

EMPIRE ENERGY CORP
Form 10-Q
December 07, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2010

Commission File Number: 1-10077

EMPIRE ENERGY CORPORATION INTERNATIONAL
(Exact name of small business issuer as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

87-0401761
(I.R.S. Employer
Identification number)

4500 College Blvd, Suite 240, Leawood, KS
(Address of Principal Executive offices)
66211
(Zip Code)
Issuer's telephone number: (913) 663-2310

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Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ . No ☐ .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ . No ☐ .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ . Accelerated filer ☐ .
Non-accelerated filer ☐ . Smaller reporting company ☒ .

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ . No ☒ .

The issuer had 412,372,917 shares of its Class A Common Stock issued and outstanding, 97,301 shares of its Class B Common Stock issued and outstanding, and 97,301 shares of paired convertible Exchange shares issued and outstanding as of November 19, 2010, the latest practicable date before the filing of this report.

Transitional Small Business Format (check one); Yes ☐ . No ☒ .

PART I FINANCIAL INFORMATION

Forward-Looking Statements

This report on Form 10-Q contains forward-looking statements that concern our business. Such statements are not guarantees of future performance and actual results or developments could differ materially from those expressed or implied in such statements as a result of certain factors, including those factors set forth in Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this report. All statements, other than statements of historical facts, included in this report that address activities, events or developments that we expect, believe, intend or anticipate will or may occur in the future, including the Company's ability to successfully maintain its existence while it identifies potential business opportunities, are forward looking statements.

These statements are based on certain assumptions and analyses made by us in light of our experience and our product research. Such statements are subject to a number of assumptions including the following:

ability to obtain financing on favorable conditions;

the likelihood of success of the business opportunity that we are pursuing;

risks and uncertainties;

general economic and business conditions; and

changes in laws or regulations and other factors, many of which are beyond our control.

The cautionary statements contained or referred to in this report should be considered in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf. We undertake no obligation to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Item 1. Financial Statements.

EMPIRE ENERGY CORPORATION INTERNATIONAL

(an exploration stage company)

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	September 30, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,998	\$ 14,976
Receivables		2,268
Prepayments and other current assets	11,638	11,844
TOTAL CURRENT ASSETS	15,636	29,088
Deposits	72,736	66,970
Deposit on technology acquisition		
PROPERTY AND EQUIPMENT, NET	77,396	94,512
TOTAL ASSETS	\$ 165,768	\$ 190,570
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Trade and other payables	\$ 4,965,571	\$ 4,904,636
Trade and other payables - related party	818,468	1,062,349
Notes payable	3,796,882	3,508,515
Short-term portion of convertible notes payable	1,372,961	
Notes payable - related party	920,337	1,284,853
Accrued interest payable	405,000	337,500
TOTAL CURRENT LIABILITIES	12,279,219	11,097,853
Long-term portion of convertible notes payable	--	1,208,719
TOTAL LIABILITIES	12,279,219	12,306,572
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT		
	412,374	278,544

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Class A Common stock, (599,000,000 authorized) par value of \$0.001, 412,372,917 and 278,544,366 shares issued and outstanding respectively

Class B Common stock, (1,000,000 authorized) value of \$0.001, 97,301 and 99,431 shares issued and outstanding respectively

	97	99
Additional paid-in capital	43,578,973	34,345,300
Deficit accumulated during the exploration stage	(55,167,286)	(46,221,225)
Accumulated other comprehensive income (loss)	(937,609)	(518,720)
TOTAL STOCKHOLDERS DEFICIT	(12,113,451)	(12,116,002)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	\$ 165,768	\$ 190,570

See summary of significant accounting policies and notes to consolidated financial statements

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 EMPIRE ENERGY CORPORATION INTERNATIONAL
 (an exploration stage company)

CONSOLIDATED STATEMENTS OF OPERATIONS

Three months Ended September 30, 2010 and 2009

(Unaudited)

