Form 10QSB for EMPIRE ENERGY CORP

13-Dec-2004

Quarterly Report

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

In order to resolve the Company's remaining liabilities and provide the stockholders with an opportunity to participate in a potential major oil and gas exploration project, the Board of Directors, on July 15, 2002, unanimously approved the terms and conditions for the acquisition of Great South Land Minerals, Ltd. (GSLM), as established in the Letter of Intent dated July 9, 2002 and amended on December 10, 2002 and May 1, 2003. GSLM is an oil & gas exploration firm headquartered in Hobart, Tasmania (Australia). The final closing of the transaction is subject to shareholder approval. Approval of the Company's shareholders was obtained at a shareholder's meeting held March 29, 2004. Approval of GSLM shareholders is pending approval of disclosure documents by Australian regulators. The terms of the transaction include the implementation of a 1 for 10 reverse-split of the Corporation's stock prior to the closing which was completed April 12, 2004. Empire will acquire all of the issued and outstanding common stock of GSLM in exchange for 58.9 million shares of restricted common stock. Prior to closing, Empire will form a wholly-owned subsidiary and transfer all rights and ownership interest in Industrial Oklahoma-Nicaragua, S.A., now held by the Corporation, to that subsidiary which will then be distributed to those Empire shareholders of record as of July 1, 2002. In anticipation of this merger, all other assets have been sold or assigned to Norman Peterson, the former CEO of Empire. Mr. Peterson has agreed to assume all liabilities of Empire incurred through his date of resignation, March 30, 2004 and assume ownership of the Company's wholly owned subsidiaries. GSLM agreed that Empire could issue up to a total of 3,100,000 (post split) restricted Class A common shares to settle the Empire payables. The current Board of Directors of the Corporation will tender their designations and, pursuant to shareholder approval, be replaced by designees of GSLM.

In anticipation of the GSLM merger, Empire entered into a merger with Bob Owen & Company, Inc. (BOCI), including assumption of a Convertible Debenture Purchase Agreement dated as of July 2, 2004, with HEM Mutual Assurance LLC, an accredited investor located in Minneapolis, Minnesota (HEM), pursuant to which it sold and issued convertible debentures to HEM in an aggregate principal amount of up to $1,000,000, of which, $500,000 has been received and primarily used to pay costs of pursuing the GSLM merger. Through September 30, 2004, HEM has converted approximately $4,000 of the debentures into approximately 400,000 shares of common stock. This arrangement is more fully described in Part II, Unregistered Sale of Equity Securities and Use of Proceeds.

If the merger with GSLM is not completed, the Company will continue to pursue other merger candidates and business arrangements that will resolve the current liabilities and increase the value of the Company.

No assurances can be given that the Company will be successful in implementing these plans or completing the merger with GSLM. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Results of Operations

During the quarter ended September 30, 2004, the Company generated no revenue. The Company generated a loss of $ 464,017 by incurring general & administrative expenses of $1 35,524 , primarily legal, accounting, auditing and consulting expenses required to maintain the corporate existence and pursue the GSLM merger and related financing, and recording interest expense of $ 121,402 . During the quarter ended September 30, 2003, the Company also generated no revenue. The Company generated a loss of $70,958 primarily by incurring $67,763 from general and administrative expenses while management worked to sell assets and reduce or settle liabilities.

During the nine months ended September 30, 2004, the Company generated no revenue. The Company generated a loss of $ 944,352 by incurring general & administrative expenses of $ 601,490 , primarily legal, accounting, auditing and consulting expenses required to maintain the corporate existence and pursue the GSLM merger and related financing, and recording interest expense of $ 124,597 . During the nine months ended September 30, 2003, the Company generated no revenue but incurred $10,000 in lease operating expense on wells that had been disposed. The Company generated a loss of

$217,245 primarily by incurring $177,932 from general and administrative expenses and $83,500 in compensation paid in common stock while management worked to sell assets and reduce or settle liabilities. These expenses were offset by gains of $46,757 recorded from the settlement of liabilities and gains of $23,814 from the sale of properties.

