

Great South Land Minerals Limited

Great South Land Minerals Limited ABN 54 068 650 386

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Great South Land Minerals Limited

Great South Land Minerals Limited ABN 54 068 650 386

Directors' Report For the year ended 31 December 2009

1. Directors

The directors of the Company at any time during or since the end of the financial year are:

| | | |
|----------------------|----------------------|----------------------|
| Mr Malcolm Bendall | Chairman – Executive | Appointed 22/02/2008 |
| Dr Clive Burrett | Executive Director | Resigned 26/11/2008 |
| Mr Phil Simpson | Director | Resigned 27/1/2009 |
| Mr John Garrison | Director | Appointed 20/3/08 |
| Mr Tad Ballantyne | Director | Appointed 20/3/08 |
| Mr David Bendall | Director | Appointed 23/05/2010 |
| Mrs Mary Bendall | Director | Appointed 23/05/2010 |
| Ms Nicole Chesterman | Secretary | Appointed 23/05/2010 |

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

2. Company secretary

Ms Nicole Chesterman Bcom, was appointed to the position of company secretary 23rd May 2010. Ms Chesterman is a graduate of Deakin University (Victoria), with a Bachelor of Commerce degree in Commercial Law and Accounting. She has worked in previous roles as Company Secretary with Great South Land Minerals Limited and related parties of Empire Energy Corporation International, and was re-appointed following Lisa Hoyles resignation in 2009.

3. Directors' meetings

There were no director's meetings held by Great South Land Minerals Ltd boards during the financial year.

4. Operating Results

The operating loss of the company for the financial year after providing for income tax amounted to \$14,836,480.

5. Principal Activities

The principal activities of the company during the financial year were exploration for petroleum and natural gas in Tasmania. There were no significant changes in the nature of these activities during the year.

6. Review of Operations

During the last quarter of 2008 the Company commenced drilling on the Bellevue #1 site, and completed the pre collar hole to 272 metres. The mineral exploration rig was replaced with Hunt Rig #3 - a certified petroleum rig, which was mobilised on site to complete the well to a depth of approx. 2,600m. A certified engineer provided clearance for the rig's suitability to undertake the program. The rig was on-site for approximately six months during the first part of 2009; and drilling did not resume as the Company and its parent Empire, were unable to secure the necessary funds to continue its exploration program as a direct result of the global financial crisis, and a loan provider failing to advance a further AUD\$1.1 million due under an AU\$5 million loan contract. As a result, drilling operations were suspended and management orders issued to remove the rig from site for the duration of the winter months, for commercial & safety reasons.

Subsequently, the drilling contractor and the Company attempted to renegotiate standby and remobilisation terms to Bellevue. Standby rates of approx. AUD\$18,000 per day were accrued during the first half of 2009 and ceased at the end of June. The Hunt Energy #3 Rig remained in Tasmania after this period, but was redeployed at a neighbouring tenement in Northern Tasmania during October 2009, awaiting further advice in respect of the Company's permits and tenement to resume drilling at Bellevue.

On the 30th September 2009, Special Exploration License (SEL) 13/98 was due to expire according to Government regulation. The Company applied for a continuing exploration interest in the form of an Exploration License Application (ELA) which was prepared and lodged on 30th September 2009. The application represented approx. 7,518km² which covered an area representing almost a 50% reduction of the area of SEL13/98 for a 5 year term. The area under ELA consideration, covered 12 oil and gas bearing potential structures which were independently evaluated by technical industry consultants, RPS Energy (Perth) and were valued at US\$3.3 billion as potential undiscovered, resources, by an independent Australian accounting firm.



Great South Land Minerals Limited

Great South Land Minerals Limited A.C. 54 0 650 38

Directors' Report (continued) For the year ended 31 December 2009

6. Review of Operations (continued)

During the last quarter of 2009, the Company worked with authorities to secure the ELA which was granted on 17th May 2010 for category 4 petroleum products, in the form of Exploration License EL14/2009 which covers an area comprising 3,108km² for a period of only 2 years, with certain terms and conditions.

The Company is currently contesting its rights in equity and tort to its entitlements to ensure that access to the most prospective structures is maintained and that commercially, The Company has a first right of refusal to access and to exploit those potential resources on behalf of its shareholders. These rights were more accurately reflected within EL14/2009 application comprising 7,518km² for a term of 5 years, as lodged on 30th September 2009.

We have analyzed data collected over the past 33 years and have selected prospective sites, drilling resources and interim funding, and are currently pursuing addition funding through the parent Empire Energy Corporation International to undertake a more comprehensive exploration due to recommence during early 2011.

We intend to drill Bellevue #1 and Thunderbolt #1 sites under the existing Exploration License EL14/2009 during 2011, subject to permitting and resource availability, and will embark on a much larger program when access to previously identified areas of prospective interest are confirmed.

7. Going Concern

The Company is in the development stage, devoting substantially all of its efforts to exploration and raising finance. The Company has substantially funded its operations with proceeds from borrowings and equity. In the course of its exploration activities, the Company has incurred substantial operating losses and expects such losses to continue for the foreseeable future. The company will finance its operations primarily through cash and cash equivalents on hand, borrowings, future financing from the issuance of equity through its holding company "Empire Energy Corporation International" and through the generation of revenues once commercial operations get underway. However, the Company has yet to generate any significant revenues and has no assurance of future revenues. To management's knowledge, no company has yet successfully developed sub-surface hydrocarbons in commercial quantities in Tasmania. Even if development efforts are successful, substantial time may pass before revenues are realised.

Therefore, significant uncertainties exist in relation to conditions that cast doubt upon the Company's ability to continue as a going concern. These are:

Operations

The Company's key mineral exploration licence (SEL 13/98) expired on 30th September 2009 and mineral exploration licence (SEL 14/2009) was issued on 17th May 2010. The new licence covers an area of 3,108km² for a period of two years and there is a degree of uncertainty surrounding the extension of tenure.

Financial

- (a) The Company has incurred substantial losses in order to support the ongoing exploration expenditure during the period since the inception of the Company.
- (b) There are uncertainties in terms of the Company's ability to generate cash flows in the future considering that the production operations have not yet commenced.
- (c) During the year ended 31 December 2009, the company has recorded a loss of \$14,809,259. As at 31 December 2009 December 2008 the company's net asset position is a deficiency of \$22,518,206.
- (d) There may be extensive commitments for expenditure as part of a renewed mineral exploration license.
the company's net asset position is a deficiency of \$30,879,987.
- (d) There may be extensive commitments for expenditure as part of a renewed mineral exploration license.
- (e) As of the date of this report, there are number of creditors who had issued statutory demands against Great South Land Minerals Limited claiming a debt of approximately \$2.2M.