	Three months Ended September 30, 2010	Three months Ended September 30, 2009
TOTAL REVENUES	\$	\$
COSTS AND EXPENSES		
Selling, general and administrative	423,802	688,898
Exploration costs	3,544	7,639
TOTAL COSTS AND EXPENSES	427,346	696,537
LOSS FROM OPERATIONS	(427,346)	(696,537)
OTHER INCOME (EXPENSE)		
Foreign currency transaction gains (losses)	(486,273)	(291,978)
Technology deposit recorded as officer compensation	(7,000,000)	
Other income		93,543
Interest (expense)	(115,407)	(119,379)
LOSS BEFORE INCOME TAXES	(8,029,026)	(1,014,351)
INCOME TAXES		
NET LOSS FROM CONTINUING OPERATIONS	(8,029,026)	(1,014,351)
GAIN (LOSS) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES		
NET LOSS	\$ (8,029,026)	\$ (1,014,351)
NET LOSS PER COMMON SHARE:		
Basic and diluted loss per share from continuing operations	\$ (0.02)	\$ (0.00)
Basic and diluted loss per share from discontinued operations	(0.00)	(0.00)
Basic and diluted loss per share	\$ (0.02)	\$ (0.00)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:		
Basic and diluted	317,730,456	278,543,190

See summary of significant accounting policies and notes to consolidated financial statements

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 EMPIRE ENERGY CORPORATION INTERNATIONAL
 (an exploration stage company)

CONSOLIDATED STATEMENTS OF OPERATIONS

Nine months Ended September 30, 2010 and 2009 and from March 15, 1995 (Inception) to September 30, 2010

(Unaudited)

	Nine months Ended September 30, 2010	Nine months Ended September 30, 2009	March 15, 1995 (Inception) to September 30, 2010
	\$	\$	\$
TOTAL REVENUES			
COSTS AND EXPENSES			
Selling, general and administrative	1,293,161	2,490,960	25,057,429
Impairment of well costs			8,271,190
Exploration costs	7,749	32,261	9,321,044
TOTAL COSTS AND EXPENSES	1,300,910	2,523,221	42,649,663
LOSS FROM OPERATIONS	(1,300,910)	(2,523,221)	(42,649,663)
OTHER INCOME (EXPENSE)			
Realized gain on marketable securities and note receivable		1,443,403	1,529,485
Foreign currency transaction gains (losses)	(329,482)	(794,925)	(282,994)
Technology deposit recorded as officer compensation	(7,000,000)		(7,000,000)
Loss on extinguishments of debt		(610,326)	(610,326)
Loss on equity investment		(100,000)	(829,000)
Loss on sale of equipment			(11,369)
Other income		205,553	87,278
Interest (expense)	(315,669)	(557,563)	(4,102,885)
LOSS BEFORE INCOME TAXES	(8,946,061)	(4,213,746)	(55,146,810)
INCOME TAXES			
NET LOSS FROM CONTINUING OPERATIONS	(8,946,061)	(4,213,746)	(55,146,810)
GAIN (LOSS) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES			(20,476)
NET LOSS	\$ (8,946,061)	\$ (4,213,746)	\$ (55,167,286)
NET LOSS PER COMMON SHARE:			
Basic and diluted loss per share from continuing operations	\$ (0.03)	\$ (0.02)	

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Basic and diluted loss per share from discontinued operations		(0.00)	(0.00)
Basic and diluted loss per share	\$	(0.03) \$	(0.02)

WEIGHTED AVERAGE NUMBER OF
COMMON SHARES OUTSTANDING:

Basic and diluted	310,078,597	276,082,421
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See summary of significant accounting policies and notes to consolidated financial statements

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 (an exploration stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine months Ended September 30, 2010 and 2009 and from March 15, 1995 (Inception) to September 30, 2010

(Unaudited)

			March 15, 1995 (Inception) to September 30, 2009
	2010	2009	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (8,946,061)	\$ (4,213,746)	\$ (55,167,286)
Adjustments to reconcile net loss to net cash used in operating activities:			
Share based and non-cash payments	7,000,000	478,100	20,798,106
Discontinued operations			20,476
Depreciation	27,961	50,727	232,946
Amortization of debt discount	164,242	181,378	361,114
Loss on disposal of fixed assets			11,369
Loss on equity investment		100,000	829,000
Loss on extinguishments of debt		610,326	610,326
Realized gain on marketable securities and note receivable		(1,443,403)	(1,529,485)
Impairment of oil and gas property costs			8,271,190
Impairment loss on marketable securities		1,276,667	1,277,336
Foreign currency transaction loss (gain)	329,482	794,925	282,994
Changes in operating assets and liabilities:			
Receivables	2,268	10,546	
Prepaid expenses and other assets	(5,560)	438,133	(84,374)
Trade payables and accrued expenses	544,994	1,110,292	5,163,701
NET CASH USED IN OPERATING ACTIVITIES	(882,674)	(606,055)	(18,922,587)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of equity investments			7,519,084
Investment in brands			(80,000)
Purchase of property and equipment		(2,398)	(2,034,678)
Proceeds from sale of property and equipment		29,126	1,755,446
Oil and gas properties under development		(1,622,794)	(4,479,789)
Proceeds (cost) of marketable securities		154,837	(33,199)
Proceeds from collection of note receivable			320,178
Deconsolidation of subsidiary, net of proceeds		25,000	(185,116)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		(1,416,229)	2,781,926
CASH FLOWS FROM FINANCING ACTIVITIES			

