

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

**FORM 10-QSB**

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

For the quarterly period ended: June 30, 2006

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)

**16801 W. 116<sup>th</sup> Street, Suite 100, Lenexa, KS**  
(Address of Principal Executive offices)

**66219**  
(Zip Code)

**Issuer's telephone number: (913) 469-5615**

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

There were 195,958,389 shares of Class A common stock \$.001 par value outstanding as of August 2, 2006. There were also 102,171 shares of Class B common stock \$.001 par value and 102,171 shares of paired convertible Exchangeco stock outstanding as of July 28, 2006.

Transitional Small Business Format (check one): Yes  No

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**PART I - FINANCIAL INFORMATION**

**Forward-Looking Statements**

This report on Form 10-QSB 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 or Plan of Operation, 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.

The Consolidated Financial Statements of the Company required to be filed with this Form 10-QSB Quarterly Report were prepared by management and commence on the following page, together with related Notes. In the opinion of management, the Consolidated Financial Statements present fairly the financial condition of the Company.

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EMPIRE ENERGY CORPORATION INTERNATIONAL  
CONSOLIDATED BALANCE SHEET  
June 30, 2006  
(Unaudited)

	June 30, 2006	December 31, 2005
<b>ASSETS</b>	<b>\$</b>	<b>\$</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	368,060	6,084
Receivables net of impairment	160,709	22,884
Loans to Zeehan Zinc Ltd.	1,287,207	—
Prepayments	271,444	—
<b>TOTAL CURRENT ASSETS</b>	<b>2,087,420</b>	<b>28,968</b>
EQUITY INVESTMENT IN ZEEHAN ZINC LTD.	3,203,196	5,969,000
EQUITY INVESTMENT IN CHINA FOOD BRANDS	80,001	—
INVESTMENT IN TECHNOLOGY LICENSE	3,925,000	—
PROPERTY AND EQUIPMENT, NET	13,839	3,874
<b>TOTAL ASSETS</b>	<b>9,309,456</b>	<b>6,001,842</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Trade and other payables	3,111,468	1,329,339
Current portion of long term debt	512,119	269,956
<b>TOTAL CURRENT LIABILITIES</b>	<b>3,623,587</b>	<b>1,599,295</b>
<b>LONG TERM TRADE AND OTHER PAYABLES</b>		
Trade and other payables	1,433,687	2,733,255

TOTAL LIABILITIES	<u>5,057,273</u>	<u>4,332,550</u>
COMMITMENTS AND CONTINGENCIES	—	—
MINORITY INTEREST, PACIFIC RIM FOODS	183,770	—
Convertible Preferred Stock in subsidiary	460,000	—
STOCKHOLDERS' EQUITY		
Class A Common stock, (300,000,000 authorized) issued with a par value of \$0.001, 165,478,532 and 114,660,042 shares respectively outstanding	165,478	114,660
Class B Common stock, issued with a par value of \$0.001, 102,171 and 103,386 shares respectively	102	103
Additional paid-in capital	20,268,476	12,728,396
Accumulated deficit during the development stage	(16,592,623)	(10,916,398)
Accumulated other comprehensive income (loss)	<u>(233,020)</u>	<u>(257,469)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>3,608,413</u>	<u>1,669,292</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>9,309,456</u>	<u>6,001,842</u>

See summary of significant accounting policies and notes to financial statements

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EMPIRE ENERGY CORPORATION INTERNATIONAL  
CONSOLIDATED STATEMENTS OF OPERATIONS  
Three Months Ended June 30, 2006 and 2005  
(Unaudited)

	<u>2006</u>	<u>2005</u>
TOTAL REVENUES	\$ —	\$ —
COSTS AND EXPENSES		
Selling, general & administrative	1,156,126	598,616
Exploration	<u>1,515,326</u>	<u>151,301</u>
TOTAL COSTS AND EXPENSES	<u>2,671,452</u>	<u>749,917</u>
LOSS FROM OPERATIONS	<u>(2,671,452)</u>	<u>(749,917)</u>
OTHER INCOME (EXPENSE)		
Loss on equity investment	(660,000)	—
Other income	46,256	6,067
Loss on disposition of investment	(1,142,804)	—
Minority interest	152,809	—
Interest (expense)	<u>(83,421)</u>	<u>(27,382)</u>
LOSS BEFORE INCOME TAXES	<u>(4,358,612)</u>	<u>(771,232)</u>
INCOME TAXES	—	—
NET LOSS	<u>(4,358,612)</u>	<u>(771,232)</u>
NET LOSS PER COMMON SHARE:		
Basic and diluted	<u>(\$0.0286)</u>	<u>(\$0.0106)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:		
Basic and diluted	<u>152,228,508</u>	<u>72,159,559</u>

