of GSLM by issuance of approximately 35 million shares of Empire common stock valued at the December 31, 2004 market value of \$.34 per share. Fair value of property acquired was determined by independent valuation to be \$19 to \$23 million.

-
- c. To record the issuance of an additional 1,410,000 shares of common stock after December 31, 2004 for proceeds of \$127,000 required to complete the approval of the acquisition.
 - d. To record elimination of operating expenses of Empire in excess of the estimated ongoing costs of the public company.

8.4 Prospects of the Merged Group

Directors of Empire believe that the prospects of the companies are enhanced by the proposed Acquisition. While the conversion of your investment in GSLM into an investment in Empire remains speculative, the potential of the property under the license and the talent of the management team will be supported by what the directors believe to be greater funding opportunities which may be available to Empire if the Acquisition is completed.

For the year ended 31 December 2005, and depending upon its ability to raise funds, Empire, like GSLM in the past, will continue to explore and pursue development of the property encompassed within SEL 13/98 and seek to locate other acquisition opportunities in the natural resource industries. In particular, exploration costs on the licensed property will be determined by available funding and requirements of the licence. Operating losses including exploration and administrative costs are forecast to be approximately \$5,000,000 for the coming year.

9 Source of Consideration

9.1 Empire Energy Share Consideration

The maximum number of Empire Energy Shares which would become payable under the Offer if acceptances are received in respect of GSLM Shares on issue as at the date of this bidder's statement (other than those GSLM Shares in which Empire Energy has a relevant interest) is approximately 62.4 million Empire Energy Shares.

As at the time of the closing of the Offer Empire Energy will have the capacity to issue the maximum number of Empire Energy Shares which it may be required to issue under the Offer.

10 Investment risks

10.1 Introduction

This Section 10 describes the key risks considered by Empire Energy to be relevant to accepting Empire Energy Shares under the Offer. Empire Energy Shares are subject to several risks that are both of the general kind affecting any shares of an OTC Bulletin Board listed company and those that are specifically relevant to Empire Energy and its undertaking. These risks may affect Empire Energy's future performance and the value of an investment in Empire Energy. Some of these risks are capable of being managed and to that extent Empire Energy will seek to take steps to manage these risks, however, some of these risks are beyond the control of Empire Energy and are not able to be managed.

10.2 Transaction specific risks

10.2.1 Possible substantial dilution resulting from conversion of HEM debenture

In the absence of Empire's ability to redeem the HEM debenture, HEM is likely required to protect its interest by converting the escrowed shares. The on-sale of these shares on the open market would likely cause a dramatic decline in the price of the Empire Energy Shares and substantially increase the number of shares publicly trading. These results would dilute your interests in Empire Energy and decrease the per share value of the Empire Energy Shares you receive in the Offer.

10.2.2 Dilution of capital of Empire following completion of the Acquisition

As at the date of this bidder's statement, there are 68,464 outstanding options in respect of Empire's Class A common stock and 2,390,000 warrants. In addition, pursuant to the Investment Agreement set out in clause 4.4 of this document, in the event that the average bid price of Empire Energy for the ten days between the 21st and 31st March is not USD1.00 or more, Empire will be required to issue a further 2,500,000 shares, pro rata, to those shareholders who were a party to that Investment Agreement for no consideration. This could lead to a significant dilution of the interests which the GSLM shareholders have in Empire Energy.

10.2.3 Issue of Empire Energy Shares as Consideration

The value of the Empire Energy stock GSLM shareholders actually receive may be less than the value of shares of GSLM common stock when tendered. This is because the market price of Empire Energy Shares on the date you actually receive the Empire Energy Shares may be less than the average of the high and low selling prices over the measurement period. Furthermore, under the Offer, Empire Energy will issue a significant number of new Empire Energy Shares. Some GSLM shareholders may not intend to continue to hold their Empire Energy Shares and may wish to sell them. There is a risk that a significant number of GSLM shareholders will seek to sell their Empire Energy Shares and this may adversely impact the price of Empire Energy Shares.

10.2.4 The trading price of the Empire Energy Shares may be volatile

The common stock of Empire Energy trades on the OTC Bulletin Board. The OTC Bulletin Board is not an exchange. Trading of securities on the OTC Bulletin Board is often more sporadic than the trading of securities listed on an exchange or NASDAQ. You may have difficulty reselling any of the shares that you purchase from the selling shareholders. We are not certain that a more active trading market in Empire common stock will develop, or if such a market develops, that it will be

sustained. Sales of a significant number of shares of our common stock in the public market could result in a decline in the market price of our common stock, particularly in light of the illiquidity and low trading volume in our common stock.

The trading price of the Empire Energy common stock has from time to time fluctuated widely and in the future may be subject to similar fluctuations. The trading price may be affected by a number of factors including the risk factors set forth herein, as well as our operating results, financial condition, general conditions in the oil and gas exploration and development industry, market demand for our common stock, various other events or factors both in and out of our control. In addition, the sale of our common stock into the public market could put downward pressure on the trading price of our common stock. In recent years, broad stock market indices, in general, and smaller capitalisation companies, in particular, have experienced substantial price fluctuations. In a volatile market, we may experience wide fluctuations in the market price of our common stock. These fluctuations may have a negative effect on the market price of our common stock.

10.2.5 Applicable SEC rules governing the trading of 'penny stocks' limit the liquidity of the Empire Energy common stock, which may affect the trading price of our common stock

Common stock in Empire Energy currently trades on the OTC Bulletin Board. Since this common stock continues to trade well below USD5.00 per share, it is considered a 'penny stock' and is subject to SEC rules and regulations that impose limitations upon the manner in which these shares can be publicly traded. These regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the associated risks. Under these regulations, certain brokers who recommend such securities to persons other than established customers or certain accredited investors must make a special written suitability determination for the purchaser and receive the written purchaser's agreement to a transaction prior to purchase. These regulations have the effect of limiting the trading activity of Empire's common stock and reducing the liquidity of an investment in Empire common stock.

10.2.6 Certain shares will have restrictions on transfer which may continue for not less than 12 months following the merger

Some of the Empire Energy Shares being issued as consideration under the Offer are 'restricted securities' pursuant to Rule 144 of the Securities Act. How this affects you is set out in further detail in sections 4.5 to 4.9 of this document. 'Empire Energy is in the process of applying for the registration of these securities with the intention of having the registration statement declared effective by the SEC as soon as reasonably possible. However, there is the risk that the SEC could delay the registration of the Empire Energy securities, meaning that those shares which are deemed to be restricted will continue to be restricted for a period equal to the earlier of the registration statement being declared effective by the SEC, or 12 months following the conclusion of the Offer. If this was the case, if you were issued with restricted shares, you will not be able to trade these securities on the OTC Bulletin Board until the conclusion of this period. Notwithstanding this restriction, you will be entitled to privately transfer your Empire Energy Shares outside the United States, provided the purchaser makes certain representations, such as that it is not to a 'US. Person' as such term is defined in Regulation S of the Securities Act.

10.2.7 The Australian government may tax you for exchanging shares

If the conditions of the Offer are satisfied, but acceptances less than 80% of GSLM's issued share capital are received, the transaction will be characterised as a taxable sale by the GSLM shareholders of their GSLM shares in exchange for shares of Empire Energy common stock. In this

event, each exchanging GSLM shareholder would recognise a gain or loss, measured by the difference between the fair market value on the date of the exchange of the Empire Energy voting common stock and the shareholder's tax basis in the GSLM common stock surrendered in exchange. Refer to section 11 of this document for further information on the taxation implications of the Offer. You should also consult your professional tax adviser as to the effect of this risk on your particular circumstances.

10.3 Operational Risks of GSLM following the merger

Empire Energy decided to pursue the acquisition of GSLM with the expectation that the acquisition will result in benefits to the overall merged entity arising out of adding GSLM's operations to the existing operations of Empire. To realise any benefits from the acquisition of GSLM, we will face a number of post-merger operational challenges. These are considered in turn below.

If we do not successfully address these and other challenges, we may not realise the expected benefits of the acquisition of GSLM and, as a result, the operating results and the market price of Empire's common stock may be adversely affected. In particular, you will be exposed to these risks in your capacity as a shareholder in Empire Energy.

10.3.1 GSLM may not be able to meet its substantial capital funding requirements.

The business of the Merged Group of Empire and GSLM is capital intensive. The Merged Group will be required to invest a significant amount in development and exploration activities. GSLM is currently making and aims to continue to make substantial capital expenditures to find, develop, and produce natural gas and oil reserves. If Empire and GSLM are unable to secure funding on acceptable terms or, even if obtained, their capital resources diminish as a result of operating difficulties, we may not be able to meet the exploration expenditure requirements of the petroleum license held by GSLM – thus voiding the licence. The licence is the single most important asset of GSLM and its loss would result in a substantial decrease in its ability to eventually become a profit-generating company and to generate positive revenues for the shareholders in Empire Energy.

Even if Empire and GSLM acquire sufficient financing to meet the licence expenditures, we may not be able to expend the capital necessary to undertake or complete future drilling programs or acquisition opportunities unless Empire is able to raise additional funds through debt or equity financings. Empire may not be able to obtain debt or equity financing to meet those capital requirements. Moreover, the future cash flow from operations of Empire and GSLM may not be sufficient for continued exploration, development or acquisition activities, and it may not be possible to obtain the necessary funds from other sources.

Further, if the Merged Group is unable to raise the requisite capital to meet its licence expenditures, it may be required to draw down on the HEM facility described in section 3.5.1, giving rise to an increased dilution of the Empire Shares issued under this Offer.

10.3.2 We anticipate future losses and negative cash flows

GSLM has experienced negative cash flows since its inception. After the merger, we will continue operations in Tasmania in the same fashion as GSLM has been doing to date. The activities of GSLM are strictly in the exploration phase and have no proven petrochemical reserves. We will continue to incur significant expenses over the next several years with our operations, including further seismic studies and exploratory drilling.

10.3.3 New investors in the future may require participation interests which could decrease future profitability

The pace of exploration and the level of operations going forward will be determined by the amount of funding available. If funding is limited, exploration may be continued under agreements that provide investors with a participation interest in a particular property held by Empire Energy or GSLM. Under this type of arrangement, an investor would invest in a specific property and receive a negotiated interest in the property. This could reduce the potential profitability of the remaining interest in the property and reduce the ability of Empire and/ or GSLM to control and manage the property.

10.3.4 The success of the ongoing business depends upon the ability of GSLM to find, develop and produce oil and gas reserves

The work done by GSLM to date is exploration work only and GSLM has yet to uncover a charged reservoir in a well which it has been able to develop and produce. There is no guarantee that we will find reserves that will economically produce. Future drilling activities will subject us to many risks, including the risk that we will not find commercially productive reservoirs. Drilling for oil and natural gas can be unprofitable, not only from dry wells, but from productive wells that do not produce sufficient revenues to return a profit. Also, title problems, weather conditions, governmental requirements and shortages or delays in the delivery of equipment and services can delay drilling operations or result in their cancellation. The cost of drilling, completing and operating wells is often uncertain, and new wells may not be productive. As a result, we may not recover all or any portion of our investment.