Liquidity and Capital Resources

On September 30, 2004, the Company had $18,641 in cash , and $ 822,636 in total liabilities. The liabilities include $34,785 of notes payable, $ 113,056 in convertible debentures , $27,150 of accounts payable to shareholders and $ 574,784 of accounts payable and accrued liabilities. Net cash used in operating activities for the nine months ended September 30, 2004 was $277,438 compared to $101,783 for the nine months ended September 30, 2003. Net used in investing activities was $207,091 for the nine months ended September 30, 2004 and net cash provided by investors was $42,500 for the nine months ended September 30, 2003. Net cash provided by financing activities was $ 500,000 for the nine months ended September 30, 2004, primarily from the sale of convertible debentures, compared to $51,500 for the nine months ended September 30, 2003, primarily from the sale of common stock. The Company's cash requirements relate to the costs of pursuing the merger with GSLM. Additional debenture financing is available when the merger is completed, but additional financing will be needed to obtain the required governmental approvals.

Since the Company has incurred significant operating losses, continued cash flow challenges, a depressed stock price, and the inability to raise either debt or equity capital the Board of Directors approved a change in the Company's direction during 2002. The Company adopted a plan to dispose of assets to reduce liabilities and merge with a company that would be beneficial to the stockholders. As of September 30, 2004, the Company has disposed of all of the oil and gas properties.

In order to resolve the remaining liabilities and provide the stockholders with an opportunity to participate in a potential major oil and gas exploration project the Board of Directors, on July 15, 2002, unanimously approved the terms and conditions for the acquisition of Great South Land Minerals, Ltd. (GSLM), as established in the Letter of Intent dated July 9, 2002 and amended on December 10, 2002 and May 1, 2003. GSLM is an oil & gas exploration firm headquartered in Hobart, Tasmania (Australia). The final closing of the transaction was approved by the Company's shareholders at a meeting on March 29, 2004. Approval by GSLM shareholders is pending acceptance of documentation by Australian regulators. The terms of the transaction include the implementation of a 1 for 10 reverse-split of the Corporation's stock that was completed April 12, 2004. Empire will acquire all of the issued and outstanding common stock of GSLM in exchange for 58.9 million shares of restricted common stock. Prior to closing, Empire will form a wholly-owned subsidiary and transfer all rights and ownership interest in Industria Oklahoma-Nicaragua, S.A., now held by the Corporation, to that subsidiary which will then be distributed to those Empire shareholders of record as of July 1, 2002. In anticipation of the merger, all other assets have been either sold or assigned to Norman Peterson, the former CEO of Empire. Empire has agreed that at closing it will not have liabilities and will not be a party to any litigation. GSLM agreed that Empire could issue up to a total of 3,100,000 (post-split) Class A common shares to settle the Empire payables. Norman Peterson will assume any liabilities incurred prior to his resignation. The current Board of Directors of the Corporation will tender their resignations and, pursuant to shareholder approval, be replaced by designees of GSLM.

In anticipation of the GSLM merger, Empire entered into a merger with BOCI, including assumption of a Convertible Debenture Purchase Agreement dated as of July 2, 2004, with HEM Mutual Assurance LLC, an accredited investor located in Minneapolis, Minnesota (HEM), pursuant to which it sold and issued convertible debentures to HEM in an aggregate principal amount of up to $1,000,000, of which, $500,000 has been received and primarily used to pay costs of pursuing the GSLM merger. This arrangement is more fully described in Part II, Item 2, Changes in Securities.

Although management believes the GSLM merger will be completed there is no guarantee that this transaction will close. If the merger with GSLM is not completed, the Company will continue to pursue other merger candidates and business arrangements that will resolve the current liabilities and increase the value of the Company. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Present Activities:

The Company is pursuing the GSLM acquisition while maintaining its corporate existence and working to settle its liabilities.