

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, 2008

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

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 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 255,262,142 shares of its Class A Common Stock issued and 247,762,142 shares outstanding, 100,874 shares of its Class B Common Stock issued and outstanding, and 100,874 shares of paired convertible Exchange shares issued and outstanding as of September 30, 2008, 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.

The Consolidated Financial Statements of the Company required to be filed with this 10-Q 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.

EMPIRE ENERGY CORPORATION INTERNATIONAL
CONSOLIDATED BALANCE SHEET
September 30, 2008
(Unaudited)

	September 30, 2008	(Restated) December 31, 2007
	<u> </u>	<u> </u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 284,149	\$ 1,228,903
Receivables net of impairment of \$183,650	110,508	4,345
Prepayments	3,245,304	45,894
Inventory Advances net of impairment of \$520,020	—	—
TOTAL CURRENT ASSETS	<u>3,639,961</u>	<u>1,279,142</u>
MARKETABLE SECURITIES	1,503,586	143,666
JOINT INVESTMENT IN CHINA FOOD BRANDS	80,000	80,000
OIL AND GAS PROPERTIES UNDER DEVELOPMENT	1,931,902	—
PROPERTY AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION OF \$168,088	<u>208,908</u>	<u>248,786</u>
TOTAL ASSETS	<u><u>\$ 7,364,357</u></u>	<u><u>\$ 1,751,594</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade and other payables	\$ 1,611,615	\$ 2,036,764
Accrued Liabilities	—	161,768
Current portion of long term debt	2,480,464	640,086
Note payable	3,190,462	—
Accrued interest payable	<u>288,592</u>	<u>—</u>
TOTAL CURRENT LIABILITIES	<u>7,571,133</u>	<u>2,838,618</u>
LONG TERM TRADE AND OTHER PAYABLES		
Trade and other payables	—	859,063
Long term debt	<u>1,009,661</u>	<u>873,372</u>
TOTAL LIABILITIES	<u>8,580,794</u>	<u>4,571,053</u>
COMMITMENTS AND CONTINGENCIES		
LIABILITY INTEREST, PACIFIC RIM FOODS	1,046,213	819,689
STOCKHOLDERS' EQUITY		
Class A Common stock, (599,000,000 authorized) issued with a par value of \$0.001, 247,762,142 and 198,546,456 shares respectively outstanding	247,762	198,546
Class B Common stock, (1,000,000 authorized) issued with a par value of \$0.001, 100,874 and 100,917 shares respectively outstanding	101	101
Additional paid-in capital	32,595,016	26,110,171
Accumulated deficit during the development stage	(35,696,464)	(29,831,440)
Accumulated other comprehensive income (loss)	<u>590,935</u>	<u>(116,526)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>(2,262,650)</u>	<u>(3,639,148)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 7,364,357</u></u>	<u><u>\$ 1,751,594</u></u>

See summary of significant accounting policies and notes to financial statements

EMPIRE ENERGY CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended September 30, 2008 and 2007
(Unaudited)

	2008	(Restated) 2007
TOTAL REVENUES	\$ —	\$ —
COSTS AND EXPENSES		
Selling, general & administrative	759,797	1,471,554
Exploration	305,997	165,250
TOTAL COSTS AND EXPENSES	<u>1,065,794</u>	<u>1,636,804</u>
LOSS FROM OPERATIONS	<u>(1,065,794)</u>	<u>(1,636,804)</u>
OTHER INCOME (EXPENSE)		
Minority interest	1,017	5,312
Interest (expense)	(80,407)	(194,026)
LOSS BEFORE INCOME TAXES	<u>(1,145,184)</u>	<u>(1,825,518)</u>
INCOME TAXES	<u>—</u>	<u>—</u>
NET LOSS	<u>\$ (1,145,184)</u>	<u>\$ (1,825,518)</u>
NET LOSS PER COMMON SHARE:		
Basic and diluted	<u>\$ (0.0049)</u>	<u>\$ (0.0099)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:		
Basic and diluted	233,170,150	183,878,921

See summary of significant accounting policies and notes to financial statements

EMPIRE ENERGY CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENTS OF OPERATIONS
Nine Months Ended September 30, 2008 and 2007
(Unaudited)

	2008	(Restated) 2007	(Restated) March 15, 1995 (Inception) to September 30, 2008
TOTAL REVENUES	\$ —	\$ —	\$ —
COSTS AND EXPENSES			
Selling, general & administrative	4,254,672	3,318,072	21,574,784
Exploration	1,195,446	2,786,755	10,342,317
Gain on equipment sale	—	—	(27,289)
TOTAL COSTS AND EXPENSES	<u>5,450,118</u>	<u>6,104,827</u>	<u>31,889,812</u>
LOSS FROM OPERATIONS	<u>(5,450,118)</u>	<u>(6,104,827)</u>	<u>(31,889,812)</u>
OTHER INCOME (EXPENSE)			
Gain (Loss) on disposition of investment	—	1,142,834	(1,723,168)
Loss on Zeehan equity investment	—	—	(729,000)
Other income	—	2,472	156,807
Minority interest	73,476	19,721	660,035
Interest (expense)	(488,382)	(684,975)	(2,171,326)
LOSS BEFORE INCOME TAXES	<u>(5,865,024)</u>	<u>(5,624,775)</u>	<u>(35,696,464)</u>
INCOME TAXES	<u>—</u>	<u>—</u>	<u>—</u>
NET LOSS	<u>\$ (5,865,024)</u>	<u>\$ (5,624,775)</u>	<u>\$ (35,696,464)</u>
NET LOSS PER COMMON SHARE:			
Basic and diluted	<u>\$ (0.0268)</u>	<u>\$ (0.0291)</u>	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:			
Basic and diluted	218,810,543	193,045,588	

