EMPIRE PETROLEUM CORP
Form 10QSB/A
August 13, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-QSB/A

Amendment Number 1

(Mark One)

[X] Quarterly Report Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2003

[ ] Transition Report Under Section 13 or 15(d) of the Exchange Act

For the transition period from _______________to________________

Commission file number 001-16653

EMPIRE PETROLEUM CORPORATION

(Exact name of small business issuer as specified in its charter)

DELAWARE	73-1238709
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8801 S. Yale, Suite 120, Tulsa, Oklahoma	74137-3575
(Address of principal executive offices)	(Zip Code)
(Issuer's telephone number)	(918) 488-8068

15 E. 5th Street, Suite 4000, Tulsa, Oklahoma 74103-4346
(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) 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.
[X] Yes [ ] No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Common Stock, $.001 Par Value - 37,830,190 shares outstanding as of August 8, 2003.

Transitional Small Business Disclosure Format: [ ] Yes [X] No

EMPIRE PETROLEUM CORPORATION

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Item 1. FINANCIAL STATEMENTS

EMPIRE PETROLEUM CORPORATION

BALANCE SHEET

ASSETS	June 30, 2003 (Unaudited)
Current assets:	
Cash	$ 3,743
Accounts receivable	2,351
Total current assets	6,094
Property & equipment net,of accumulated depreciation and depletion	373,821
Total Assets	$ 379,915
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued liabilities	$ 140,680
Accounts payable to related party	66,362
Note payable	66,997
Total current liabilities	274,039
Total liabilities	274,039
Stockholders' equity:	
Common stock at par value	35,830
Additional paid in capital	8,145,135
Accumulated deficit	(8,075,089)
Total stockholders' equity	105,876
Total Liabilities and Equity	$ 379,915

See accompanying notes to financial statements.

EMPIRE PETROLEUM CORPORATION

STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Revenue:				
Oil and gas sales	$ 32,774	$ 0	$ 32,774	$ 0
Gross production taxes	1,114	0	1,114	0
	33,888	0	33,888	0
Costs and expenses:				
Production & operating	21,882	0	39,117	0
General & administrative	72,727	125,814	100,854	251,765
Depreciation expense	30,000	1,054	31,028	2,098
Leasehold impairment	0	0	190,066	0
	124,609	126,868	361,065	253,863
Operating loss	(90,721)	(126,868)	(327,177)	(253,863)
Other (income) and expense:				
Miscellaneous income	(19)	(1,785)	(2,043)	(1,785)
Interest expense	0	14,993	0	20,378
Gain on sale of assets	(2,201)	0	(2,201)	0
Total other(income) and expense	(2,220)	13,208	(4,244)	18,593
Net loss	$ (88,501)	$ (140,076)	$(322,933)	$(272,456)
Net loss per common share	$ .00	$ .01	$ .01	$ .01
Weighted average number of common shares outstanding	35,830,190	24,459,906	31,205,630	24,103,424

See accompanying notes to financial statements

EMPIRE PETROLEUM CORPORATION

STATEMENTS OF CASH FLOWS

(UNAUDITED)

Six Months Ended

	June 30, 2003	June 30, 2002
Cash flows from operating activities:		
Net loss	$(322,933)	$(272,456)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	31,028	2,098
Leasehold impairment	190,066	0
Gain on sale of assets	(2,201)	0
Value of services contributed by employees	25,000	0
(Increase) decrease in assets:		
Accounts receivable	182	127,710
Prepaid expenses	3,920	(533)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	65,916	(152,513)
Net cash used in operating activities	(9,022)	(295,694)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	7,311	70,224
Net cash provided by investing activities	7,311	70,224
Cash flows from financing activities:		
Issuance of common stock	0	608
Proceeds of note payable - related party	0	170,000
Repayment of note payable - related party	0	121,025
Repayment of debenture payable	0	(96,000)
Net cash provided by financing activities	0	195,633
Net decrease in cash	(1,711)	(29,837)
Cash - Beginning	5,454	38,242
Cash -Ending	$ 3,743	$ 8,405
Non-cash investing and financing activities:		
Common stock issued for accounts payable and accrued liabilities	$278,441	$ 0
Common Stock issued for notes and debentures payable	$220,000	$ 0

See accompanying notes to financial statements

EMPIRE PETROLEUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2003

(UNAUDITED)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES:

The accompanying unaudited financial statements of Empire Petroleum Corporation (Empire, or the Company) have been prepared in accordance with United States generally accepted accounting principles for interim financial information and the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation of the Company's financial position, the results of operations, and the cash flows for the interim period are included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

The information contained in this Form 10-QSB should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2002 which are contained in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission (the SEC) on April 16, 2003.