10.3.5 A decline in natural gas and oil prices may adversely affect financial results

Any revenues generated from future operations would be highly dependent on the price of, and demand for, natural gas and oil. Even relatively modest changes in oil and natural gas prices may significantly change those revenues, results of operations, and cash flows. Historically, the markets for natural gas and oil have been volatile and are likely to continue to be volatile in the future. Prices for natural gas and oil may fluctuate widely in response to relatively minor changes in the supply of and demand for natural gas and oil, market uncertainty and a variety of additional factors that are beyond our control, such as:

- the domestic and foreign supply of natural gas and oil;
- the price of foreign imports;
- overall domestic and global economic conditions;
- political and economic conditions or hostilities in oil producing countries, including the Middle East and South America;
- the ability of the members of the Organisation of Petroleum Exporting Countries to agree to and maintain oil price and production controls;
- the level of consumer product demand;
- weather conditions;
- domestic and foreign governmental regulations; and

-
- the price and availability of alternative fuels.

10.3.6 The oil and gas business involves many operating risks that can cause substantial losses; insurance may not protect us against all these risks.

In our operations going forward, we may experience hazards and risks inherent in drilling for, producing and transporting of natural gas and oil. These hazards and risks may result in loss of hydrocarbons, environmental pollution, personal injury claims, and other damage to our properties and third parties and include:

- fires;
- natural disasters;
- industrial action;
- explosions
- encountering formations with abnormal pressures;
- blowouts;
- cratering;
- pipeline ruptures; and
- spills.

GSLM may be insured against some, but not all, of the hazards and potential losses associated with this business. As a result, we may be liable or sustain losses that could be substantial due to events that are not insured. Losses could occur for uninsurable or uninsured risks or in amounts in excess of existing insurance coverage. The occurrence of an event that is not fully covered by insurance could have a material adverse impact on the financial condition and results of operations of Empire.

10.3.7 We may incur substantial costs to comply with environmental and other governmental regulations.

Exploration and production operations are regulated extensively. GSLM has made and aims to continue to make all necessary expenditures, both financial and managerial, in its efforts to comply with the requirements of environmental and governmental regulations. Empire Energy will continue to make all such necessary expenditures going forward.

However, significant liabilities could be imposed on GSLM going forward for damages, clean up costs or penalties in the event of certain discharges into the environment, environmental damage caused by previous owners of property acquired by GSLM or non-compliance with environmental laws and regulations. GSLM minimises these risks by taking steps to maximise compliance with environmental laws and regulations and where possible, by carrying appropriate insurance. There is also a risk that the environmental laws and regulations may become more onerous, making GSLM's operations more expensive.

10.3.8 Native title

The issue of mining tenures over land in which native titles may subsist requires complex and lengthy procedures to be followed.

A native title claim could be lodged in respect of the land covered by the SEL 13/98 or which could affect this tenement.

11 Tax Considerations

The following summary is provided in respect of the current taxation laws in Australia affecting Australian resident and non-resident GSLM shareholders who accept the Offer. This is not intended to operate as a comprehensive overview for GSLM shareholders and shareholders should make their own independent assessment and investigations as they deem necessary including, without limitation, seeking professional advice on the legal and taxation consequences of exchanging their shares in GSLM for shares in Empire Energy.

11.1 Australian resident shareholders

Under current Australian tax legislation, a taxpayer can choose to obtain a roll-over when interests held in one entity are exchanged for replacement interests in another entity. This so-called "scrip for scrip" roll-over relief may be available to GSLM shareholders.

Roll-over relief may be available to GSLM shareholders if the exchange for shares in Empire Energy results in a capital gain in the hands of the GSLM shareholder (ie if a capital loss would arise, there is no roll-over) and the general requirements for the roll-over are satisfied. In particular, the proposed Acquisition must result in Empire Energy becoming the owner of 80% or more of the GSLM shares. In this respect, it should be noted that one of the conditions of this Offer is that acceptances must be received equating to more than 50% of the issued share capital of GSLM.

If the Acquisition results in the acquisition by Empire Energy of at least 80% of the GSLM shares, then scrip for scrip roll-over relief may be available to GSLM shareholders. As a result of the roll-over, any capital gain arising from the exchange of the shares in GSLM is deferred until the shares in Empire Energy which are acquired as a result of this Acquisition, are subsequently sold.

If, however, the Acquisition results in the acquisition by Empire Energy of more than 50% of the GSLM shares but less than 80%, then scrip for scrip roll-over relief will not be available. The effect of scrip for scrip roll-over relief not being available means that any capital gain arising from the exchange of the shares may be taxable in the hands of the relevant shareholder for that financial year according to the shareholder's marginal tax rates.

11.2 Shareholders who are not Australian residents

Special rules apply to GSLM shareholders who are not Australian residents for tax purposes. A shareholder cannot obtain rollover relief if, just before the shareholder stops owning the GSLM shares, the shareholder is not an Australian resident and, just after the shares in Empire Energy are acquired, Empire Energy is not an Australian resident for tax purposes. It is not foreseen that Empire Energy will become an Australian resident for tax purposes following completion of the Acquisition.

12 Other material information

12.1 Disclosure of interests of certain persons

No director or proposed director of GSLM or any person named in this bidder's statement as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this bidder's statement holds, or held at any time during the last 2 years, any interest in:

- the formation or promotion of Empire Energy;
- property acquired or proposed to be acquired by Empire Energy in connection with its formation or promotion or the offer of Empire Energy Shares; or
- the Empire Energy Shares to be issued under the Offer,

except as set out in clause 4.14 above.

12.2 Disclosure of fees and benefits received by certain persons

John Garrison, a director of Empire, accrued approximately USD60,000 in fees throughout 2004, of which USD40,000 remained unpaid as at 31 December 2004. Malcolm Bendall, the chairman of Empire and a director of GSLM received annual compensation of USD59,200 for work performed in 2004. This remuneration was paid to Malcolm from the proceeds of additional Empire share sales in December 2004. No amounts remain accrued or unpaid to Malcolm as at the date of this bidder's statement.

750,000 shares of treasury stock (75,000 post split) in Empire Energy were transferred to Bryan Ferguson, the previous President of Empire Energy, as a bonus for negotiating the Acquisition. This was completed by issuing Bryan Ferguson with 75,000 post split shares in Empire in August 2002.

12.3 Consents

This bidder's statement contains statements which are made or based on statements made in documents lodged with ASIC. Pursuant to ASIC Class Order 01/1543, the consent of the relevant person is not required for the inclusion of such statements in this bidder's statement.

Any GSLM Shareholder requiring a copy of any of those documents may obtain a copy of them free of charge during the Offer period by contacting GSLM directly at the shareholder information line established for this purpose.

12.4 Expiry date

No securities will be issued on the basis of this bidder's statement after the date which is 12 months after the date of Empire Energy's Offer.

13 Terms of the Offer

13.1 Empire Energy's Offer

Empire Energy offers to acquire 100% of your GSLM shares on and subject to the terms and conditions set out in this Offer. For each one GSLM share you will receive one Empire Energy share.

13.2 Offer period

This Offer will remain open for acceptance during the period commencing on the date the first Offer is made under the bid and ending at 5pm on 7 April 2005 (Salt Lake City, USA time) or 12pm, 8 April 2005 (Australian Eastern Standard Time) unless withdrawn or extended in accordance with the Corporations Act 2001.

Empire must extend the Offer if, within the last 7 days of the Offer period:

- (a) Empire improves the consideration under the Offer; or
- (b) Empire's voting power in GSLM increases to more than 50%.

If either of the events in (a) and (b) above occurs, the Offer Period will be extended so that it ends 14 days after the occurrence of that event.

Empire may (but is not obliged to) extend the Offer Period at any time before the end of the Offer Period.

13.3 Compulsory acquisition

Under Part 6A.1 of the Corporations Act, Empire will be entitled to compulsorily acquire any GSLM Shares on issue in respect of which it has not received an acceptance of the Offer, on the same terms as the Offer, if during or at the end of the Offer Period, Empire (together with its associates) has a relevant interest in at least 90% (by number) of the GSLM Shares on issue.

If this threshold is met, Empire will have one month from the end of the Offer Period within which to give the compulsory acquisition notices to GSLM Shareholders who have not accepted the Offer. GSLM Shareholders may challenge compulsory acquisition of their GSLM Shares, but this will require the relevant GSLM Shareholders to establish to the satisfaction of the court that the terms of the Offer do not represent fair value for the GSLM Shares.

If the GSLM Shares are compulsorily acquired from a GSLM Shareholder in accordance with the provisions of Part 6A.1 of the Corporations Act, the relevant GSLM Shareholder will receive the Empire Shares (ie. 1 Empire Share for 1 GSLM Share) to which it is entitled as a consequence, later than other GSLM Shareholders who accept the Offer.

Empire intends to exercise its compulsory acquisition rights if it becomes entitled to those rights.

13.4 Who may accept

13.4.1 Offerees

An Offer in this form is being made to each holder of GSLM Shares at 9.00am (Australian Eastern Standard Time) on the date specified by Empire Energy under section 633(2) of the Corporations Act 2001, which date is 4 March 2005.

If at the time the Offer is made to you, or at any time during the Offer Period, another person is, or is entitled to be, registered as the holder of GSLM Shares to which this Offer relates:

- (a) a corresponding Offer will be deemed to have been made to that other person in respect of those GSLM Shares; and
- (b) a corresponding Offer will be deemed to have been made to you in respect of any other GSLM Shares you hold to which the Offer relates.

13.4.2 Trustees and nominees

If you are a trustee or nominee for several persons in respect of separate parcels of GSLM Shares, section 653B of the Corporations Act 2001 deems an Offer to have been made to you in respect of each separate parcel. To validly accept the Offers for all of a parcel, you must complete the Acceptance Form by specifying that the shares in respect of which you are accepting are a separate parcel and the numbers of shares in the separate parcel to which the acceptance relates. If your holding does not consist of separate parcels, but you attempt to accept the Offers in the manner described in this section, you commit an offence but the acceptance is valid.

13.5 Effect of taking no action

GSLM Shareholders who do not wish to accept the Offer should take no action. However in this case if Empire achieves 90% acceptance and becomes entitled to compulsorily acquire your shares, as referred to in section 13.3, it is the intention of Empire to do so, in which case you will receive the consideration for your GSLM Shares later than other GSLM Shareholders who accept the Offer. Otherwise, those shareholders who do not accept the Offer will retain their current interest in GSLM.

GSLM shareholders should be aware that as at 25 February, Empire had loaned GSLM a total of \$506,962.26. In addition to this, as at 23 February 2005, we are informed that the total amount of advances made by Mr Malcolm Bendall, a director of both GSLM and Empire, or an associated entity of Mr Bendall is equal to \$957,545.81.

We are informed that it is the present intention of all entities associated with Empire which have lent funds to GSLM, not to call upon the repayment of those funds throughout the Offer period. Should the Offer not be accepted the loans from Empire will become due and payable. The loans from Mr Bendall and associated entities of Mr Bendall will become due and payable in July 2006.

13.6 How to accept this Offer

13.6.1 General

- (a) Subject to clause 13.4.2, you may accept this Offer only in respect of 100% of your GSLM Shares.
- (b) You may accept this Offer at any time during the Offer Period.

