

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10-Q/A

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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.

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 Act). Yes No

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of August 12, 2011 was 83,564,235.

EMPIRE PETROLEUM CORPORATION

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Explanatory Note

This Form 10-Q/A is being filed by Empire Petroleum Company as Amendment No. 2 (this "Form 10-Q/A") to its Quarterly Report on Form 10-Q for the period ended June 30, 2011 (which was filed on August 12, 2011), as amended by Amendment No. 1 thereto (which was filed on September 30, 2011) (as amended, the "Previous Form 10-Q"). This Form 10-Q/A amends and restates the Previous Form 10-Q in its entirety. The purpose of filing this Form 10-Q/A is to provide a date on the certifications required by Exchange Act Rule 13a-14(a) or 15d-14(a) and Exchange Act Rule 13a-14(b) or 15d-14(b).

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EMPIRE PETROLEUM CORPORATION

BALANCE SHEET

	JUN. 30, 2011	Dec. 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$15,421	\$68,689
Accounts receivable	45,915	45,915
Prepaid expenses and other current assets	1,100	7,336
Total current assets	62,436	121,940
Property & equipment less accumulated depreciation and depletion	255,215	255,215
Total assets	\$317,651	\$377,155
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$7,248	\$149,065
Notes payable - related party	100,000	0
Total current liabilities	107,248	149,065
Total liabilities	107,248	149,065
Stockholders' equity:		
Common stock - \$.001 per value authorized 100,000,000 shares, issued and outstanding 83,564,235 and 83,069,235 respectively	83,564	83,069
Additional paid in capital	14,013,431	13,904,142
Accumulated deficit	(13,886,592)	(13,759,121)
Total stockholders' equity	210,403	228,090
Total liabilities and stockholders' equity	\$317,651	\$377,155

See accompanying notes to unaudited financial statements

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EMPIRE PETROLEUM CORPORATION

STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenue:				
Petroleum Sales	\$0 0	\$0 0	\$0 0	\$0 0
Costs and expenses:				
Production and operating	0	71,896	(11,279)	81,826
General and administrative	56,777	71,369	137,510	138,430
	56,777	143,265	126,231	220,256
Operating loss	(56,777)	(143,265)	(126,231)	(220,256)
Other income and (expense):				
Interest income	2	1,266	10	2,907
Interest expense	(1,000)	0	(1,250)	0
Total other income (expense)	(998)	1,266	(1,240)	2,907
Net income (loss)	\$(57,775)	\$(141,999)	\$(127,471)	\$(217,349)
Net income (loss) per common share, basic and diluted	\$0.00	\$0.00	\$0.00	\$0.00
Weighted average number of common shares outstanding basic and diluted	83,564,235	78,776,024	83,342,735	77,931,359

See accompanying notes to unaudited financial statements

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EMPIRE PETROLEUM CORPORATION

STATEMENTS OF CASH FLOW

(UNAUDITED)

	Six Months Ended	
	Jun. 30, 2011	Jun. 30, 2010
Cash flows from operating activities:		
Net loss	\$(127,471) \$(217,349
Adjustments to reconcile net loss to net cash used in operating activities:		
Value of services contributed by employee	25,000	25,000
Stock incentive plan expense	11,294	16,380
Change in operating assets and liabilities:		
Accounts receivable	0	0
Prepaid expenses	6,236	0
Accounts payable and accrued liabilities	(68,327) 9,203
Net cash used in operating activities	(153,268) (166,766
Cash flow from investing activities:		
Acquisition of lease acres	0	(35,000
Well equipment and drilling costs	0	(513,389
Net cash provided by (used in) investing activities	0	(548,389
Cash flows from financing activities:		
Proceeds from private equity placement	0	460,000
Proceeds from related party, note payable	100,000	0
Net cash provided by (used in) financing activities	100,000	0
Net increase (decrease) in cash	(53,268) (255,155
Cash - Beginning of period	68,689	1,171,565
Cash - End of period	\$15,421	\$916,410
Supplemental Disclosure for Non Cash Items:		
Common Stock issued for accounts payable	\$73,490	\$0

See accompanying notes to unaudited financial statements

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EMPIRE PETROLEUM CORPORATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

(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-Q. 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 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. All adjustments are of a normal, recurring nature. Operating results for the interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The information contained in this Form 10-Q should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2010 which are contained in the Company's

Annual Report on Form 10-K filed with the Securities and Exchange

Commission (the "SEC") on March 23, 2011.