The continuation of the Company is dependent upon the ability of the Company to attain future profitable operations. These financial statements have been prepared on the basis of United States generally accepted accounting principles applicable to a company with continuing operations, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations. Management believes the going concern assumption to be appropriate for these financial statements. If the going concern assumption were not appropriate for these financial statements, then adjustments might be necessary to the carrying value of assets and liabilities and reported expenses.

The Company continues to explore and develop its oil and gas interests. The ultimate recoverability of the Company's investment in its oil and gas interests is dependent upon the existence and discovery of economically recoverable oil and gas reserves, confirmation of the Company's interest in the oil and gas interests, the ability of the Company to obtain necessary financing to further develop the interests, and upon the ability to attain future profitable production. The Company has been incurring significant losses in recent years and has a significant working capital deficiency as of June 30, 2003. The Company also recognized an impairment charge of $6,496,614 on its oil and gas property in 2002 and an additional impairment charge of $190,066 in the first quarter of 2003.

Management plans to continue to support the Company financially during the next several months. During the six months ended June 30, 2003, the Company engaged a partner to explore its Cheyenne River Project, and signed an agreement to acquire a 10% interest in a block of acreage

in the Gabbs Valley Prospect of western Nevada. In order to sustain the Company's operations, on a long term basis the Company intends to continue to look for merger opportunities and consider public or private financings.

Compensation of Officers and Employees

The Company's executive officer serves without pay or other non-equity compensation. The fair value of these services is estimated by management and is recognized as a capital contribution. For the six months ended June 30, 2003, the Company recorded $25,000 as a capital contribution by its executive officer.

New Accounting Standard

In May 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those were previously classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Management does not expect the adoption of SFAS No. 150 to have a significant impact on the Company as the Company has not issued any financial instruments falling within the scope of SFAS No. 150.

2. NOTES PAYABLE

In December 2001, the Company executed a note with Weatherford U.S., L.P. to satisfy an outstanding indebtedness for service in the drilling of the Timber Draw #1-AH well. The principal amount of this note is $108,334 with interest payments at 10% per annum commencing on May 27, 2001, until all interest and principal amounts are paid in full. Timely payments were made in accordance with the terms of this note through March 2002. In April 2002, the "payee" of this note agreed to a revised payment schedule extending final payment of $66,997 from April 10, 2002, until June 10, 2002. In connection with this payment schedule, an initial payment of $10,000 was made in April 2002, however, since that time, no further payments have been made.

In addition, on March 17, 2003, the Company issued 10,496,213 shares of Company common stock as payment for accounts payable of $314,886.

3. PROPERTY AND EQUIPMENT:

At December 31, 2002, the Company's management determined that an impairment allowance of $6,496,614 was necessary to properly value the Company's oil and gas properties bringing the net book value of the oil and gas properties to $594,915. The basis for the impairment was the determination by the United States Bureau of Land Management ("BLM") that it does not consider the Timber Draw #1-AH well economic. In other words, under the BLM's criteria for economic determination, the well will not pay out the cost incurred to drill and complete the well. The Timber Draw #1-AH was completed as an oil well. The BLM also advised the Company that since it did not commence another test well prior to August 12, 2002, the Timber Draw Unit had been terminated. Furthermore, a bottom hole pressure survey conducted in April 2002 indicated

a limited reservoir for the well. The value was calculated using an estimated $10 per acre market price for the leases multiplied by the Company's working interest.

For the three months ended March 31, 2003, the Company recorded an additional leasehold impairment charge of $190,066 as a result of the assignment of the leases on 42,237 acres in the Cheyenne River Project (See Note 5).

4. CONTINGENCIES

The Company's former management (Messrs. McGrain and Jacobsen) entered into a lease agreement for office space in Canada. This office was closed after Messrs. McGrain and Jacobsen resigned as officers of the Company. The Company attempted but was not able to formally sublease this office space. No lease payment was made through June 2003, and the Company has been notified that the lease has been terminated without prejudice to the landlord's right to hold the Company liable for future damages related to lost rent. This lease agreement calls for monthly lease and tax payments of approximately $4,400 (U.S.) and expires in April of 2006.

5. PAYMENT OF LEASE RENTALS

On March 28, 2003, a third party paid approximately $84,485 of the Company's lease rentals on 42,237 acres in the Cheyenne River Project in return for an assignment of such leases. In connection with this transaction, the Company retained an overriding royalty of 1.5% on 33,597 of the acres and a 2% overriding royalty on 8,640 of the acres.

On March 31, 2003, a third party paid approximately $51,693 of the Company's lease rentals on 32,243 acres in the Cheyenne River Project in exchange for an option to drill a test well in order to earn an interest in the farmout block, which option is subject to the third party first completing a seismic survey covering 16 square miles in the Cheyenne River Project. This survey is underway and is expected to be completed in August of 2003. The Company anticipates that processing and interpreting the data from such survey will take approximately two months.