Therefore, the Company's future operations are dependent on its ability to raise funds in order to pay for the existing creditors, expenditure commitments as part of SEL 14/2009 mineral exploration license and to support its day to day business working capital requirements.

Great South Land Minerals Limited and its parent, Empire Energy Corporation International have initiated the following activities to address going concern issue, including but not limited to the following:



Great South Land Minerals Limited

Great South Land Minerals Limited ABN 54 008 650 34

Directors' Report (continued)
For the year ended 31 December 2009

7. Going Concern (continued)

Operations

Further to the expiry of SEL13/98, Great South Land Minerals Limited lodged a new Exploration License application (EL14/2009) with Mineral Resources Tasmania on 29th September 2009 for an area of 7,513km² (this application was sought from 1 October 2009 for a 5 year term) and covers the significant, identified, prospective areas contained within SEL13/98.

EL14/2009 was formally awarded by the Minister for Energy and Resources on 17th May 2010. However, on 17 March 2010, the Director of Mines publicly advertised his recommendation for the issuance of EL 14/2009 with a reduced area of 3,180km² which includes both major seismically defined domes – Bellevue and Thunderbolt and a third target, Lonnaveale.

Further, Great South Land Minerals Limited believes that it has a right to the award of the 7,513 km² EL14/2009 for the continuation of its work program over the next 5 years. Mineral Resources Tasmania has issued a smaller EL than that was originally applied for and/or excludes the majority of the company's seismically defined structures. Great South Land Minerals Limited, with its parent entity, Empire Energy International are prepared to take legal action to recover the excluded licensed area and/or obtain financial compensation for exclusion of defined structures.

Financial

(a) Great South Land Minerals Limited entered into a Convertible Note Agreement dated 27 January 2009 with a former director for a value of AUD 400,000;

(b) On the 22nd November 2008 the Board of Empire Energy International Corporation of Leawood, Kansas, USA of which Great South Land Minerals Ltd is a wholly owned subsidiary, decided to proceed with shareholder rights offering. The intention was to use the proceeds from sale of the shares to extend exploration and development program, to reduce debt, provide for working capital and for general corporate purposes. 133,607,712 shares were on offer at a price of 7 cents US per share. As at the date of this report, the rights issued was fully subscribed, and Empire has appropriated the funds in support of Great South Land Minerals Limited operations.

(d) In relation to statutory demands issued by a number of creditors, Great South Land Minerals Limited have entered into a payment arrangement with them and are not aware of any further legal action being initiated by the creditors in respect to the outstanding debt that could lead to the operations of the company being wound up.

As a result of the above, the Directors are of the opinion that it is appropriate for the financial report to be prepared on a going concern basis.

8. Dividends Paid or Recommended

No dividends were paid or recommended during the financial year or to the date of this report.

9. Significant Changes in State of Affairs

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

10. Options

No options over issued shares or interests in the company were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

11. Future Developments, Prospects and Business Strategies

Likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the company.

12. Indemnifying Officers or Auditor

No indemnities have been given or insurance premiums paid during or since the end of the financial year, for any person who is or auditor of the company.

13. Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.



Great South Land Minerals Limited

Great South Land Minerals Limited ABN 54 011 650 31

Directors' Report (continued) For the year ended 31 December 2009

14. Information on Directors

Mr Malcolm Bendall, Chairman

Mr Bendall was a founding Director of Great South Land Minerals Limited. Mr Bendall has published in an international petroleum journal and worked as a mine manager and drilling supervisor. He is a Fellow of the Institute of Company Directors Tasmania.

Dr Clive F Burrett, Chief Geologist

Dr Burrett was a founding Director of Great South Land Minerals Limited. He was Head of the School of Earth Sciences at the University of Tasmania from 1997 to 2000.

Mr Graham Rogers, Director

Graham Rogers, B.Ec., M.Sc., CPA, PNA, MAICD, PIA, SA Fin, of Hobart Tasmania, currently directs and oversees all legal, commercial and financial activities with a primary focus on managing capital for GSLM exploration activities at GSLM. He joined GSLM in December 2006, bringing over 30 years experience in the strategic financial analysis and management in the resources and energy sector, including 18 years engaged in tertiary education in Accounting, Banking & Finance at 4 Australian universities. Mr Rogers designed a National Securitization program for renewable energy; was a Director of ZCo2e, the distributed renewable energy company of the Central Victorian Greenhouse Alliance; served as Australian lead manager for the Australian Banking System involvement in the North West Shelf Domestic Gas Phase 1 project; member of the lead bank group of the Cooper Basin Oil & Gas project; was part of the managed project finance, corporate finance and investment banking teams at Australian Resources Development Bank Limited and Hambros Australia Limited.

Mr Phil Simpson, Director

Phil Simpson has been Executive Director of Great South Land Minerals. He brings expertise in corporate finance and logistics. He acts as a liaison between the local landowners and GSLM. Mr Simpson has 30 years experience in fisheries and agribusiness management and is a consultant to leading banks and superannuation funds. He is also a member in good standing of The Australian Institute of Company Directors (AICD).

Mr John Garrison, Director

John Garrison has been a director of Empire Energy since April 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 presently a director of Quest Resource Corporation, a publicly traded energy company.

Mr Tad Ballantyne, Director

Tad Ballantyne was appointed as a director of Great South Land Minerals Limited in 20 March 2008. He has served as President of Pacific Rim since March 2006 and as CEO of Hoopston Foods, Inc. since March 2004. Mr Ballantyne is a director and chairman of the audit committee of Life Partners Holdings, Inc.

Mr David Bendall, Director

Mr David Bendall has served as a Director and Secretary of various small mining companies, and has over 50 years experience in the aviation insurance industry. He has assisted Great South Land Minerals financially, in executive roles & administrative capacity since inception in 1995, and has had prior involvement in early stage predecessor companies to Great South Land Minerals Limited.

Mrs Mary Bendall, Director

Mrs Mary Bendall has served as a Director and Secretary of various small mining companies, over the past 20 years. She has assisted Great South Land Minerals financially, in executive roles & capacity since inception in 1995, and has also had prior involvement in early stage predecessor companies to Great South Land Minerals Limited & other related parties of the Company.



Great South Land Minerals Limited

Great South Land Minerals Limited ABN 54 006 503 344

Directors' Report (continued)

For the year ended 31 December 2009

15. After Balance Date Events

Exploration Licence

The Company's key mineral exploration licence (SEL 13/98) expired on 30th September 2009 and mineral exploration licence (SEL 14/2009) was issued on 17th May 2010. The new licence covers an area of 3,108km² for a period of two years and there is a degree of uncertainty surrounding the extension of tenure.

