Form 10QSB for EMPIRE ENERGY CORP

16-May-2005

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). Approval of the Company's shareholders was obtained at a shareholder's meeting held March 29, 2004. Acceptance by a majority of GSLM shareholders was obtained in April 2005 and acquisition of 100% of GSLM shares is pending. The terms of the transaction included the implementation of a 1 for 10 reverse-split of the Corporation's stock which was completed April 12, 2004. Empire will acquire all of the issued and outstanding common stock of GSLM in exchange for approximately 62.5 million shares of Empire common stock. Empire formed a wholly-owned subsidiary and transfered all rights and ownership interest in Industria Oklahoma-Nicaragua, S.A., now held by the Corporation, to that subsidiary which was then distributed to those Empire shareholders of record as of July 1, 2002. In conjunction with this acquisition, 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. Most of the members of the Empire Board of Directors tendered their resignations in march 2004, and Malcolm Bendall, Chairman of GSLM was appointed President and Chairman of Empire in June 2004 to pursue the acquisition.

In anticipation of the GSLM merger, Empire acquired 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 March 31, 2005, HEM has converted approximately $7,000 of the debentures into approximately 700,000 shares of common stock. This arrangement is more fully described in Part II, Unregistered Sale of Equity Securities and Use of Proceeds.

The acquisition of GSLM was accepted by a majority of the shareholders of GSLM in April 2005. The combined Company will continue to pursue other merger candidates, financing 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 attaining successful operations. 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 March 31, 2005, the Company generated no revenue. The Company generated a loss of $352,198 by incurring general & administrative expenses of $244,504, primarily legal, accounting, auditing and consulting expenses required to maintain the corporate existence and pursue the GSLM merger and related financing, recording interest expense of $19,935 and making impaired loans to GSLM to allow payment of GSLM acquisition expenses. During the quarter ended March 31, 2004, the Company also generated no revenue. The Company generated a loss of $61,217 primarily by incurring $48,500 from general and administrative expenses while management worked to sell assets and reduce or settle liabilities.

Liquidity and Capital Resources

On March 31, 2005, the Company had $10,714 in cash, and $1,074,689 in total liabilities. The liabilities include $34,785 of notes payable, $212,140 in convertible debentures , $66,375 of accounts payable to a director and $688,528 of accounts payable and accrued liabilities. Net cash used in operating activities for the three months ended March 31, 2005 was $92,948 compared to $3,170 for the three months ended March 31, 2004. Net cash used in investing activities was $87,759 loaned to GSLM for the three months ended March 31, 2005. Net cash provided by financing activities was $144,400 for the three months ended March 31, 2005, from the sale of common stock. No cash was provided by financing activities or used in investing activities during the three months ended March 31, 2004. 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, develop the license property and pursue the company's business plan.

Present Activities:

The Company has received acceptance by a majority of the shareholders of GSLM for the GSLM acquisition and is pursuing financing opportunities and pursuing the business plan.