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NUWAY ENERGY INC
Form 10QSB
August 19, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended JUNE 30, 2002

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission File Number 33-43423

NUWAY ENERGY, INC.

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

DELAWARE

65-0159115

(State or other jurisdiction
of incorporation or organization)

(IRS Employer
Identification No.)

19100 Von Karman Ave, Ste 450
Irvine, CA 92612

(Address of principal executive offices)

(949) 553-8002

(Issuer's telephone number)

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.

Yes No

Number of shares outstanding of each of the issuer's classes of common
equity, as of June 30, 2002: 8,431,353 shares of common stock, \$0.00067 par
value per share.

NUWAY ENERGY, INC. AND SUBSIDIARIES

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ACCOUNTANTS' REVIEW REPORT

To the Board of Directors of:
NuWay Energy, Inc. and Subsidiaries

We have reviewed the accompanying consolidated balance sheets of NuWay Energy, Inc. and Subsidiaries as of June 30, 2002, and the related consolidated statements of operations, changes in stockholders equity and cash flows for the six months ended June 30, 2002, in accordance with the Statements for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of NuWay Energy, Inc.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

As discussed in Note 11 certain conditions indicates that the company may be unable to continue as a going concern. The accompanying financial statements do not include any adjustments to the financial statements that might be necessary should the company be unable to continue as a going concern.

The balance sheet for the year ended December 31, 2001 was audited by us and we expressed an opinion on it that was qualified as to the ability of the company to continue as a going concern, in our report dated April 10, 2002, but we have not performed any auditing procedures since that date.

Shubitz, Rosenbloom & Co., P.A.

Miami, Florida
August 9, 2002

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NUWAY ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2002 AND DECEMBER 31, 2001

ASSETS

| | June 30, 2002 | December 31, 2001 |
|--|------------------|----------------------|
| | ----- | ----- |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$9,725 | \$440,827 |
| Accounts Receivable, Net of \$25,000 of Allowance for Doubtful Accounts | 201,322 | 234,054 |
| Inventory | 448,378 | 475,291 |
| Notes receivable Officers and Affiliates, Current Portion | 55,623 | - |
| Prepaid Expenses and Other Current Assets | 52,950 | 156,958 |
| Subscriptions Receivable | 250,000 | - |
| | ----- | ----- |
| Total Current Assets | 1,017,998 | 1,307,130 |
| | ----- | ----- |
| PROPERTY AND EQUIPMENT - NET | 2,577,833 | 2,360,135 |
| | ----- | ----- |
| OTHER ASSETS | | |
| Accounts Receivable Long-Term, Net of Allowance For Doubtful Accounts of \$175,000 in 2002 and \$150,000 in 2001 | 408,000 | 450,000 |
| Deposits | 45,093 | 26,693 |
| Notes Receivable - Officers and Affiliates Net of Current Portion | 40,000 | 440,000 |
| Other Assets | 16,253 | 6,374 |
| | ----- | ----- |
| Total Other Assets | 509,346 | 923,067 |
| | ----- | ----- |
| TOTAL ASSETS | \$4,105,177 | \$4,590,332 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| ----- | | |
| CURRENT LIABILITIES | | |
| Accounts Payable and Accrued Expenses | \$834,782 | \$985,776 |
| Debentures Payable | 150,000 | 2,400,004 |
| | ----- | ----- |

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| | | |
|--|--------------|--------------|
| Total Current Liabilities | 984,782 | 3,385,780 |
| | ----- | ----- |
| COMMITMENTS AND CONTINGENCIES | - | - |
| | ----- | ----- |
| Total Liabilities | \$984,782 | 3,385,780 |
| | ----- | ----- |
| STOCKHOLDERS' EQUITY | | |
| Common Stock, \$.00067 Par Value 15,000,000 | | |
| Shares Authorized, 8,431,353 Shares Issued | | |
| 8,386,453 Shares Outstanding and 44,900 Shares | | |
| held as Treasury Stock | 5,648 | 3,402 |
| Additional Paid-In Capital | 16,707,328 | 15,137,225 |
| Accumulated Other Comprehensive Income (Loss) | (546,183) | (544,539) |
| Retained Earnings (Deficit) | (12,919,394) | (13,264,532) |
| Treasury Stock, at cost | (127,004) | (127,004) |
| | ----- | ----- |
| Total Stockholders' Equity | 3,120,395 | 1,204,552 |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$4,105,177 | \$4,590,332 |
| | ===== | ===== |

Read accountants' review report and notes to financial statements.