Deed of Release

A deed of release and indemnity was signed on the 24 January 09 between Philip Simpson and Great South Land Minerals Limited and Empire Energy Corporation International (Parent Entity). The release details that Philip Simpson will accept 2,500,000 fully paid up ordinary Empire Energy Corporation International's shares in exchange for release of the company and its parent entity of all outstanding claims, and the resignation of Philip Simpson as a director.

As at 31 December 2008, Philip Simpson (via Terrallinna Pty Ltd) was owed approximately \$2,325,632 in interest and principal. With the execution of the above agreements these amounts have effectively been settled.

Statutory Demands

Subsequent to the balance sheet date, several statutory demands were issued to the company by a number of creditors. Where possible, Great South Land Minerals Limited have entered into a payment arrangement with them and are not aware of any further legal action being initiated by the creditors in respect to the outstanding debt that could lead to the operations of the company being wound up.

Proceeds from Rights Issue

On 30th July 2010, Empire Energy Corporation International (Parent) concluding its fundraising activities in the form of a Rights Issue to existing shareholders. That event was fully subscribed. Since the effective date in February 2010, the Company has received sufficient financing to continue with its planning, operational and exploration activities, pre and post issuance of EL14/2009.

Stand By Costs

Great South Land Minerals Limited have incurred significant standby charges subsequent to year end at a rate over \$18,000 per day until the end of June 2009.

16. Future Developments

Exploration Activity

Notwithstanding the fact that Great South Land Minerals Limited maintains it has exceeded its expenditure obligations to meet the license conditions, Empire Energy Corporation International is pursuing an aggressive drilling and seismic program with the intention of discovering oil and gas.

The 14 well drilling program is estimated to cost a total of \$30 million. Mud and wire logging is estimated to cost \$5.5 million and processing and interpretation and related costs are estimated at \$1 million.

Environmental Issues

The Company's operations are subject to significant environmental regulation under the laws of the Commonwealth and the State of Tasmania. The company has provided an environmental bond to MRT. As at the date of this report the directors are not aware of any issues that would give rise to any non-compliant environmental matter.

Great South Land Minerals operations are under the operational jurisdiction of Mineral Resources Tasmania, a state government body designated to govern mining and resource development within the State of Tasmania, Australia. Various pieces of legislation govern administration of natural resources businesses such as Great South Land Minerals, including The Mineral Resources Development Act, 1995, which provides for the development of mineral resources consistent with sound economic and environmental land use under Australian law.

Environmental controls are imposed within the provisions of the Environmental Management and Pollution Control Act 1994 which has, as its fundamental basis, the prevention, reduction and remediation of environmental harm, including environmental nuisance and its adverse effect on the environment. Permits are issued in accordance with Land Use Planning and Approvals Act 1993 in respect of proposed use or development affecting the leased land. Great South Land has a guarantee and bond in the amount of AUD 75,000. This took the form of a guarantee by two former directors. In March 2007, this was converted into a fixed deposit with National Australia Bank and the former directors were released from their guarantees.

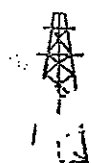
17. Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 7.

Signed in accordance with a resolution of the Board of Directors:

Director
Mr John Garisson

Dated this 30 day of April 2010



Great South Land
Minerals Limited

Great South Land Minerals Limited ABN 54 068 650 386

GREAT SOUTH LAND MINERALS LIMITED
ABN 54 068 650 386
Financial Report For The Year Ended

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 317C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF Great South Land Minerals

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2009 there have been:

- (i) no contraventions of the auditor Independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Mark Nicolaeff

UHY Haines Norton
Partner Chartered Accountants

Signed at Sydney on



Great South Land Minerals Limited

Great South Land Minerals Limited ABN 54 610 316

Statements of comprehensive income
(single statement approach)
For the year ended 31 December 2009

| | Note | 2009 | 2008 |
|---|------|----------------------|--------------------|
| Continuing operations | | | |
| Revenue | 4 | 462,122 | 15,742 |
| Occupancy Costs | | (147,125) | (62,148) |
| Administrative Expenses | | (734,785) | (416,669) |
| Consultancy Fees | | (177,076) | (44,583) |
| Depreciation and Amortisation Expenses | | (63,615) | (66,985) |
| Employee Benefits Expense | | (918,106) | (1,250,742) |
| Exploration Costs | | (12,340,285) | (6,561,620) |
| Other Expenses | | (127,251) | (148,678) |
| Finance Costs | 5 | <u>(790,359)</u> | <u>(627,029)</u> |
| Loss Before Income Tax | | <u>(14,836,480)</u> | <u>(9,162,713)</u> |
| Tax expense | | - | - |
| Loss Attributed to Members of the Company | | <u>(14,836,480)</u> | <u>(9,162,713)</u> |
| Other Comprehensive Income | | | |
| Fair Value Revaluation of Mining Asset | | 2,682,242,507 | - |
| Income tax on items of other comprehensive income | | - | - |
| Other Comprehensive Income for the Period, Net of Tax | | 2,682,242,507 | - |
| Total Comprehensive Income for the Period | | <u>2,667,406,027</u> | <u>(9,162,713)</u> |

The accompanying notes form part of these financial statements



Great South Land Minerals Limited

Great South Land Minerals Limited ABN 54 0 650 386

Statements of financial position

As at 31 December 2009

| | Note | 2009 \$ | 2008 \$ |
|--------------------------------------|------|----------------------|---------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | 76,039 | 76,292 |
| Trade and other receivables | 10 | 0 | 0 |
| Other current assets | 11 | 0 | 2,765,782 |
| Total current assets | | <u>76,039</u> | <u>2,842,074</u> |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 110,917 | 242,433 |
| Mining Asset | 13 | 3,831,775,010 | - |
| Total non-current assets | | <u>3,831,885,927</u> | <u>242,433</u> |
| Total assets | | <u>3,831,961,966</u> | <u>3,084,507</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 14 | 4,271,389 | 2,634,766 |
| Loans and borrowings | 15 | 21,008 | 2,324,907 |
| Provisions | 16 | 35,957 | 25,710 |
| Total current liabilities | | <u>4,328,353</u> | <u>4,985,383</u> |
| Non-current liabilities | | | |
| Trade and other payables | 14 | 446,981 | 241,293 |
| Long-term borrowings | 15 | 26,318,829 | 20,376,038 |
| Deferred tax liability | | 1,149,532,503 | - |
| Total non-current liabilities | | <u>1,176,298,313</u> | <u>20,617,331</u> |
| Total liabilities | | <u>1,180,626,666</u> | <u>25,602,714</u> |
| Net assets | | <u>2,651,335,300</u> | <u>(22,518,206)</u> |
| Equity | | | |
| Issued capital | 18 | 7,316,711 | 7,316,711 |
| Revaluation Reserve | | 2,682,242,507 | - |
| Accumulated losses | | (38,223,918) | (29,834,917) |
| Total equity | | <u>2,651,335,300</u> | <u>(22,518,206)</u> |

The accompanying notes form part of these financial statements.