The Company has incurred significant losses in recent years. The continuation of the Company as a going concern is dependent upon the ability of the Company to attain future profitable operations and/or additional debt or equity financing until profitable operations are achieved. 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 adjust 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 the ability of the Company to attain future profitable production.

As of June 30, 2011, the Company had \$15,421 of cash on hand. In order

to sustain the Company's operations on a long-term basis, the Company continues to look for merger opportunities and consider public or private financings.

Compensation of Officers and Employees

The Company's only executive officer serves without pay or other compensation.

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The fair value of these services is estimated by management and is recognized as a capital contribution. For the three months ended June 30, 2011, the Company recorded \$25,000 as a capital contribution by its executive officer.

Fair Value Measurements

The Financial Accounting Standards Board ("FASB") fair value measurement standards define fair value, establish a consistent framework for measuring fair value and establish a fair value hierarchy based on the observability of inputs used to measure fair value. The Company's primary marketable asset is cash, and it owns no marketable securities.

2. PROPERTY AND EQUIPMENT:

GABBS VALLEY PROSPECT

The Company's leasehold acreage at June 30, 2011 consisted of 48,541 acres.

The Company's ownership in the leasehold acreage is now 50%.

As of December 31, 2005, there had been no wells drilled on the Gabbs Valley Prospect. However, in November 2005, the Company received the results of a 19-mile 2-D swath seismograph survey conducted on the prospect and, based on the results of the survey, the Company and its partners determined that a test well should be drilled on the prospect.

The Company also elected to increase its interest in the prospect by taking a farm-in from Cortez Exploration LLC (formerly O. F. Duffield).

Empire agreed to pay Cortez \$675,000 in lease costs plus 45% of the costs associated with the drilling of a test well to earn an additional 30% working interest which made its total working interest 40%. The lease block of 44,604 acres was increased to 75,521 acres by the acquisition of an additional 30,917 acres from the Department of the Interior (Bureau of Land Management) in June 2006. The block was reduced to 75,201 acres due to the expiration of one 320-acre lease during 2007. In 2008 and 2009, the Company acquired leases on 17,624 additional acres through federal lease sales, bringing its total to 92,825 acres, however due to lease expirations in 2010 the total is now 48,541 acres.

After reaching 5,195 feet in connection with drilling the first test well, the Company and its partners elected to suspend operations on the well, and released the drilling rig and associated equipment. Company personnel and consultants then evaluated the drilling and logging data and after the study was completed, Empire and its partners decided to conduct a thorough testing program on the well. The Company re-entered the well on April 17, 2007 and conducted a series of drill stem tests and recovered only drilling mud. It was then determined after considerable study that the formation is likely very sensitive to mud and water used in drilling which may have caused clays in the formation to swell preventing any oil that might be present to flow into the well bore. During 2007, the Company increased its interest in the prospect leases to 57% when one of the joint participants elected to surrender its 30% share of the prospect.

In 2008, the Company and its partners engaged W. L. Gore and Associates to

carryout an Amplified Geochemical Imaging Survey which covered approximately sixteen square miles. The survey was concentrated along the apex of the large

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Cobble Cuesta structure which included the areas around the Empire Cobble Cuesta 1-12 exploratory test and the other test well drilled in the immediate area. Both of these tests encountered oil shows and the geochemical survey indicated potential hydrocarbons beyond the two well bores. A new Federal drilling unit was formed and approved by the Bureau of Land Management. This unit was known as the Paradise Drilling Unit and contained 40,073 acres out of our total lease block then containing 92,825 acres.

In July 2010, the Company entered into a farm-in agreement with its joint lease holders holding a 41% working interest in the 40,073 acre Paradise Unit. On July 19, 2010, the Company commenced drilling a test well in the Paradise Unit on the Gabbs Valley Prospect in Nevada. The Company drilled the Paradise Unit 2-12 test well to a depth of 4,250 feet before drilling problems caused the Company to cease drilling. The Company tested the well between 3,700 feet and 3,782 feet where oil shows had been found. The Company recovered small amounts of oil containing paraffin, which may have been restricting the oil flow. However, swab tests failed to increase the oil flow and the Company has suspended operations on the well and assigned the lease and the 1-12 and 2-12 wells to the other leasehold owners from which the Company had taken a farmout. The new owners plan to do further testing on the 2-12 well and assumed liabilities associated with the lease and both the 1-12 and 2-12 wells. Further testing by the new owners is expected in the third quarter of 2011 pending financing. The Company has utilized the results of the testing and other factors to determine its next action with respect to the Gabbs Valley leasehold. The Company is now looking for an industry partner to take a farmout on approximately 25,000 acres with the

obligation to drill either a Triassic test well or to a depth of 7,000 feet, whichever first occurs.