NUWAY ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2001

AND FOR THE SIX MONTHS ENDED JUNE 30, 2002

| | Common Stock | | Accumulated | | Retained | Treasury | Comprehe |
|---|--------------|----------|--------------|---------------|---------------|----------|----------|
| | Number | Par | Additional | Other | Earnings | Stock | Income |
| | of | Value | Paid-In | Comprehensive | (Deficit) | | (Loss) |
| | Shares | \$.00067 | Capital | Income (Loss) | | | |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| BALANCE JANUARY 1, 2001 | 4,225,000 | \$2,831 | \$13,796,612 | (\$560,326) | (\$6,612,099) | \$5,235 | \$- |
| ADJUSTMENT FOR FOREIGN CURRENCY TRANSACTIONS | - | - | - | 15,787 | - | - | 15 |
| STOCK ISSUED FOR SERVICES | 187,500 | 126 | 405,524 | - | - | - | - |
| REPRICING ON VARIABLE | | | | | | | |

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| | | | | | | |
|---|-----------|---------|--------------|-------------|----------------|----------------|
| OPTION PLAN | - | - | (230,460) | - | - | - |
| TREASURY STOCK | - | - | - | - | - | 121,769 |
| CONVERSION OF DEBENTURES | 666,283 | 446 | 1,165,549 | - | - | - |
| NET (LOSS) FOR THE YEAR ENDED DECEMBER 31, 2001 | - | - | - | - | (6,652,433) | - (6,652,433) |
| ----- | | | | | | |
| BALANCE DECEMBER 31, 2001 | 5,078,783 | 3,403 | 15,137,225 | (544,539) | (13,264,532) | 127,004 |
| COMPREHENSIVE (LOSS) FOR THE YEAR ENDED DECEMBER 31, 2001 | | | | | | \$ (6,636,612) |
| ===== | | | | | | |
| STOCK ISSUED FOR SERVICES | 350,000 | 235 | 349,265 | - | - | - |
| CONVERSION OF DEBENTURES | 1,332,570 | 893 | 2,331,705 | - | - | - |
| CANCELLATION OF WARRANTS | - | - | (1,659,750) | - | 1,659,750 | - |
| ADDITIONAL SUBSCRIPTION OF STOCK - SHOWN AS STOCK SUBSCRIPTION RECEIVABLE | 1,000,000 | 670 | 249,330 | - | - | - |
| STOCK ISSUED FOR SOFTWARE | 670,000 | 447 | 299,553 | - | - | - |
| ADJUSTMENT FOR FOREIGN CURRENCY TRANSACTIONS | - | - | - | 1,644 | | (1,644) |
| NET (LOSS) FOR THE SIX MONTHS ENDED JUNE 30, 2002 | - | - | - | - | (1,314,612) | - (1,314,612) |
| ----- | | | | | | |
| BALANCE JUNE 30, 2002 | 8,431,353 | \$5,648 | \$16,707,328 | (\$546,183) | \$(12,919,394) | \$127,004 |
| ===== | | | | | | |
| COMPREHENSIVE INCOME (LOSS) FOR THE SIX MONTHS ENDED JUNE 30, 2002 | | | | | | \$ (1,316,256) |
| ===== | | | | | | |

Read accountants' review report and notes to financial statements.

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NUWAY ENERGY, INC. AND SUBSIDIARIES