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Proceeds from issuance of notes payable	1,256,438	644,642	13,543,446
Proceeds from issuance of common shares, net of \$328,142 of direct issuance costs	57,900		6,927,644
Principal payments on notes payable	(23,751)	(42,282)	(4,429,561)
Proceeds from the sale of non-controlling interests			1,040,741
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,290,587	602,360	17,082,270
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(418,891)	1,367,267	(937,611)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(10,978)	(52,658)	3,998
CASH AND CASH EQUIVALENTS beginning of period	14,976	53,885	
CASH AND CASH EQUIVALENTS end of period	\$ 3,998	\$ 1,227	\$ 3,998
CASH PAID FOR:			
Taxes			
Interest	\$ 17,326	\$ 9,509	\$ 541,827

NON-CASH INVESTING AND FINANCING
TRANSACTIONS

Debt settled with marketable securities	\$	\$	1,945,555
Fair value of warrants issued with debt	\$	\$	428,557
Debt issued for purchase of technology	\$	(7,000,000)	\$
Trade payables settled with stock	\$	657,091	\$
Related party notes payable settled with stock	\$	8,652,712	\$
Issuance of stock for Grand Monarch	\$	\$	125,000
Accrued exploration costs	\$	\$	1,606,127

See summary of significant accounting policies and notes to consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010 and 2009

(UNAUDITED)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited interim financial statements of Empire Energy Corporation International (EEGC or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission, and should be read in conjunction with the audited financial statements and notes thereto contained in Empire's Annual Report filed with the SEC on Form 10-K for the year ended December 31, 2009. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosures contained in the audited financial statements for 2009 as reported in the Form 10-K have been omitted. All balances are stated in United States dollars unless otherwise noted.

NOTE 2 GOING CONCERN AND LIQUIDITY

EEGC is in the exploration stage, devoting substantially all of its efforts to exploration and raising financing. EEGC has substantially funded its operations with proceeds from the issuance of common stock and debt. In the course of its exploration activities, EEGC has sustained operating losses and expects such losses to continue for the foreseeable future. EEGC current does not have sufficient funds to sustain operations or to achieve eventual positive cash flows from operations.

The financial statements are prepared on a going concern basis. However, significant uncertainties exist in relation to conditions that raise substantial doubt about the Company's ability to continue as a going concern. These are:

Substantial losses incurred through supporting the ongoing exploration and corporate expenditures during the period since the inception of the Company.

Uncertainties in terms of the ability to generate cash flows in the future considering that production operations have not yet commenced.

Extensive commitments for expenditures under the Company's key mineral exploration license.

The Company's key mineral exploration license expired September 30, 2009. An additional two year license was issued May 17, 2010 for part of the prior licensed area. Additional license applications have been lodged but have not yet been awarded.

Current liabilities of \$12,279,219 exceed current assets of \$15,636 including cash or cash equivalents of \$3,998 at September 30, 2010.

The Company is party to litigation regarding collection of its overdue liabilities.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts nor to the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

The Company has either planned the following activities or completed the following activities to address the above going concern issues.

Obtain approval to increase authorized shares to allow additional acquisitions and capital.

Seek acquisitions that will provide capital and cash flow.

Refinance opportunities and use additional shares to pursue development activities.

Issued rights to shareholders offering registered shares for sale to existing shareholders.

Empire and Great South Land Minerals entered negotiations to arrange significant financing for the continued exploration and development of the licensed property, including drilling of wells on evaluated and selected sites.

Obtain approval to increase authorized shares to allow additional acquisitions and fund-raising activity.