See summary of significant accounting policies and notes to financial statements

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<b>Balance at</b>									
<b>June 30, 1996</b>	8,748,012	8,748	105,857	106	(8,108)	—	—	—	746
Issuance of common stock: cash	59,000	59			53,977				54,036
Issuance of common stock: share premium					391,761				391,761
Net loss							(477,078)		(477,078)
Foreign currency translations	—	—	—	—	—	24,122	—		24,122
<b>Balance at</b>									
<b>June 30, 1997</b>	8,807,012	8,807	105,857	106	437,630	24,122	(477,078)		(6,413)
Issuance of common stock: cash	138,688	139			86,318				86,457
Issuance of common stock: share premium					857,737				857,737
Net loss							(1,247,314)		(1,247,314)
Foreign currency translations	—	—	—	—	—	185,864	—		185,864
<b>Balance at</b>									
<b>June 30, 1998</b>	8,945,700	8,946	105,857	106	1,381,685	209,986	(1,724,392)		(123,669)
Issuance of common stock: cash	69,581	70			328,899				328,969
Net loss							(267,403)		(267,403)
Foreign currency translations	—	—	—	—	—	(106,064)	—		(106,064)
<b>Balance at</b>									
<b>June 30, 1999</b>	9,015,281	9,016	105,857	106	1,710,584	103,922	(1,991,795)		(168,167)
Issuance of common stock: cash	35,971	36			137,205				137,241
Issuance of common stock: services	23,214	23			151,099				151,122
Net loss							(186,666)		(186,666)
Foreign currency translations	—	—	—	—	—	22,585	—		22,585
<b>Balance at</b>									
<b>June 30, 2000</b>	9,074,466	9,075	105,857	106	1,998,888	126,507	(2,178,461)		(43,885)

See summary of significant accounting policies and notes to financial statements

	<u>Common</u> <u>No</u>	<u>Stock - A</u> <u>\$</u>	<u>Common</u> <u>No</u>	<u>Stock - B</u> <u>\$</u>	<u>Additional</u> <u>Paid-In</u> <u>Capital</u> <u>\$</u>	<u>Accumulated</u> <u>Other</u> <u>Comprehensive</u> <u>Gain (Loss)</u> <u>\$</u>	<u>Deficit</u> <u>Accumulated</u> <u>during the</u> <u>Development</u> <u>Stage</u> <u>\$</u>	<u>Total</u> <u>Stockholders'</u> <u>Equity (Deficit)</u> <u>\$</u>
Balance at July 1, 2000	9,074,466	9,075	105,857	106	1,998,888	126,507	(2,178,461)	(43,885)
Issuance of common stock: cash	348,214	348			1,174,477			1,174,825
Issuance of common stock: services	23,317	23			67,863			67,886
Issuance of common stock: bonus issue	51,911,055	51,911			(51,911)			—
Net loss							(1,767,759)	(1,767,759)
Foreign currency translations	—	—	—	—	—	73,133	—	73,133
<b>Balance at June 30, 2001</b>	61,357,052	61,357	105,857	106	3,189,317	199,640	(3,946,220)	(495,800)
Issuance of common stock: cash	609,000	609			590,642			591,251
Issuance of common stock: services	3,955,125	3,955			530,778			534,733
Stock issuance costs					(44,109)			(44,109)
Net loss							(1,382,217)	(1,382,217)
Foreign currency translations	—	—	—	—	—	(83,949)	—	(83,949)
<b>Balance at June 30, 2002</b>	65,921,177	65,921	105,857	106	4,266,628	115,691	(5,328,437)	(880,091)
Issuance of common stock: cash	1,028,764	1,029			607,613			608,642
Issuance of common stock: services	3,955,125	3,955			2,119,156			2,123,111
Stock issuance costs					(286,040)			(286,040)
Net loss							(2,901,629)	(2,901,629)
Foreign currency translations	—	—	—	—	—	(233,528)	—	(233,528)
<b>Balance at June 30, 2003</b>	70,905,066	70,905	105,857	106	6,707,357	(117,837)	(8,230,066)	(1,569,535)

Issuance of common stock: cash	246,800	247			159,926			160,173
Issuance of common stock: services	21,928	22			16,238			16,260
Stock issuance costs					2,007			2,007
Net loss							(599,870)	(599,870)
Foreign currency translations	—	—	—	—	—	(24,630)	—	(24,630)
<b>Balance at June 30, 2004</b>	<b>71,173,794</b>	<b>71,174</b>	<b>105,857</b>	<b>106</b>	<b>6,885,528</b>	<b>(142,467)</b>	<b>(8,829,936)</b>	<b>(2,015,595)</b>