 CONSOLIDATED STATEMENTS OF OPERATIONS

| | Three Months Ended | | Six Months Ended | |
|-----------------------------------|--------------------|--------------|------------------|----------------|
| | June 30, | | June 30, | |
| | 2002 | 2001 | 2002 | 2001 |
| | ----- | | | |
| Revenue | ----- | | | |
| Rental Income | \$87,712 | \$117,383 | \$183,340 | \$265,718 |
| Sales of Cigars | 25,103 | 37,859 | 45,908 | 71,775 |
| Oil Sales | 70,740 | - | 214,562 | - |
| | ----- | | | |
| Total Revenues | 183,555 | 155,242 | 443,810 | 337,493 |
| | ----- | | | |
| Cost and Expenses | ----- | | | |
| Selling, General & Administration | 642,903 | 825,095 | 1,074,903 | 1,344,146 |
| Depreciation, Depletion and | | | | |
| Amortization | 98,498 | 34,239 | 233,674 | 50,869 |
| Cost of Cigar Sales | 14,614 | 21,932 | 26,914 | 43,316 |
| Expenses Associated With | | | | |
| Stock Issued for Services | 49,500 | - | 349,500 | - |
| Oil and Gas Lease Operating Cost | 41,778 | - | 70,736 | - |
| Site Restoration Costs | 3,897 | - | 10,169 | - |
| | ----- | | | |
| Impairment Charges | - | 152,652 | - | 347,071 |
| | ----- | | | |
| Total Cost and Expenses | 851,190 | 1,033,918 | 1,765,896 | 1,785,402 |
| | ----- | | | |
| Operating Income (Loss) | (667,635) | (878,676) | (1,322,086) | (1,447,909) |
| | ----- | | | |
| Other Income (Expenses) | ----- | | | |
| Interest Income | 821 | 45,266 | 7,474 | 101,777 |
| | ----- | | | |
| Net Other Income (Expenses) | 821 | 45,266 | 7,474 | 101,777 |
| | ----- | | | |
| Income (Loss) Before Income Taxes | (666,814) | (833,410) | (1,314,612) | (1,346,132) |
| Income Taxes (Provision) Benefit | - | - | - | - |
| | ----- | | | |
| Net Income (Loss) | \$ (666,814) | \$ (833,410) | \$ (1,312,612) | \$ (1,346,132) |
| | ===== | | | |

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Earnings (Loss) Per Common Share

 and Common Share Equivalent Basic

and Fully Diluted

Common Share Equivalent

Outstanding

6,904,644 4,221,600 6,156,073 4,221,600

Net Income (Loss)

per share

=====

\$ (.10) \$ (.20) \$ (.21) \$ (.32)

=====

Read accountants' review report and notes to financial statements.

NUWAY ENERGY, INC. AND SUBSIDIARIES

 CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001

CASH FLOWS FROM OPERATING ACTIVITIES

Net Income (Loss)

Adjustments to Reconcile Net Income

to Net Cash Provided by Operating Activities:

Depreciation, Depletion and Amortization

Issuance of Stock for Services & Interest

Asset Impairment Charges

(Gain) Loss on Sale of Asset

Amortization of Deferred Debt Issuance Costs

Changes in Assets - (Increase) Decrease:

Accounts Receivable

Prepaid Expenses and Other Current Assets

Inventory of Cigars

Changes in Liabilities - Increase (Decrease):

Accounts Payable and Accrued Expenses

Net Cash Provided by (Used In) Operating
 Activities

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds on Sale of Fixed Assets

Fixed Assets Increase and Other

Other Assets

Net Cash Provided By (Used In) Investing
 Activities

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CASH FLOWS FROM FINANCING ACTIVITIES

Reduction of Stockholder loans

Net Cash (Used In) Financing Activities

Effect of Exchange Rate Changes on Cash and
Cash Equivalents

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS - BEGINNING

CASH AND CASH EQUIVALENTS - ENDING

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:

Cash Paid During the Period for:

Interest

Income Taxes, Foreign

Conversion of Debentures to Capital

Issuance of Stock for Capitalized
Software Costs

Read accountants' review report and notes to financial statement.

Read accountants' review report and notes to financial statement.

NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2002 AND DECEMBER 31, 2001

Note 1. Summary of Significant Accounting Policies

A Business and Organization

NuWay Energy Inc. (formerly Latin American Casinos, Inc.) is a Delaware corporation incorporated on September 19, 1991. In 1994, the Company entered in the gaming and casino business, primarily in Peru and other Latin American countries renting casino type slot machines.

In 1994, the Company formed a Peruvian subsidiary; in 1995, the Company formed a Colombian subsidiary and in 1997, the Company formed a subsidiary in Nicaragua that are in the gaming and casino business in Latin America (See Note 9C). The operations include the renting of casino slot machines as well as other gaming equipment to casino operators. The Company had originally acquired in total

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approximately 8,000 slot machines and related parts. It had been the Company's policy to capitalize all cost necessary to place the equipment on rental which included transportation, duty and refurbishing costs. In year 2001, as a result of deteriorating market conditions, obsolescence of the slot machines and a mandate by the Peruvian Government, a valuation of all gaming equipment was performed and as a result as further discussed in note 2, an asset impairment charge was recorded.