Pursue refinancing opportunities and using the additional shares to pursue development activities.

NOTE 3 RESTATEMENT

The balance sheet at December 31, 2009 on Form 10-K as originally filed erroneously included a long-term exploration deposit of \$66,970 as short-term. This has been corrected in this quarterly filing.

NOTE 4 RELATED PARTY TRANSACTIONS

During the nine months ending September 30, 2010, the Company received additional net loans totaling \$1,256,438 from a Director and CEO (Malcolm Bendall) and related entities. In addition, the Company made a deposit to purchase a technology license from a company controlled by Mr. Bendall using a loan in the amount of \$7,000,000. Since the technology acquisition is expected to be from a related party, the amount paid for the deposit on the technology in excess of the sellers accounting basis was recorded as compensation to the officer. Completion of this acquisition is expected to be completed in the fourth quarter 2010 or the first quarter 2011. Total cost of the acquisition is expected to be \$21 million (\$14 million in addition to the deposit held), initially funded by Company unsecured debt convertible to Common stock at a price of \$0.07 per share. These advances are repayable on demand and accrue interest at the rate of 10% per annum. In February and July 2010, the Company repaid loans made to the Company by a director (John Garrison) in the principal amount of \$10,000.

NOTE 5 COMMON STOCK

On February 12, 2010, registration of the Company's Rights Offering to potentially raise up to \$9.3 million by selling 133 million shares of common stock at \$0.07 per share was allowed to become effective. The offering period ended April 18, 2010 with shareholders exercising their right to purchase 17,407,399 additional common shares for \$57,900 in cash and related party debt reduction of \$1.16 million. All eligible Empire Directors purchased their full share entitlements which included the conversion of US\$1.2 million of debt to equity. The offering registration provided for an oversubscription period during which eligible record shareholders who fully subscribed during the initial offering

period are entitled to purchase the remaining 117 million unsubscribed shares at the same price of \$0.07 per share. The oversubscription period began with a mailing to qualified rights holders on April 27, 2010 and terminated on July 30, 2010. The remaining 117 million shares offered were subscribed by CEO Malcolm Bendall by additional related party debt reduction in the amount of \$8,149,331.

NOTE 6 - WARRANTS

The following table summarizes the movements in warrants for the year ended December 31, 2009 and the nine month period ended September 30, 2010:

	For the Nine Months Ended September 30, 2010		For the Year Ended December 31, 2009	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Warrants outstanding:				
Beginning of period	28,050,000	\$ 0.07	14,300,000	\$ 0.09
Warrants granted			14,500,000	0.07
Warrants exercised				
Warrants expired			(750,000)	0.50
End of period	28,050,000	\$ 0.07	28,050,000	\$ 0.07
Warrants exercisable	28,050,000	\$ 0.07	28,050,000	\$ 0.07

The warrants have a weighted average remaining contractual life of 3.3 years, are fully vested and have a weighted average exercise price of \$0.07 per share. The outstanding warrants have no aggregate intrinsic value at September 30, 2010 or at December 31, 2009.

The following table summarizes information about warrants outstanding at September 30, 2010:

	Exercise Prices	Number outstanding	Average remaining life in years
RAB Special Situations (Master) Fund Limited			
Common Stock, rights expiring March 2014	0.07	8,550,000	3.4
RAB Special Situations (Master) Fund Limited			
Common Stock, rights expiring March 2014	0.07	5,000,000	3.4
RAB Special Situations (Master) Fund Limited			
Common Stock, rights expiring March 2014	0.07	7,500,000	3.4
Terralinna Pty Ltd., rights expiring January 2014	0.07	7,000,000	3.2
		28,050,000	

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

Our twelve-month plan of operation:

We are an exploration stage oil and gas exploration company, devoting substantial effort to raising capital to support our exploration and development of sub-surface hydrocarbons in commercial quantities in Tasmania, Australia. Our primary focus is the discovery and exploitation of oil and gas and we intend to apply all resources to that purpose. We currently have four wholly-owned subsidiaries: Great South Land Minerals Limited, Bob Owen Company, Cyber Finance Limited and Expedia Limited. Our primary endeavor is the exploration for and development of oil and natural gas in the state of Tasmania, Australia undertaken by GSLM and our resources are being focused on that activity

