EMPIRE PETROLEUM CORP
Form 10QSB
November 12, 2002

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2002

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

For the transition period from _______________to________________

Commission file number 0-20193

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.)

15 E. 5th Street, Suite 4000, Tulsa, Oklahoma	74103-4346
(Address of principal executive offices)	(Zip Code)
(Issuer's telephone number)	(918) 587-8093

(Former name, former address and former fiscal year, if changed since last report)

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 - 24,459,906 shares outstanding as of September 30, 2002.

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

EMPIRE PETROLEUM CORPORATION

INDEX TO FORM 10-QSB

Item 1. FINANCIAL STATEMENTS

EMPIRE PETROLEUM CORPORATION

BALANCE SHEET

	September 30, 2002 (Unaudited)
ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,775
Accounts receivable	240
Prepaid expenses	960
Total current assets	2,975
Investment in prospects	
Property & equipment net of accumulated depreciation and depletion	7,111,679
Total Assets	7,114,654
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued liabilities	$ 395,354
Debenture payable	50,000
Note Payable - Related Party	170,000
Total current liabilities	615,354
Deferred taxes	1,250,000

Total liabilities	1,865,354
Stockholders' equity:	
Common stock at par value	24,460
Additional paid in capital	7,633,072
Accumulated deficit	(2,408,232)
Total stockholders' equity	5,249,300
Total Liabilities and Equity	$ 7,114,654

See accompanying notes to financial statements.

EMPIRE PETROLEUM CORPORATION

STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Revenue:				
Oil and gas sales	$ 0	$ 0	$ 0	$ 12,410
Less royalty expense	0	0	0	(2,482)
	0	0	0	9,928
Costs and expenses:				
Production & operating	5,178	7,446	146,682	17,600
General & administrative	36,425	77,952	158,948	150,067
Depreciation expense	1,045	0	3,143	1,050
	42,648	85,398	308,773	168,717
Operating loss	42,648	85,398	308,773	158,789
Other income and expense:				
Interest income	0	0	0	(6,918)
Miscellaneous income	(34)	0	(1,819)	0
Interest expense	33,730	5,918	41,847	7,473
Total other income and expense	33,696	5,918	40,028	555
Net loss	$ (76,344)	$ (91,316)	(348,801)	(159,344)

Net loss per common share	$ 0	0	0	0
Weighted average number of common shares outstanding	24,459,906	23,495,259	24,459,906	23,495,259

See accompanying notes to financial statements

EMPIRE PETROLEUM CORPORATION

STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended	
	September 30, 2002	September 30, 2001
Cash flows from operating activities:		
Net loss	$(348,801)	$(159,344)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	3,143	1,050
Cash flow from operations:		
(Increase) decrease in assets:		
Accounts receivable	127,470	(121,645)
Prepaid expenses	4,363	786
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(93,795)	178,504
Net cash used in operating activities	(307,620)	(100,649)
Cash flows from investing activities:		
Additions to property, plant and equipment	0	(723,176)
Decrease to property, plant and equipment	70,224	0
Cash payments for investments in prospects	0	0
Net cash used in investing activities	70,224	(723,176)
Cash flows from financing activities:		
Issuance of common stock	965	913,797
Proceeds of note payable - related party	170,000	0
Repayment of note payable -related party	191,964	(70,754)
Repayment of Debenture payable	(162,000)	0
Net cash provided by financing activities	200,929	843,043
Net increase (decrease)in cash	(36,467)	19,218
Cash and cash equivalents - Beginning	38,242	13,000

Cash and cash equivalents - Ending	$ 1,775	$ 32,218

See accompanying notes to financial statements

EMPIRE PETROLEUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. BASIS OF PRESENTATION:

The accompanying unaudited financial statements of Empire Petroleum Corporation (Empire, or the Company) have been prepared in accordance with 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 generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring accruals) 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, 2002.

On July 20, 2001, the Board of Directors approved the merger of Americomm Resources Corporation with its wholly owned subsidiary Empire Petroleum Corporation and the simultaneous change in the name of the corporation to Empire Petroleum Corporation. Both the merger and name change were effective August 15, 2001.