See summary of significant accounting policies and notes to financial statements

EMPIRE ENERGY CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Period From March 1995 (inception) Through September 30, 2008
(Unaudited)

	Common	Stock – A	Common	Stock – B	Additional Paid-In Capital	Accumulated Other Comprehensive Gain (Loss)	Deficit during the Development Stage	Total Stockholders' Equity (Deficit)
	No	\$	No	\$	\$	\$	\$	\$
Balance at March 15, 1995	—	—	—	—	—	—	—	—
Balance of common stock:								
cash	1,000	1	—	—	745	—	—	746
Net loss	—	—	—	—	—	—	—	—
Balance at June 30, 1996 (Restated)	1,000	1	—	—	745	—	—	746
Balance of common stock:								
cash	59,000	59	—	—	53,977	—	—	54,036
Balance of common stock:								
share premium	—	—	—	—	391,761	—	—	391,761
Net loss	—	—	—	—	—	—	(477,078)	(477,078)
Foreign currency translations	—	—	—	—	—	24,122	—	24,122
Balance at June 30, 1997 (Restated)	60,000	60	—	—	446,483	24,122	(477,078)	(6,413)
Balance of common stock:								
cash	138,688	139	—	—	86,318	—	—	86,457
Balance of common stock:								
share premium	—	—	—	—	857,737	—	—	857,737
Net loss	—	—	—	—	—	—	(1,247,314)	(1,247,314)
Foreign currency translations	—	—	—	—	—	185,864	—	185,864
Balance at June 30, 1998 (Restated)	198,688	199	—	—	1,390,538	209,986	(1,724,392)	(123,669)
Balance of common stock:								
cash	69,581	70	—	—	328,899	—	—	328,969
Net loss	—	—	—	—	—	—	(267,403)	(267,403)
Foreign currency translations	—	—	—	—	—	(106,064)	—	(106,064)

Balance at June 30, 1999 (Restated)	268,269	269	—	—	1,719,437	103,922	(1,991,795)	(168,167)
Change of common stock: cash	35,971	36	—	—	137,205	—	—	137,241
Change of common stock: services	23,214	23	—	—	151,099	—	—	151,122
Net loss	—	—	—	—	—	—	(186,666)	(186,666)
Foreign currency translations	—	—	—	—	—	22,585	—	22,585

Balance at June 30, 2000 (Restated)	327,454	328	—	—	2,007,741	126,507	(2,178,461)	(43,885)
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See summary of significant accounting policies and notes to financial statements

EMPIRE ENERGY CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Period From March 1995 (inception) Through September 30, 2008
(Unaudited)

	Common No	Stock - A \$	Common No	Stock - B \$	Additional Paid-In Capital \$	Accumulated Other Comprehensive Gain (Loss) \$	Deficit during the Development Stage \$	Total Stockholders' Equity (Deficit) \$
Balance at July 1, 2000 (Restated)	327,454	328	—	—	2,007,741	126,507	(2,178,461)	(43,885)
Balance of common stock: cash	348,214	348	—	—	1,174,477	—	—	1,174,825
Balance of common stock: services	23,317	23	—	—	67,863	—	—	67,886
Balance 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
Balance at June 30, 2001 (Restated)	52,610,040	52,610	—	—	3,198,170	199,640	(3,946,220)	(495,800)
Balance of common stock: cash	609,000	609	—	—	590,642	—	—	591,251
Balance 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)
Balance at June 30, 2002 (Restated)	57,174,165	57,174	—	—	4,275,481	115,691	(5,328,437)	(880,091)
Balance of common stock: cash	1,028,764	1,029	—	—	607,613	—	—	608,642
Balance 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)

Balance at June 30, 2003 (Restated)	62,158,054	62,158	—	—	6,716,210	(117,837)	(8,230,066)	(1,569,535)
Change of common stock: cash	246,800	247	—	—	159,926	—	—	160,173
Change 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)
Balance at June 30, 2004 (Restated)	62,426,782	62,427	—	—	6,894,381	(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)
Balance at Dec 31, 2004 (Restated)	62,426,782	62,427	—	—	6,894,381	(416,555)	(9,018,551)	(2,478,298)

See summary of significant accounting policies and notes to financial statements

EMPIRE ENERGY CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Period From March 1995 (inception) Through September 30, 2008
(Unaudited)

	Common	Stock - A	Common	Stock - B	Additional Paid-In Capital	Accumulated Other Comprehensive Gain (Loss)	Deficit Accumulated during the Development Stage	Total Stockholders' Equity (Deficit)
	No	\$	No	\$	\$	\$	\$	\$
Balance at Jan 1, 2005 (Restated)	62,426,782	62,427	—	—	6,894,381	(416,555)	(9,018,551)	(2,478,298)
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 Acquisition of GSLM (Restated)	8,747,012	8,747	105,857	106	(222,102)	—	—	(213,249)
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
Balance at Dec 31, 2005 (Restated)	114,660,042	114,660	103,386	103	12,728,396	(257,469)	(10,916,398)	1,669,292