Great South Land Minerals Limited's principal asset was its exploration license in Tasmania, 15,035 km² (37.2 million acres) Special Exploration License 13/98. The terms of the Great South Land Minerals Limited Special Exploration License 13/98 were contractually agreed with Mineral Resources Tasmania, the local authority under the Department of Industry, Energy and Resources of Tasmania. The Company had expenditure obligations under the license conditions. The conditions required scheduled reported expenditure of AUD \$21.5 million (US \$16.69 million), by September 2009. The company reported accumulated expenditure to date of AUD \$50.8 million (US \$43.7 million). Expenditure is reported under the regulations of Mineral Resources Tasmania by Great South Land Minerals Limited. The exploration and development expenditures disclosed in the Consolidated Financials and Notes were prepared using USA Generally Accepted Accounting Principles which is different to the definition of exploration expenditure of Special Exploration License 13/98, but approximate the USD \$46 million deficit accumulated during exploration stage.

Special Exploration License 13/98 expired September 30, 2009. In September 2009, Great South Land Minerals, Ltd lodged an application for an Exploration License covering the significant identified prospective areas included in the SEL 13/98 effort. The application was granted for a reduced area of approximately 3,000 square kilometers on May 17, 2010 as Exploration License 14/2009, determined to include the two most prospective areas identified by the work performed under SEL 13/98. The Company believes Special Exploration License 13/98 provides a right to the award of the exploration license over selected areas covered by that license and continues to work for and plan for the inclusion of the full area covered by SEL 13/98 in the area covered by Exploration License 14/2009. Award of the Special Exploration License is at the discretion of the Minister but the Company believes its performance over past years support the issuance of the new license. Should the additional area in the current applications not be granted, we intend to reapply and to seek rights to additional exploration property that we have not yet identified. The following seismic and evaluation work includes the area licensed under EL 14/2009.

Terrex Seismic performed on our behalf a AUD \$4.4 million (US \$3.0 million) 2007 seismic survey which was additional to the approximately AUD \$2.23 million (US \$1.54 million) 2006 program and the 660 line kilometers of survey that we acquired from 2001. A total of 1149 line kilometers have been acquired. These surveys have indicated the presence of over 14 structures which have the potential to have trapped oil and gas. Our two largest structures the Bellevue Dome (anticline) and the Thunderbolt Dome (anticline) are structures over 1000 sq km (2.47 million acres)

in area and have the potential to contain substantial volumes of oil and gas.

The seismic program commenced on a 58.76 kilometer survey area in Tasmania around the township of Zeehan in March 2007, finished that survey and commenced the program on property covered under Special Exploration License 13/98 (predecessor to Exploration License 14/2009 granted May 17, 2010) in April 2007. The information obtained from this activity on an outside area assisted with the interpretation of the seismic signature of deeper rock sequences under the Tasmania Basin which we have classified as being within the Larapintine petroleum system. It is one of three petroleum systems currently identified as prospective onshore Tasmania and the Gondwana Land System which outcrops at the surface (commonly known as the Tasmania Basin) is analogous to the Cooper Basin (in central Australia) which was discovered in the early 1960 s.

With our consultants, we reviewed the geology and geophysics of the Central Highlands of Tasmania, using data acquired from the 2001, 2006 and 2007 seismic surveys and previous extensive regional ground gravity and aerial magnetic surveys acquired during the last 20 years. This work assisted in further defining drilling targets and will form the basis of well location, design and engineering. He also coordinated a more detailed prospect definition gravity survey to assist with the interpretation and analysis of the seismic results. The gravity data was acquired by independent contractor Solo Geophysics.

In the fourth quarter 2007, we performed additional seismic surveys in certain areas identified by the prior 2D survey as the apex of potential targets that have potential oil and gas traps and then engaged in 3D surveys to supplement and expand earlier data with the view of assisting in the management of an extraction plan should our exploration wells be successful in discovering reserves which can be produced.

In 2008 international geoscience consulting company RPS Energy prepared an updated Competent Person's Report on GSLM's tenement and Beacon Equity prepared a research report on Empire Energy that covered GSLM's activities.