The information contained in this Form 10-QSB should be read in conjunction with audited financial statements and related notes for the year ended December 31, 2001 which are contained in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission (the SEC) on April 10, 2002.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Oil and gas properties - The Company uses the successful efforts method of accounting for its oil and gas activities. Costs incurred are deferred until exploration and completion results are evaluated. At such time, costs of activities with economically recoverable reserves are capitalized as proven properties, and costs of unsuccessful or uneconomical development work are expensed.

Cash and cash equivalents - The Company defines cash and cash equivalents to be cash on hand, cash in checking accounts, certificates of deposit, cash in money market accounts and certain investments with maturities of three months or less from the date of purchase.

3. NOTES PAYABLE

On June 4, 2001, the Company received proceeds from three notes payable in the total amount of $182,000, including (1) a $50,000 note payable to Lacy E. Whitehead, the wife of the Company's Chairman of the Board and Chief Executive Officer, (2) a $66,000 note payable to Wells Gray Resort and Resources Ltd., which is owned by Thomas J. Jacobsen, who was the Company's Chief Executive Officer at the time the Company entered into such note, and (3) a $66,000 note payable to Quinn Management Ltd. These notes are unsecured and bear interest at 12% per year, with interest payable monthly. They became due and payable by the Company on June 4, 2002, including a 3% premium on the principal amounts due. As of June 30, 2002, the $66,000 note payable to Wells Gray Resort and Resources Ltd. plus accrued interest and premium was converted into 382,896 shares of the Company's Common Stock at $0.20 per share. As of September 30, 2002, the note payable to Lacy Whitehead was in default, and the $66,000 note payable to Quinn Management Ltd. plus accrued interest and premium was converted into 356,482 shares of the Company's Common Stock at $0.20 per share.

On August 23, 2001, the Company received proceeds of a long-term note Payable to 825804 Alberta Ltd. in the amount of $30,000. The note is unsecured and bears interest at 1% per month and is convertible, at the note holder's option, into a .5% working interest in the Timber Draw project. On June 27, 2002, this note plus accrued interest was converted into 163,853 of the Company's Common Stock at $0.20 per share.

During the three months ended June 30, 2002 two accounts payable in a total amount of $12,283.07 were converted into 61,416 of the Company's Common Stock at $0.20 per share.

On March 15, 2002, the Company borrowed $170,000 from Albert E. Whitehead Living Trust, of which the Company's Chairman of the Board and Chief Executive Officer is Trustee, pursuant to a convertible promissory note due March 15, 2003 earning interest at the rate of 10% per annum, and convertible into shares of the Company's Common Stock at a price of $0.2100 per share, which represented the market price of the Company's Common Stock on such date.

In April 2002, the Company entered into an "Agreed Order of Payment" with Baker Hughes, Inc., to satisfy an outstanding indebtedness for service in the drilling of the Timber Draw #1-AH well. The amount of this payment is for the principal amount of $98,984.79, accrued interest at the rate of 18% per annum from January 17, 2001 to January 29, 2002, interest accruing from and after January 29, 2002, at the rate of 7.48% per annum until paid, costs in the amount of $96.00, and attorney's fees in the amount of $2,750.00. In connection with the Agreed Order of Payment, the Company paid an initial installment of $40,000.00 to Baker Hughes on April 15, 2002, has paid monthly installments of approximately $10,000.00 through August 31, 2002, and made the last payment on the principal outstanding on September 30, 2002. Subsequent to the quarter ended September 30, 2002, the Company made a payment to Baker Hughes totaling approximately $22,000 in final settlement of the interest due.

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 $108,334.22 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 $66,997.00 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.

4. INCOME TAXES

As of March 31, 2002, the Company has tax net operating loss carry forwards totaling approximately $1,754,000. If not used, these carry forwards will expire in the years 2002 to 2021.