Great South Land Minerals Limited

Great South Land Minerals Limited ABN 54 06 650 300

STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED

| | Share Capital Ordinary | Retained Earnings | Revaluation Reserve | Total |
|---|---------------------------|----------------------|------------------------|----------------------|
| | \$ | \$ | \$ | \$ |
| Balance at 1 July 2004 | 7,316,711 | (10,236,594) | - | (2,919,883) |
| Loss attributable to members of the company | - | (2,026,183) | - | (2,026,183) |
| Asset Revaluation | - | - | - | - |
| Total comprehensive income for the period | - | (2,026,183) | - | (2,026,183) |
| Balance at 31 December 2005 | <u>7,316,711</u> | <u>(12,262,777)</u> | <u>-</u> | <u>(4,946,066)</u> |
| Loss attributable to members of the company | - | (3,109,019) | - | (3,109,019) |
| Asset Revaluation | - | - | - | - |
| Total comprehensive income for the period | - | (3,109,019) | - | (3,109,019) |
| Balance at 31 December 2006 | <u>7,316,711</u> | <u>(15,371,796)</u> | <u>-</u> | <u>(8,055,085)</u> |
| Loss attributable to members of the company | - | (5,300,408) | - | (5,300,408) |
| Asset Revaluation | - | - | - | - |
| Total comprehensive income for the period | - | (5,300,408) | - | (5,300,408) |
| Balance at 31 December 2007 | <u>7,316,711</u> | <u>(20,672,204)</u> | <u>-</u> | <u>(13,355,493)</u> |
| Loss attributable to members of the company | - | (9,162,713) | - | (9,162,713) |
| Asset Revaluation | - | - | - | - |
| Total comprehensive income for the period | - | (9,162,713) | - | (9,162,713) |
| Balance at 31 December 2008 | <u>7,316,711</u> | <u>(29,834,917)</u> | <u>-</u> | <u>(22,518,206)</u> |
| Loss attributable to members of the company | - | (14,836,480) | - | (14,836,480) |
| Asset Revaluation | - | - | 2,682,242,507 | 2,682,242,507 |
| Total comprehensive income for the period | - | (14,836,480) | 2,682,242,507 | 2,667,406,027 |
| Balance at 31 December 2009 | <u>7,316,711</u> | <u>(44,671,396)</u> | <u>2,682,242,507</u> | <u>2,644,887,822</u> |

The accompanying notes form part of these financial statements.



Great South Land Minerals Limited

Great South Land Minerals Limited ABN 54 0 650 31

Statements of cash flows

For the year ended 31 December 2009

| | Note | 2009 \$ | 2008 \$ |
|---|------|--------------------|--------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 810,176 | - |
| Cash paid to suppliers and employees | | 2,171,977 | (9,387,590) |
| Interest paid | | (788,964) | (63,231) |
| GST Paid | | (248,919) | - |
| Net cash (used in) operating activities | | <u>1,944,270</u> | <u>(9,450,821)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | (1,723,999) | (3,417) |
| Purchase of mining property, plant and equipment | | (4,110,853) | - |
| Sale of property, plant and equipment | | 30,000 | - |
| Interest Received | | 5,598 | 11,722 |
| Net cash provided by/(used in) investing activities | | <u>(5,799,254)</u> | <u>8,305</u> |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Proceeds from long-term borrowings | | 3,874,951 | 8,978,195 |
| Payment of finance lease liability | | (20,220) | - |
| Net cash provided by financing activities | | <u>3,854,731</u> | <u>8,978,195</u> |
| Net (decrease)/ increase in cash held | | (253) | (464,321) |
| Cash and cash equivalents at beginning of year | | 76,292 | 540,614 |
| Cash and cash equivalents at end of year | 9 | <u>76,039</u> | <u>76,292</u> |

The accompanying notes form part of these financial statements.



Great South Land Minerals Limited

Great South Land Minerals Limited A.C.N. 54 00 6 031

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Great South Land Minerals Limited

Great South Land Minerals Limited ABN 54 065 033 000

Notes to the financial statements

1 Reporting entity

Great South Land Minerals Limited (the "Company") is a company domiciled in Tasmania, Australia. The address of the Company's registered office is Level 3, 65 Murray Street Hobart Tasmania 7000. The financial statements of the Company as at and for the year ended 31 December 2009. The principal activities of the company during the financial year were exploration for petroleum and natural gas in Tasmania. There were no significant changes in the nature of these activities during the year.

2 Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial report of the Company comply with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Boards (IASB).

The financial statements were authorised for issue by the Board of Directors at the date of the Directors' report.

(b) Reporting basis and conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

(c) Functional and presentation currency

The financial statements are presented in Australian dollars which is the Company's functional currency. All financial information presented in Australian dollars has been rounded to the nearest dollar unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company.

(f) Changes in accounting policies

There were no changes to the Company's accounting policies.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods resent in these financial statements.

(a) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the company assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the income statement.



Notes to the financial statements

3 Significant accounting policies (continued)

(b) Foreign currency

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange difference arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(d) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as income in the period in which they are incurred.

(e) Property, plant and equipment

Cost and Valuation

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are measured at cost less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the company includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Plant and equipment not commissioned is carried at cost.

Depreciation

The depreciable amount of all fixed assets, including capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate |
|----------------------|-------------------|
| Plant and equipment | 5% - 40% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its net realisable value.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.



Notes to the financial statements

3 Significant accounting policies (continued)

(f) Exploration and development expenditure

Exploration and development expenditure is recognised as an expense when incurred.

(g) Recognition of mining assets

Exploration and evaluation assets are measured at cost at recognition. Evaluation assets are classified as either intangible or tangible, according to the nature of the assets acquired, and apply classification consistently. An exploration and evaluation asset shall no longer be classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Exploration and evaluation assets shall be assessed for impairment, and any impairment loss recognised, before reclassification. If commercial viability is proven, AASB138 Intangible Assets rules apply, whereby the intangible asset is to be identifiable (distinguished goodwill); and is capable of being sold, transferred, licensed, rented or exchanged; or arises from contractual or other legal rights, of whether those rights are transferable or separable from the entity or from other rights and obligations, and elements of control any entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits.