6. STOCK OPTIONS

On May 9, 2003, the Board granted 150,000 options to a director and 50,000 options to an employee of the Company under the 1995 Stock Option Plan. The exercise price is $.10 per share. As the exercise price exceeded the closing price of the Company's Common Stock on the date of grant, no compensation cost was recorded.

7. SUBSEQUENT EVENT

In July 2003, the Company issued 2,000,000 shares of its Common Stock to O.F. Duffield in exchange for a 10% interest in the Gabbs Valley Prospect Pursuant to an agreement entered into on May 8, 2003.

Item 2. PLAN OF OPERATION

The Company has no continuous income producing oil and gas properties at June 30, 2003. To date, the Company's operations have been primarily financed through sales of its Common Stock and loans from related parties. The Company's limited revenues have been generated by its Timber Draw #1-AH well, which is further described below.

From 1998 to 1999, the Company entered into leases covering an aggregate of approximately 102,000 acres located primarily in Niobrara County, Wyoming (the "Cheyenne River Project"). Prior to the Company acquiring Empire Petroleum Corporation, the Company entered into that certain farmout agreement dated November 15, 2000 by and among the Company, Empire

Petroleum Corporation and certain other partners (the "Farmout Agreement"). Pursuant to the Farmout Agreement, drilling of the Timber Draw #1-AH well commenced during December of 2000 within the 25,000 acre Timber Draw Federal Drilling Unit included in the Cheyenne River Project. The following parties participated with Empire Petroleum Corporation in the drilling of the Timber Draw #1-AH well at the following participation levels: Maxy Resources, LLC (25%), Enterra Energy Corp. (formerly Big Horn Resources Ltd.) (15%) and 74305 Alberta Ltd. (10%). The drilling of the Timber Draw #1-AH well was completed at a total measured depth of 10,578 feet, of which the last 2,030 feet were drilled horizontally through the Newcastle "B" formation. The Company encountered flows of oil and gas during the horizontal drilling. The Company conducted a series of production methods on its Timber Draw Unit #1-AH well during the period from February 13, 2001 to June 22, 2001. During the test period, the well flowed 8,139 barrels of 44 degree light gravity sweet crude and 29,072,000 cubic feet of natural gas with a BTU content of 1,493 and rich in natural gas liquids. Consulting engineers calculated that the natural gas would yield natural gas liquids of approximately 70 barrels per day based on estimated gas production of 500,000 cubic feet per day. The well was shut-in on June 22, 2001 to conserve the natural gas, which was flared during the test period. A bottom hole pressure survey of the Timber Draw #1-AH well conducted in April of 2002 indicated a limited reservoir for this well. Once the well is placed on production for a prolonged period of time, a more definitive calculation of reserves can be made.

The Bureau of Land Management ("BLM") advised the Company that it does not consider the Timber Draw Unit #1-AH well economic. In other words, under the BLM's criteria for economic determination, the well will not pay out the cost incurred to drill and complete the well. The Company planned on initiating additional drilling during the second half of 2002; however, due to poor financial market conditions, the Company was unable to raise the funds necessary to complete such drilling. The BLM also advised the Company that since it did not commence another test well prior to August 12, 2002, the Timber Draw Unit had been terminated. At June 30, 2003, the Company owns a fifty (50%) percent working interest in the Timber Draw #1-AH well. The Company's working interest is convertible to a seventy-five (75%) percent working interest after its partners recover their drilling and completion costs. The Company reserves an overriding royalty interest of seven (7%) percent proportionally reduced. Beginning in April of 2003, the Company initiated testing of the well for 10 days per month for a three month period by authority of the BLM. During a initial seven day test period in April the well produced 1,335 barrels of oil, in June it produced 1,421 barrels over a ten day test period, and in July it produced 1,321 barrels of oil in a ten day test period.

Through the period ended June 30, 2003, the Company has been actively engaged in seeking viable sources of financing to support continued operations and to continue its drilling plan. As stated above, the Company anticipated drilling additional wells prior to the quarter ended June 30, 2002. However, due to poor financial market conditions, it has not been able to raise the funds necessary to conduct its drilling program. As a result of such problems, the Company entered into two separate transactions with

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third parties in 2003. The first transaction entered into on March 19, 2003 involved 42,237 acres in the Cheyenne River Project on which another company agreed to pay the lease rentals totaling $84,485 in return for an assignment of the leases. The Company retained an overriding royalty of 1.5% on 33,597 acres and a 2% overriding royalty on approximately 8,640 acres. In the second transaction entered into on March 26, 2003, a third party agreed to pay approximately $51,693 in rental payments on 32,243 acres in the Cheyenne River Project. In exchange for such payment, the Company granted the third party a seismic option, under which the third party had 90 days to advise the Company if it elected to carry out a seismic survey covering 16 square miles. As of June 30, 2003, the third party was proceeding with the seismic program and the Company has granted the third party an option to drill a test well within the farmout block. The third party will have until April 1, 2004 to drill the test well in order to earn an interest in the farmout block, and the Company would reserve a 26.78% working interest in such test well and prospect acreage.