13.6.2 Action required

To accept this Offer, you must:

- (a) complete and sign the Acceptance Form enclosed with this bidder's statement (and which forms part of this Offer) in accordance with the terms of this Offer and the instructions on the Acceptance Form; and
- (b) ensure that the Acceptance Form and any documents required by the terms of this Offer and the instructions on the Acceptance Form are received by the Transfer Agent before the expiry of the Offer Period at the address indicated on the Acceptance Form.

13.6.3 Receipt of Acceptance Form

To accept this Offer, you should complete and sign the Acceptance Form in accordance with the instructions on it, and return it together with any necessary documents so that they are received by Empire Energy before the end of the Offer Period.

If your Acceptance Form is returned by post, it will be taken as received before the end of the Offer Period if the envelope in which it is sent is post-marked before the end of the Offer Period (even if received by Empire Energy after that time).

13.7 The effect of acceptance

By signing the Acceptance Form and returning it to Empire Energy in accordance with clause 13.5 you will have:

- (a) accepted this Offer (and each variation of this Offer) in respect of your GSLM Shares;
- (b) agreed to transfer to Empire Energy your GSLM Shares, subject to this Offer being declared free from the conditions set out in clause 13.9 (or such conditions being satisfied or waived);
- (c) authorised Empire Energy to complete your Acceptance Form by rectifying any errors in or omissions from it as may be necessary to make it a valid acceptance of this Offer or to enable registration of the transfer of your GSLM Shares to Empire Energy;
- (d) represented and warranted to Empire Energy that your GSLM Shares will at the time of transfer to Empire Energy be fully paid up and Empire Energy will acquire good title to them and full beneficial ownership of them free from all mortgages, charges, liens, encumbrances (whether legal or equitable) and restrictions on transfer of any kind;
- (e) agreed to indemnify fully Empire Energy in respect of any claim or action against it or any loss, damage or liability whatsoever incurred by it in consequence of any breach by you of the terms of the Offer; and
- (f) agreed to accept the Empire Energy Shares to which you have become entitled by acceptance of this Offer subject to the constituent documents of Empire

Energy and have authorised Empire Energy to place your name on its register of shareholders in respect of those Empire Energy Shares.

Empire Energy may, in its sole discretion, and without any further communication to you, at any time determine that any Acceptance Form it receives is a valid acceptance, even if any of the requirements for acceptance have not been complied with.

13.8 When you will receive your shares in Empire Energy

To receive their Empire Energy Shares, tendering shareholders of GSLM will need to provide, with their GSLM share certificates (if any), their full name and address as it appears on the GSLM share register to Empire Energy's transfer agent, Interwest Transfer Company, Inc. (**Interwest**).

If the minimum acceptance level and other conditions of the Offer are met as set out in clauses 2.4, and 13.9 Interwest will, within three days of the close of the Offer, issue new Empire Energy Shares to the GSLM shareholder who accepted the Offer. The shareholders will be included in the shareholders' register immediately and will have all the rights pertaining to shareholders from the date of issue of their Empire Energy Shares.

If you accept this Offer, Empire Energy is entitled to all Rights in respect of your GSLM Shares. Empire Energy may require you to provide all documents necessary to vest title to those Rights in Empire Energy, or otherwise to give it the benefit or value of those Rights. If you do not do so before Empire Energy has provided the Consideration to you, Empire Energy will be entitled to deduct the amount (or value, as reasonably assessed by Empire Energy) of such Rights from the Consideration otherwise due to you.

13.9 Conditions of this Offer

Subject to clause 13.10, this Offer and any contract that results from your acceptance of it are each conditional on:

- (a) Shareholders having more than 50% of the share capital in GSLM must accept the Offer.
- (b) GSLM does not suffer any material adverse change in relation to it or its business between the date of this Offer and the date of closing of this Offer and GSLM shall be free from any material pending or threatened litigation, claims, or contingent liabilities, other than as disclosed in its financial statements for the year ended 30 June 2004.
- (c) GSLM shall be in good standing in the Australian state of Tasmania and shall be duly qualified to do business in those jurisdictions which require such qualification.
- (d) The proposed Acquisition shall not violate the terms and conditions of the petroleum licence held by GSLM, known as SEL 13/98, and such licence shall be in good standing as at the date of closing of the Offer.
- (e) None of the following occurrences happening during the period from the date of this bidder's statement to the end of the Offer period:
 - GSLM resolving that it be wound up;

-
- The appointment of a liquidator or provisional liquidator of GSLM;
 - The making of an order by a court for the winding up of GSLM;
 - An administrator of GSLM being appointed under section 436A, 436B, or 436C of the Corporations Act 2001;
 - GSLM executing a deed of company arrangement; or
 - The appointment of a receiver, receiver and manager, other controller (as defined in the Corporations Act 2001) or similar official in relation to the whole, or a substantial part, of the property of GSLM.

13.10 The nature of the conditions

These conditions are conditions subsequent. The non-fulfilment of any condition subsequent does not prevent a contract to sell your GSLM Shares resulting from your acceptance of this Offer, but entitles Empire Energy, by written notice to you, to rescind the contract resulting from your acceptance of this Offer.

13.11 The benefit of the conditions

Subject to the Corporations Act 2001, and until the end of the Offer Period, Empire Energy alone is entitled to the benefit of the conditions in clause 13.9 or to rely on any non-fulfilment of any of them.

13.12 Freeing the Offer from conditions

Subject to section 650F of the Corporations Act 2001, Empire Energy may declare the Offers free from all or any of the conditions in clause 13.9 generally or in relation to any specific occurrence by giving notice in writing to GSLM not less than 7 days before the end of the Offer Period.

If, at the end of the Offer Period, the conditions in clause 13.9 have not been fulfilled and Empire Energy has not declared the Offers (or they have not become) free from those conditions, all contracts resulting from the acceptance of the Offers will be automatically void.

13.13 Notice on the status of conditions

The date for giving the notice on the status of the conditions referred to in clause 13.9 required by section 630(1) of the Corporations Act 2001 is 30 March 2005 (subject to extension in accordance with section 630(2) of the Corporations Act 2001 if the Offer Period is extended).

13.14 Withdrawal of Offer

This Offer may only be withdrawn with the consent in writing of ASIC if it has not been accepted. Subject to that consent, withdrawal may be effected by giving written notice to GSLM and the GSLM shareholders.

If Empire Energy withdraws this Offer, all contracts resulting from its acceptance will automatically be void and GSLM Shareholders will retain ownership of their shares in GSLM as held prior to their acceptance of the Offer.

13.15 Variation of Offer

Empire Energy may vary this Offer in accordance with the Corporations Act 2001.

13.16 Governing law

This Offer and any contract that results from your acceptance of this Offer are governed by the laws in force in Victoria.

13.17 Date of Offer

This Offer is dated 4 March 2005.

14 Definitions and interpretation

14.1 Definitions

In this bidder's statement and in the Acceptance Form and Transfer, unless the context otherwise requires:

A\$ or \$ means Australian dollars.

Acquisition means the completion of the Offer contemplated by this document.

Consideration means the consideration Empire Energy offers to acquire GSLM shares as contained in clauses 2, 9, and 13.

Empire, Empire Energy or Empire Energy Group means Empire Energy Corporation International and its subsidiaries as at the date of this bidder's statement.

Empire Energy Shares or Empire Shares means the class A common stock in Empire Energy.

Exchange Act means the US Securities Exchange Act of 1934, as amended.

GSLM Shares means fully paid ordinary shares in GSLM and all Rights attaching to them.

Letter of Intent means the letter between Empire Energy and GSLM establishing the terms and conditions of the Offer dated 9 July 2002, as amended on 10 December 2002 and 16 October 2003.

Merged Group means Empire Energy and its subsidiaries following the acquisition by Empire Energy of a majority of the GSLM shares.

Merger Agreement means the agreement between GSLM and Empire dated 27 May 2004 agreeing to actively pursue the merger between GSLM and Empire.

OTC Bulletin Board means the Over the Counter Bulletin Board in the United States of America.

Offer means Empire Energy's offer to acquire GSLM shares as contained in clauses 2 and 13 of this bidder's statement.

Regulation S means Regulation S as promulgated by the SEC under the Securities Act.

Rights means all accretions, rights or benefits of whatever kind attaching to or arising from the GSLM Shares directly or indirectly at or after the date of this bidder's statement including, without limitation, all dividends and all rights to receive them or rights to receive or subscribe for shares, notes, bonds, options or other securities declared, paid or issued by GSLM or by any GSLM subsidiary.

Rule 144 means Rule 144 as promulgated by the SEC under the Securities Act.

SEC means the Securities and Exchange Commission in the United States of America;

Securities Act means the Securities Act of 1933, as amended.

USD means US dollars.

14.2 Interpretation

In this bidder's statement and in the Acceptance Form, unless the context otherwise requires:

- words and phrases have the same meaning (if any) given to them in the Corporations Act 2001;
- words importing a gender include any gender;
- words importing the singular include the plural and vice versa;
- an expression importing a natural person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;
- a reference to a clause, annexure and schedule is a reference to a clause of and an annexure and schedule to this bidder's statement as relevant;
- a reference to a statute, regulation, proclamation, ordinance or by-law includes all statutes, regulations, proclamations, ordinances, or by-laws amending, consolidating or replacing it, whether passed by the same or another government agency with legal power to do so, and a reference to a statute includes all regulations, proclamations, ordinances and by-laws issued under that statute;
- headings and holdings are for convenience only and do not affect the interpretation of this bidder's statement;
- a reference to time is a reference to Australian Eastern Standard Time;
- a reference to writing includes e-mail and facsimile transmissions; and
- a reference to dollars, \$, A\$, cents, ¢ and currency is a reference to the lawful currency of the Commonwealth of Australia.
- a reference to USD, US\$ or pennies is a reference to the lawful currency of the United States of America.

15 Approval of bidder's statement

This bidder's statement has been approved at a meeting of all Empire Energy directors held on 4 March 2005 by a unanimous resolution passed by all Empire Energy directors.

Dated: 4 March 2005

Signed

for and on behalf of Empire Energy Corporation International


John Garrison
Director

Annexure A

Financial statements of Empire Energy for year ended 31 December 2004

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Empire Energy Corporation International
Overland Park, Kansas

We have audited the accompanying consolidated balance sheet of Empire Energy Corporation International as of December 31, 2004, and the related consolidated statements of expenses, changes in stockholders' deficit, and cash flow for each of the two years then ended. These financial statements are the responsibility of Empire's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Empire Energy Corporation International as of December 31, 2004, and the results of its operations and its cash flows for the two years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that Empire Energy Corporation International will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, Empire Energy Corporation International has suffered recurring losses from operations and has a net capital deficiency, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

MALONE & BAILEY, PC
www.malone-bailey.com
Houston, Texas

February 9, 2005

EMPIRE ENERGY CORPORATION INTERNATIONAL
CONSOLIDATED BALANCE SHEET
December 31, 2004

ASSETS

Current Assets

Cash	\$ 47,021
Receivable, net of impairment of \$254,091	--

Total assets	\$ 47,021
	=====

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities

Accounts payable and accrued expenses	\$ 579,358
Accounts payable - related party	40,575
Income tax payable	72,861
Note payable	34,785
Convertible debentures	195,619

Total current liabilities	923,198

Commitments and Contingencies

STOCKHOLDERS' DEFICIT

Common stock, \$.001 par value, 100,000,000 shares authorized:

Class A, 7,186,295 shares issued or outstanding	7,186
Class B, 106,574 shares issued and outstanding	107
Additional paid in capital	34,129,788
Retained deficit	(35,013,258)

Total Stockholders' Deficit	(876,177)

TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	\$ 47,021
	=====

See summary of significant accounting policies
and notes to financial statements.