See summary of significant accounting policies and notes to financial statements

EMPIRE ENERGY CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Period From March 1995 (inception) Through September 30, 2008
(Unaudited)

	Common	Stock - A	Common	Stock - B	Additional Paid-In Capital	Accumulated Other Comprehensive Gain (Loss)	Deficit Accumulated during the Development Stage	Total Stockholders' Equity (Deficit)
	No	\$	No	\$	\$	\$	\$	\$
Balance at Jan 1, 2006 (Restated)	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	21,185,493	21,186	—	—	2,398,121	—	—	2,419,307
Conversion of Class B stock into Class A	1,604	1	(1,604)	(1)	—	—	—	—
Issuance of common stock: Exchange for debt	19,360,774	19,361	—	—	1,895,665	—	—	1,915,026
Issuance of common stock: Cash	17,933,333	17,933	—	—	2,013,067	—	—	2,031,000
Issuance of common stock: Libertas, less stock fees of \$359,400	4,065,000	4,065	—	—	205,935	—	—	210,000
Issuance of common stock: exercise of options	450,000	450	—	—	2,835	—	—	3,285
Issuance of common stock: License	15,000,000	15,000	—	—	2,985,000	—	—	3,000,000
Beneficial conversion feature, convertible debenture	—	—	—	—	837,173	—	—	837,173
Issuance of Common Stock Options	—	—	—	—	323,640	—	—	323,640
Warrants Issued: Wind City put option	—	—	—	—	2,655,000	—	—	2,655,000
Net loss for period	—	—	—	—	—	—	(9,030,480)	(9,030,480)
Marketable securities, unrealized loss	—	—	—	—	—	(15,006)	—	(15,006)
Foreign currency translations	—	—	—	—	—	(201,086)	—	(201,086)
Balance at Dec 31, 2006	198,878,921	198,879	101,782	102	26,543,332	(473,561)	(19,946,878)	6,321,874

(Restated)

Conversion of Class B stock into Class A	865	1	(865)	(1)	—	—	—	—
Restricted shares issued in exchange for service	14,666,670	14,667	—	—	1,845,333	—	—	1,860,000
Stock options issued in exchange for services	—	—	—	—	456,506	—	—	456,506
Turn of shares in rescission of Batego license	(15,000,000)	(15,000)	—	—	(2,985,000)	—	—	(3,000,000)
Foreign currency translations	—	—	—	—	—	386,399	—	386,399
Debt payable assumed interest (Restated)	—	—	—	—	250,000	—	—	250,000
Marketable securities, mark to market	—	—	—	—	—	(29,364)	—	(29,364)
Net loss for the period (Restated)	—	—	—	—	—	—	(9,884,562)	(9,884,562)

See summary of significant accounting policies and notes to financial statements

EMPIRE ENERGY CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Period From March 1995 (inception) Through September 30, 2008
(Unaudited)

	Common	Stock - A	Common	Stock - B	Additional Paid-In Capital	Accumulated Other Comprehensive Gain (Loss)	Deficit Accumulated during the Stage	Total Stockholders' Equity (Deficit)
Balance at Dec 31, 2007 (Restated)	198,546,456	198,546	100,917	101	26,110,171	(116,526)	(29,831,440)	(3,639,148)
Conversion of Exchangeable shares for common stock	43	—	(43)	—	—	—	—	—
Restricted shares issued in exchange for services	33,705,800	33,706	—	—	4,486,344	—	—	4,520,050
Restricted shares issued in exchange for debt	6,998,732	6,999	—	—	835,811	—	—	842,810
Restricted shares issued in exchange for marketable security	8,511,111	8,511	—	—	1,268,156	—	—	1,276,667
Foreign currency translations	—	—	—	—	—	630,410	—	630,410
Value of stock options vested	—	—	—	—	(105,466)	—	—	(105,466)
Securities mark to market	—	—	—	—	—	77,051	—	77,051
Net loss for the period	—	—	—	—	—	—	(5,865,024)	(5,865,024)
Balance Sept 30, 2008	247,762,142	247,762	100,874	101	32,595,016	590,935	(35,696,464)	(2,262,650)

See summary of significant accounting policies and notes to financial statements

EMPIRE ENERGY CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENTS OF CASH FLOWS
 Nine Months Ended September 30, 2008 and 2007
 (Unaudited)