On May 8, 2003, the Company entered into an agreement with O.F. Duffield (the "Duffield Agreement") to acquire a ten percent (10%) interest in a block of acreage in the Gabbs Valley Prospect by agreeing to issue 2,000,000 shares of the Company's Common Stock to Mr. Duffield for such 10% interest. This block of acreage in the Gabbs Valley Prospect consists of federal leases covering approximately 45,000 acres in Nye and Mineral Counties, Nevada in which Mr. Duffield has a 100% working interest. Pursuant to the Duffield Agreement, the Company is also entitled to acquire up to a 10% interest in a block of 26,080 acres also located in the Gabbs Valley Prospect should Duffield acquire an interest in this block. At June 30, 2003, the Company had a working interest in 32,243 acres and an overriding royalty on 42,237 acres in the Cheyenne River Project.

As of June 30, 2003, the Company had $3,743 of cash on hand. The Company expects that its cash on hand will not be sufficient to fund its operations for any material length of time. During the next twelve months, the Company's material commitments include payments to be made and obligations that could arise as further described below. In addition, the Company expects to incur costs of approximately $10,000 per month relating to administrative, office and other expenses.

The Company's former management (Messrs. McGrain and Jacobsen) entered into a lease agreement for office space in Canada. This office was closed after Messrs. McGrain and Jacobsen resigned as officers of the Company. The Company has attempted, but has not been able, to formally sublease this office space. No lease payment has been made in the six months ended June 30, 2003. In January, 2003, the Company was notified that the lease was terminated without prejudice to the landlord's right to hold the Company liable for future damages related to lost rent. This lease agreement calls for monthly lease and tax payments of approximately $4,400 (U.S.) and expires in April of 2006.

In Tulsa, Oklahoma, the Company leases office space under a sub-lease agreement with an unrelated party which will expire in December 2004. The lease calls for monthly lease payments of $1,009 for the years 2003 and 2004.

As of June 30, 2003, the Company owes approximately $56,997 plus accrued interest to Weatherford U.S., L.P. for services rendered by Weatherford.

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Through the year ended December 31, 2002, the Company financed its operations primarily through advances made to the Company by the Albert E. Whitehead Living Trust, of which the Company's Chairman of the Board and Chief Executive Officer, Mr. Whitehead, is the trustee. The Company believes it is the intention of the Whitehead Trust to continue funding the Company's basic expenses through December 31, 2003, or until such time as the Company secures other sources of financing. However, there can be no assurance the Whitehead Trust will continue to fund such expenses. In order to sustain the Company's operations on a long term basis, management intends to continue to look for merger opportunities and consider public or private financings.

The Company employs one secretary in its Tulsa office and does not at this time expect any significant change in the number of its employees during the next twelve months. If the Company is successful in raising additional capital, it will employ part-time or temporary persons and consultants in situations where special expertise is required. Mr. Whitehead serves as an executive officer of the Company without compensation.

Material Risks

The Company has incurred significant losses from operations and there is no assurance that it will achieve profitability or obtain funds necessary to finance continued operations. For other material risks, see the Company's form 10-KSB for the period ended December 31, 2002, which was filed April 16, 2003.

Item 3. CONTROLS AND PROCEDURES

Based on his evaluation, the Company's Chief Executive Officer (and principal financial officer) has concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report on Form 10-QSB are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

During the period covered by this report on Form 10-QSB, there have been no changes in the Company's internal control over financial reporting that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. Changes in Securities

On May 8, 2003, the Company entered into an agreement to acquire a ten (10%) percent interest in the Gabbs Valley Prospect by agreeing to issue 2,000,000 shares of the Company's Common Stock to O.F. Duffield as consideration for such 10% interest (as of June 30, 2003 the shares had not been issued). The details of this transaction are more fully described in Part I, Item 2 of this Form 10-QSB.

The Company relied on the exemption set forth in Section 4(2) of the Securities Act of 1933, as amended, in connection with the issuance of the securities set forth above. Mr. Duffield is a sophisticated person and there was no underwriting in connection with the issuance of these securities and no commissions were paid to any party upon such issuances.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

31.1 Certification of Chief Executive Officer (and principal financial officer) pursuant to Rule 13