In September 1997, the Company incorporated World's Best Rated Cigar Company (World) as a wholly-owned subsidiary of NuWay Energy, Inc. to distribute quality cigars. It was originally intended that the Company would market premium cigars at "off price", and would acquire quality cigars from six South American producers and market them through large retail chains, initially on a consignment basis. The cigar operations have been slower than originally anticipated and as at December 31, 2001, the Company had expended approximately \$1,186,000 in regard to the cigar operations. Such expenditures have been included in the accompanying consolidated financial statements as follows:

| | | |
|---|----|-------------|
| Cash and cash Equivalents | \$ | - |
| Accounts Receivable | | 8,000 |
| Prepaid and Other Current Assets | | 24,000 |
| Inventory | | 448,000 |
| Fixed Assets, net of Accumulated Depreciation | | 32,000 |
| Other Assets | | 3,000 |
| Aggregate Accumulated Deficit | | 671,000 |
| | | ----- |
| Total Investment | | \$1,186,000 |
| | | ===== |

In the year 2001, the Company incorporated NuWay Resources, Inc., a Nevada Corporation and NuWay Resources of Canada, Ltd., a Canadian Company, both wholly-owned subsidiaries of NuWay Energy, Inc. These corporations were formed to pursue opportunities in the oil and gas exploration industry, with its principal activity in the exploration, development and product of oil and gas properties in Western Canada.

In June, 2002, the Company acquired medical software from Camden Holdings, Inc., an affiliate, for 670,000 shares of stock valued at approximately \$.45 per share. That affiliate subscribed to an additional 1,000,000 shares of stock at \$.25 per share which at June 30, 2002 has not been paid.

Read accountants' review report.

NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2002 AND DECEMBER 31, 2001

Note 1. Summary of Significant Accounting Policies (Continue)

B Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Latin American Casinos Del Peru S.A.

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a Peruvian Corporation, Latin American Casinos of Colombia LTDA, a Colombian Corporation, World's Best Rated Cigars, Inc., Nuway Resources, Inc., a Nevada Corporation and Nuway Resource of Canada, Ltd., a Canadian Company.

All material inter-company transactions, balance and profits have been eliminated.

C Property and Equipment

Property and Equipment are stated at cost. Depreciation is provided on accelerated and straight-line methods over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterment's are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations. Whenever there is a change in events or circumstances in the business economic environment or a significant change in the volume of operations, the Company performs an impairment analysis by comparing the estimated future undiscounted cash flows projected to be generated by the assets, and if they are less than the asset carrying amount an impairment charge is recorded to reduce the assets to its estimated fair value. In addition, the Company periodically reviews the costs associated with undeveloped oil and gas properties and mineral rights to determine whether they are likely to be recovered, when such costs are not likely to be recovered, such costs are transferred to the depletable pool of oil and gas cost.

D Oil and Gas Operations

Substantially all of the Company's exploration and development activities related to oil and gas are conducted jointly with others and accordingly the financial statements reflect only the Company's proportionate interest in such activities.

The net carrying cost of the Company's oil and gas properties in producing cost centers is limited to an estimated recoverable amount. This amount is the aggregate of future net revenues from proved reserves and the costs of undeveloped properties, net of impairment allowance, less future general and administrative costs, financing costs and income taxes. Future net revenues are calculated using year end prices that are not escalated or discounted. For Canadian, GAAP future net revenues are undiscounted, whereas for U.S. GAAP, future net revenues are discounted at 10%.

Read accountants' review report.

NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2002 AND DECEMBER 31, 2001

Note 1 Summary of Significant Accounting Policies (Continued)

D Oil and Gas Operations (Continued)

In conducting its ceiling test evaluation, the Company followed generally accepted accounting standards which provided for a two-year exemption from

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write-down where the purchase price of reserves had been determined on a basis which provided a higher amount than the ceiling test value, and where the excess was not considered to represent a permanent impairment in the ultimate recoverable amount. If the two year exemption had not been used, the Company would have taken a write-down of \$1,054,000 based on prices at December 31, 2001 of \$11.32 per bbl of heavy oil and \$3.30 per Mmbtu of gas. The Company qualified for the exemption in connection of its acquisitions of resource properties in August and September of 2001.