5. EMPIRE PETROLEUM CORPORATION ACQUISITION

On May 29, 2001, the Company acquired Empire Petroleum Corporation, a private company that owned a 25% interest in the Cheyenne River Prospect, increasing the Company's working interest in the Cheyenne River Wyoming Prospect to 75%. The acquisition of Empire was accomplished by the issue of 7,492,351 Common shares or 30.6% of the total 24,476,925 shares then outstanding on a fully diluted basis. The Company's shares issued were valued at $0.55 each for this transaction. The acquisition was accounted for as follows:

	USD$
Value of shares issued	4,120,793
Current assets	347,762
Investments	206,250
Current Liabilities	(607,182)
Deferred Taxes	(1,250,000)
Petroleum and natural gas properties	5,423,963
	4,120,793

On July 20, 2001, the Board of Directors approved the merger of the Company with its now wholly owned subsidiary Empire Petroleum Corporation and the simultaneous change in the name to Empire Petroleum Corporation. Both the merger and name change were effective August 15, 2001.

Item 2. PLAN OF OPERATION

All statements, other than statements of historical fact contained in this report are forward-looking statements. Forward-looking statements generally are accompanied by words such as anticipate, believe, estimate, expect, may, might, potential, project or similar statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove correct. Factors that could cause the Company's results to differ materially from the results discussed in such forward-looking statements include the need for additional capital, the costs expected to be incurred in the exploration and development of the Company's properties, unforeseen engineering, mechanical or technological difficulties in drilling wells, uncertainty of exploration results, operating hazards, competition from other natural resource companies, the fluctuations of prices for oil and gas, the effects of governmental and environmental regulation, general economic conditions and other risks described in the Company's filings with the Securities and Exchange Commission. Accordingly, the actual results of the Company's operations in the future may vary widely from the forward-looking statements included herein, and all forward-looking statements in this report are expressly qualified in their entirety by the cautionary statements in this paragraph.

Empire has no income producing oil and gas properties at June 30, 2002. To date, the Company's operations have been primarily financed through sales of its Common Stock and loans from related parties.
However, an oil and gas test well was drilled in January 2001 on the Cheyenne River Prospect. The test well encountered flows of oil and natural gas during the drilling period and was subsequently completed

as an oil well as described below.

Pursuant to the Farmout Agreement, drilling of the Timber Draw #1-AH test well commenced during December 2000 within the 25,000 acre Timber Draw Federal Drilling Unit included in the Cheyenne River Development Project. Drilling of the Timber Draw 1-AH test well was completed at a total measured depth of 10,578 feet of which the last 2,030 feet was drilled horizontally through the Newcastle "B" formation (the "Muddy"). During horizontal drilling, flows of oil and gas were encountered. During the period from February 13, to June 22, 2001, the Company conducted a series of production methods on its Timber Draw Unit #1-AH oil and gas discovery. 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 have calculated natural gas liquids of approximately 70 barrels per day based on estimated gas production of 500,000 cubic feet per day. Due to the lack of a nearby pipeline connection, 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 conducted in April 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.

As of September 30, 2002, Empire had $1,775 of cash on hand. Empire expects that its cash on hand will not be sufficient to fund its operations for the next 3 months. Empire's material commitments consist of, among other things, annual lease payments on the Cheyenne River Development Project of approximately $117,369, of which $96,414 were paid in March 2002, with $70,000 of this amount paid by the Company and the balance of $26,414 paid by the parties to the Farmout Agreement in the Cheyenne River Development Project. In addition, although the Company has closed its Calgary, Alberta Canada office, it still has a lease obligation for office space there under an operating lease agreement with an unrelated party that will expire in 2006. This lease calls for monthly lease and tax payments of approximately $4,400 (U.S.). The Company has negotiated a commitment from a Calgary company to assume the obligations of this lease after the June 2002 payment by Empire, however, no contract had been signed as of September 30, 2002. The Company has also engaged a commercial real estate company to work on sub-leasing this space. In Tulsa, Oklahoma, the Company leases office space under an operating lease agreement with an unrelated party which will expire in 2003. The lease calls for monthly lease payments of $3,893 for the years 2002 and 2003. The Company currently sublets part of its office space on a month-to-month basis for approximately $1,000 per month. In addition, the Company current obligations include: (1) a $50,000 note payable to Lacy E. Whitehead, the wife of the Company's Chairman of the Board and Chief Executive Officer, under which the Company is currently in default, (2) final interest payment to Baker Hughes of approximately $22,000.00, and (3) approximately $56,997.00 payable to Weatherford U.S., L.P. plus accrued interest. Mr. Whitehead and Mr. Bradley serve as executive officers of the Company without compensation.