	2008	(Restated) 2007	(Restated) March 15, 1995 (Inception) to Sep 30, 2008
	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	(5,865,024)	(5,624,775)	(35,696,464)
Adjustments to reconcile net loss to net cash used in operating activities:			
Share issues for services	1,970,050	—	9,242,068
Depreciation	69,000	32,712	158,770
Loss on disposal of fixed assets	—	—	207
Loss on equity investment	—	—	729,000
Loss on sale of Zeehan stock	—	—	1,723,168
Warrant options issued for services	(105,466)	351,040	674,680
(Gain) Loss on disposition of investment	—	(1,142,834)	—
Minority interest	(73,476)	(19,721)	(294,528)
Changes in operating assets and liabilities:			
(Increase) Decrease in receivables	(106,163)	85,327	(214,978)
(Increase) Decrease in prepaid expenses	(679,410)	1,883,020	(590,836)
(Increase) Decrease in payables	(173,093)	(265,064)	4,155,629
NET CASH USED IN OPERATING ACTIVITIES	(4,963,582)	(4,700,295)	(20,113,284)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds of Zeehan stock sale	—	4,500,000	7,519,084
Investment in brands	—	—	(80,000)
Purchase of property and equipment	(29,122)	(505,949)	(2,057,997)
Investment in oil and gas properties under development	(1,931,902)	—	(1,931,902)
Proceeds of sale of property and equipment	—	—	1,741,967
Investment in marketable securities	(8,978)	(186,657)	(197,014)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(1,970,002)	3,807,394	4,994,138
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital raising costs	—	—	(328,142)
Net proceeds from borrowings	5,049,208	—	11,537,177
Proceeds from issuance of shares	—	—	6,422,838
Principal payments on notes payable	(20,788)	(93,296)	(4,127,573)
Proceeds from the sale of equity in subsidiary	300,000	259,000	1,340,741
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	5,328,420	165,704	14,845,041

FFECT OF EXCHANGE RATE CHANGES ON CASH	<u>630,410</u>	<u>105,756</u>	<u>558,254</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(944,754)	(621,441)	284,149
CASH AND CASH EQUIVALENTS – beginning of period	<u>1,228,903</u>	<u>1,457,267</u>	<u>—</u>
CASH AND CASH EQUIVALENTS – end of period	<u><u>284,149</u></u>	<u><u>835,826</u></u>	<u><u>284,149</u></u>

See summary of significant accounting policies and notes to financial statements

EMPIRE ENERGY CORPORATION INTERNATIONAL
CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine Months Ended September 30, 2008 and 2007
(Unaudited)

	2008	(Restated) 2007	(Restated) March 15, 1995 (Inception) to Sep 30, 2008
	\$	\$	\$
CASH PAID FOR:			
taxes	—	—	—
interest	19,755	369,509	534,715
NON-CASH INVESTING AND FINANCING TRANSACTIONS			
repaid expense paid with Empire stock	2,550,000	—	
acquisition of marketable securities with Empire stock	1,276,667	—	
debt settled with Empire stock	842,810	—	

See summary of significant accounting policies and notes to financial statements

EMPIRE ENERGY CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008 and 2007 (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, 2007. 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 2007 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. The primary prospect was in Nicaragua. EEGC also participated in an exploration program in Tennessee in 1999 and continued until 2002. During 2000 and 2001, EEGC acquired additional production and/or prospects in Texas, Oklahoma and Wyoming.

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. In November of 2007, the shareholders increased the authorized stock from 300 million to 600 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 recapitalization. Accordingly, the reverse acquisition has been accounted for as a recapitalization. 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.

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 of non-controlling shareholders of subsidiaries, other than the Company, is included on the financial statements as Minority interest on the balance sheet. Change in minority interest is included in the statement of operations. No gain or loss is reported by the Company on the receipt of proceeds of from sale of minority equity interests.

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Gas and Oil Properties : The Company follows the full cost method of accounting for gas and oil properties, prescribed by the SEC. Under the full cost method, all acquisition, exploration, and development costs are capitalized. The Company capitalizes directly identifiable costs associated with such activities. All capitalized costs of gas and oil properties, including the estimated future costs to develop proved reserves, are amortized on the units-of-production method using estimates of proved reserves. The costs of unproved properties are excluded from amortization until the properties are evaluated. The Company reviews all of its unevaluated properties quarterly to determine whether or not and to what extent proved reserves have been assigned to the properties and otherwise if impairment has occurred. Unevaluated properties are assessed individually when individual costs are significant. No costs have been capitalized in previous quarters due to the quarterly evaluation of the identified properties.

Equity Investment: In November 2005, EEGC acquired a British Virgin Islands Company, Cyber Finance Group, 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 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.

During the third quarter of 2006, the investment in Zeehan shares was reduced to below 20% of total outstanding shares and the Company converted to the cost method of accounting for this investment. Under this method the investment is valued at cost until a transaction occurs. The proportionate share of the results of operations is no longer reported periodically. This investment was sold in its entirety in December 2007.

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 realized.

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 \$8,095,734 and current assets of \$3,065,219 including cash or cash equivalents of \$284,149 at September 30, 2008.

The exploration license SEL 13/98 has been renewed effective 1 October 2004, and has strict mandatory cumulative expenditure requirements of \$3,508,226 by 30 September 2005, \$5,491,906 by 30 September 2006, \$8,644,122 by 30 September 2007, \$12,933,345 by 30 September 2008 and \$14,122,241 by 30 September 2009 without which the license may be revoked at the discretion of the Minister, Resources and State Development.

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In November 2006, the Minister for Economic Development and Resources wrote to the company noting their intention to revoke special exploration license 13/98 on the grounds of the failure of the company to comply with the mandatory cumulative expenditure requirements. This letter stated that “As of 30 September 2006, Mineral Resources Tasmania has recorded expenditure of AUD \$2,865,689.70 which is AUD \$3,823,111.30 short of the mandatory expenditure required by the end of the second year of the license.” In November 2006, the company responded with a submission requesting the withdrawal of the notice of intention to revoke the license and submitted numerous reasons why the license should not be revoked.