See summary of significant accounting policies and notes to financial statements

EMPIRE ENERGY CORPORATION INTERNATIONAL  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT  
Period From March 1995 (inception) Through June 30, 2006  
(Unaudited)

	Common No	Stock - A \$	Common No	Stock - B \$	Additional Paid-In Capital \$	Accumulated Other Comprehensive Gain (Loss) \$	Deficit Accumulated during the Development Stage \$	Total Stockholders' Equity (Deficit) \$
Balance at July 1, 2004	71,173,794	71,174	105,857	106	6,885,528	(142,467)	(8,829,936)	(2,015,595)
Net loss for 6 months							(188,615)	(188,615)
Foreign currency translations for 6 months	—	—	—	—	—	(274,088)	—	(274,088)
<b>Balance at December 31, 2004</b>	<b>71,173,794</b>	<b>71,174</b>	<b>105,857</b>	<b>106</b>	<b>6,885,528</b>	<b>(416,555)</b>	<b>(9,018,551)</b>	<b>(2,478,298)</b>
Issuance of common stock: debt	29,458	29			(29)			—
Issuance of common stock: services	2,634,319	2,634			(2,634)			—
Conversion of Class B stock into Class A	2,471	3	(2,471)	(3)				—
Reverse					(213,249)			(213,249)

Acquisition of GSLM								
Issuance of common stock: contingency	2,490,000	2,490			(2,490)			—
Issuance of common stock: Acquisition of Cyber Finance	37,500,000	37,500			5,962,500			6,000,000
Issuance of common stock: services	830,000	830			98,770			99,600
Net loss for year							(1,897,847)	(1,897,847)
Foreign currency translations	—	—	—	—	—	159,086	—	159,086
<b>Balance at December 31, 2005</b>	114,660,042	114,660	103,386	103	12,728,396	(257,469)	(10,916,398)	1,669,292
Issuance of common stock: HEM convertible debenture	6,222,675	6,223			498,500			504,723
Issuance of common stock: services	5,880,000	5,880			832,320			838,200
Conversion of Class B stock into Class A	1,215	1	(1,215)	(1)				—
Issuance of common stock: Exchange for debt	2,549,600	2,549			317,252			319,801
Issuance of common stock: Cash	17,100,000	17,100			1,863,900			1,881,000
Issuance of common stock: Libertas, less stock fees of \$359,400	4,065,000	4,065			205,935			210,000
Issuance of	15,000,000	15,000			2,985,000			3,000,000

common stock:									
License									
Beneficial conversion feature, convertible debenture	—	—			837,173				837,173
Net loss for quarter							(5,676,225)		(5,676,225)
Foreign currency translations	—	—	—	—	—	—	24,449	—	24,449
<b>Balance at June 30, 2006</b>	<u>165,478,532</u>	<u>165,478</u>	<u>102,171</u>	<u>102</u>	<u>20,268,476</u>	<u>(233,020)</u>	<u>(16,592,623)</u>		<u>3,608,413</u>

See summary of significant accounting policies and notes to financial statements

EMPIRE ENERGY CORPORATION INTERNATIONAL  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Six Months Ended June 30, 2006 and 2005  
(Unaudited)

	Note	2006 \$	2005 \$	March 15, 1995 (Inception) to June 30, 2006 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net loss		(5,676,224)	(990,365)	(16,592,622)
Adjustments to reconcile net loss to net cash used in operating activities:				
Share issues for services		838,200	—	3,830,912
Depreciation and amortization		53,234	6,544	87,832
Loss on disposition of investment		1,142,804	—	1,142,804
Loss on disposal of fixed assets		—	207	207
Loss on equity investment		698,000	—	729,000
Change in minority interest		183,770	—	183,770
Changes in operating assets and liabilities:				
(Increase) Decrease in receivables		(137,825)	(7,822)	(160,709)
(Increase) Decrease in prepaid expenses and other assets		(271,444)	168,174	(271,444)
Increase (Decrease) in payables		797,060	494,339	4,646,405
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		<u>(2,372,425)</u>	<u>(328,923)</u>	<u>(6,403,845)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Loans to Zeehan Zinc, Ltd.		(1,040,207)	—	(1,040,207)
Investment in China food brands		(80,001)	—	(80,001)
Purchase of property and equipment		(10,494)	—	(49,173)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<u>(1,130,702)</u>	<u>—</u>	<u>(1,169,381)</u>

