Form 10QSB for EMPIRE ENERGY CORP

22-Aug-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). 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 was completed in June 2005. Approximately 62 million shares of Empire common stock were issued to former GSLM shareholders representing over 85% of the outstanding shares of the combined company and qualifying as a reverse acquisition. Accordingly, the operating history included in these financial statements is that of GSLM before the date of acceptance of the offer, April 7, 2005, and includes the activity of Empire after that date. Since Empire had immaterial assets at the date of the acquisition, the financial statements are combined in a manner similar to a pooling of interests.

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 June 30, 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 June 30, 2005, the combined Company generated no revenue. The combined Company generated a loss of $771,232 by incurring general & administrative expenses of $598,616, 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 $27,382 and incurring exploration expenses of $151,301 to maintain and pursue the value in the property rights. During the quarter ended June 30, 2004, the Company (then GSLM alone) also generated no revenue. The Company generated a loss of $119,039 primarily by incurring $96,365 from general and administrative expenses and $19,086 in interest expense.

During the six months ended June 30, 2005, the Company generated no revenue. The Company generated a loss of $990,365 by incurring general & administrative expenses of $814,572, 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 $30,294 and incurring $157,129 in exploration expenses. During the six months ended June 30, 2004, the Company also generated no revenue. The Company generated a loss of $261,200 primarily by incurring $208,187 from general and administrative expenses and $45,973 in interest expense.

Liquidity and Capital Resources

On June 30, 2005, the Company had $6,326 in cash, and $3,755,342 in total liabilities. The liabilities include approximately $230,000 in convertible debentures and the remainder substantially in trade payables and accrued expenses.Net cash used in operating activities for the six months ended June 30, 2005 was $328,923 compared to $126,060 for the six months ended June 30, 2004. No cash was used in investing activities for the six months ended June 30, 2005. Net cash provided by financing activities was $259,429 for the six months ended June 30, 2005, from current borrowings. Net cash of $126,217 was provided by financing activities and no cash was used in investing activities during the six months ended June 30, 2004. Additional debenture financing is available when the merger is completed, but additional financing will be needed to develop the license property and pursue the company's business plan.

Present Activities:

The Company has completed the acquisition and is pursuing financing opportunities and pursuing the business plan.