The asset shall be recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and; The cost of the asset can be measured reliably; and An entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that respect managements best estimates of the set of economic conditions that will exist over the useful life of the asset and that a degree of certainty is attached to the future economic benefits to be derived, attributable to the use of the asset on the basis of the evidence available at the time of recognition. An intangible asset shall be measured initially at cost.

An intangible asset arising from development (or from development phase or an internal project) shall be recognised if an entity

- a) technical feasibility of completing the intangible asset so that it will be available for use or sale;
- b) its intention to complete the intangible asset and use or sell it;
- c) its ability to use or sell the intangible asset;
- d) how the intangible asset will generate probable future economic benefits, among other things, the entity can demonstrate the of a market for the output of the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- f) ability to measure reliably the expenditure attributable to the intangible asset during its development.

The assessment of future economic benefits to be received from the asset is defined in principles of AASB 136 - Impairment of Assets.

The measurement at recognition of intangible assets is based on the revaluation model, which represents fair value at the date of revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. Fair value shall be determined by reference to an active market. Revaluations shall be made with such regularity that at the reporting date the carrying amount of the asset does not differ materially from its fair value.

If an intangible asset cannot be revalued because there is no active market for the asset, the asset shall be carried at its cost less any accumulated amortisation and impairment losses.

The fair value of a revalued intangible asset can no longer be determined by reference to an active market, the carrying amount of the asset shall be its revalued amount at the date of the 1st revaluation by reference to the active market less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.



Great South Land Minerals Limited

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Notes to the financial statements

3 Significant accounting policies (continued)

(h) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the company are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the company will obtain ownership of the asset or over the term of the lease.

(i) Impairment

At each reporting date, the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(j) Employee benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(k) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated it is probable that an outflow of economic benefits will be required to settle the obligation.

(l) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. Revenue from the rendering of a service is recognised upon the delivery of the service to the customers. All revenue is stated net of the amount of goods and services tax (GST).

(m) Finance income and finance costs

Finance income comprises of interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the interest method.

Finance costs comprise of interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss, losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(n) Income tax

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or non-deductible items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Future income tax benefits and liabilities are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is probable. The tax effects of capital losses are not recorded unless realisation is probable.



Great South Land Minerals Limited

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Notes to the financial statements

3 Significant accounting policies (continued)

(o) Goods and services tax

Revenues, expenses and assets are recognised net of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are disclosed as operating cash flows.

(p) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(q) Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company.

(r) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report. AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 will become mandatory for the Company's 31 December 2014 financial statements.

(s) Going Concern

The Company is in the development stage, devoting substantially all of its efforts to exploration and raising finance. The Company has substantially funded its operations with proceeds from borrowings and equity. In the course of its exploration activities, the Company has incurred substantial operating losses and expects such losses to continue for the foreseeable future. The company will finance its operations primarily through cash and cash equivalents on hand, borrowings, future financing from the issuance of equity through its holding company "Empire Energy Corporation International" and through the generation of revenues once commercial operations get underway. However, the Company has yet to generate any significant revenues and has no assurance of future revenues. To management's knowledge, no company has yet successfully developed sub-surface hydrocarbons in commercial quantities in Tasmania. Even if development efforts are successful, substantial time may pass before revenues are realised.

Therefore, significant uncertainties exist in relation to conditions that cast doubt upon the Company's ability to continue as a going concern. These are:

Operations

The Company's key mineral exploration licence (SEL 13/98) expired on 30th September 2009 and mineral exploration licence (SEL 14/2009) was issued on 17th May 2010. The new licence covers an area of 3,108km² for a period of two years and there is a degree of uncertainty surrounding the extension of tenure.

Financial

(a) The Company has incurred substantial losses in order to support the ongoing exploration expenditure during the period since the inception of the Company.

(b) There are uncertainties in terms of the Company's ability to generate cash flows in the future considering that the production operations have not yet commenced.

(c) During the year ended 31 December 2009, the company has recorded a loss of \$14,809,259. As at 31 December 2009 the company's net asset position is a deficiency of \$30,879,987.

(d) There may be extensive commitments for expenditure as part of a renewed mineral exploration license.

(e) As of the date of this report, there are number of creditors who had issued statutory demands against Great South Land Minerals Limited claiming a debt of approximately \$2.2M.

Therefore, the Company's future operations are dependent on its ability to raise funds in order to pay for the existing creditors, expenditure commitments as part of SEL 14/2009 mineral exploration license and to support its day to day business working capital

Great South Land Minerals Limited and its parent, Empire Energy Corporation International have initiated the following activities to address going concern issue, including but not limited to the following:



Great South Land Minerals Limited

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Notes to the financial statements

3 Significant accounting policies (continued)

Going Concern (continued)

Operations

Further to the expiry of SEL13/98; Great South Land Minerals Limited lodged a new Exploration License application (EL14/2009) with Mineral Resources Tasmania on 29th September 2009 for an area of 7,513km² (this application was sought from 1 October 2009 for a 5 year term) and covers the significant, identified, prospective areas contained within SEL13/98.

SEL14/2009 was formally awarded by the Minister for Energy and Resources on 17th May 2010. However, on 17 March 2010, the Director of Mines publically advertised his recommendation for the issuance of SEL 14/2009 with a reduced area of 3,180km² which includes both major seismically defined domes – Bellevue and Thunderbolt and a third target, Lonnavele.

Further, Great South Land Minerals Limited believes that it has a right to the award of the 7,513 km² EL14/2009 for the continuation of program over the next 5 years. Mineral Resources Tasmania has issued a smaller EL than that was originally applied for and/or excludes the majority of the company's seismically defined structures. Great South Land Minerals Limited, with its parent entity, Empire Energy International are prepared to take legal action to recover the excluded licensed area and/or obtain financial compensation for exclusion of defined structures.

Financial

(a) Great South Land Minerals Limited entered into a Convertible Note Agreement dated 27 January 2009 with a former director for a value of AUD 400,000;

(b) On the 22nd November 2008 the Board of Empire Energy International Corporation of Leawood, Kansas, USA of which Great South Land Minerals Ltd is a wholly owned subsidiary, decided to proceed with shareholder rights offering. The intention was to use the proceeds from sale of the shares to extend exploration and development program, to reduce debt, provide for working capital and for general corporate purposes. 133,607,712 shares were on offer at a price of 7 cents US per share. As at the date of this report, the rights issued was fully subscribed, and Empire has appropriated the funds in support of Great South Land Minerals Limited operations.