As a consequence of the submission, in January 2007, the Director of Mines responded and advised “that subject to an agreement being reached on your on-ground work program, I will be prepared to recommend to the Minister that the revocation of your license not to proceed.

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 nor to the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

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:

- Great South Land Minerals Limited received loans from directors in the amount of USD \$1.8 million in 2008 and the Company continues to seek funding opportunities from other sources.
- Pacific Rim Foods received proceeds from sale of its common stock in the amount of US\$300,000 and transferred that amount to Empire in repayment of intercompany loans.
- Empire issued common shares to pay liabilities and expenses totaling approximately US\$2,800,000 in 2008.
- Empire arranged an AUD \$5,000,000 Loan, guaranteed by the CEO, in July 2008 to fund the drilling program and company operations. Empire prepaid AUD\$2.3 million to the drilling contractor in July 2008 to mobilize equipment and begin drilling operations. A dispute has arisen with the lender however and the last advance due of \$1.1AUD has not been made as requested.
- Empire is negotiating a joint venture agreement that could bring up to AUD \$45 million in investment to SEL 13/98 to fund the drilling program and support company operations.

- Empire issued 17 million shares to individuals as compensation to provide prospective legal and construction services.

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.

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These include:

- Obtaining approval to increase authorized 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 years ended 31 December 2007 and 2006 contained an emphasis of matter paragraph regarding the Company's ability to continue as a going concern.

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 September 30, 2008 and 2007 reduces the net deferred tax assets to \$0.

NOTE 3 – RECEIVABLES AND INVENTORY ADVANCES

The collectability of receivables and prepaid purchase orders is assessed and an allowance is made for any doubtful accounts. Receivables of \$189,013 and prepaid purchase orders of \$520,020 at September 30, 2008 have been reduced by an allowance of \$703,720. Assessment of the reserve for losses was in part determined conservatively in consideration of uncertainty of information in the Pacific Rim subsidiary.

NOTE 4 – SHAREHOLDERS EQUITY AND RELATED PARTY

In February 2008, the Chairman of the board of Directors resigned his position. He and the Company agreed to allow the Option agreement regarding Special Exploration License 5/2005 to expire without exercise of the options and the Company paid his accrued fees and expenses.

In February 2008, the Chief Executive Officer resigned his positions as officer and director. The Company paid his accrued wages and expenses and issued 6,315,800 common shares to settle contract entitlements and cancel options to purchase 18,574,079 shares of common stock valued in total at \$1,600,000.

In February and June 2008, the Company obtained loans totaling of \$1,460,000 from the director of its Great South Land Minerals subsidiary. These loans mature in six months and are convertible into Empire common stock at a price of \$.15.

In March 2008, the Company issued 6,000,000 shares of common stock to pay liabilities included in non-current payables at December 31, 2007 in the amount of \$720,000.

In March 2008, the Company issued 2,450,000 shares of common stock in payment of expenses related to the sale of an investment in Zeehan Zinc shares in December 2007.

In March 2008, the Company agreed to issue common stock to settle a note payable to the Chief Executive Officer in the approximate amount of \$500,000.

In April and June 2008, the Company issued 8,390,000 shares for public and investor relations services.

In June 2008, the Company issued 548,732 shares in settlement of trade liabilities.

In August 2008, the company issued 17,000,000 shares to individuals as compensation for prospective legal and construction services.

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In August 2008, the Company issued 8,511,111 shares of common stock in exchange to acquire 7,660,000 shares of common stock of Libertas Capital, Ltd.

	2008
	No.
Issue of Class A common stock:	
08 conversion of shares from B stock	43
shares issued to S.A. Sehsuvaroglu in contract settlement	6,315,800
shares issued to World Technology and Trade Inc. for services	1,000,000
shares issued to Kingdom Securities for share loan fee and penalty.	7,000,000
shares issued to Attorney in contract settlement	450,000
shares issued to Public/Investor Relations funding	8,390,000
shares issued to settle Trade Debt	548,732
shares issued for Construction and legal services	17,000,000
shares issued to acquire Libertas Capital Ltd common stock	8,511,111
	49,215,686
 Issue of Class B Common stock:	
08 conversion of B shares into A shares	(43)
	(43)

NOTE 5 – RESTATEMENT OF PRIOR PERIODS

In December 2006, the Company entered into an agreement with an outside party to borrow \$4 million under a secured note, grant warrants to issue 60 million shares of Empire common stock and obtain the right to require that party to purchase 4.5 million shares of Zeehan Zinc Ltd. that were carried as an investment by the Company, for a total price of \$4.5 million. The value of this right was determined to represent the value of the warrants granted and was recorded as a contribution to capital in December 2006. No gain on the transaction was recorded in December 2006 or when the sale was completed in January 2007.

During the fourth quarter 2007, when the note was repaid and the warrants cancelled, the gain of \$2,655,000 on the sale of this Zeehan Zinc stock was recorded as income. Consistent with the reporting in 2006, this restatement removes this gain reported in 2007 and restores the transaction as a contribution to capital of \$2,655,000. Further, this restatement records additional interest expense of \$250,000 in 2007 to reflect the value of the warrants issued to the lender as additional consideration related to the note payable.

