

Form 10KSB for EMPIRE ENERGY CORP

4-Mar-2005

Annual Report

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following information should be read in conjunction with the Consolidated Financial Statements and Notes presented elsewhere in this Form 10-KSB. See Organization and Summary of Significant Accounting Policies included in Note 1 to the Consolidated Financial statements.

General

The Company's present plans for the next twelve months are principally focused on completing the acquisition of GSLM. Information about the GSLM acquisition is set out in greater detail in response to Item 1 of this Form 10-KSB. In order to pursue the acquisition, support GSLM during the due-diligence and regulatory preparation and approval process, and pay the costs of the acquisition, Empire sold convertible debentures in the total amount of \$500,000 in July 2004 and sold 4,980,000 shares of common stock in December 2004 and January 2005 for total proceeds of approximately \$498,000. Details as to the terms of these offerings are set out in detail in response to Item 5 of this Form 10-KSB.

If the acquisition is successful, the Company's current plans are to pursue exploration and development of the property under license to GSLM in Tasmania, Australia, using the Company's status as a public company with access to US markets to support capital acquisition efforts required to fund the exploration and development.

No assurances can be given that the Company will be successful in implementing these plans or completing the acquisition with GSLM. This raises substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

If the acquisition with GSLM is not concluded for any reason, it is the intention of our management to seek alternative opportunities. Our management believes that the structure of Empire as a fully reporting trading public company should be attractive as a merger candidate, but there can be no guarantee that any transaction will be concluded. The Company has no financial assets to support an effort to identify such a transaction. In preparation for this transaction, during 2003 the Company continued to sell its property and assets and settle its debts. The Company has no revenue from operating activities or the sale of oil and gas, no longer has any reserves and has discontinued all oil and gas operations. During 2004, the Company's primary activity was to maintain its corporate existence, support GSLM and continue to pursue the acquisition.

Results of Operations

During the year ended December 31, 2004, the Company generated no revenue. The Company generated an operating loss of \$1,354,668, including \$254,091 in impairment expense relating to loans made to GSLM and \$1,100,576 in Company operating expense, primarily legal, consulting, expert, accounting and auditing fees related to pursuit of the GSLM acquisition.

During the year ended December 31, 2003, the Company generated no revenue from the sale of oil and gas and incurred \$10,000 in lease operating expense. The Company generated an operating loss of \$345,931, including \$19,290 in depreciation and impairment expense and \$316,641 in Company operating expense. The Company had no production operations during 2003 and was working to sell properties, settle liabilities and pursue the GSLM acquisition.

Liquidity and Capital Resources

On December 31, 2004, the Company had \$47,021 in cash and a total of \$923,198 in current liabilities, primarily related to support of GSLM and costs of pursuing the acquisition with GSLM. Net cash used in operating activities for the year ended December 31, 2004 was \$515,158 compared to cash used in

operating activities of \$112,032 for the year ended December 31, 2003 primarily due to the payment of acquisition costs. Net cash used in or provided by investing activities for the year ended December 31, 2004 and 2003 was a use of \$254,091 and a provision of \$12,500, respectively, primarily due to advances to GSLM. Net cash provided by financing activities was \$813,100 for the year ended December 31, 2004, compared to \$92,105 for the year ended December 31, 2003, primarily from the sale of common stock and the sale of convertible debentures.

Plans for the next 12 months are to complete the acquisition with GSLM (See Item 1 above). The directors believe this acquisition will provide a structure to both resolve the liabilities of the Company and provide the stockholders with an opportunity to participate in the development of the potential oil and gas reserves believed to exist in the GSLM license area of Tasmania.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements at December 31, 2004.