EMPIRE ENERGY CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENTS OF EXPENSES
Years Ended December 31, 2004 and 2003

	2004	2003
	-----	-----
Expenses:		
Lease operating	\$ --	\$ 10,000
Depreciation and impairment	254,091	19,291
General and administrative expense	1,100,576	316,640
	-----	-----
Total expenses	1,354,667	345,931
	-----	-----
Operating loss	(1,354,667)	(345,931)
Other income (expense)		
Other income (expense)	(11,174)	71,181
Interest expense	(212,794)	(12,592)
	-----	-----
NET LOSS	\$ (1,578,635)	\$ (287,342)
	=====	=====
Basic and diluted loss per common share	\$ (.47)	\$ (.11)
Weighted average common shares outstanding	3,346,630	2,646,422

See summary of significant accounting policies
and notes to financial statements.

EMPIRE ENERGY CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
Years Ended December 31, 2003 and 2004

	Common Stock Class A		Common Stock Class B		Additional Paid-In Capital
	Shares	Amount	Shares	Amount	
<S>	<C>	<C>	<C>	<C>	<C>
Balances at December 31, 2002	23,427,052	\$ 23,427	1,378,016	\$ 1,378	\$ 32,458,523
Shares issued for:					
- exercise of options	800,000	800	--	--	79,200
- payment of interest	184,290	184	--	--	18,245
- debt	2,237,419	2,237	--	--	220,390
- services	2,673,751	2,674	--	--	263,726
Conversion of Class B stock into Class A stock	101,580	102	(101,580)	(102)	--
Net loss	--	--	--	--	--
Balances at December 31, 2003	29,424,092	29,424	1,276,436	1,276	33,040,084
Reincorporation and one for 10 stock split	(26,481,192)	(26,481)	(1,148,792)	(1,148)	27,630
Shares issued in merger related to notes payable	100,000	100	--	--	89,900
Beneficial conversion feature of notes payable	--	--	--	--	410,000
Stock options issued for consulting services	--	--	--	--	246,001
Imputed interest	--	--	--	--	195
Shares issued for:					
- cash, \$.10 per share	3,420,000	3,420	--	--	309,680
- offering costs	--	--	--	--	(102,859)
- warrant expenses	--	--	--	--	102,859
- payment of interest	--	--	--	--	--
- debt	702,325	702	--	--	6,298
Mark marketable securities to market	--	--	--	--	--
Conversion of Class B stock into Class A stock	21,070	21	(21,070)	(21)	--
Net loss	--	--	--	--	--
Balances at December 31, 2004	7,186,295	\$ 7,186	106,574	\$ 107	\$ 34,129,788

(Continued)

See summary of significant accounting policies
and notes to financial statements.

EMPIRE ENERGY CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
Years Ended December 31, 2003 and 2004

	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
<S>	<C>	<C>	<C>
Balances at December 31, 2002	\$(33,147,279)	\$ (9,389)	\$ (673,340)
Shares issued for:			
- exercise of options	--	--	80,000
- payment of interest	--	--	18,429
- debt	--	--	222,627
- services	--	--	266,400
Conversion of Class B stock into Class A stock	--	--	--
Net loss	(287,342)	--	(287,342)
Balances at December 31, 2003	(33,434,621)	(9,389)	(373,226)
Reincorporation and one for 10 stock split	--	--	--
Shares issued in merger related to notes payable	--	--	90,000
Beneficial conversion feature of notes payable	--	--	410,000
Stock options issued for consulting services	--	--	246,001
Imputed interest	--	--	195
Shares issued for:			
- cash, \$.10 per share	--	--	313,100
- offering costs	--	--	(102,859)
- warrant expenses	--	--	102,859
- payment of interest	--	--	23
- debt	--	--	7,000
Mark marketable securities to market	--	9,389	9,389
Conversion of Class B stock into Class A stock	--	--	--
Net loss	(1,578,636)	--	(1,578,636)
Balances at December 31, 2004	\$(35,013,260)	\$ --	\$ (876,179)
	=====	=====	=====

See summary of significant accounting policies
and notes to financial statements.

EMPIRE ENERGY CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2004 and 2003

	2004	2003
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$(1,578,635)	\$ (287,342)
Adjustments to reconcile net loss to net cash used in operating activities:		
Common stock issued for services	--	266,400
Stock options issued for services	246,002	18,429
Amortization of loan discounts	202,619	--
Depreciation and impairment	254,091	19,291
Imputed Interest	194	--
Gain on sale of properties	--	(24,424)
Gain on settlement of accounts payable	--	(46,757)
Loss on marketable securities	11,175	--
Changes in		
Accounts receivable	--	138
Other assets	--	33,846
Accounts payable and accrued expenses	349,396	(91,613)
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(515,158)	(112,032)
	-----	-----
CASH FLOWS (USED IN) INVESTING ACTIVITIES		
Advances to acquisition candidate	(254,091)	--
Sale of oil and gas properties	--	12,500
	-----	-----
NET CASH (USED IN) INVESTING ACTIVITIES	(254,091)	12,500
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of convertible debentures	500,000	--
Proceeds from issuance of common stock	313,100	--
Proceeds from notes payable	16,521	12,105
Payments on notes payable	(16,521)	--
Exercise of stock options	--	80,000
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	813,100	92,105
	-----	-----
NET CHANGE IN CASH	43,851	(7,427)
	-----	-----
CASH BALANCES		
-Beginning of period	3,170	10,597
	-----	-----
-End of period	\$ 47,021	\$ 3,170
	=====	=====
SUPPLEMENTAL DISCLOSURES:		
Interest paid in cash	\$ --	\$ --
NON CASH DISCLOSURES:		
Reduction of accounts payable for sale of assets	\$ --	\$ 16,313
Stock issued for accounts payable	--	109,627
Stock issued for notes payable	7,000	133,000

See summary of significant accounting policies
and notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations and organization. Empire Energy Corporation International ("Empire") was incorporated in Utah on November 10, 1983. Empire currently has no operations.

Effective April 12, 2004, Empire 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 effected a 1 for 10 reverse stock split. All per-share amounts and the number of shares outstanding in these financial statements have been restated for the stock split.

Empire commenced commercial activity in the oil and gas industry on May 17, 1999. The primary prospect was in Nicaragua. Empire also participated in an exploration program in Tennessee in 1999 and continuing until 2002. During 2000 and 2001, Empire acquired additional production and/or prospects in Texas, Oklahoma and Wyoming. During 2002, Empire sold most of its oil and gas properties and entered into an agreement to acquire Great South Land Minerals, Ltd. ("GSLM"), a Hobart, Tasmania (Australia) company. During 2003 and 2004, Empire sold all properties, settled some debts and pursued the acquisition of GSLM. Under the terms of the acquisition agreement, approximately 63 million shares of Empire stock will be offered to the current stockholders of GSLM, which if accepted will result in those shareholders owning a majority of Empire. GSLM's plan is to develop the potential oil and gas reserves of Tasmania.

Principles of consolidation. The consolidated financial statements include the accounts of Empire and its wholly owned subsidiaries Empire Exchangeco Ltd., Commonwealth Energy (USA), Blue Mountain Resources, and Alberta 638260. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and cash equivalents. For purposes of the statements of cash flows, cash equivalents include all highly liquid investments with original maturities of three months or less.

Use of Estimates. The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition. Empire recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectibility is probable. Generally, these criteria are met at the time product is delivered.

Marketable securities and accumulated other comprehensive loss. 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.

Impairment of long-lived assets. Empire reviews its long-lived assets whenever events or changes in circumstances indicate the carrying amount may not be recoverable. In 2003, Empire determined that future cash flows were less than

the carrying value of all remaining fixed assets, resulting in impairment expense of \$12,412.

Oil and gas properties. Empire follows the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with acquisition, exploration, and development of oil and gas reserves, including directly related overhead costs, are capitalized. No internal overhead costs have been capitalized to date. All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves, are amortized on the unit-of-production method using estimates of proved reserves. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized. The capitalized costs are subject to a "ceiling test," which limits capitalized costs to the aggregate of the "estimated present value," discounted at a 10-percent interest rate, of future net revenues from proved reserves (based on current economic and operating conditions), plus the lower of cost or fair market value of unproved properties. In 2004, 2003 and 2002, Empire recorded an impairment expense of \$0, \$0 and \$8,404,873, respectively, to write off costs of completed wells to the extent that those costs exceeded the "ceiling test". Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in income. Abandonments of properties are accounted for as adjustments of capitalized costs with no loss recognized to the extent that the properties were producing. Non-producing properties are not subject to amortization and are charged to expense when abandoned.

Income taxes. Empire recognizes deferred tax assets and liabilities based on differences between the financial reporting and tax bases of assets and liabilities using the enacted tax rates and laws that are expected to be in effect when the differences are expected to be recovered. Empire provides a valuation allowance for deferred tax assets for which it does not consider realization of such assets to be more likely than not.

Stock-Based Compensation. Empire has a stock-based compensation plan, which is described more fully in Note 7. Empire accounts for stock-based compensation under the intrinsic value method. Under this method, Empire recognizes no compensation expense for stock options granted when the number of underlying shares is known and exercise price of the option is greater than or equal to the fair market value of the stock on the date of grant. The following table illustrates the effect on net loss and net loss per share if Empire had applied the fair value provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

In 2003, the board of directors approved the issuance of 800,000 one year options to purchase Empire common stock for \$.10 per share to an officer. The options issued were accounted for under the intrinsic value method, therefore there was no compensation expense recorded for the fair value of those options. No options were issued to employees in 2004. See pro forma results below.

	2003

Net loss as reported	\$ (287,342)
Less: stock based compensation determined under fair value- based method	(59,679)

Pro forma net loss	\$ (347,021)
	=====
Basic and diluted net loss per common share:	

As reported	\$	(.11)
Pro forma		(.13)

The weighted average fair value of the stock options granted during 2003 was \$.10. Variables used in the Black-Scholes option-pricing model include (1) 3% risk-free interest rate, (2) expected option life is the actual remaining life of the options as of each year end, (3) expected volatility is 159% and (4) zero expected dividends.

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. Basic and diluted loss per share is the same due to the absence of common stock equivalents.

Recently issued accounting pronouncements. Empire does not expect the adoption of recently issued accounting pronouncements to have a significant impact on Empire's results of operations, financial position or cash flow.

NOTE 2 - GOING CONCERN

During 2004 and 2003, Empire incurred losses totaling \$1,578,635 and \$287,342, respectively, and at December 31, 2004 had a working capital deficit of \$876,177. Because of these conditions, Empire will require additional working capital to develop and/or renew its business operations.