Items changed by this restatement are as follows:

	<u>As Filed</u>	<u>Restated</u>	<u>Change</u>
Consolidated Balance Sheet December 31, 2007			
Additional Paid-in Capital	23,205,171	26,110,171	2,905,000
Accumulated deficit during development stage	(26,926,440)	(29,831,440)	(2,905,000)
Consolidated Statement of Operations for the Three Months Ended September 30, 2007			
Revenues from operations	(1,636,804)	(1,636,804)	—
Interest expense	(152,026)	(194,026)	(42,000)
Net loss	(1,783,518)	(1,825,518)	(42,000)
Net loss per share	(0.0097)	(0.0099)	(0.0002)
Consolidated Statement of Operations for the Nine Months Ended September 30, 2007			
Revenues from Operations	(6,104,827)	(6,104,827)	—
Interest Expense	(558,975)	(684,975)	(126,000)
Net Loss	(5,498,775)	(5,624,775)	(126,000)
Net Loss per common share	(0.0285)	(0.0291)	(0.0006)
Consolidated Statement of Operations for the period from inception to September 30, 2008			
Gain (Loss) on sale of Zeehan stock	931,832	(1,723,168)	(2,655,000)
Interest Expense	(1,921,325)	(2,171,325)	(250,000)
Net loss	(32,791,464)	(35,696,464)	(2,905,000)
Consolidated Statement of Cash Flows for the Nine Months Ended September 30, 2007			
Net Loss	(5,498,775)	(5,624,775)	(126,000)
Increase in payables	(391,064)	(265,064)	126,000
Net Cash used in operating activities	(4,700,295)	(4,700,295)	—
Consolidated Statement of Cash Flows for the period from Inception to September 30, 2008			
Net loss	(32,791,464)	(35,696,464)	(2,905,000)
Gain (Gain) on sale of Zeehan stock	(931,832)	1,723,168	2,655,000
Increase in payables	4,680,230	4,430,230	250,000
Net cash used in operating activities	(19,013,941)	(19,013,941)	—

NOTE 6 –JOINT VENTURE AND DEVELOPMENT FINANCING

Memorandum of Understanding for Joint Venture and Prepayment of Well Drilling Contractor

On July 17, 2008, Empire Energy Corporation International, along with its wholly owned subsidiary Great South Land Minerals Ltd. (GSLM), signed a Memorandum of Understanding relating to the creation of a joint venture with Hong Kong-based Smart Win International Limited for the exploration and development of the oil, gas and helium resources of the Tasmania Basin within Special Exploration License (SEL 13/98). Smart Win is a joint venture between Genesis Energy Holdings Limited and New Times Group Holdings Limited, both listed on the Stock Exchange of Hong Kong Limited, created with an aim to explore business opportunities in oil, gas and energy exploration and exploitation in international markets.

Under the terms of the MOU, Smart Win and Empire Energy entered into a senior secured note under which Smart Win will lend AUD\$5,000,000.00 to Empire Energy to be used for the exploration and development of the oil, gas and helium resources of the Tasmania Basin within SEL 13/98. The note is secured by a pledge of 32 million newly issued Empire common shares and the personal guarantee of Malcolm Bendall, Chief Executive Officer and shareholder of Empire Energy. Prepayments of AU\$2.3 million were made in July 2008 to contractors to transport drilling equipment to Tasmania and begin work on the first well and subsequent payments have been made for cost up to a total of AUD3.9 million. An additional AUD \$1.1 million remains to be advanced but has not paid even though a request for the advance has been made.

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The terms of the MOU further provide that Smart Win will have the option during drilling of one well or until approximately October 15, 2008 to enter into a joint venture with Empire Energy and GSLM for up to 50% ownership of the exploration and development rights within SEL 13/98 for an investment of up to AUD\$45 million. The parties agreed to negotiate in good faith to complete the terms of a definitive joint venture and operating documents as soon as reasonably practicable, but no later than October 15th 2008. During the period of negotiation of the definitive JV agreement, Empire will not raise capital to use for the project under SEL 13/98.

Should Smart Win elect to execute the joint venture, the Note would be cancelled as part of the AUD\$45 million investment. Should Smart Win elect to opt out of the joint venture, the Note would be repayable by Empire or the Guarantor in quarterly payments over a period of two years.

Smart Win has the right to conduct, at its own expense, full due diligence on the Project, GSLM, Empire Energy and such other companies and matters as far as they are related to GSLM and the Project. Empire will have the right to receive unequivocal proof that Smart Win has the contracted support of its JV partners, giving it the capacity and means to fulfill its obligations under the Joint Venture.

Senior Secured Note

In conjunction with the MOU, on July 17, 2008, Empire Energy, along with GSLM, signed a Senior Secured Note with Smart Win, under which the company may borrow up to AUD\$5,000,000. Proceeds from the Note will be utilized to commence drilling for oil and gas on GSLM's Tasmanian Basin license area SEL 13/98 and to fund GSLM operating costs in support of the exploration and drilling activity. The Note provides Smart Win the right to jointly agree that expenditures of proceeds of the Note apply to SEL 13/98. As stated in the MOU, Smart Win has agreed at signing to certain initial disbursements required to mobilize the drill rig, support GSLM operations and facilitate operation of the drilling program. Prepayments of AUD\$2.3 million were made in July 2008 to the drilling contractors to transport equipment to Tasmania and begin work on the first well.