CASH FLOWS FROM FINANCING ACTIVITIES			
Capital raising costs	—	—	(328,142)
Net proceeds from issuance of preferred shares	460,000	—	460,000
Net proceeds from borrowings	1,500,000	259,429	1,769,956
Proceeds from issuance of shares	<u>1,881,000</u>	<u>—</u>	<u>6,272,838</u>
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>3,841,000</b>	<b>259,429</b>	<b>8,174,652</b>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>24,103</u>	<u>70,495</u>	<u>(233,366)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>361,976</b>	<b>1,001</b>	<b>368,060</b>
CASH AND CASH EQUIVALENTS – beginning of period	<u>6,084</u>	<u>5,325</u>	<u>—</u>
CASH AND CASH EQUIVALENTS – end of period	<u><u>368,060</u></u>	<u><u>6,326</u></u>	<u><u>368,060</u></u>
<b>CASH PAID FOR:</b>			
Taxes	—	—	—
Interest	<u>10,352</u>	<u>891</u>	<u>135,835</u>

See summary of significant accounting policies and notes to financial statements

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EMPIRE ENERGY CORPORATION INTERNATIONAL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2006 and 2005 (Unaudited)

**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation:** The accompanying unaudited interim financial statements of Empire Energy Corporation International (“EEGC”) 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 (“SEC”), 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-KSB for the year ended December 31, 2005. 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 disclosure contained in the audited financial statements for 2005 as reported in the 10-KSB have been omitted.

**Organization:** Empire Energy Corporation International (“EEGC” or “the Company”) was incorporated in Utah on November 10, 1983. EEGC commenced commercial activity in the oil and gas industry on May 17, 1999.

During 2002, EEGC sold most of its oil and gas properties and entered into an agreement to acquire Great South Land Minerals (“GSLM”). Effective April 12, 2004, EEGC changed its name from Empire Energy Corporation to Empire Energy Corporation International, reincorporated in the state of Nevada, increased the authorized shares from 50 million to 100 million and effected a 1 for 10 reverse stock split. During 2003 and 2004, EEGC sold all properties, settled some debts and pursued the acquisition of GSLM, which was completed April 7, 2005. In August 2005, EEGC further increased its authorized shares from 100 million to 300 million.

**Reverse Acquisition:** On April 7, 2005 (acquisition date) Empire Energy received 96.4% acceptances for its bid to acquire all the common stock in GSLM and on June 15, 2005 Empire Energy compulsorily acquired the remaining common stock of GSLM. All of the outstanding shares of GSLM were exchanged for 62,426,782 shares of Empire Energy common stock in a one for one scrip issue.

Pursuant to the guidance in Appendix B of SEC Accounting Disclosure Rules and Practices Official Text, the merger of a private operating company into a non-operating public shell corporation with nominal net assets typically results in the owners and management of the private company having actual or effective operating control of the combined company after the transaction, with the shareholders of the former public shell continuing only as passive investors. These transactions are considered by the staff to be capital transactions in substance, rather than business combinations. That is, the transaction is equivalent to the issuance of stock by the private company for the net monetary assets of the shell corporation, accompanied by a recapitalisation. Accordingly, the reverse acquisition has been accounted for as a recapitalisation. For accounting purposes, GSLM is considered the acquirer in the reverse acquisition and all history presented is that of GSLM. Operating results of EEGC are included in these consolidated financial statements from the date of the reverse acquisition, April 7, 2005. References to EEGC in the remainder of these notes will refer to the consolidated company including the operating history of GSLM unless otherwise specified.

The costs of the reverse acquisition (transaction costs) have been charged to expense.

The accompanying consolidated financial statements of the Company reflect the historical results of GSLM, and the consolidated results of operations of the Company and GSLM subsequent to the date of acquisition.

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Principles of Consolidation: The consolidated financial statements include the accounts of EEGC (the "Parent" entity) and its wholly owned or controlled subsidiaries. All significant intercompany balances and transactions have been eliminated on consolidation.

Equity Investment: In November 2005, EEGC acquired a British Virgin Islands Company, Cyber Finance, Ltd. (Cyber) in exchange for 37.5 million shares of newly issued EEGC common stock. The sole asset of Cyber was an investment of 12,745,407 shares of common stock in Zeehan Zinc Limited (Zeehan), representing at the time approximately 37.5% of the total outstanding shares of Zeehan. This investment has decreased proportionally to approximately 13.2% as Zeehan has issued additional shares and EEGC has disposed of shares. This investment was accounted for using the equity method. Under this method the investment is recorded at cost on a single line on the balance sheet when the investment is made and the company records its proportional share of the results of operations on a single line on the statement of operations.