Ceiling test calculations are based on the Company's reserve report prepared annually, on December 31, by McDaniel & Associates Consultants, LTD. and do not reflect current prices which at June 30, 2002 were \$17.13 per bbl of heavy oil and \$1.98 per mmbtu for gas.

Gains or losses are not recognized upon disposition of oil and gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.

Future site restoration cost for working interest properties are being provided on a unit of production basis. The provision is based on current cost of complying with existing legislation and industry practice for site restoration and abandonment. The estimated cost of abandoning carried interest wells are not included in future site restoration cost. This cost would be paid by the working interest partners and charged to the carried interest account.

E Revenue Recognition

Revenue is recognized monthly on the rental of slot machines as the slot machines are placed in service. Typical rental arrangements for slot machines are for one year or less in duration with constant rent income earned over the life of the lease. As a general rule, the Company does not incur any significant direct cost with the inception of the lease. All leasing expense, payroll and maintenance of equipment are charged to operations as incurred. Revenue on the sale of cigars are recorded when customer orders are shipped. The cost of cigar sales represents the direct cost of the product sold. The Company recognizes revenue on its working and royalty interest properties from the production of oil and gas in the period the oil and gas are sold, net of royalty payments due.

Revenue under carried interest agreements is recorded in the period when the net proceeds become receivable and collection is reasonably assured. Under the carried interest agreements, the Company records oil and gas revenues net of operating and capital cost incurred by the working interest participants. The time the net revenues become receivable and collection is reasonably assured depends on the terms and conditions of the relevant agreements and the practices followed by the operator. As a result, net revenues may lag the production.

Read accountants' review report.

NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2002 AND DECEMBER 31, 2001

Note 1 Summary of Significant Accounting Policies (Continued)

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F Statement of Cash Flows

For purposes of this statement, the Company considers all liquid investments purchased with an original maturity of three months or less to be cash equivalents.

G Income (Loss) Per Common Share

Basic earnings per common share and common share equivalents were computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Fully diluted earnings per share was calculated based on the assumption that the increase in the number of common shares assumed outstanding on conversion of debentures and excise of options and warrants are reduced by the number of common shares that are assumed to be purchased with the proceeds from the exercise of the options and warrants. During 2001, all warrants, stock options and underwriter's options (Notes 4, 5, 6) were anti-dilutive, and excluded from the computation of basic and diluted earning (loss) per share.

In the future, if all the convertible debt, warrants, stock options and underwriting options were exercised or converted, future earnings per share could be diluted by 2,708,214 additional shares as follows:

| | |
|----------------------------|-----------|
| Publicly Traded Options | 1,725,000 |
| Private Warrants | 300,000 |
| Investment Banker Warrants | 225,000 |
| Incentive Stock Options | 372,500 |
| Debentures | 85,714 |
| | ----- |
| | 2,708,214 |
| | ===== |

H Significant Concentration of Credit Risk

The Company has concentrated its credit risk for cash by maintaining deposits in banks located within the same geographic region. The maximum loss that would have resulted from risk totaled \$11,000 and \$238,000 as of June 30, 2002 and December 31, 2001 for the excess of the deposit liabilities reported by the bank over the amounts that would have been covered by federal deposit insurance.

Read accountants' review report.

NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF June 30, 2002 AND DECEMBER 31, 2001

Note 1 Summary of Significant Accounting Policies (Continued)

I Use of Estimates

The preparation of financial statements in conformity with generally accepted

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accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ from those estimates. Estimates are used when accounting for uncollectible accounts receivable, obsolescence, equipment depreciation and amortization, taxes, among others.

J Foreign Currency Translation

For most international operations, assets and liabilities are translated into U.S. dollars at year-end exchange rates, and revenues and expenses are translated at average exchange rates prevailing during the year. Translation adjustments, resulting from fluctuations in exchange rates are recorded as a separate component of shareholders' equity, as other comprehensive income (loss).

K Inventories

Inventory of cigars and related material are stated at the lower of average cost or market. The Company has in excess of one year supply of cigar inventory but believes it can sell the entire inventory within one year.