Empire intends to raise additional working capital either through private placements, public offerings and/or bank or private debt financing.

These conditions raise substantial doubt about Empire's ability to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might be necessary should Empire be unable to continue as a going concern.

NOTE 3 - ACCOUNTS PAYABLE

In 2003, Empire settled \$127,807 in debt by issuing 805,000 shares of common stock valued at \$81,050, resulting in a gain of \$46,757.

In 2003, Empire sold one oil and gas interest for \$12,500 cash and reduction of accounts payable of \$11,314. Due to prior year impairment, Empire had no basis in the property and recorded a gain on the sale of \$23,814.

In 2003, Empire sold fixed assets for reduction of accounts payable of \$5,000. The basis of the assets sold was \$4,390 resulting in a gain of \$610.

NOTE 4 - NOTE PAYABLE TO SHAREHOLDER

As of December 31, 2002, Empire owed a shareholder \$100,895. In 2003, the shareholder loaned Empire an additional \$12,105. In 2003, Empire issued 1,130,000 shares for payment of the \$113,000 note payable and 161,790 shares for payment of interest of \$16,179. No amounts were due as of December 31, 2003 or 2004.

NOTE 5 - NOTE PAYABLE

As of December 31, 2004, Empire owed \$34,785 to a third party. Monthly payments of \$3,207 are required. The note is in default which triggered an increase in interest from 10% to 18%. The note is unsecured.

NOTE 6 - CONVERTIBLE DEBENTURES

On July 2, 2004, Empire assumed \$500,000 in notes payable in connection with the purchase of Bob Owen & Company, Inc. a Kansas corporation ("BOCI"). The notes accrue interest at 1.5% per annum. \$485,000 is convertible to common shares of Empire 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 \$.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 \$.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, 2004, 700,000 shares of common stock were issued for \$7,000 of debt. The value of the stock converted, \$169,577 (700,000 times \$.24), was amortized. The remaining discounts will be amortized over the life of the note. A summary of the notes is as follows:

	Notes Payable

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	(7,000)
Add: Fair value of stock converted for debt	169,577
Add: Amortization of discounts	33,042

Book value of note on December 31, 2004	\$ 195,619
	=====

NOTE 7 - INCOME TAXES

Empire uses the liability method, where deferred tax assets and liabilities are determined based on the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial and income tax reporting purposes. During fiscal 2004 and 2003, Empire incurred net losses and, therefore, has no tax liability. The net deferred tax asset generated by the loss carry-forward has been fully reserved. The cumulative net operating loss carry-forward is approximately \$8,000,000 at December 31, 2004, and will expire in the years 2020 through 2025.

At December 31, 2004, deferred tax assets consisted of the following:

Deferred tax asset	\$ 2,750,000
Less: valuation allowance	(2,750,000)

Net current deferred tax assets	\$ 0
	=====

When Empire acquired Commonwealth Energy in 2001, one of Commonwealth's wholly owned Canadian subsidiaries, Alberta 638260, owed income taxes for 2000 of \$31,000, and an estimated liability for 2001 of \$42,000. Both amounts remain

unpaid. Alberta 638260 has no assets or other liabilities as of December 31, 2004.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Centurion Private Equity, LLC

In November 2001, Empire entered into an investment agreement ("Investment Agreement") with Centurion Private Equity, LLC ("Centurion"). The investment agreement entitled Empire to issue and sell its common stock for up to an aggregate of \$15 million under certain conditions during a three-year period. The three-year period began with the SB-2/A registration statement that was filed with the SEC dated January 31, 2002. Rights under this arrangement expired unused on January 31, 2005.

In connection with the Investment Agreement, Empire issued and delivered to Centurion a warrant to purchase 125,000 shares of common stock. This warrant is exercisable at a price of \$0.80 per share and expires September 6, 2006.

Anadarko Energy Services Company

During August 2001, Empire agreed to sell the gas production from its Bedsole #1 well in Leon County, Texas to Anadarko Energy Services Company. The primary term of the agreement was two years with provision to be extended year to year thereafter. The gas price was an indexed based price reduced by an amount that allows Anadarko to recover the cost of measurement equipment normally paid for by the producer. Once 200,000 MMBTU's of gas was delivered during the primary term of the contract the price reduction was eliminated. If the wells do not deliver 200,000 MMBTU's during the primary term Empire must pay \$0.30 per MMBTU for any shortage. The property was sold to Carr Resources in August 2002 but the potential liability from the gas contract remained with Empire. Carr drilled an additional productive well on the unit in September 2002, which reduced the required production. Total production is unknown but no claim has been made to Empire since the primary term of the agreement expired in August 2003 and no claim is expected.

Industria Oklahoma-Nicaragua, S.A.

Prior to 2002, Empire acquired a 51% interest in the Industria Oklahoma-Nicaragua, S.A. ("ION"), a Nicaraguan subsidiary, which had been pre-qualified in that country to bid on oil and gas concessions and had incurred certain obligations to pursue this concession. All rights and obligations of this interest were distributed during 2004 to a corporation owned by Empire shareholders of record July 1, 2002.

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 include a provision that will allow the purchasers of these shares to receive an additional 50% of shares if the acquisition of GSLM is not completed within 90 days of their purchase. With these sales of the common stocks, the company issued 1,500,000 warrants to the broker as its offering costs. The company recognized \$102,859 and \$44,082 fees during the year ended December 31, 2004 and 2005, respectively. The fair value of the warrants is determined using the Black-Scholes option-pricing model. Assumptions used in the Black Scholes model were volatility of 266.8%, three year life, and a 1.5% discount rate.

Litigation

No lawsuits were filed against Empire during 2004 and 2003 and no litigation is active at December 31, 2004.

NOTE 9 - STOCKHOLDERS' DEFICIT

In 2004 Empire issued the following Class A common stock:

- o 702,325 shares of common stock for debt totaling \$7,000
- o 3,420,000 shares of common stock for cash totaling \$313,100
- o 100,000 shares of common stock for merger related to notes payable
- o 21,070 shares for the conversion of 21,070 Class B common shares

In 2003 Empire issued the following Class A common stock:

- o 2,237,419 shares of common stock for debt totaling \$222,627
- o 184,290 shares of common stock for interest totaling \$18,429
- o 2,673,751 shares of common stock for compensation totaling \$266,935
- o 800,000 shares of common stock for options exercised at \$.10 per share for total proceeds of \$80,000
- o 101,580 shares for the conversion of 101,580 Class B common shares

NOTE 10 - OPTIONS/WARRANTS

Empire had 2,500,000 shares of Empire's class A common stock authorized for issuance under Empire's 1999 Stock Plan (the "Plan"). The Plan provides Empire's class A common stock for the (1) granting of incentive stock options to employees and officers of Empire, (2) granting nonqualified stock options to directors, officers, employees and consultants and to receive stock appreciation rights pursuant to such nonqualified options, (3) granting awards of stock to directors, officers, employees and consultants, and (4) provide opportunities for directors, officers, employees and consultants to make direct purchases of stock. The Plan is administered by a committee appointed by the Board of Directors (Committee), and requires that incentive stock options be granted at an exercise price of 100% of the fair value of the common stock of Empire on the date of the grant. Nonqualified options may be granted at exercise prices and terms as determined by the Committee. Options granted to stockholders who possess more than 10% of the outstanding common stock have a required exercise price of 110% of the fair value of the common stock on the date of the grant. The options are immediately exercisable after the date of grant or upon vesting and expire up to ten years from date of grant or up to five years from the date of grant for options to stockholders who possess more than 10% of the outstanding common stock.

All options issued under the plan were fully vested at December 31, 2003 and expired on March 23, 2004. The following is a summary of the options granted under the Plan:

	2004		2003	
	Shares	Weighted Average Price	Shares	Weighted Average Price
<S>	<C>	<C>	<C>	<C>
Options outstanding:				
Beginning of year	35,000	\$ 6.00	36,200	\$8.70
Options granted	--	--	80,000	1.00
Options exercised	--	(--)	(80,000)	(1.00)
Options expired	(35,000)	(6.00)	(1,200)	(20.00)
End of year	--	\$ --	35,000	\$6.00
Options exercisable	--	\$ --	35,000	\$6.00

The following table summarizes information about stock options outstanding at December 31, 2004. All were issued in the Commonwealth acquisition, are fully vested and exercisable:

OPTIONS OUTSTANDING

Exercise Prices	Number Outstanding 12/31/04	Average Remaining Life
\$12.00	25,464	.05 yr
\$18.00	833	.15 yr
\$10.00	10,000	.82 yr
\$30.00	57,631	1.46 yr
Total	93,928	

Empire accounts for stock-based compensation to non-employees based on the fair value of the equity instruments granted on the measurement date, which is either the commitment date for performance of services, or when performance has been completed. The fair value of the equity instrument is determined using the Black-Scholes option-pricing model. Options issued in 2004 and 2003 to non-employees were 0 and 0, respectively.

On October 11, 2004, Empire issued 750,000 warrants to a consultant valued at \$246,001.

The warrants have an exercise price of \$.50 per share. The Black Scholes pricing model was used to determine the value of the warrants. Assumptions used in the Black Scholes model were volatility of 129.74%, three year life, and a 1% discount rate.

The following is a summary of warrant activity:

	2004		2003	
	Shares	Weighted Average Price	Shares	Weighted Average Price
<S>	<C>	<C>	<C>	<C>
Warrants outstanding:				
Beginning of year	140,000	\$1.46	176,661	\$ 3.50
Warrants granted	750,000	.50	-	-
Warrants exercised	-	-	-	-
Warrants expired	-	-	(36,661)	12.00
End of year	890,000	\$.65	140,000	\$ 1.46
Warrants exercisable	890,000	\$.65	140,000	\$ 1.46

The warrants have a weighted average remaining contractual life of 4.0 years, are fully vested, and have a weighted average exercise price of \$.65. During 2002 the exercise price on the 125,000 Centurion warrants was lowered from \$7.00 to \$0.80 per the warrant terms, as previously discussed.

NOTE 11 - CONSULTING AGREEMENT

In June 2004, Empire entered into a verbal consulting agreement. The agreement is for \$250,000 and is payable on demand without interest. Accounts payable as of December 31, 2004 includes the \$200,000 unpaid portion of this billing.

NOTE 12 - ACQUISITION

In conjunction with financing obtained in anticipation of the GSLM acquisition, as described in Note 6 - Convertible Debentures, On July 2, 2004, Empire purchased all of the outstanding shares of Bob Owen & Company, Inc. a Kansas corporation ("BOCI") common

shares . As a result of the purchase , BOCI became a wholly-owned subsidiary of Empire and all outstanding shares of BOCI capital stock held by its sole stockholder were exchanged for 100,000 shares of Empire common stock. BOCI was a private, development stage company formed to pursue opportunities for investment in the area of real estate and oil and gas and had no material assets and or liabilities as of July 2, 2004, other than its rights and obligations under and proceeds from convertible debentures issued in conjunction with the merger. The value of the shares issued to acquire BOCI, \$90,000, was included in the calculation of financing cost further described in Note 6.