(c) Empire Energy Corporation International and Great South Land Minerals Limited entered into negotiations to arrange financing for the continued exploration and development of the licensed property, including drilling of wells on evaluated and selected sites. This includes raising additional finance of US\$200,000,000.

(d) In relation to statutory demands issued by a number of creditors, Great South Land Minerals Limited have entered into a payment arrangement with them and are not aware of any further legal action being initiated by the creditors in respect to the outstanding debt that could lead to the operations of the company being wound up.

As a result of the above, the Directors are of the opinion that it is appropriate for the financial report to be prepared on a going concern basis.

| 4 Revenue | 2009 \$ | 2008 \$ |
|----------------------|----------------|---------------|
| Sale of goods | 460,544 | - |
| Interest income | 1,578 | 15,742 |
| Total revenue | 462,122 | 15,742 |

In 2009 the Company acquired the mining village bronte park. Sales of goods represents the trading income from food and beverage sales from that village.

5 Loss from ordinary activities

Expenses

Finance costs:

| | | |
|----------------------------|----------------|----------------|
| related entities | 790,359 | 627,029 |
| Others | - | - |
| Total finance costs | 790,359 | 627,029 |

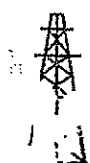
Rental expense

| | | |
|--|----------------|---------------|
| Level 3, 65 Murray St, Hobart Tasmania | 63,765 | 46,551 |
| Bronte Park Highland Village | 47,323 | - |
| Total rental expense | 111,088 | 46,551 |

Impairment of plant and equipment

Bad and doubtful debts:

| | | |
|-------------------|-------|-------|
| trade receivables | 1,415 | 3,811 |
|-------------------|-------|-------|



Great South Land Minerals Limited

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Notes to the financial statements

6 Income tax expense

The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:

| | | |
|---|-------------|-------------|
| Prima facie tax payable on profit from ordinary activities before income tax at 30% | | |
| — Entity | (4,450,944) | (2,748,814) |
| Tax effect of: | | |
| — Non-deductible depreciation and amortisation | - | - |
| — Other non-allowable items | (15,919) | (15,919) |
| — Prior year tax losses not previously brought to account | 4,466,863 | 2,764,733 |
| Income Tax Expense | - | - |
| Potential future deferred tax asset at 31 December 2009 related to exploration expenditure not brought to account is: | 4,450,944 | 2,748,814 |

7 Auditors' remuneration

| | 2009 | 2008 |
|---|---------------|---------------|
| | \$ | \$ |
| Remuneration of the auditor for: | | |
| auditing or reviewing the financial report | 50,000 | 42,683 |
| auditing or reviewing the financial report of related companies | 15,000 | 50,000 |
| | <u>65,000</u> | <u>92,683</u> |

8 Cash and cash equivalents

| | | |
|--|---------------|---------------|
| Cash at bank and in hand | 1,039 | 1,292 |
| Environmental bond deposit amount | 75,000 | 75,000 |
| Cash and cash equivalents in the statement of cash flows | <u>76,039</u> | <u>76,292</u> |

Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the balance sheet as follows:

| | | |
|---------------------------|---------------|---------------|
| Cash and cash equivalents | 76,039 | 76,292 |
| | <u>76,039</u> | <u>76,292</u> |



Great South Land Minerals Limited

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Notes to the financial statements

9 Key management remuneration

Key management personnel

Directors

| | 2009 | | | Total |
|--------------------|------------------------------------|-------------------------|--------------------------|---------|
| | Fees \$ | \$ | Expenses \$ | \$ |
| | Salary, Fees and Superannuation | Termination Benefits | Non-Monetary Benefits | |
| Mr Malcolm Bendall | - | - | - | - |
| Mr Tad Ballantyne | - | - | - | - |
| Mr John Garrison | - | - | - | - |
| Dr Clive Burrell | 89,250 | 0 | - | 89,250 |
| Mr Phillip Simpson | 0 | 195,724 | - | 195,724 |
| Mr Graham Rogers | 26,388 | 0 | - | 26,388 |
| Total compensation | 115,638 | 195,724 | - | 311,362 |

Directors not mentioned were appointed after commencement of the financial year.

10 Trade and other receivables

| | 2009 \$ | 2008 \$ |
|---|------------|------------|
| Current | | |
| Trade receivables | 5,225 | 3,811 |
| Provision for impairment of receivables | (5,225) | (3,811) |
| | - | - |

11 Other assets

| | | |
|--|---|-----------|
| Accrued interest | - | 4,020 |
| Prepayments | - | 14,842 |
| Prepayments for exploration and assets (a) | - | 2,746,920 |
| | - | 2,765,782 |

(a) Prepayment for exploration and assets consists of

| | | |
|---|---|-----------|
| Prepayment to petitol engineering | - | 19,763 |
| Prepayments for site works | - | 2,705,527 |
| Licence fee prepaid | - | 21,630 |
| Competent persons report | - | - |
| Total exploration and evaluation prepayment | - | 2,746,920 |

12 Property, plant and equipment

| | | |
|--|-----------|-----------|
| Plant and equipment: available for use | | |
| At cost | 329,019 | 456,849 |
| Accumulated depreciation | (187,102) | (183,416) |
| Accumulated impairment losses | (31,000) | (31,000) |
| Total plant and equipment | 110,917 | 242,433 |

(a) Movements in carrying amounts

| | Plant and Equipment \$ | Total \$ |
|--|------------------------------|-------------|
| Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year | | |
| Balance at the beginning of year | 242,433 | 242,433 |
| Additions | 1,674 | 1,674 |
| Disposals | (129,504) | (129,504) |
| Depreciation expense | (3,686) | (3,686) |
| Carrying amount at the end of year | 110,917 | 110,917 |

13 Mining assets

| | | |
|--|---------------|---|
| Independent valuation of mining assets | 3,831,775,010 | - |
| Accumulated impairment losses | - | - |
| Total mining assets | 3,831,775,010 | - |

Valuation of the intangible asset of Great South Land Minerals Ltd was undertaken on 30th September 2009 by on total Independent Experts RPS Energy and Accountants, WHK Dension. A valuation was derived using a mean estimate based potential resources & discounted market value for oil at US\$5.00 per barrel.