L Valuation of Company's Stock Options and Warrants

As permitted under the Statement of Financial Accounting Standards No. 123 (SFAS No. 123), Accounting for Stock-Based Compensation, the Company accounts for its stock-based compensation to employees in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. As such, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. Certain pro-forma net income and EPS disclosures for employee stock options grants are also included in the notes to the financial statements as if the fair value method as defined in SFAS No 123 had been applied. Transactions in equity instruments with non-employees for goods or services are accounted for by the fair value method.

M Advertising

The Company expenses all advertising cost as incurred. Included in the statement of operations is approximately \$1,500 and \$49,000 advertising expense charged to operations for the six months ended June 30, 2002 and 2001, respectively. Substantially all advertising expenses incurred were paid with barter transactions at published costs.

Read accountants' review report.

NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2002 AND DECEMBER 31, 2001

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Note 2. Property and Equipment

Property and Equipment are summarized as follows:

| | June 30, 2002 | December 31, 2001 |
|--|------------------|----------------------|
| | ----- | ----- |
| Software Costs (See Note 1) | \$ 300,000 | \$ - |
| Exploration and Development Equipment | 1,028,868 | 933,624 |
| Oil & Gas Properties At Cost | 787,954 | 752,067 |
| Land & Building (See Note 10) | 35,000 | 35,000 |
| Rental Equipment (See Note 10) | 974,867 | 1,039,008 |
| Furniture, Fixtures & Office Equipment | 144,239 | 151,818 |
| Transportation Equipment | 9,502 | 2,862 |
| | ----- | ----- |
| Total | 3,280,430 | 2,914,379 |
| Less: Accumulated Depreciation | 702,597 | 554,244 |
| | ----- | ----- |
| Property and Equipment - Net | \$ 2,577,833 | \$ 2,360,135 |
| | ===== | ===== |

The estimated useful lives
of property and equipment,
is as follows:

| | |
|--|-----------|
| Rental Equipment | 5-7 years |
| Special Use Buildings | 10 years |
| Commercial Buildings | 30 years |
| Furniture, Fixtures and Office Equipment | 5-7 years |
| Transportation Equipment | 5 years |

Depletion is provided on cost accumulated in producing cost centers including production equipment using the unit of production method. For purposes of the depletion calculation, gross proved oil and gas reserves as determined by outside consultants are converted to a common unit of measure on the basis of their approximate relative energy content.

Included in Rental Equipment is approximately \$70,000 of parts and supplies purchased or obtained from other machines previously disassembled for parts. In year 2001, as a result of market conditions and obsolescence, the Company reviewed all costs associated with its gaming equipment and recorded an impairment charge of \$2,789,000 on gaming equipment.

Rent expense for the six months ended June 30, 2002 and 2001 were \$62,000 and \$74,000, respectively.

Read accountants' review report.

NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2002 AND DECEMBER 31, 2001

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Note 3. Notes Receivable - Stockholders and Affiliates

In October, 2001 the Company advanced loans to two companies controlled respectively by Todd Sanders (CEO) and William Bossung (COO) in the aggregate amount of \$400,000 which is due in October, 2006. Interest on these notes are payable quarterly and computed at the prime rate plus 1% (5.75% at June 30, 2002). These notes have been reduced to \$55,623 at June 30, 2002 and are anticipated to be repaid by year end. Accordingly these notes have been classified as a current asset in the accompanying financial statements.

In June, 2001 the Company advanced \$40,000 to another officer. This note is due on the earlier of the officer's termination or June, 2002 and is repayable as reductions of severance arrangements included in his employment contract (See Note 9B). Interest is payable quarterly and calculated at the prime rate plus 1%. It is anticipated that the notes will be extended and has been classified as a non-current asset in the accompanying financial statement.

Note 4. Warrants and Options and Stock Issued for Services

As of June 30, 2002, the Company has outstanding 1,725,000 five year publicly traded warrants that were issued as part of the Company's initial public offering to purchase one share of the Company's common stock at an exercise price of \$3.00 by December 11, 2002. In December 2000, the board of directors authorized the issuance of an additional 3,300,000 private five year stock warrants to acquire common stock at \$1.75 per share. 1,500,000 of the issuance of the private warrants and 200,000 shares of restricted stock were issued to executives of the corporation. Compensation was recorded on the arrangement equal to the market value of the restricted stock, \$350,000. The remaining warrants, 1,800,000 were issued in connection with service rendered by several individuals and entries and were valued at \$1,991,700 using the Black-Scholes Options pricing model assuming a 5% interest rate and high volatility to underlying stock prices. The 1,500,000 warrants issued to the executives were valued at the intrinsic value in accordance with APB 25 at \$1,620,000. (See Note 6). In year 2002, 3,000,000 of the 3,300,000 warrants issued in year 2000, were cancelled and approximately \$1,660,000 of previously recorded expenses that was recorded in year 2000 was adjusted against retained earnings.