NOTE 13 - IMPAIRMENT

During the six months ended December 31, 2004, Empire paid expenses totaling \$257,612 on behalf of GSLM. \$3,521 of the expenses offset payables to GSLM, and the remaining balance of \$254,091 was impaired due to uncertainty about GSLM's ability to repay Empire if the proposed acquisition is not completed.

NOTE 14 - SUBSEQUENT EVENTS

During January 2005, Empire sold 1,460,000 shares of common stock for net proceeds of \$135,900. In February 2005, Empire issued a warrant to a company instrumental in the sale of common stock in December 2004 and January 2005 to allow that company the right to purchase 1,500,000 shares of common stock for a price of \$.10 per share for a period of three years from the date of the completion of the acquisition of GSLM.

The Company continues to pursue the acquisition of GSLM and is preparing documentation for administrative approval and for presentation to the GSLM shareholders. Should the acquisition not be completed by March 2005, the company could have to issue 50% additional shares of common stock to investors that purchased shares in December 2004 and January 2005.

Annexure B

Financial statements for GSLM for year ended 30 June 2004

**GREAT SOUTH LAND MINERALS LIMITED
(A DEVELOPMENT STAGE COMPANY)**

FINANCIAL STATEMENTS

JUNE 30, 2004 AND 2003

GREAT SOUTH LAND MINERALS LIMITED (A DEVELOPMENT STAGE COMPANY)

BALANCE SHEETS
JUNE 30, 2004 and 2003

		June 30,	
	Note	2004	2003
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		\$ 8,173	\$ 8,786
Trade and other receivables		11,358	4,642
Prepaid expenses and deposits		-	48,284
Other current assets		6,482	49,752
TOTAL CURRENT ASSETS		26,013	153,264
PROPERTY AND EQUIPMENT, net	F	14,694	17,107
TOTAL ASSETS		\$ 40,707	\$ 170,371
LIABILITIES AND STOCKHOLDERS' DEFICIT			
CURRENT LIABILITIES			
Trade and other payables		\$ 344,949	\$ 1,562,990
Current portion of long-term debt	G	103,997	165,863
TOTAL CURRENT LIABILITIES		448,946	1,728,853
TRADE AND OTHER PAYABLES		1,598,510	-
LONG-TERM DEBT, net of current portion	G	8,846	11,053
TOTAL LIABILITIES		2,056,302	1,739,906
STOCKHOLDERS' DEFICIT			
Common stock, no par value, 62,426,782 and 62,158,054 shares issued and outstanding at June 30, 2004 and 2003, respectively		6,956,808	6,778,368
Accumulated deficit		(8,829,936)	(8,230,066)
Accumulated other comprehensive income(loss)		(142,467)	(117,837)
TOTAL STOCKHOLDERS' DEFICIT		(2,015,595)	(1,569,535)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT		\$ 40,707	\$ 170,371

The accompanying notes are an integral part of these financial statements

GREAT SOUTH LAND MINERALS LIMITED (A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF OPERATIONS

	Year Ended June 30,		March 15, 1995 (Inception) to June 30, 2004
	2004	2003	
INTEREST INCOME	\$ -	\$ 25	\$ 25
OTHER INCOME	6,053	-	18,460
COSTS AND EXPENSES			
Selling, general and administrative	469,684	2,571,955	4,958,097
Exploration	53,321	313,788	3,765,854
TOTAL COSTS AND EXPENSES	523,005	2,885,743	8,724,251
LOSS FROM OPERATIONS	(516,952)	(2,885,718)	(8,705,766)
INTEREST EXPENSE	(82,918)	(15,911)	(124,170)
LOSS BEFORE INCOME TAXES	(599,870)	(2,901,629)	(8,829,936)
INCOME TAXES	-	-	-
NET LOSS	\$ (599,870)	\$ (2,901,629)	\$ (8,829,936)

The accompanying notes are an integral part of these financial statements

GREAT SOUTH LAND MINERALS LIMITED (A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF STOCKHOLDERS' DEFICIT

PERIOD FROM MARCH 15, 1995 (INCEPTION) THROUGH JUNE 30, 2004

	Common Stock		Accumulated Other Comprehensive Gain (Loss)	Deficit Accumulated during the Development Stage	Total Stockholders' Equity (Deficit)
	Shares	Amount			
Balance at March 15, 1995	-	\$ -	\$ -	\$ -	\$ -
Issuance of common stock:					
Cash	1,000	746			746
Net loss			-	-	
Balance at June 30, 1996	1,000	746	-	-	746
Issuance of common stock:					
Cash	59,000	54,036			54,036
Share Premium		391,761			391,761
Net loss				(477,078)	(477,078)
Foreign currency translations			24,122		24,122
Total comprehensive gain			24,122		24,122
Balance at June 30, 1997	60,000	445,797	24,122	(477,078)	(7,159)
Issuance of common stock:					
Cash	138,688	86,457			86,457
Share Premium		858,483			858,483
Net loss				(1,247,314)	(1,247,314)
Foreign currency translations			185,864		185,864
Total comprehensive gain			185,864		185,864
Balance at June 30, 1998	198,688	1,390,737	209,986	\$ (1,724,392)	(123,668)
Issuance of common stock:					
Cash	69,581	328,969			328,969
Net loss				(267,403)	(267,403)
Foreign currency translations			(106,064)		(106,064)
Total comprehensive loss			(106,064)		(106,064)
Balance at June 30, 1999	268,269	\$ 1,719,706	\$ 103,922	\$ (1,991,795)	\$ (168,167)

The accompanying notes are an integral part of these financial statements

GREAT SOUTH LAND MINERALS LIMITED (A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF STOCKHOLDERS' DEFICIT
PERIOD FROM MARCH 15, 1995 (INCEPTION) THROUGH JUNE 30, 2004

	Common Stock		Accumulated Other Comprehensive Gain (Loss)	Deficit Accumulated during the Development Stage	Total Stockholders' Equity (Deficit)
	Shares	Amount			
Balance at July 1, 1999	268,269	\$ 1,719,706	\$ 103,922	\$ (1,991,795)	\$ (168,167)
Issuance of common stock:					
Cash	35,971	137,241			137,241
Services	23,214	151,122			151,122
Net loss				(186,666)	(186,666)
Foreign currency translations			22,585		22,585
Total comprehensive gain			22,585		22,585
Balance at June 30, 2000	327,454	2,008,069	126,507	(2,178,461)	(43,885)
Issuance of common stock:					
Cash	348,214	1,174,825			1,174,825
Services	23,317	67,886			67,886
Bonus Issue	51,911,055	-			-
Net loss				(1,767,759)	(1,767,759)
Foreign currency translations			73,133		73,133
Total comprehensive gain			73,133		73,133
Balance at June 30, 2001	52,610,040	3,250,780	199,640	(3,946,220)	(495,800)
Issuance of common stock:					
Cash	609,000	591,251			591,251
Services	3,955,125	534,733			534,733
Stock issuance costs		(44,109)			(44,109)
Net loss				(1,382,215)	(1,382,215)
Foreign currency translations			(83,951)		(83,951)
Total comprehensive loss			(83,951)		(83,951)
Balance at June 30, 2002	57,174,165	\$ 4,332,655	\$ 115,691	\$ (5,328,437)	\$ (880,091)

The accompanying notes are an integral part of these financial statements

GREAT SOUTH LAND MINERALS LIMITED (A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF STOCKHOLDERS' DEFICIT

PERIOD FROM MARCH 15, 1995 (INCEPTION) THROUGH JUNE 30, 2004

	Common Stock		Accumulated Other Comprehensive Gain (Loss)	Deficit Accumulated during the Development Stage	Total Stockholders' Equity (Deficit)
	Shares	Amount			
Balance at July 1, 2002	57,174,165	\$ 4,332,655	\$ 115,691	\$ (5,328,437)	\$ (880,091)
Issuance of common stock:					
Cash	1,028,764	608,642			608,642
Services	3,955,125	2,123,111			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)
Total comprehensive loss			(233,528)		(233,528)
Balance at June 30, 2003	62,158,054	6,778,368	(117,837)	(8,230,066)	(1,569,535)
Issuance of common stock:					
Cash	246,800	160,173			160,173
Services	21,928	16,260			16,260
Stock issuance costs		2,007			2,007
Net loss				(599,870)	(599,870)
Foreign currency translations			(24,630)		(24,630)
Total comprehensive loss			(24,630)		(24,630)
Balance at June 30, 2004	<u>62,426,782</u>	<u>\$ 6,956,808</u>	<u>\$ (142,467)</u>	<u>\$ (8,829,936)</u>	<u>\$ (2,015,595)</u>

The accompanying notes are an integral part of these financial statements

GREAT SOUTH LAND MINERALS LIMITED (A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF CASH FLOWS

	Year Ended June 30,		March 15, 1995 (Inception) to June 30, 2004
	2004	2003	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (599,870)	\$ (2,901,629)	\$ (8,829,936)
Adjustments to reconcile net loss to net cash used in operating activities:			
Share issues for services	15,653	2,123,111	2,893,112
Depreciation	6,325	6,371	22,278
Changes in operating assets and liabilities:			
Trade and other receivables	37,929	98,150	(11,358)
Prepaid expenses	98,157	33,754	-
Other current assets	-	43,550	(6,482)
Trade and other payables	260,131	302,075	344,949
NET CASH USED IN OPERATING ACTIVITIES	(701,936)	(449,226)	(5,587,437)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	(3,225)	-	(36,972)
NET CASH USED IN INVESTING ACTIVITIES	(3,225)	-	(36,972)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital raising costs	-	(286,040)	(328,142)
Net proceeds from borrowings	528,035	140,963	1,711,353
Proceeds from issuance of shares	176,178	601,006	4,391,838
NET CASH PROVIDED BY FINANCING ACTIVITIES	704,213	455,929	5,775,049
EFFECT OF EXCHANGE RATE CHANGES ON CASH	335	1,128	(142,467)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(613)	7,831	8,173
CASH AND CASH EQUIVALENTS – beginning of year	8,786	955	-
CASH AND CASH EQUIVALENTS – end of year	\$ 8,173	\$ 8,786	\$ 8,173
CASH PAID FOR INTEREST AND TAXES:			
Taxes	\$ -	\$ -	\$ -
Interest	\$ 59,191	\$ 19,761	\$ 124,170

The accompanying notes are an integral part of these financial statements

GREAT SOUTH LAND MINERALS LIMITED (A DEVELOPMENT STAGE COMPANY)

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Preparation: Great South Land Minerals Limited (the “Company” or “GSLM”) is a development stage company that was incorporated in Tasmania, Australia in 1995. The principal activity of the Company is the exploration and development of sub-surface hydrocarbons in Tasmania.

The financial statements presented herein have been prepared in a manner and reflect the adjustments which are considered necessary to conform them to accounting principles generally accepted in the United States and are stated in U.S. dollars.

Going Concern and Liquidity: 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. There 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 lease.
- Current liabilities of \$448,946 and current assets of \$26,013 including cash or cash equivalents of \$8,174 at June 30, 2003.
- The exploration licence SEL 13/98 has been renewed effective 1 October 2004, and has strict mandatory cumulative expenditure requirements of \$2,949,514 by 30 September 2005, \$4,617,279 by 30 September 2006, \$7,267,479 by 30 September 2007, \$10,873,606 by 30 September 2008 and \$11,873,160 by 30 September 2009 without which the licence will be revoked.