The Note earns no interest and is secured by a pledge by Empire of 32 million newly issued shares of Empire common stock held in trust and the personal guarantee of Malcolm Bendall, Chief Executive Officer of Empire. The Note matures with the decision by Smart Win of its option to enter the joint venture agreement with GSLM regarding SEL 13/98, expected approximately October 15, 2008. If Smart Win executes the joint venture agreement, the Note is cancelled and becomes part of their investment in the joint venture. If Smart Win does not execute the joint venture agreement, the note begins to accrue interest at a rate of libor plus one percent, not to exceed 6% per annum, and becomes repayable in quarterly installments over a period of two years. If necessary, the Note can be repaid by Empire, GSLM, the guarantor, transfer of the collateral shares or any combination.

NOTE 7 – SUBSEQUENT EVENTS

Subsequent to September 30, 2008, the company has accrued approximately \$1.6 million of additional contracted well drilling and standby charges in its well drilling program and continues to incur costs under its drilling program in excess of \$10,000 per day.

Item 2. Managements Discussion and Analysis or Plan of Operation

Our twelve-month plan of operation:

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 three wholly-owned subsidiaries: Great South Land Minerals Limited, Cyber Finance Group Limited and Expedia Limited. We also own approximately 38% of Pacific Rim Foods Limited and include Pacific Rim Foods in our consolidated financial statements on the basis of control established by a voting agreement with another substantial shareholder who is also a director of Empire. 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. Cyber holds our initial investment in Zeehan Zinc Limited, a Tasmanian mining company which we sold in 2007. Expedia held our investment in certain technology licenses that were rescinded in 2007. Pacific Rim Foods has interests in the Chinese shelf stable foods and agriculture industries.

Great South Land Minerals Limited's principal asset is its exploration license in Tasmania, 15,035 km² (37.2 million acres) Special Exploration License 13/98 . According to independent consulting firm RPS Energy, this license area holds prospective oil resources of 67 to 145 million barrels and prospective natural gas resources of from 347 to 799 billion cubic feet. These resources have a current value of from \$7 to \$15 billion. With the raising of funds from Smart Win Limited, Empire began drilling in September of this year. The terms of the Great South Land Minerals Limited Special Exploration License 13/98 have been contractually agreed with Mineral Resources Tasmania, the local authority under the Department of Industry, Energy and Resources of Tasmania. The Company has expenditure as defined under contract which the directors believe meets its expenditure obligations under the license conditions. The conditions require scheduled reported expenditure of AUD \$21.5 million (US \$17.65 million), by September 2009. The company has claimed reported cumulative expenditure to date of AUD \$37.5 million (US \$30.79 million), exceeding the license conditions.

Terrex Seismic completed an AUD \$4.4 million seismic survey which was a continuation of the approximately AUD \$2.23 million 2006 program. In the 2001 survey, we acquired 660 line kilometers of survey. 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. In addition we have entered an application for addition exploration area in Tasmania that, if granted, would nearly double our total exploration area to approximately 30,000 km² (65 million acres).

In July, with the guarantee of our Chief Executive Officer, we obtained a secured loan in the amount of AU\$5 million to pursue the drilling program on SEL 13/98. Initial draw on this loan of approximately AU\$2.7 million allowed mobilization of the drilling contractor, prepaid initial drilling cost and provided working capital to the Company. Additional drawing under this note is expected to fund the drilling program and complete at least the first well. In conjunction with this

note, we agreed a memorandum of understanding that could bring up to AU\$45 million to the drilling program in exchange for up to a 50% interest in the license property. This additional funding should allow drilling of up to an additional 14 wells over the coming year.

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 August and September we commenced drilling on the Bellevue # 1 site and completed the pre collar hole to 272 meters. However, we ran short of funds and since the initial rig was removed to make way for the deep drilling Hunt Energy rig, we have been unable to raise the necessary funds to get the Hunt rig on site to finish the project. This includes the failure of SmartWin to advance the remaining AUD\$1.1 million due under the AU\$5 million Note. We believe that this is the result of the global financial crisis and the apparent refusal of creditors to advance funds on almost any new projects and the failure of historic sources of those funding. Management remains confident that this shortage of operating capital will ease very soon but there can be no guaranty that we will be able to finance the balance of our project at this juncture, while the current market conditions continue to affect credit facilities, which could cause the failure of our business. We have accrued approximately \$1.6 million in additional drillings and standby charges since September 30, 2008 and continue to costs at a rate over \$ 10,000 per day.

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, 2008, the combined Company generated no revenue. The combined Company generated an operating loss of \$1,066,000 primarily by incurring general & administrative expenses of \$760,000, including legal, accounting, auditing, consulting and public relations expenses required to pursue funding and GSLM exploration activities. During the quarter ended September 30, 2007, the Company also generated no revenue. The Company generated an operating loss of \$1,636,000 primarily by incurring exploration expenses of \$165,000 and general and administrative expenses of \$1,472,000, primarily legal, accounting, auditing and consulting expenses required to pursue funding and GSLM exploration activities. In order to conservatively estimate the recoverability of notes receivable by Pacific Rim in the amount of \$189,000 and of prepayments by Pacific Rim for product purchases in the amount of \$520,000, management had recorded a reserve for losses and impairments in the amount of \$704,000 at September 30, 2008, a reduction of \$50,000 during the quarter ended September 30, 2008.