In year 2001, the Company issued or was committed to issue 187,500 shares of stock for services. Expenses were recorded based on the value of the stock, which ranged from \$2.51 per share to \$1.98 per share, for a total consideration of \$405,524. In January, 2002 the Company entered into a consulting engagement with Barnstable Energy, Inc for consulting services. The Company issued 200,000 shares of common stock pursuant to this agreement and recorded compensation for services of \$300,000. In May, 2002, the Company issued 150,000 shares of stock valued at \$.33 per share, for legal services rendered.

Read accountants' review report.

NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2002 AND DECEMBER 31, 2001

Note 5. Investment Banker Warrants

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Effective June 5, 1998, the Company contracted with an investment banker to provide on a non-exclusive basis to the Company assistance in possible mergers, acquisitions and internal capital structuring. The duration of the contract is for five years. In consideration for these services, Latin American Casinos, Inc. granted warrants to purchase an aggregate of 225,000 shares of common stock at the closing bid price of \$1.875 as of June 5, 1998, which can be exercised through June 5, 2003. Effective February 8, 2000, the Board of Directors reduced the exercise price to \$1.06, which was the closing price of the stock at that date. These warrants are fully vested.

Note 6. Incentive Stock Option Plan

On June 13, 1994, the Board of Directors adopted the 1994 Stock Option Plan in which the aggregate number of shares for which options may be granted under the Plan shall not exceed 1,000,000 shares. The term of each option shall not exceed ten years from the date of granting (five years for options granted to employees owning more than 10% of the outstanding shares of the voting stock of the Company). The 1991 plan became effective on September 30, 1991 and was terminated in March, 1999. The 1994 plan became effective on June 13, 1994 and will terminate in June, 2004, unless terminated earlier by action of the Board of Directors. In December, 1995, the Company authorized the issuance under the 1994 Stock Option Plan of 492,500 options at an exercise price of \$2.50 per share to various officers and employees. On March 6, 1997 the Company authorized the issuance of an additional 415,000 options at an exercise price of \$2.50 to various officers and employees. In June, 1999, the Company increased the shares allocated to the plan to 1,500,000. Effective December 31, 1998, the Company ratified the repricing of the employee stock options to \$1.00 per share and simultaneously authorized the issuance of 85,000 options at an exercise price of \$1.00 per share and canceled 10,000 options issued in 1995 at \$2.50 per share. Effective February, 2000 the Company issued 35,000 options at an exercise price of \$1.06 and in December, 2000 the Company issued 80,000 options at a \$1.75 exercise price.

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NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2002 AND DECEMBER 31, 2001

Note 6. Incentive Stock Option Plan (Continued)

Incentive Stock Options Outstanding

| | Amount | Price Per Share |
|--|-----------|-----------------|
| | ----- | ----- |
| Options Outstanding at January 1, 2000 | 982,500 | \$1.00 |
| Additional Options Issued | 35,000 | \$1.06 |
| Additional Options Issued | 80,000 | \$1.75 |
| Options Lapsed | (75,000) | \$1.00 |
| Options Exercised | (650,000) | \$1.00 |
| | ----- | |
| Options Outstanding at December 31, 2001 | 372,500 | |
| And June 30, 2002 | | |

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All outstanding warrants and non-qualified options and incentive stock options were exercisable at June 30, 2002.