Going Concern and Liquidity: EEGC is in the development 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. 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 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.

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

- Substantial losses incurred through supporting the ongoing exploration expenditure 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 expenditure under the Company's key mineral exploration lease.
- Current liabilities of \$3,623,587 and current assets of \$2,087,420 including cash or cash equivalents of \$368,060 at June 30, 2006.

The exploration license SEL 13/98 has been renewed effective 1 October 2004, and has strict mandatory cumulative expenditure requirements of \$3,119,615 by 30 September 2005, \$4,883,560 by 30 September 2006, \$7,686,600 by 30 September 2007, \$11,500,700 by 30 September 2008 and \$12,557,900 by 30 September 2009 without which the license may be revoked at the discretion of the Minister, Resources and State Development.

There can be no assurance that the Company will be able to obtain financing on commercially reasonable terms. The continuing viability and its ability to continue as a going concern and to meet its obligations as they fall due is dependent on the Company being successful in raising additional funds. The Company's inability to raise capital may have a material adverse affect on its financial condition, ability to meet its obligations and operating needs and results of operations.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or to the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

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The Company has planned the following activities and the following activities exist to address the above going concern issues.

The directors have reviewed their short-term cash flow requirements and consider that the company has or has access to sufficient funds to meet the financial obligations of the company.

These include:

- Declarations from key creditors (which represented \$1,433,687 of the liabilities as at June 30, 2006) that proceeding to enforce collection of debt will not be undertaken before December 31, 2007 in respect of all relevant debts incurred up to June 30, 2006.
- The company has obtained equity funding of approximately \$1,881,000, convertible debt financing of approximately \$1,500,000 and convertible preferred equity financing of net \$460,000 since December 31, 2005 and is negotiating additional funding from this and additional sources. The balance of the convertible debt financing will be due and payable in March 2011.
- The company has been able to convert a debenture payable as at December 31, 2005 in the face amount of \$493,000 to common shares.

The directors have reviewed the cash flow requirements necessary to meet the company's exploration expenditure commitments and consider that the following actions will ensure that the company has access to sufficient funds.

These include:

- Obtaining approval to increase authorised shares to allow additional acquisitions and fund-raising activities
- Seeking acquisitions that will provide capital and cash flow
- Working on refinancing opportunities and using the additional shares to pursue development activities.
- Entering into negotiations with a number of parties for additional funding.

**Emphasis of Matter:** The report of the independent registered public accounting firm on EEGC's financial statements for the year ended 31 December 2005 and 2004 contained an emphasis of matter paragraph regarding the Company's ability to continue as a going concern. The independent audit report on GSLM's financial statements for the year ended 30 June 2004 contained an emphasis of matter paragraph regarding the GSLM's ability to continue as a going concern.

EMPIRE ENERGY CORPORATION INTERNATIONAL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2006 and 2005 (Unaudited)

NOTE 2 – TAXATION

In assessing the realisability of deferred tax assets, the Company applies SFAS No. 109 to determine whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. As a result, the Company’s valuation allowance at June 30, 2006 and 2005 reduces the net deferred tax assets to \$0.

NOTE 3 – CONVERTIBLE DEBENTURE - HEM

On July 2, 2004, EEGC obtained \$500,000 for operating capital by assuming notes payable to HEM Mutual Assurance LLC (“HEM”). The notes accrued interest at 1.5% per annum. \$493,000 plus accrued interest remained convertible to common shares of EEGC at December 31, 2005. Under the terms of the original agreement, both principal and interest were entirely converted into 6,222,675 shares of common stock during the first quarter of 2006.

NOTE 4 – CONVERTIBLE DEBENTURE, EQUITY SALE AND WARRANTS

On March 21, 2006, pursuant to a subscription agreement with RAB Special Situations (Master) Fund Limited, a British investment fund, we issued 17,100,000 shares of our Class A Common Stock, together with warrants entitling the holder to acquire an additional 8,550,000 shares, in exchange for \$1,881,000, which we are using for general corporate purposes. The warrants are exercisable at a price of \$0.13 over an exercise period of three years. We covenanted in the subscription agreement to register the issued shares as well as the shares underlying the warrants. On the same date, we sold \$1.5 million of our 6% convertible debenture and a Class B Warrant offering up to 5 million shares exercisable at \$.18 per share for 3 years. The initial conversion price for the debenture is \$0.18 per share. RAB Special Situations also purchased this offering. RAB Special Situation (Master) Fund Limited represented itself as a non U.S. person. We were represented in the offerings by Libertas Capital Corporate Ventures Limited, a U.K. investment banking firm which is to receive 4,065,000 shares of our Class A common stock (equal to 10% of the RAB shares issuable) as their fees for those services. Shares issued to Libertas that are related to the sale of stock, valued at \$359,100 have been charged to capital and the shares related to the convertible debenture, valued at \$210,000 have been charged to the debenture and will be amortized to income over the term of the debenture. We relied on Regulation S as the exemption from registration as the offering was conducted entirely overseas and the investor is a non-U.S. person.