During early 2008, final site selection was carried out for drilling exploratory wells using previously acquired geological, geophysical and geochemical data. Extensive environmental, forestry, heritage, archaeological, acoustic, hydrogeological and engineering studies were carried out on the Bellevue and Thunderbolt structures and sites at Bellevue and Thunderbolt were selected. A management system audit of Hunt Energy and GSLM was carried out in August 2008, drilling plans for Bellevue#1 and Thunderbolt#1 were submitted to Mineral Resources Tasmania and approval to drill both exploratory wells was obtained. Preliminary investigations were also carried out at the Lonnavele #1 well site. Extensive site work began at Bellevue#1 in the July and August 2008.

In July 2008, with the financial guarantee of our Chief Executive Officer, we obtained a secured loan from Smart Win Limited in the amount of AUD\$5 million (US\$3.47 million) to pursue the drilling program in the property area covered by SEL 13/98. Initial draw on this loan of approximately AUD\$2.7 million (US\$1.86 million) allowed mobilization of the drilling contractor, prepaid initial drilling cost and provided working capital to the Company. Additional drawing under this note was expected to fund the drilling program and complete at least the first well. In conjunction with this note, we agreed to a memorandum of understanding that could bring up to AUD\$45 million (US\$31.1 million) to the drilling program in exchange for up to a 50% interest in the license property. This additional funding was intended to allow drilling of up to an additional 14 exploratory wells in 2009. In October 2008, the drilling program was stopped when SmartWin failed to advance the remaining AUD\$1.1 million (USD \$759,770) due under the AUD\$5 million (USD \$3.45 million) Note and in September 2009 Smart Win notified us that they would not pursue the joint venture and the note should be repaid as Smart Win considered the Note to be in default.

During August and September 2008 we commenced drilling on the Bellevue # 1 site and completed the pre collar hole to 272 meters. The initial rig was removed to make way for the deep drilling Hunt Energy rig to move on site to finish the well. Onsite inspection was conducted by MODUSPEC whose report on the condition of the rig was received on the 30th December 2008. The funding shortfall includes the failure of SmartWin to advance the remaining AUD\$1.1 million (USD \$759,770) due under the AUD\$5 million (USD \$3.45 million) Note as well as the effects of the global financial crisis and the apparent refusal of creditors to advance funds on new projects and the failure of historic sources of those funding exploration ventures. Due to this funding uncertainty and the length of time on hold, the suspended exploration and drilling costs incurred of \$8,271,190, (including \$3,829,474 incurred in 2009) on the well were charged to expense in 2009. Management remains confident that this shortage of operating capital will ease but there can be no guaranty that we will be able to finance the balance of our project at this juncture, which could cause the failure of our business. We have incurred significant standby charges. At September 30, 2010 we have accrued a balance of \$1,682,000 in charges owed to Hunt Energy.

In April 2009, we filed applications for two additional tenement licenses in Tasmania. One application for the coal-bed methane horizons of the existing SEL 13/98 tenement which would be tested commencing with the Bellevue #1 exploratory well. The second application for a further 12,040 sq kilometers of tenement on the Eastern seaboard of Tasmania, which includes approximately 5,000 sq kilometers of offshore area, where 7 kilometers of onshore and 256 kilometers seismic operations were previously carried out. Mineral Resources Tasmania declined to grant these applications. We have lodged additional applications in conjunction with the September 2009 expiration of Special Exploration License 13/98. One of the additional applications was granted May 17, 2010, the other remains under consideration.

We have analyzed the data collected over the past thirty years, have selected prospective sites, arranged a drilling contractor, arranged interim funding and are aggressively pursuing additional funding to drill wells on these sites as well as continue to expand the seismic and other technical knowledge on this license area.

During the quarter ended September 30, 2010, we negotiated to acquire certain technology from Bass Resources Ltd and Grand Monarch Holdings, Inc that we believe will provide significant future revenue growth. A deposit was placed to pursue this arrangement with the use of a loan from CEO Malcolm Bendall. Transaction is expected to be completed in the fourth quarter 2010 or first quarter of 2011. Additional funding will be required to complete these acquisitions.

Results of operations

Since the inception of our current business plan following our merger with GSLM in 2005, our operations have consisted primarily of various exploration and start-up activities relating to our license property and our current business, including acquiring and analyzing seismic data, seeking institutional investors, locating joint venture partners, engaging firms to comply with leasehold conditions, incurring strategic investments and developing our long term business strategies.