An exchange rate of 1.1459 USD/AUD as at 30th September 2009 has been applied to this initial measurement



Great South Land Minerals Limited

Great South Land Minerals Limited ABN 54 003 650 386

Notes to the financial statements

| | | |
|---|-------------------|-------------------|
| 14 Trade and other payables | 2009 | 2008 |
| | \$ | \$ |
| Current | | |
| Unsecured liabilities | | |
| Trade payables | 4,127,029 | 2,405,951 |
| Sundry payables and accrued expenses | 144,359 | 228,815 |
| Total current payables | <u>4,271,389</u> | <u>2,634,766</u> |
| Non-current | | |
| Unsecured Liabilities | | |
| Amounts Payable to Related Parties | 446,981 | 241,293 |
| Total Non-Current Payables | <u>446,981</u> | <u>241,293</u> |
| 15 Loans and borrowings | 2009 | 2008 |
| | \$ | \$ |
| Current | | |
| Unsecured liabilities | | |
| Lease liability | 21,008 | 22,058 |
| | <u>21,008</u> | <u>22,058</u> |
| Secured liabilities | | |
| Convertible note (note b(i)) | - | 2,302,849 |
| Total current borrowings | <u>21,008</u> | <u>2,324,907</u> |
| Non-current | | |
| Unsecured liabilities | | |
| Lease liability | 19,457 | 42,278 |
| Amount payable to holding company(note b(ii)) | 26,299,372 | 20,333,760 |
| Total non-current borrowings | <u>26,318,829</u> | <u>20,376,038</u> |

b(i) GSLM through its parent entity, Empire Energy Corporation International, entered into a financing agreement with a former Director on a revolving 180 day basis. This borrowing has a convertible note facility attached, whereby the lender may convert the debt plus any accumulated interest payable to shares in Empire Energy Corporation International at USD\$0.15 per share.

b(ii) Amount payable to holding company, Empire Energy Corporation International is interest free. Further, the holding company has agreed not to claim or to undertake any steps, including legal proceedings to recover such debt owed by Great South Land Minerals Limited until 30th June 2011 or until such time when Great South Land Minerals Limited will have funds to repay such debts owed to the holding company.

| | | |
|--|-----------------|---------------|
| 16 Provisions | Employee | Total |
| | \$ | \$ |
| Opening balance at 1 January 2008 | 25,710 | 25,710 |
| Additional provisions raised during year | 33,209 | 33,209 |
| Amounts used | (22,962) | (22,962) |
| Balance at 31 December 2009 | <u>35,957</u> | <u>35,957</u> |
| Analysis of total provisions | 2009 | 2008 |
| | \$ | \$ |
| Current | 35,957 | 25,710 |
| Non-current | - | - |
| | <u>35,957</u> | <u>25,710</u> |

A provision has been recognised for employee entitlements relating to annual leave for employees. The measurement and recognition criteria for employee benefits have been included in Note 1.

| | | |
|--|-------------------|-------------------|
| 17 Issued capital | 2009 | 2008 |
| | \$ | |
| 62,426,782 fully paid ordinary shares (2008: 62,426,782) | 7,316,711 | 7,316,711 |
| | <u>7,316,711</u> | <u>7,316,711</u> |
| Ordinary Shares | Number | Number |
| At the beginning of reporting year | 62,426,782 | 62,426,782 |
| At reporting date | <u>62,426,782</u> | <u>62,426,782</u> |

Ordinary shares participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held. At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

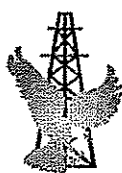


Great South Land Minerals Limited

Great South Land Minerals Limited ABN 54 0 650 3.

Notes to the financial statements

| | | |
|---|---------------------|--------------------|
| 18 Capital and leasing commitments | 2009 | 2008 |
| | \$ | \$ |
| (a) Finance lease commitments | | |
| Payable — minimum lease payments | | |
| — not later than 12 months | 21,008 | 22,058 |
| — between 12 months and 5 years | 29,108 | 42,278 |
| Minimum lease payments | 44,116 | 64,336 |
| Less future finance charges | (3,651) | (7,421) |
| Present value of minimum lease payments | 40,465 | 56,915 |
| (b) Operating lease commitments | | |
| Non-cancellable operating leases contracted for but not capitalised in the financial statements. | | |
| Payable — minimum lease payments | | |
| — not later than 12 months | 99,624 | 106,045 |
| — between 12 months and 5 years | 433,351 | 417,628 |
| | 532,975 | 523,673 |
| (c) Capital expenditure commitments | | |
| Capital expenditure commitments contracted for: | | |
| Plant and equipment purchases | - | - |
| (d) Exploration expenditure commitment: | | |
| 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 31 December, 2009, these obligations, are as follows: | | |
| SEL 13/2009: | 2009 | 2008 |
| | \$ | \$ |
| - September 30, 2008 | - | - |
| - September 30, 2009 | - | 1,448,000 |
| | 0 | 1,448,000 |
| The SEL 14/2009 requires that \$7,550,000 be spent on exploration over two years starting from the 17 May 2010. GSLM reported total expenditure for the duration of the license (since April 1999) of approximately AUD\$50,851,656. | | |
| (e) Drilling contract | | |
| In December 2007, the Company entered into a drilling contract that initially required a payment of AUD 1.3 million to activate. The company met this commitment. The drilling contract continued through 2008 covering the mobilisation of the rig along with standby costs. These additional costs are primarily attributable to the non fulfillment of funding commitments by a third party. The contract is currently subject to renegotiation. | | |
| 19 Contingencies | 2009 | 2008 |
| | \$ | \$ |
| Estimates of the potential financial effect of contingent liabilities that may become payable: | | |
| Contingent liabilities | | |
| Related party guarantees provided by the parent entity | | |
| Empire Energy has provided a guarantee to a lending entity on behalf of its associate Great South Land Minerals Limited. | - | 2,302,849 |
| 20 Cash flow information | 2009 | 2008 |
| | \$ | \$ |
| (a) Reconciliation of Cash Flow from Operations with Profit from Ordinary | | |
| Activities after Income Tax | | |
| Profit from ordinary activities after income tax | (14,836,480) | (9,162,713) |
| Non-cash flows in profit from ordinary activities: | | |
| Depreciation | 63,615 | 66,985 |
| Doubtful Debt | 1,415 | 3,811 |
| Net Cash Provided by Operating Activities Before Change in Assets and Liabilities | (14,771,451) | (9,091,917) |
| Changes in assets and liabilities, net of the effects of purchase and disposal of associate company | | |
| (Increase)/decrease in trade and term debtors | (1,415) | - |
| (Increase)/decrease in other assets | 2,765,782 | (2,729,540) |
| (Increase)/decrease in exploration and | 10,558,332 | - |
| (Decrease)/increase in payables | 1,959,805 | 2,377,973 |
| (Decrease)/increase in provisions | 10,247 | (7,337) |
| (Decrease)/increase in other liabilities | 1,422,969 | - |
| Net Cash Provided by Operating Activities | 1,944,269 | (9,450,821) |
| (b) Non-cash Financing and Investing Activities | | |
| Property, plant and equipment: | - | - |



Great South Land Minerals Limited

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Notes to the financial statements

21 Related party transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

| | 2009 \$ | 2008 \$ |
|---|------------|------------|
| Transactions with related parties : | | |
| (a) The parent entity is Empire Energy International and has provided the following loans to Great South Land Minerals. | 26,299,372 | 20,333,760 |
| (b) Amount receivable from associated companies | - | 3,810 |
| (c) Rental of Office Accommodation | - | - |
| (d) Guarantees | - | - |
| (e) Salaries to Director's relatives | - | 30,852 |
| (f) There are no loans made by Great South Land Minerals to key management personnel or any related party | - | - |

22 Economic dependence

The continuing operation of Great South Land Minerals Limited is dependent on the ability of the holding company to raise funds and to provide financial support to Great South Land Minerals Limited.