During the nine months ended September 30, 2008, the combined Company generated no revenue. The combined Company generated an operating loss of \$5,450,000 primarily by incurring GSLM seismic and exploration expenses of \$1,195,000 and general & administrative expenses of \$4,255,000, primarily personnel, consulting and legal required to pursue funding and planning for GSLM exploration activities and oversee the seismic and gravity evaluation work. During the nine months ended September 30, 2007, the Company also generated no revenue. The Company generated an operating loss of \$6,105,000 primarily by incurring exploration expenses of \$2,787,000 and general and administrative expenses of \$3,318,000, primarily legal, accounting, auditing and consulting expenses required to maintain the corporate existence and pursue funding for and planning for the exploration and drilling program.

Liquidity and Capital Resources

On September 30, 2008, the Company had \$284,000 in cash, \$3,245,000 in prepayments of exploration costs and other expenses, \$111,000 in receivables and \$7,571,000 in current liabilities including trade payables, accrued liabilities, and current maturities of debt. Additional liabilities include approximately \$1,010,000 in long-term debt. Approximately \$4 million of debt includes provisions by which the holder may convert the debt to common equity. Net cash used in operating activities for the nine months ended September 30, 2008 was \$4,934,000 compared to \$4,700,000 for the nine months ended September 30, 2007. Cash used by investing activities was \$1,970,000 during the nine months ended September 30, 2008 primarily due to costs of drilling the first well. Cash provided in investing activities during the nine months ended September 30, 2007 was \$3,807,000, primarily as a result of the 4,500,000 received from the sale of Zeehan Zinc shares. Net cash provided in financing activities during the nine months ended

September 30, 2008 was \$5,328,000, primarily convertible loans from a director and Smart Win Limited. Net cash provided by financing activities was \$166,000, including \$259,000 received as equity invested in the Pacific Rim subsidiary, reduced by repayment of notes payable during the nine months ended September 30, 2007. Additional financing will be needed during 2008 to continue to develop the license property and pursue the company's business plan.

Our subsidiary, Pacific Rim Foods Ltd. has interests in the Chinese shelf stable foods industry, notably through the investment in corn canneries, distributed under one of the oldest brand names in China. We have an economic interest of 38% and by means of a voting agreement, have a controlling interest (75%) in Pacific Rim Foods. We currently have identified a suitable public entity that we are planning to merge Pacific Rim Foods Limited into, therefore potentially giving the option of Empire to liquidate its position in Pacific Rim Foods for the purpose of financing the oil and exploration project if necessary.

In July, with the guarantee of our Chief Executive Officer, we obtained a secured loan in the amount of AU\$5 million to pursue the drilling program on SEL 13/98. Initial draw on this loan of approximately AU\$2.7 million allowed mobilization of the drilling contractor, prepaid initial drilling cost and provided working capital to the Company. Additional drawing under this note is expected to fund the drilling program and complete at least the first well. The lender suspended funding under this note after providing AU\$3.9 million. Leaving approximately AU\$1.1 million unfounded while we have continued to incur contracted charges. In conjunction with this note, we agreed to a memorandum of understanding that, if reinstated, could bring up to AU\$45 million to the drilling program in exchange for up to a 50% interest in the license property. This additional funding should allow drilling of up to an additional 14 wells over the coming year.

Off Balance Sheet Arrangements

Empire Energy has no off-balance sheet arrangements.

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, 2008 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, 2008, the Company's disclosure controls and procedures were not effective as of September 30, 2008, June 30, 2008, March 31, 2008 and December 31, 2007. Our report at March 31, 2008 that controls were effective was an administrative error. As reported on Form 10KSB filed for the year ended December 31, 2007, disclosure controls have been determined to be ineffective due to a lack of segregation of duties in the corporate office. The company has not added personnel to alleviate this material weakness but compensates through additional reconciliation of material accounts and independent review.

(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.

None

Item 1A. Risk Factors.

Risk factors have not changed materially from those listed in the annual report Form 10-KSB filed April 10, 2008 for the year ended December 31, 2007.

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

During the three months ended March 31, 2008, the company issued 6,755,800 shares of common stock to a former executive and an attorney in settlement of an employment contract and a consulting agreement and 8,000,000 shares as settlement of liabilities and expenses incurred in conjunction with the sale of the investment in Zeehan Zinc Limited common stock in 2007. Shares were valued at market price on the date the liability was determined.

During the three months ended June 30, 2008, the company issued 8,391,000 shares of common stock to acquire public and investor relations services and 548,732 to settle trade debt. Shares were valued at market price on the date the liability was determined or settlement was agreed.

During the three months ended September 30, 2008, the company issued 17,000,000 shares of common stock to individuals as compensation for legal and construction services to be provided. The shares were valued at an agreed \$0.15 per share consistent with market price at the time of the agreement. The company also issued 8,511,111 shares of common stock to acquire an investment in common shares of Libertas Capital Ltd. Shares were valued at market price on the date the agreement was completed.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Submission of Matters to a Vote of Security Holders.

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 19, 2008

By: /s/ Malcolm R. Bendall
Malcolm R. Bendall
Chief Executive Officer

November 19, 2008

By: /s/ John Garrison
John Garrison

Chief Financial Officer