The notes have been discounted to record the fair value of the included warrants issued, the beneficial conversion feature imbedded in the debenture and the transaction costs. As of June 30, 2006, no shares of common stock had been issued in conversion of the debenture and no warrants had been exercised. The discounts will be amortized over the term of the debenture. A summary of the debenture and discounts are as follows:

	<u>2006</u>	<u>2005</u>
	\$	\$
Debenture payable:		
Gross proceeds from notes	1,500,000	—
Less: beneficial conversion feature	(420,181)	—
Less: fair value of included warrants	(416,991)	
Less: fair value of stock issued to intermediary	(210,000)	—
Amortization of costs and beneficial conversion feature	<u>52,359</u>	<u>—</u>
Book value of note on June 30, 2006	<u>505,186</u>	<u>—</u>

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The terms and exercise prices of the warrants are set out in the table below.

<u>Number of shares</u>	<u>Exercise price</u>	<u>Warrant expiration date</u>
8,550,000	\$ 0.13	March 24, 2009
5,000,000	\$ 0.18	March 24, 2009

Each warrant may be exercised in whole or in part at any time to purchase shares of common stock at the respective exercise price, subject to adjustment from time to time upon certain the occurrence of certain events. Registration rights have been granted pursuant to which the Company prepared and filed a registration statement within 120 calendar days of closing.

#### NOTE 5 – STOCKHOLDERS' EQUITY

	<u>2006</u>	<u>2005</u>
	No.	No.
Issue of Class A common stock:		
	—	—
January to June 2006 conversion of shares from B stock	1,215	—
Shares sold to RAB for cash	17,100,000	—
Shares issued in conversion of HEM Debenture	6,222,675	—
Shares issued to settle debt	2,549,600	—
Shares issued to First Global for services	4,380,000	—
Shares issued to Mackay Partnership for services	1,500,000	—
Shares issued to Libertas related to RAB financing	<u>4,065,000</u>	<u>—</u>
	<u>35,818,489</u>	<u>—</u>
Issue of Class B Common stock:		
January to March 2006 conversion of B shares into A shares	<u>(1,215)</u>	<u>—</u>
	<u>(1,215)</u>	<u>—</u>

#### NOTE 6 – ACQUISITION OF PACIFIC RIM FOODS, LTD

In March 2006, the company issued 9 million shares of common stock to acquire a 51% interest in Pacific Rim Foods, Ltd., a company newly created to develop food production and canning operations in China. The shares are the primary asset of Pacific Rim Foods and are intended to be used to acquire operations and facilities. Pacific Rim Foods transferred 1,500,000 of the shares to a management company controlled by a company director as compensation for services. At June 30, 2006, 7,500,000 of the shares remained in the treasury of Pacific Rim Foods and were eliminated in consolidation.

May 2006, Pacific Rim Foods, completed a \$500,000 private placement of Convertible Preferred Stock. Proceeds of this fundraising, along with \$300,000 provided by Empire, are intended to be used to acquire operations and facilities in China to allow expansion of the intended shelf stable food processing operations. Pacific Rim spent approximately \$350,000 to prepay contracts to purchase product that should be available for processing in summer of 2006, acquire a 49% ownership interest in Jilin Jimei Foods and acquire an interest in trade names, leases, facilities and licenses.

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#### NOTE 7 – TECHNOLOGY LICENSE

In June 2006, Empire acquired 100% of Expedia International Limited. This subsidiary entered into an agreement to license and promote certain nano technology. Cost of the license agreement was the issuance of fifteen million Empire common shares and transfer of five million Zeehan Zinc shares, valued at a total of \$3,925,000. Expedia is negotiating a development agreement with Zeehan Zinc to employ this technology at the mine sites.

#### NOTE 8 – SUBSEQUENT EVENTS

In July 2006, the company held in escrow approximately 15 million shares of common stock to be used to settle outstanding liabilities.

In April 2006, the company received a statutory demand for \$584,478. This amount has been accrued for in full in the December 31, 2005 payables. The company is negotiating to rescind the statutory demand and settle any liability with a payment of approximately AUD 200,000 and issuance of three million shares of Empire common stock.