Sale of Working Interest

In October 2010, the Company sold 7% of its working interest in the Gabbs Valley Prospect leases for \$700,000. In connection with such sale, the purchasers were granted a working interest in the Paradise Unit 2-12 well, unit leases and an option to participate in the farmin of the non-unit leases, which option has expired.

SOUTH OKIE PROSPECT

On August 4, 2009, the Company purchased, for \$25,000 and payment of lease rentals of \$4,680, a nine month option to purchase 2,630 net acres of oil and gas leases known as the South Okie Prospect in Natrona County, Wyoming.

The option allowed the Company to purchase the leasehold interests for \$35,000. The Tensleep Sand at depths from 3,300 feet to 4,500 feet is the primary target. The Tensleep is an excellent oil reservoir with the potential of 700 barrels of oil per acre foot recovery. As of December 31, 2009, the Company acquired 11 miles of seismic data and studies of this data were completed in early January 2010. An additional geological study was also completed early in January 2010. Based on these studies, the Company exercised its option in 2010. Further engineering studies have estimated the reserve potential of this prospect at between 1,000,000 to 4,000,000 barrels of oil.

Subject to securing additional financing and/or engaging an industry partner,
the Company plans to drill or cause to be drilled a test well in 2011.

3. NOTE PAYABLE - RELATED PARTY

On February 1, 2011 the Albert E. Whitehead Living Trust, under the terms of

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a convertible note, advanced \$100,000 to the Company. The note has a term of one (1) year and accrues interest at the rate of four (4) percent per annum.

The principal and interest owed under the note may be converted by the holder into common stock at the strike price of \$0.10 per share.

4. EQUITY

On March 17, 2010, John C. Kinard, a member of the Company's Board of Directors, was issued options to purchase 70,000 shares of the Company's common stock under the 2006 Stock Incentive Plan at a strike price of \$0.25 per share. The options immediately vested and expire after ten years. The Company recorded an expense of \$16,380 for the options. Fair values were estimated at the date of grant of the options, using the Black-Scholes Option Valuation Model with the following weighted average assumptions: risk free interest rate of 3.65%, volatility factor of the expected market price of the Company's common stock of 162%, no dividend yield, and a weighted average expected life of the options of 5 years. For the purpose of determining the expected life of the options, the Company utilizes the Simplified Method as defined in Staff Accounting Bulletin No. 107 issued by the SEC.

On September 9, 2010, Alfred H. Pekarek, a consulting geologist to the Company was issued options to purchase 50,000 shares of the Company's common stock under the 2006 Stock Incentive Plan at a strike price of \$0.26 per share. The options immediately vested and expire after ten (10) years. The Company recorded an expense of \$11,700 for the options. Fair values were estimated at

the date of grant of the options, using the Black-Scholes Option Valuation Model with the following weighted average assumptions: risk free interest rate of 2.77%, volatility factor of the expected market price of the Company's common stock of 142%, no dividend yield, and a weighted average expected life of the options of 5 years. For the purpose of determining the expected life of the options, the Company utilizes the Simplified Method as defined in Staff Accounting Bulletin No. 107 issued by the SEC.

On February 28, 2011, Kevin R. Seth, the newest member of the Company's Board of Directors, was issued options to purchase 150,000 shares of the Company's common stock under the 2006 Stock Incentive Plan at a strike price of \$0.10 per share. The options immediately vested and expire after ten years. The Company recorded an expense of \$11,295 for the options. Fair values were estimated at the date of grant of the options, using the Black-Scholes Option Valuation Model with the following weighted average assumptions: risk free interest rate of 3.42%, volatility factor of the expected market price of the Company's common stock of 172%, no dividend yield, and a weighted average expected life of the options of 5 years. For the purpose of determining the expected life of the options, the Company utilizes the Simplified Method as defined in Staff Accounting Bulletin No. 107 issued by the SEC.

Diluted EPS (Earnings per Share) gives effect to all dilutive potential common shares outstanding during the period. The computation of Diluted EPS does not assume conversion, exercise or contingent exercise of securities that would have an anti-dilutive effect on losses. As a result, if there is a loss from

continuing operations, Diluted EPS is computed in the same manner as Basic EPS. At June 30, 2011, the Company had 1,245,000 options and 2,222,226 warrants outstanding, that were not included in the calculation of earnings per share for the period then ended. Such financial instruments may become dilutive and would then need to be included in future calculations of Diluted EPS. At June 30, 2011, the outstanding options and warrants were considered

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anti-dilutive since the respective strike prices were above the market price