During the quarter ended September 30, 2010, the Company generated no oil and gas revenue. The Company generated a loss from operations of \$427,000 primarily by incurring general and administrative expenses including legal, accounting, auditing and consulting expenses required to maintain the corporate existence and pursue funding and GSLM exploration activities. During the quarter ended September 30, 2009, the Company also generated no revenue. The Company generated a loss from operations of \$697,000 primarily by incurring general and administrative expenses, primarily legal, accounting, auditing and consulting expenses required to maintain the corporate existence and pursue funding for exploration.

During the Nine months ended September 30, 2010, the Company generated no oil and gas revenue. The Company generated a loss from operations of \$1,301,000 primarily by incurring general and administrative expenses including legal, accounting, auditing and consulting expenses required to maintain the corporate existence and pursue funding and GSLM exploration activities. During the nine months ended September 30, 2009, the Company also generated no revenue. The Company generated a loss from operations of \$2,523,000 primarily by incurring general and administrative expenses primarily legal, accounting, auditing and consulting expenses required to maintain the corporate existence and pursue funding for exploration.

By its terms, Special Exploration License 13/98 expired September 30, 2009. In September 2009 we filed applications for two additional tenement licenses in Tasmania. One application is an exploration license covering key prospective areas identified in the expiring SEL 13/98 tenement including areas which would be tested commencing with the Bellevue #1 exploratory well. The second application is for a further 12,040 sq. kilometers of tenement on the Eastern seaboard of Tasmania, which includes approximately 5,000 sq. kilometers of offshore area, where 7 kilometers of onshore and 256 kilometers seismic operations were previously carried out. The onshore application was granted for a reduced area of approximately 3,000 square kilometers on May 17, 2010 as Exploration License 14/2009 including the two most prospective areas determined by work done under SEL 13/98. EL 14/2009 requires expenditure of AUD\$7.55 million (US\$6.95 million) during its term of two years to drill two wells. The second license application has not yet been awarded by Mineral Resources Tasmania. The Company believes Special Exploration License 13/98 provides a right to the award of the exploration license over areas covered by that license and continues to work for and plan for the addition of the full area covered by SEL 13/98 to the area covered by Exploration License 14/2009. Award of the Special Exploration License is at the discretion of the Minister but the Company believes its performance over past years support the issuance of the new license. Should the additional area in the current applications not be granted, we intend to reapply and to seek rights to additional exploration property that we have not yet identified. On May 17, 2010 the Tasmania Minister for Energy and Resources countersigned the documents to grant to the Company its exploration license EL14/2009, covering 3,108 sq km (768,004 acres) of the onshore Tasmania Basin including the two main domes at Bellevue and Thunderbolt identified while operating under Special Exploration License 13/98 that expired September 30, 2009.

While the Company has accepted this Exploration License 14/2009 for the area issued, the company has formally submitted notice of appeal to Mineral Resources Tasmania's (MRT) of the decision to reduce the license area and asked for the department to expand the licensed area to include the full area (1.84 million acres, 7,450 square kilometers) for which exploration license EL 14/2009 was originally applied for and which contained most (over 80 percent) of the Company's seismically defined prospective structures. The Company plans to appeal to MRT to expand the license grant to include the entire area (3.71 million acres, 15,039 square kilometers) covered in the expired Special Exploration License 13/98. The Company has additionally submitted to MRT a new application replacing Empire/GSLM's previously withdrawn special exploration license SEL 13/2009, which covers much of eastern and offshore Tasmania. Presently, the company's main focus is on drilling and developing the two most

prospective structures, Bellevue and Thunderbolt, both of which are included in the licensed area of Exploration License 14/2009.

With formal issuance to GSLM of Exploration License EL 14/2009, the Company now plans to complete funding and resume its drilling program, update its environmental studies and complete its goal of commercializing oil and gas within the Tasmania Basin.

Liquidity and Capital Resources

On September 30, 2010, the Company had \$4,000 in cash, \$12,000 in prepayments of expenses and \$12,300,000 in current liabilities including trade payables, accrued liabilities, and current maturities of debt resulting in a working capital deficit of \$12,300,000. Approximately \$2 million of debt includes provisions by which the holder may convert the debt to common equity. Net cash used by operating activities for the nine months ended September 30, 2010 was \$883,000 compared to cash used of \$606,000 for the nine months ended September 30, 2009. No cash was used by investing activities during the nine months ended September 30, 2010. Cash used in investing activities during the nine months ended September 30, 2009 was \$1,416,000. Net cash provided by financing activities during the nine months ended September 30, 2010 was \$1,291,000, primarily loans from our CEO. Net cash provided by financing activities during the nine months ended September 30, 2009 was \$602,000, primarily loans from a director. Additional financing will be needed during the coming twelve months to continue to develop the license property and pursue the company's business plan.