There can be no assurance that the Company will be able to obtain financing on commercially reasonable terms. The continuing viability and its ability to continue as a going concern and to meet its obligations as they fall due is dependent on the Company being successful in raising additional funds. The Company’s inability to raise capital may have a material adverse affect on its financial condition, ability to meet its obligations and operating needs and results of operations.

The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or to the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

The Company has planned the following activities and the following activities exist to address the above going concern issues.

- 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.

These include:

- Advances received since 1st July 2004, from entities associated with a director of the company, totalling approximately \$119,422. Negotiations are underway with that same entity, for additional funding.
- Advances received since 1 July 2004 from Empire Energy Corporation International (EEGC) totalling \$219,134. Negotiations are underway with EEGC for further advances.
- Discussions have been held with a Singapore based entity that has indicated a strong interest in GSLM’s oil and gas exploration project. The entity is in the process of securing funding that will be offered to GSLM. The exact terms and conditions of this transaction are yet to be discussed.

GREAT SOUTH LAND MINERALS LIMITED (A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

- A number of entities with shareholdings in excess of 2,000,000 shares have expressed a willingness to raise funds for the Company by selling shares at a discounted price to other investors and then making the funds available to GSLM as an unsecured loan at an interest rate of 12½%. To date approximately \$20,709 has been loaned to the Company on this basis.
- Declarations from key creditors (which represented \$1,598,510 of the current liabilities as at 30 June 2004) that proceeding to enforce collection of debt will not be undertaken before 1 June 2006 in respect of all relevant debts incurred up to 30th June 2004;
- The directors have reviewed the cash flow requirements necessary to meet the company's exploration expenditure commitments and consider that the following actions will ensure that the company has access to sufficient funds.

These include:

- In May 2004 an agreement was signed with EEGC committing both companies to use their best endeavours to implement and bring about the proposed merger of the two companies. The Company has engaged solicitors, accountants and independent experts to prepare the necessary documentation including this financial report.
- The Company is aware of a number of avenues that are being pursued by EEGC to raise the funds necessary to meet the \$11,873,160 exploration expenditure commitment once the merger has been completed. These avenues include the issue of share capital and the raising of loan funds.

Revenue Recognition: Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

Property and Equipment: 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, such as capitalized costs are charged to expense, as dry hole costs, at that time. Development costs are capitalized. Cost 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 changed 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.

GREAT SOUTH LAND MINERALS LIMITED (A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *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 recognises 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 amortisation. The effect of the passage of time on the amount of the liability is recognised as accretion expense. If the obligation is settled for other than the carrying amount of the liability, the Company will recognise 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 capitalised 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 amortisation 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 recognised 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 recognised in income in the period that includes the enactment date. A valuation allowance is recorded for deferred tax assets when future realisation is uncertain.

Receivables: The collectibility of receivables is assessed and an allowance is made for any doubtful accounts. No allowance has been recorded at 30 June, 2004 and 2003.

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

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 amortisation of oil and gas properties. Management emphasises 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 the Company is the Australian dollar. Financial statements for the entities 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.

GREAT SOUTH LAND MINERALS LIMITED (A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the Company, expressed in Australian dollars, to United States dollars are reported as other comprehensive income (loss) and as accumulated other comprehensive income (loss) in the Statement of Stockholders’ Deficit.

Stock Options: the Company measures compensation cost as prescribed by APB Opinion No. 25 (“APB 25”), “*Accounting for Stock Issued to Employees*”. No compensation cost relating to the granting of stock options has been recognised in the financial statements as the exercise price of all option grants were equal to or greater than the fair value of the company’s common stock at the date of grant. In October 1995, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 123. SFAS No. 123 defines a fair value based method of accounting for employee options or similar equity instruments. The Company does not believe that the adoption of SFAS 123 would have a significant impact on its financial statements.

Recently Issued Accounting Pronouncements: in December 2003, the FASB issued Interpretation No. 46r (“FIN 46r”), “*Consolidation of Variable Interest Entities*.” This interpretation provides guidance on the identification of, and financial reporting for, variable interest entities. Variable interest entities are entities that lack the characteristics of a controlling financial interest or lack sufficient equity to finance its activities without additional subordinated financial support. FIN 46 requires a company to consolidate a variable interest entity if that company is obliged to absorb the majority of the entity’s expected losses or entitled to receive the majority of the entity’s residual returns, or both. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. FIN 46 is applicable immediately to variable interest entities created after January 31, 2003. For all variable interest entities created after January 31, 2003, FIN 46 is applicable to periods beginning after December 15, 2004. The adoption of FIN 46 will not have an effect on the Company’s financial statements.

In May 2003, as amended in November 2003, The FASB issued SFAS No. 150, “*Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity*” (“SFAS 150”), which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that an issuer classify a financial instrument that is within its scope, which may have previously been reported as equity, as a liability (or an asset in some circumstances). This statement is effective in fiscal periods beginning after December 15, 2004. The adoption of SFAS 150 had no effect on the Company’s financial statements.

In April 2003, the FASB issued SFAS No. 149, “*Amendment of Statement 133 on Derivative Instruments and Hedging Activities*” to amend and clarify financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. The changes in this statement improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly to achieve more consistent reporting of contracts as either derivative or hybrid instruments. SFAS No. 149 was effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS No. 149 had no effect on the Company’s financial statements.

NOTE B – 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 June 30, 2004 and 2003 reduces the net deferred tax assets to \$0.

Deferred tax assets consist of:

	June 30,	
	2004	2003
Net operating losses	\$ 1,948,342	\$ 1,720,909
Valuation allowance	(1,948,342)	(1,720,909)
	<u>-</u>	<u>-</u>

GREAT SOUTH LAND MINERALS LIMITED (A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE B – TAXATION (Continued)

At June 30, 2004, the Company has net operating loss carry forwards of approximately \$6,494,474. The benefit of tax losses will be available provided the following are met:

1. 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;
2. The Company continues to comply with the conditions for deductibility imposed by the law; and
3. 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 \$227,433 and \$490,096 during 2004 and 2003, respectively.

NOTE C – RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions not more favourable 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 favourable 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 recognised during the year relating to directors and their director related entities were as follows:

Directors	Transactions	Year Ended June 30,	
		2004	2003
D. A. Tanner	Consulting	\$ -	\$ 73,360
M. R. Bendall	Rental	17,132	16,017
M. R. Bendall	Consulting	-	180,198

Loans to Directors

	June 30,	
	2004	2003
Directors' unsecured interest free loans at call to the Company	- \$	7,007

Working Capital Facility

From time to time the Company requires funding for short term needs which are supplied by an entity associated with a director. Since July 1, 2004, that entity has provided funding amounting to approximately \$119,422 to the Company. These advances are unsecured, are not repayable before June 30, 2006 and to date have been interest free. At June 30, 2004, the Company owed the related party an amount \$562,281.

GREAT SOUTH LAND MINERALS LIMITED (A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE C – RELATED PARTY TRANSACTIONS (Continued)

Guarantees

Two directors of the Company have personally provided joint and several guarantees, on behalf of the Company, in favour of Mineral Resources of Tasmania (“MRT”), the government body responsible for the activities of the Company. This guarantee is for a total of \$51,773, and relates to future rehabilitation costs that may arise in respect of the licence.

Share Options

From 1st July 2003 to 30th June 2004 the following share options issues were made to Directors, Director Related Entities and officers of the company. These options are valid until 31 December 2005 and may be exercised at a price of AU\$0.01.

Name	Position	Number of Options
MR Bendall	Chairman	50,000
C Burrett	Director	50,000
S Powell	Director	50,000
P Simpson	Director	50,000
D Tanner	Director	50,000
R Watson	Director	50,000
K Gumley	Company Secretary	50,000
A Steel	Accountant	50,000
R Tabor	Chief Executive Officer	50,000
		450,000

From 1st July 2003 to 30th June 2004 the following conditional offers of share options were made to Directors, Director Related Entities and officers of the company. The issue of any of these options is conditional on the successful completion of the merger with Empire Energy Corporation International, the extension of the licence over key areas of SEL 13/98 and the securing of additional available funding of at least AU\$15 million before 31 December 2004. If issued these options will have a term of three years and an exercise price of AU\$1.00.

Name	Position	Number of Options
MR Bendall	Chairman	6,000,000
C Burrett	Director	600,000
S Powell	Director	400,000
P Simpson	Director	400,000
D Tanner	Director	400,000
R Watson	Director	400,000
K Gumley	Company Secretary	400,000
R Tabor	Chief Executive Officer	400,000
		9,000,000

NOTE D – COMMITMENTS

Environmental Remediation Liabilities

The Company’s operations are subject to significant environmental regulation under the lease of the Commonwealth and the State of Tasmania. As of June 30, 2004, the Company is not aware of any issues that would give rise to any environmental remediation liabilities.

GREAT SOUTH LAND MINERALS LIMITED (A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE D – COMMITMENTS (Continued)

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 June 30, 2004, these obligations not provided for in the financial statements are as follows:

Year Ended June 30,

2005	\$ 2,949,514
2006	1,667,765
2007	2,650,200
2008	3,606,127
2009	999,554
	<u>\$ 11,873,160</u>

Operating Lease Commitments

Future operating lease rentals at June 30, 2004 not provided for in the financial statements are as follows:

Year Ended June 30,

2005	\$ 21,455
2006	1,766
	<u>\$ 23,220</u>

Rental expense was \$17,132 and \$14,021 during the years ended June 30, 2004 and 2003, respectively.

NOTE E – CONTINGENT LIABILITIES

Fees payable and dependent on a public float of shares of GSLM are as follows:

	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Secretarial Services	<u>\$ 52,486</u>	<u>\$ 37,663</u>

NOTE F – PROPERTY AND EQUIPMENT

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

	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Property and equipment	\$ 44,496	\$ 40,005
Less: accumulated depreciation	<u>(22,802)</u>	<u>(22,898)</u>
	<u>\$ 14,694</u>	<u>\$ 17,107</u>

GREAT SOUTH LAND MINERALS LIMITED (A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE G – LONG-TERM DEBT

Long-term debt consists of the following:

	Year Ended June 30,	
	2004	2003
Promissory note from individual, interest at 10% due on demand.	\$ 104,502	\$ 8,135
Promissory note from individual, interest at 10% due on demand.	-	65,315
Asset purchase loan for vehicle, interest at 9.75% due monthly through November 2006.	11,341	13,466
	112,843	176,916
	(103,997)	(165,863)
Less: current portion	\$ 8,846	\$ 11,053

As of June 30, 2004, the maturities of the Company's long-term debt consist of the following:

Year Ended June 30,	
2005	
2006	\$ 3,096
2007	3,096
	2,654
	\$ 8,846

NOTE H – LITIGATION

On 10 May 2002 the company signed a contract with OME Resources Australia P/L (OMERA) by which OMER A was able to earn a joint venture interest in SEL 13/98 by conducting drilling and related work. The agreement between GSLM and OMER A set up the Tasmania Exploration Joint Venture (TEJV).