As of September 30, 2002, the Albert E. Whitehead Living Trust of which the Company's Chairman of the Board and Chief Executive Officer, Mr. Whitehead, is the trustee, had advanced the Company $192,670.08 with which to pay its operating expenses and certain notes and accounts payable. The Company believes it is the intention of the Whitehead Trust to continue funding the Company's basic expenses through December 31, 2002, or until such time as the Company secures other sources of financing or sells an interest in its Wyoming project. However, there can be no assurance the Whitehead Trust will continue to fund such expenses.

Through the period ended September 30, 2002, the Company has been actively engaged in seeking viable sources of financing to support continued operations and to continue its drilling plan. The Company anticipated drilling additional wells prior to the quarter ended June 30, 2002. However, due to poor financial market conditions, it has been unable to raise the funds necessary to conduct its drilling program. The Company now has elected to make an effort to finance or sell up to a net 50% working interest in the 82,522 acres under lease in the Cheyenne River Development Project together with 50% of its interest in the Timber Draw #1-AH discovery well. Upon concluding a financing or sale, steps will be taken to conduct a sixteen square mile seismic survey surrounding the discovery well and determine from this study the feasibility of drilling additional well(s).

The Bureau of Land Management ("BLM") has advised the Company that it does not consider the Timber Draw Unit #1-AH economic. In other words, that under the BLM's criteria for economic determination, the well will not pay out the cost incurred to drill and complete the 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. The Company intends to proceed with a 3-D seismic program if and when the Company is able to raise the funds necessary for such seismic program. Subject to favorable results of the 3-D seismic program and the Company's ability to raise additional funding, the Company anticipates additional drilling might occur in 2003. It is likely the Company would make application for a new federal drilling unit before drilling a new well. The Company does not plan to connect the #1-AH well to a pipeline until such time as additional well or wells economically justify a pipeline connection.

Empire now owns a fifty (50%) percent working interest in the Timber Draw #1-AH discovery well, which is convertible to a seventy-five (75%) percent working interest after its partners recover their drilling and completion costs. Empire reserves an overriding royalty interest of seven (7%) percent proportionally reduced until our partners cost recovery. It was determined that approximately 18,000 acres of property located in the western portion of the Cheyenne River Development Project were surplus to the Company's needs. These acres were released through non-payment of lease rentals in April of 2002. Following the release of the surplus property, the lease block for the Cheyenne River Development Project constitutes approximately 82,522 acres.
As a result of the Farmout Agreement, Empire now has a seventy-five (75%) percent interest in approximately 60,000 acres of the Cheyenne River Development Project. The Farmout Agreement also provides that the partners can obtain a 25% interest in the remaining 22,522 acres, providing that they participate proportionally in the drilling of a test well on the property. The Company currently owns a 100% interest in 22,522 acres.

Empire 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 Empire is successful in raising additional capital, it will employ part-time or temporary persons and consultants in situations where special expertise is required.

PART II. OTHER INFORMATION

Item 2. Changes in Securities

During the three-month period ended September 30, 2002, the Company issued the following number of shares of its Common Stock without registering such Common Stock under the Securities Act of 1933 to the each of the following party as consideration for the cancellation of the debt set forth opposite of such party's name:

Name	Number of Shares	Date	Consideration
Quinn Management Ltd.	356,482	9-00-02	Payment in full of an unsecured note payable, including interest, in the amount of $71,296.38

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

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

99.1 Certification Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

EMPIRE PETROLEUM CORPORATION

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EMPIRE PETROLEUM CORPORATION

Date: November 12, 2002 By: /s/ Albert E. Whitehead

Albert E. Whitehead

Chairman/CEO

EXHIBIT INDEX

NO.	DESCRIPTION
99.1	Certification Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

EXHIBIT 99.1

Exhibit 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Empire Petroleum Corporation (the "Company") on Form 10-QSB for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Albert E. Whitehead, Chief Executive Officer and principal financial officer of the Company, certify, pursuant to 18 U.S.C. # 1350, as adopted pursuant to # 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Albert E. Whitehead

Albert E. Whitehead
Chief Executive Officer and
principal financial officer

November 12, 2002

2