On February 12, 2010, registration of the Company's Rights Offering to potentially raise up to \$9.3 million by selling 133 million shares of common stock at a price per share of \$0.07 per share was allowed to become effective. The offering period ended April 18, 2010 with shareholders exercising their right to purchase approximately 17 million additional shares in the company at a value of \$58,000 in cash and debt reduction from related parties of \$1.2 million.

All eligible Empire Directors purchased their full share entitlements which included the conversion of US\$1.2 million of debt to equity. The offering registration provided for an oversubscription period during which eligible record shareholders who fully subscribed during the initial offering period are entitled to purchase the remaining 117 million additional unsubscribed shares at the same price of \$0.07 per share. This oversubscription period began with a mailing to qualified rights holders on April 27, 2010 and terminated on July 30, 2010. The oversubscription period was fully subscribed, substantially by conversion of debt by the CEO.

EEGC is in the exploration stage, devoting substantially all of its efforts to exploration of its oil and gas license in Tasmania and raising capital to finance its exploration of its oil and gas license. EEGC has substantially funded its operations with proceeds from the issuance of common stock. At September 30, 2010, the Company has current liabilities of \$13,429,000, current assets of \$16,000 and no current source of revenue. In the course of its exploration activities, EEGC has sustained operating losses and expects such losses to continue for the foreseeable future. EEGC will finance its operations primarily through cash and cash equivalents on hand, future financing from the issuance of debt or equity instruments and through the generation of revenues if commercial operations get underway. The Company has yet to generate any 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 realized.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in the notes to the consolidated financial statements, the Company has a working capital deficiency, has incurred net losses since inception, and has a significant accumulated deficit. Those conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to those matters are described in the notes to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might be necessary should the Company not continue as a going concern.

Off Balance Sheet Arrangements

We do not have any off-balance sheet debt nor did we have any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that may have material current or future effect on financial conditions, changes in the financial conditions, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenue or expenses except as noted hereinafter. We are a party to operating leases and license agreements that represent commitments for future payments (described in the financial statements). In addition, we have issued purchase orders in the ordinary course of business that represent commitments to future payments for goods and services.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not required by smaller reporting companies.

Item 4. Controls and Procedures.

Item 4T. Controls and Procedures.

(a) *Evaluation of Disclosure Controls and Procedures.* The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed by the Company in reports that it files under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosure.

In connection with the preparation of this Quarterly Report on Form 10-Q, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the CEO and CFO, as of September 30, 2010 of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon this evaluation, management concluded that, as of September 30, 2010, the Company's disclosure controls and procedures were not effective as of September 30, 2010. As reported on Form 10K filed for the year ended December 31, 2009, disclosure controls have been determined to be ineffective due to a lack of segregation of duties in the corporate office, a lack of specific anti-fraud controls and lack of a whistle-blower policy and procedure. The company has not added personnel or procedures to alleviate these material weaknesses due to limited cash resources but compensates through additional reconciliation of material accounts, oversight, independent review and officer involvement.

(b) *Changes in Internal Control over Financial Reporting.* There were no changes in the Company's internal controls over financial reporting known to the Chief Executive Officer or the Chief Financial Officer that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

See our 2009 Form 10-K for a description of current legal matters. There has been no substantial change since the Form 10-K was filed.

Item 1A. Risk Factors.

Risk factors have not changed materially from those listed in the annual report on Form 10-K for the year ended December 31, 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the three months ended September 30, 2010, we issued no unregistered common shares.

Item 3. Defaults Upon Senior Securities.

None

Item 5. Other Information.

None

Item 6. Exhibits

(a) The following exhibits are furnished as part of this report:

31.1	Certification required by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification required by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification required by Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Empire Energy Corporation International

November 30, 2010

By:

/s/ Malcolm Bendall
Malcolm Bendall

Chief Executive Officer

November 30, 2010

By:

/s/ John Garrison
John Garrison

Chief Financial Officer