The Company received a letter from Australian regulators regarding an alleged breach of the Corporations Act 2001 when Empire acquired a 37.5% stake in Zeehan Zinc Ltd. in 2005. In 2006, the Company notified the regulators that it had reduced its interest in Zeehan Zinc below 20% and is awaiting response.

The Company entered into an agreement with a shareholder of Pacific Rim Foods to allow the Company to acquire and maintain voting control over Pacific Rim Foods, avoid potential Investment Company Act issues and establish future consolidated operations.

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## **Item 2. Management's Discussion and Analysis or Plan of Operation.**

Our twelve-month plan of operation

We currently have three active wholly-owned subsidiaries, GSLM, Cyber-Finance Limited and Expedia International, Ltd, and own 51% of Pacific Rim Foods, Ltd. GSLM undertakes all of our Tasmanian operations. Cyber holds a 13.2% stake in Zeehan Zinc and Expedia holds our license for the nano-key ball mill technologies. Pacific Rim Foods Ltd. has interests in the Chinese shelf stable foods industry.

The terms of the GSLM lease SEL 13/98 set by Mineral Resources Tasmania, the local authority under the Department of Industry, Energy and Resources, require the company to expend no less than AUD \$17,200,000 on exploration and development in scheduled increments over five years. As discussed more fully below, we have recently received proceeds from a financing of \$3.4 million that have funded the initial AUD \$2 million prepayment made to Terrex Seismic and further funding has been identified that we expect to cover the balance of the survey costs. This investment complies with our expenditure obligations through the second quarter of 2006. Empire has entered into an exclusive heads of agreement to acquire a drilling rig that will enable accelerated exploration and development of these licensed properties.

During the first quarter of 2006, the Company raised approximately \$3.4 million by issuing common shares, Class A and Class B warrants and a convertible debenture in the amount of \$1.5 million. Proceeds were used to repay a short-term promissory note in the amount of \$1 million without interest, make a substantial deposit on the seismic surveys by Terrex over our oil and gas license in Tasmania, purchase certain inventory for our Pacific Rim Foods subsidiary, extend a loan to Zeehan Zinc and for other general corporate purposes. We will need approximately an additional AUD \$4.5 million for Terrex to complete the seismic survey, which will be payable early in the third quarter of this year. Once the survey has been completed, it is our intent to commence drilling our first exploratory well at Lachish No. 1, assuming the seismic survey confirms our geologic information. The Company intends on calling on M&R Associates (Primeline) to engage in a joint venture with respect to this well, and we have commenced negotiations with our contacts in China for further exploration joint ventures which joint ventures we believe may be consummated before the end of the third quarter. The seismic survey is expected to continue through the first quarter of 2007 and our drilling campaign will trail the seismic so we hope to drill our second exploratory well during the third quarter of 2006, if we have sufficient funds to do so.

With respect to our Pacific Rim Foods Ltd. subsidiary, we acquired our 51% interest in this entity by way of issuing 9,000,000 shares of our common stock to Pacific Rim Foods Ltd. in exchange for that interest. Pacific Rim is controlled by Mr. Tad Ballantyne, a director of Empire, who has been principally engaged in the food processing industry during a substantial part of his career. Mr. Ballantyne has substantial contacts in China and has negotiated on behalf of Pacific Rim the acquisition of the brand name "Jimei" for USD \$80,000 and negotiated a USD \$300,000 inventory purchase agreement with Jilin Jimei Foods Ltd to provide us with inventory pending the next crop harvest.

During the third quarter of 2006, Pacific Rim expects to have completed the formation of its wholly-owned foreign enterprise in China (“WFOE”) and plans to close on the purchase of an existing food processing plant and the lease of a second plant within the WFOE structure, which should permit it to commence full operations. Pacific Rim has also entered into a letter of understanding to acquire Jilin Jimei Foods Ltd as part of the Chinese privatization process and expect to complete the acquisition during the fourth quarter if we become comfortable as to the terms. In order to get to an operational state, Pacific Rim raised \$500,000 (US) in a private placement. As a result of this money raise, we do not believe Pacific Rim Foods need any additional funds prior to becoming fully operational.

Zeehan entered into a letter of understanding with Libertas Capital, a London-based investment banking firm, to assist us in financing opening of the mining operations and infrastructure necessary to commence operations on the tenements leased by Zeehan Zinc. Libertas has also agreed to consider floating up to 40% of Zeehan Zinc on the London Exchange Alternative Investment Market (AIM). During the balance of this year, Zeehan Zinc expects to raise and expend approximately \$25 million for infrastructure, completion of the gravity plant, upgrading of the crushing mill, building of access roads, completing environmental planning and design for the access roads, and the design and planning of a tailings dam and test pits as well as increasing staff by approximately thirty. The majority of these

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funds are expected to come from the capital-raising efforts being negotiated with Libertas Capital. During the second quarter of 2006, we were able to finish the gravity plant and mill upgrade, to complete planning for the installation of a floatation plant and finish our exploratory drilling program and gravity surveys necessary pursuant to our lease obligations to the DIER.