Stage 1 of this work required the expenditure of AUD\$1,000,000 prior to 30 September 2002 to complete the drilling / coring of Hunterston #1 and other activities for a 5% interest in the licence.

As at 30 September 2002 GSLM recognised that OMER A had expended an amount on on-ground exploration. OMER A contended a different amount of expenditure incurred to 30 September 2002.

Management and OMER A attempted to resolve this dispute by negotiation and mediation. OMER A referred the dispute by letter dated 18 February 2003 to the Registrar of Mines who referred the dispute to the Mining Tribunal (MT). The MT made various procedural directions regarding the conduct of the MT proceedings before OMER A advised the court that the parties had reached agreement to resolve the dispute between them. The resolution was dependent upon the registration of revised interests in SEL 13/98 and both parties lodged the necessary requests with Mineral Resources Tasmania. OMER A requested that the matter be adjourned while Mineral Resources Tasmania processed the requests.

Following legal advice and consideration of commercial costs by the directors, an agreement was entered into with OMER A on 8th August 2003. The directors considered it necessary, to minimise costs and time, to resolve the claims by OMER A in respect of work carried out for a consideration that is deemed acceptable.

OMER A has completed the suspension of Hunterston #1 and the rehabilitation of the site has been accepted by the landowner.

GREAT SOUTH LAND MINERALS LIMITED (A DEVELOPMENT STAGE COMPANY)

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE H – LITIGATION (Continued)

Following approaches by both parties the Minister agreed to vary SEL 13/98 and on 1 August 2004 granted OMERA an exploration licence for coal bed methane, SEL 32/2003. The Minister has also renewed SEL 13/98, excluding coal bed methane rights, for a further five-year period.

The Company prepared a contract to give effect to the agreement reached on 8 August 2003 and this contract has been signed by both GSLM and OMERA.

On 15 November 2004 the Mining Tribunal struck out the proceeding relating to the dispute between GSLM and OMERA.

NOTE I – SUBSEQUENT EVENTS

Fund Raising

Advances have been received since 1st July 2004 from entities associated with a director of the company, approximately \$119,422. A shareholder has loaned approximately \$20,709 to the Company by selling shares at a discounted price to other investors and then making the funds available to GSLM as an unsecured loan at an interest rate of 12½%.

Merger – Empire Energy Corporation International

The Company has engaged solicitors, accountants and independent experts to prepare the necessary documentation including this financial report.

Advances received since 1 July 2004 from Empire Energy Corporation International (EEGC) totalling \$219,134.

GREAT SOUTH LAND MINERALS LIMITED (A DEVELOPMENT STAGE COMPANY)

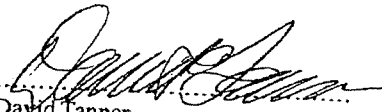
DIRECTORS' DECLARATION
JUNE 30, 2004 AND 2003

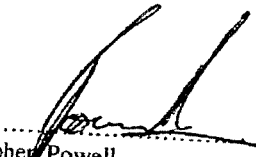
In the opinion of the directors of Great South Land Minerals Limited:

- (a) the financial statements and notes, as set out on pages 3 to 17:
 - (i) Give a true view and fair view of the balance sheets of the Company as at 30 June 2004 and 30 June 2003 and of its statements of operations, stockholders deficit and its cash flows, for the year ended on that date; and
 - (ii) Comply with accounting standards generally accepted in the United States.
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Honolulu this 4th day of FEBRUARY 2005

Signed in accordance with a resolution of the directors:


David Tanner
Chairman *Director*


Stephen Powell
Director

Acceptance Form

In order to accept the Offer set out in the bidder's statement you need to complete and sign this Acceptance Form.

We understand that this Acceptance Form is longer than those you are accustomed to, but we urge to you read the entire form carefully. This is an important document. If you are in doubt as to how to complete this form, please consult your financial adviser or other professional adviser immediately.

Takeover Offer by Empire Energy Corporation International (Empire Energy) to exchange all your shares in Great South Land Minerals Limited (GSLM) for an equivalent number of shares in Empire Energy.

Use this Acceptance Form to accept the Offer from Empire Energy. By accepting this offer, your acceptance relates to all of the GSLM Shares held by you at the date of acceptance. **You cannot accept the Offer for only part of your holding.** You should carefully read the Bidder's Statement which accompanies this Acceptance Form in its entirety. To accept the Offer contained in that document, you must complete this form and mail or deliver this form along with your share certificate, if you were issued one, by hand or mail to Interwest Transfer Company, Inc. ("Interwest"), the transfer agent, using the enclosed pre-paid envelope (for Australian resident shareholders only) at the following address:

1981 E. Murray Holiday Road, Suite 100
Salt Lake City, UT 84117
United States of America

You should seek appropriate independent financial and taxation advice before deciding whether to accept this Offer.

Words used in this Acceptance Form have the same meaning as those defined in Section 14 of the Bidder's Statement.

You will receive one (1) share of Empire Energy common stock for each one (1) ordinary share of GSLM surrendered.

Acceptance Instructions

- Please sign and date this Application Form in the signatures section on page 3 of this Acceptance Form.
- Joint shareholders: If your GSLM Shares are held in the names of more than one person, all of you must complete and sign the Acceptance Form.
- Companies: This form must be signed by two directors, a director and company secretary, or by the sole director in the case of an Australian company with a sole director who is also the sole company secretary or in the case of a USA company with a sole director and no company secretary. Delete titles as applicable.
- Under powers of attorney: If this Acceptance Form is signed under a power of attorney, please attach a certified copy of power of attorney to this Acceptance Form when you return it.
- Deceased estates: When you return this Acceptance Form, please attach it to a certified copy of probate, letters of administration or certificate of grant accompanied (where required by law for the purpose of transfer) by a certificate of payment of death or succession duties and (if necessary) a statement in terms of section 1071B(9)(b)(iii) of the Corporations Act.

- Sale and purchase of shares: If you have sold some of your GSLM Shares or bought some GSLM Shares, amend the number of GSLM Shares held by you as shown on the front page of the Acceptance Form and initial the amendment.
- If you have any queries in relation to the name in which your GSLM shares are held or the number of shares held, you should contact Rod Tabor of GSLM on telephone + 61 3 6234 5908.
- Empire Energy will pay for the costs of the exchange only if the duly executed Acceptance Form is received by Interwest on or before 5 pm on 7 April 2005 (Salt Lake City USA time) or 12pm on 8 April 2005 (Australian Eastern Standard Time).

Information you supply on this Acceptance Form will be used by Interwest and/ or Empire Energy for the primary purpose of processing your acceptance of the Offer and to provide you with the consideration payable under the Offer. This information may be disclosed to Interwest's and/ or Empire Energy's professional advisers, securities brokers, printing and mailing service providers and other third parties in connection with the Offer. If you fail to supply this information your acceptance may not be processed and you may not receive the consideration payable. You may have rights to access the personal information you have supplied.

Signing declaration

By signing this Acceptance Form, the person(s) named below, being the holder(s) of the GSLM Shares shown below:

- (a) Acknowledge that I/we have read the Bidder's Statement, including the risks in section 10.
- (b) Accept the Offer in respect of all my/our GSLM Shares and hereby agree to transfer to Empire Energy the number of GSLM Shares described below in exchange for an equivalent number of Empire Energy Shares, as specified in the Offer.
- (c) Agree to be bound by the terms and conditions of the Offer (including my/our representations, warranties and agreements) set out in Section 2 of the Bidder's Statement.
- (d) Represent and warrant that I/we have full authority to deposit and surrender the GSLM shares.
- (e) Represent and warrant that any share certificates that I/we have received relating to an interest in GSLM shares is/are enclosed with this Acceptance Form.
- (f) Under penalty of perjury affirm that all statements made in connection with this Acceptance Form are true and accurate as at the date of signing.

If this Acceptance Form is signed under power of attorney, the attorney declares that he/she has no notice of the revocation of the power of attorney.

YOUR ACCEPTANCE MUST BE RECEIVED BY NO LATER THAN THE END OF THE OFFER PERIOD WHICH IS 5:00PM ON 7 APRIL 2005 (SALT LAKE CITY USA TIME) OR 11:00AM ON 8 APRIL 2005 (AUSTRALIAN EASTERN STANDARD TIME), UNLESS THE OFFER IS EXTENDED.

US Compliance

Please indicate "yes," "no" or "not applicable" to each of the questions below.

1. Did you purchase some of all of your GSLM shares from GSLM within the last two years?

2. If you purchased all of your GSLM shares more than two years ago, did you make some or all of your payment for those shares within the last two years? _____
3. Are you now or have you within the last three months been a director, an officer or a holder of more than 10% of the issued or outstanding shares of either Empire Energy or GSLM?

4. If you answered "yes" to either question 1 or 2 above, at the time of offer, sale or payment were you, or was the entity on whose behalf you are accepting the Offer, any of the below?

- a. a natural person resident in the United States
 - b. a partnership or corporation organised or incorporated under the laws of the United States
 - c. a trust of which any trustee is a US person
 - d. an estate of which any executor or administrator is a US person
 - e. a non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a US person
 - f. a discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organised, incorporated, or (if an individual) resident in the United States (unless such discretionary account is held for the account or benefit of a non-US person)
 - g. an agency or branch of a non-US entity located in the United States

If you answered "yes" to either question 3 or question 4, please write the word "yes" in the space labeled "US Compliance" on page 3.

If you answered "no" to questions 1-3 above and "not applicable" to question 4, please write the word "no" in the space labelled "US Compliance" on page 3.

Ladies and Gentleman:

In connection with the exchange offer for the common shares of GSLM, the undersigned hereby tenders the below-listed shares of ordinary shares, no par value per share, of GSLM.

The undersigned hereby represents and warrants that he/she has full authority to tender the shares listed below, for exchange as specified below, and that, upon request, the undersigned will execute any additional documents necessary or desirable to perfect the surrender and deposit, to permit the completion of the exchange, or both. All authority herein conferred or agreed to be conferred shall survive the death or incapacity of the undersigned and any obligation of the undersigned hereunder shall be binding upon the heirs, personal representatives, successors, and assigns of the undersigned. The representations, warranties, covenants, and agreements of the undersigned contained in this Acceptance Form shall survive the delivery of this Acceptance Form.

Shareholder Details:

<Mail merged pre-printed name(s) of shareholder(s) as set out in the Shareholder register>

<Mail merged pre-printed address of shareholder(s) as set out in the Shareholder register>

Number of GSLM Shares held

<Mail merged number of shares owned by the shareholder(s)>

US Compliance (Refer to explanation overleaf):

Please tick the appropriate box below

I have possession of a GSLM share certificate and have enclosed it with my Acceptance Form

I do not have possession of the share certificate or have never been issued a GSLM share certificate

Signatures:

Securityholder 1 (individual)

Date:

Joint Securityholder 2 (Individual)

Date:

Joint Securityholder 3 (Individual)

Date:

Sole Director and Sole Secretary
(if Australian company)

Director/company Secretary
(if company)

Director
(if company)

Please enter your telephone number where you may be contacted during business hours
().....