

November 17, 2006

Annual Report

Item 6. Management's Discussion and Analysis or Plan of Operation.

THE FOLLOWING PRESENTATION OF OUR MANAGEMENT'S DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH THE FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION INCLUDED ELSEWHERE IN THIS REPORT.

A Note About Forward-Looking Statements

This Annual Report on Form 10-KSB/A contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on current management's expectations. These statements may be identified by their use of words like "plans", "expect", "aim", "believe", "projects", "anticipate", "intend", "estimate", "will", "should", "could" and other expressions that indicate future events and trends. All statements that address expectations or projections about the future, including statements about our business strategy, expenditures, and financial results are forward-looking statements. We believe that the expectations reflected in such forward-looking statements are accurate. However, we cannot assure you that such expectations will occur.

Actual results could differ materially from those in the forward looking statements due to a number of uncertainties including, but not limited to, those discussed in this section. Factors that could cause future results to differ from these expectations include general economic conditions, further changes in our business direction or strategy; competitive factors, oil and gas exploration uncertainties, and an inability to attract, develop, or retain technical, consulting, managerial, agents, or independent contractors. As a result, the identification and interpretation of data and other information and their use in developing and selecting assumptions from and among reasonable alternatives requires the exercise of judgment. To the extent that the assumed events do not occur, the outcome may vary substantially from anticipated or projected results, and accordingly, no opinion is expressed on the achievability of those forward-looking statements. No assurance can be given that any of the assumptions relating to the forward-looking statements specified in the following information are accurate, and we assume no obligation to update any such forward-looking statements. You should not unduly rely on these forward-looking statements, which speak only as of the date of this Annual Report. except as required by law, we are not obligated to release publicly any revisions to these forward-looking statements to

reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events.

Overview of the Company

We are a start-up, development stage company and have not yet generated or realized any revenues from our business operations. During the fourth quarter 2005, we changed our name from Golden Hope Resources, Inc. to Eternal Energy Corp., and changed our business plan to focus on the exploration for oil and gas resources. We changed our management, raised \$1,126,000 through the private placement of shares of our common stock and warrants to purchase shares of common stock, and invested in two oil and gas exploration ventures.

There is no historical financial information about us upon which to base an evaluation of our performance. We are a development stage company and have not generated any revenues from our current operations. We cannot guarantee we will be successful in our new core business, or in any business operations. Our business is subject to risks inherent in the establishment of a new business enterprise, including limited capital resources and in the exploration of oil and gas reserves.

We have no assurance that future financing will be available on acceptable terms. If financing is not available on satisfactory terms, we may be unable to continue with our current business plan. If equity financing is available to us on acceptable terms, it could result in additional dilution to our existing stockholders.

Results of Operations for the Fiscal Years Ended December 31, 2005 and 2004

From inception to December 31, 2005, we had a loss of \$377,920. Substantially all of such amount was generated in the 2005 fiscal year.

Operating expenses increased from \$33,783 for the year ended December 31, 2004 to \$329,609 for the year ended December 31, 2005. An analysis of the increases in the operating expenses and the relevant components is set forth below.

During 2005, we expended \$90,000 in geological costs related to our participation in a North Sea oil and gas exploration venture. During 2004 we incurred \$12,000 in exploration costs related to our mining claims which lapsed during 2005.

General and administrative expenses increased from \$2,700 in 2004 to \$165,000 in 2005. These costs include \$75,000 paid to our prior officers and directors and payroll costs related to our new officer of \$57,792. The balance of these expenses relate to office related costs. Professional fees, including legal fees of \$62,265, were \$73,654 compared to \$19,083 in 2004. Legal fees in 2005 relate to our name change, forward stock split, change in business plan and costs associated with our participation agreements in oil and gas exploration programs.

Liquidity and Capital Resources

As of December 31, 2004, our total assets were \$3,858, all of which were current and our total liabilities were \$2,183, all of which were current, resulting in working capital of \$1,675. As of December 31, 2005, our total assets were \$860,509, of which \$193,509 are current, and our total liabilities were \$62,429, all of which are current, resulting in working capital of \$798,080. The increase in total assets is a result of an increase in cash from the sale of our equity units, \$667,000 of which was invested in our Nevada oil and gas exploratory project. During the year ended December 31, 2005, the Company sold equity units with net proceeds of \$1,126,000 and in March 2006 sold equity units with net proceeds of \$5,938,000. Each of these equity unit sales consisted of one share of our common stock and a warrant to purchase one share of our common. The warrant exercise price of the warrants sold in 2005 was \$1.20 per share and the warrant exercise price of the warrants sold in March 2006 is \$1.00 per share.

Despite our negative cash flows from operation of \$345,599 and \$33,470 for the years ended December 31, 2005 and 2004, respectively, and our minimum drilling costs associated with our oil and gas exploration participations of \$5 million, we have been able to obtain additional operating capital through private equity funding sources. Management's plan includes the continued development and eventual implementation of our business plan. We have relied upon equity funding since inception.

No assurances can be given that we will be able to obtain sufficient working capital through the sale of our common stock and borrowing or that the development and implementation of our business plan will generate sufficient revenues in the future to sustain ongoing operations. These factors raise substantial doubt with our auditor about our ability to continue as a going concern.

As of the date of this Annual Report, we have yet to generate any revenues from our business operations.

Plan of Operation for the Next Twelve Months

Since inception, we had funded our operations from the private placement of common stock and warrants. Although we expect that, during the next 12 months, our operating capital needs will be met our current economic resources and, if required, by additional private capital stock transactions, there can be no assurance that funds required will be available on terms acceptable to us or at all. If we are unable to raise sufficient funds on terms acceptable to us, we may be unable to complete our business plan. If equity financing is available to us on acceptable terms, it could result in additional dilution to our existing stockholders.

Off-Balance Sheet Arrangements.

We have no off balance sheet arrangements at December 31, 2005.

Current Conditions

In November 2005, we entered an oil and gas exploration participation agreement related to the drilling of an exploratory well in Nevada. Our initial payment on the agreement was \$667,000 and we are obligated to participate in future drilling costs on this project of at least \$2 million. We are obligated to issue one million shares of our common stock for each ten million equivalent net barrels of proved reserves developed on this site.

In April 2006, we entered into a letter agreement related to the exploration of oil and gas reserves in central eastern Nevada. We are in the process of finalizing a definitive participation agreement and our exploration program for 2006.

In December 2005, we entered into a participation agreement related to the drilling of an exploratory well on a prospect site in the North Sea. Our initial payment was \$90,000 and our share of future minimum drilling costs on this site is \$1.5 million.

In January 2006, we entered into a participation agreement related to the drilling of an exploratory well on a second prospect site in the North Sea. Our initial payment was \$75,000 and our share of future minimum drilling costs on this site is \$1.5 million.