Part of these expenditures will be used for setting up the nano-key ball mill which will be used to liquefy the ore extracted from the mines which is a more environmentally friendly method of separating valuable metals from ore and also permits the manufacture of building materials from the balance of the ore materials. During the third quarter, we intend on setting up the initial trial of the nano-key ball mill. During that same quarter, we expect Zeehan Zinc to commence mining operations through open pit development. At the present time, management of Zeehan Zinc believes that it should be able to commence production of ore concentrates for shipment to its smelter during the first quarter of 2007, however, Zeehan management does not expect that the Company, will be generating revenue until the second quarter of 2007.

Through our new subsidiary, Expedia, we obtained an exclusive license for the nano-key ball mill technology. While this technology is currently being developed for use on Zeehan Zinc properties, management believes it has several other significant markets which we plan to develop commencing in approximately the third quarter of 2006. These technologies include the building materials discussed in the preceding paragraph and also the production of ink products.

August 15, 2006 Zeehan raised 1.25 million pounds sterling through sales of equity. This funding will allow Zeehan to secure all licenses and fund operations and development.

#### 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 start-up activities relating to our current business, including 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 six months ended June 30, 2006, the combined Company generated no revenue. The combined Company generated a loss of \$5,676,225 by incurring general & administrative expenses of \$2,207,119, primarily legal, accounting, auditing and consulting expenses required to maintain the corporate existence, pursue funding and pursue the GSLM exploration activities and Zeehan development activities. In addition, the company reported operating losses of \$698,000 from its investment in Zeehan Zinc and incurred a loss of \$1,142,804 from the disposition of a portion of that investment to reduce its investment below twenty percent. To accomplish this reduction, the company exchanged five million shares of its Zeehan common stock and issued fifteen million shares of Empire common stock to acquire

the nano-key ball mill technology license. A loss was recorded on the transfer of the Zeehan shares. The company also reported in 2006 an adjustment of \$152,809 to record the net effect of Pacific Rim Foods Ltd that is included in these consolidated financial statements but is owned by other parties. During the six months ended June 30, 2005, the Company (then GSLM alone for the first three months) also generated no revenue. The Company generated a loss of \$990,365 primarily by incurring \$814,572 from general and administrative expenses while pursuing and completing the merger of GSLM and EEGC.

#### Liquidity and Capital Resources

On June 30, 2006, the Company had \$368,060 in cash, \$270,000 in prepayments of food production costs, \$160,709 in receivables and \$3,623,587 in current liabilities. The liabilities include approximately \$1,500,000 in convertible debentures and the remainder substantially in trade payables and accrued expenses. Net cash used in operating activities for the six months ended June 30, 2006 was \$2,372,425 compared to \$328,923 for the six months ended June 30, 2005, substantially exploration and seismic expenditures. Cash used in investing activities during the six months ended June 30, 2006 was \$1,130,702 substantially loans to Zeehan and acquisition of China properties. No cash was used in investing activities for the six months ended June 30, 2005. Net cash provided by financing activities was \$1,500,000 from sale of convertible debentures, \$1,881,000 from sale of common stock and \$460,000 net proceeds from sale of convertible preferred stock of the Pacific Rim subsidiary during the six months ended June 30, 2006. Net cash of \$259,429 was provided by financing activities during the six months ended June 30, 2005. Additional financing will be needed to develop the license property and pursue the company's business plan.

#### Off Balance Sheet Arrangements

Empire Energy has no off-balance sheet arrangements.

### **Item 3. Controls and Procedures**

We maintain a system of disclosure controls and procedures that are designed for the purposes of ensuring that information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, as appropriate to allow timely decisions regarding required disclosure.

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We carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-QSB. Based upon that evaluation, the Chief Executive Officer concluded that our disclosure controls and procedures are effective for the purposes discussed above as of the end of the period covered by this Quarterly Report on Form 10-QSB. There was no significant change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### **Item 6. Exhibits and Reports on Form 8-K**

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

1. Exhibit 31 Certification required by Section 302 of the Sarbanes-Oxley Act of 2002.
2. Exhibit 32 Certification required by Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Empire Energy Corporation International

August 18, 2006

By: /s/ Malcolm Bendall

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Malcolm Bendall  
Chief Executive Officer  
Chief Financial Officer