23 Financial instruments

Financial risk management

The company's financial instruments consist mainly of cash in banks, accounts receivable and payable, loan from holding company, other borrowings and leases. The main purpose of non-derivative financial instruments is to raise finance for the company operations. The company does not have any derivative instruments as at 31 December 2009.

Financial risks

The main risks the company is exposed to through its financial instruments are liquidity risk, credit risk and interest rate risk.

Liquidity risk

The company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

Interest rate risk

The company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, is as follows:

| | Weighted Average Effective Interest Rate | | Floating Interest Rate | | Fixed Interest Rate Maturing | | | |
|------------------------------------|---|-----------|---------------------------|---------------|------------------------------|------------------|------------------|-------------------|
| | | | | | Within 1 Year | | 1 to 5 Years | |
| | 2009 % | 2008 % | 2009 \$ | 2008 \$ | 2009 \$ | 2008 \$ | 2009 \$ | 2008 \$ |
| Financial Assets: | | | | | | | | |
| Cash and Cash equivalents | 6.00 | 6.50 | 76,039 | 76,292 | - | - | - | - |
| Receivables | - | - | - | - | - | - | - | - |
| Total Financial Assets | | | 76,039 | 76,292 | - | - | - | - |
| Financial Liabilities: | | | | | | | | |
| Borrowings | | | | | | | | |
| (a) Loan from Director | 5.60 | 40.55 | - | - | 195,204 | 2,302,849 | - | - |
| (b) Loan from Parent Entity | - | - | - | - | - | - | 2,079,829 | 20,333,760 |
| Lease Liabilities | 8.74 | 8.74 | - | - | 21,008 | 22,058 | - | - |
| Trade and Other Payables | - | - | - | - | - | - | - | - |
| Total Financial Liabilities | | | - | - | 216,212 | 2,324,907 | 2,079,829 | 20,333,760 |



Great South Land Minerals Limited

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Notes to the financial statements

23 Financial Instruments (continued)

| | Non-Interest Bearing | | Total | |
|------------------------------------|----------------------|-------------------|-------------------|-------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Financial Assets: | | | | |
| Cash and Cash equivalents | - | - | 76,039 | 76,292 |
| Receivables | - | - | - | - |
| Total Financial Assets | - | - | 76,039 | 76,292 |
| Financial Liabilities: | | | | |
| Borrowings | | | | |
| (a) Loan from Director | - | - | 2,302,849 | 2,302,849 |
| (b) Loan from Parent Entity | 22,413,589 | 20,333,760 | 22,413,589 | 20,333,760 |
| Lease Liabilities | - | - | 44,116 | 64,336 |
| Trade and Other Payables | 4,718,370 | 2,876,058 | 4,718,370 | 2,876,058 |
| Total Financial Liabilities | 27,131,959 | 23,209,818 | 29,478,924 | 25,577,003 |

24 Events Subsequent to Balance Date

Exploration Licence

By its terms, Special Exploration Licence (SEL) 13/98 expired on September 30, 2009. Great South Land Minerals Ltd, lodged an application for an Exploration Licence (EL) on 30 September 2009 for an area of 7,513km² (this application was sought from 1 October 2009 for a 5 year term) and covers the significant, identified, prospective areas contained within SEL13/98. This application was given a reference EL14/2009 and is a 25% reduction in area from the original SEL13/98 tenement first granted in 1999.

EL14/2009 has not yet been formally awarded by the Minister for Energy and Resources as at 20 April 2010. However, on 17 March 2010, the Director of Mines publically advertised his recommendation for the issuance of Exploration Licence 14/2009 (with a reduced area, however, including both of our major seismically defined domes – Bellevue and Thunderbolt).

Deed of Release

A deed of release and indemnity was signed on the 24/01/09 between Philip Simpson and Great South Land Minerals Limited and Empire Energy Corporation International (Parent Entity). The release details that Philip Simpson will accept 2,500,000 fully paid up ordinary Empire Energy Corporation International's shares in exchange for release of the company and its parent entity of all outstanding claims, and the resignation of Philip Simpson as a director.

Statutory Demands

Subsequent to the balance sheet date, several statutory demands were issued to the company by a number of creditors. Where possible, Great South Land Minerals Limited have entered into a payment arrangement with them and are not aware of any further legal action being initiated by the creditors in respect to the outstanding debt that could lead to the operations of the company being wound up.

Proceeds from Rights Issue

On 30th July 2010, Empire Energy Corporation International (Parent) concluding its fundraising activities in the form of a Rights Issue to existing shareholders. That event was fully subscribed. Since the effective date in February 2010, the Company has received sufficient financing to continue with its planning, operational and exploration activities, pre and post issuance of EL14/2009.

Stand By Costs

Great South Land Minerals Limited have incurred significant standby charges subsequent to year end at a rate over \$18,000 per day until the end of June 2009.

25 Segment Reporting

Great South Land Minerals Limited operates in one Geographical segment being Australia and one Business segment being exploration activities.

26 Company Details

The registered office of the company is:

Great South Land Minerals
Level 3, 65 Murray Street
Hobart Tas 7000

The principal place of business is:

Great South Land Minerals
Level 3, 65 Murray Street
Hobart Tas 7000

DIRECTORS' DECLARATION

The directors of the company declare

- 1 The financial statements and notes, as set out in 8 to 22 are in accordance with the *Corporations Act 2001*:
 - a. Comply with Accounting Standards and the Corporations Regulations 2001; and
 - b. Give a true and fair view of the financial position as at 31 December 2009 and of the performance for the year ended on that
- 2 In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- 3 the directors have been given the declarations required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors.

Director

Mr John Garrison

Dated