The following table shows the years in which all of the Company's options and warrants (as discussed in Notes 4, 5 and 6) will expire:

| Year | Ending | December | 31 | Range | Number of | Weighted | |
|------------|--------|----------|----|-------|-----------|-----------|--------|
| | | | | Low | High | Average | |
| | | | | ----- | ----- | Exercise | |
| | | | | ----- | ----- | Price | |
| | | | | ----- | ----- | ----- | |
| 2002 | | | \$ | 3.00 | \$ 3.00 | 1,725,000 | \$3.00 |
| 2002 | | | | 1.00 | 1.00 | 172,500 | 1.00 |
| 2003 | | | | 1.00 | 1.00 | 310,000 | 1.00 |
| 2004 | | | | - | - | - | - |
| Thereafter | | | | 1.06 | 1.75 | 415,000 | 1.74 |
| | | | | | | ----- | |
| Total | | | | | | 2,622,500 | |
| | | | | | | ===== | |

No options were granted in 2001 and 2002

The Company adopted the provisions of SFAS No. 123, Accounting for Stock Based Compensation, effective for fiscal year 1997 for all issuances of stock options to non-employees of the Company. The Company will continue to apply APB Opinion No. 25 (Opinion 25), Accounting for Stock Issued to Employees for all issuances stock options to its employees. In June 1999, the Company adopted the Financial Accounting Standards Board Interpretation Number 44, which requires re-priced options be re-measured for expenses based on the quarter end stock price. Expenses are also re-measured upon exercise for the options.

Read accountants' review report.

NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2002 AND 2001

Note 7. Debentures

In December, 2000, the Company, through a private placement, issued \$3,500,000 principle amount of 6% Convertible Debentures. These debentures were due June 13, 2001, which had been subsequently extended to December 13, 2001, and are Convertible into common stock at an exercise price of \$1.75 per share. The Company incurred approximately \$64,500 of costs in regard to this private placement and the debt issuance costs were amortized over the life of the debentures. Included as part of selling general and administration expenses in the statement of operations for the six months ended June 30, 2001 is \$32,250 amortization of deferred debt issuance cost. The interest on the debentures is payable either in cash or in additional shares of common stock, at the discretion of the Company. The conversion price of the debentures was determined by the approximate market value of the common stock at the date of issuance.

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Prior to December 31, 2001, approximately \$1,100,000 of debenture holders converted their debentures into common stock for the value of their debentures and the accrued interest of \$66,000. At December 31, 2001, included in accounts payable was \$144,000 of accrued interest on these debentures. Through June 30, 2002 an additional \$2,250,000 of debentures holder's converted their debentures into Company stock for the value of their debentures and accrued interest of \$132,000. At June 30, 2002, included in accounts payable is \$9,000 of accrued interest on the remaining debentures payable.

Note 8. Provision of Income Taxes

As of June 30, 2002, the Company had available for income tax purposes unused net operating loss carry forwards which may provide future tax benefits of \$11,981,000 expiring through the year 2016. No valuation allowance has been provided for unremitted foreign profits. No provision had been provided for deferred taxes in the accompanying financial statements in that any amount of tax benefit based on available evidence are not expected to be realized.

Note 9. Commitments and Contingencies

A Litigation

The Company is a defendant from time to time on claims and lawsuits arising out of the normal course of its business, none of which are expected to have a material adverse effect on its business, operations, financial position or corporate liquidity.

Read accountants' review report.

NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2002 AND DECEMBER 31, 2001

Note 9. Commitments and Contingencies (Continued)

B Employment Agreements

In January 1997, the Company entered into a five year employment agreement with Lloyd Lyons which provided in part that in the event of either a merger, consolidation, sale or conveyance of substantially all the assets of the Company which results in the discharge of Mr. Lyons, he would be entitled to 200% of the balance of payments remaining under the contract upon the death of Mr. Lyons the Company amended its employment contract with the surviving widow and primary beneficiary of the Estate of Lloyd Lyons, where-in the salary continuation clause included in his contract was replaced with a severance arrangement which requires the Company to pay the spouse \$100,000 over a one year period commencing on the first month following her termination, from her employment with the Company and upon her termination she is to receive 100,000 shares of common stock pursuant to an amendment to her employment agreement. The amended employment agreement obligated the Company to register these shares and reimburse her for the difference in the gross proceeds upon the sale of such shares and \$300,000, regardless of the time she holds such shares. Upon termination of the employee contract, the Company will record additional

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compensation at the greater of the market price of the Company stock or the guaranteed price stipulated in the contract. Effective October 29, 2001, Mrs. Lyons tendered her resignation and based upon the terms of her contract, severance expenses of \$350,000 had been recorded in year 2001 with \$308,000 included in accounts payable and accrued expenses at June 30, 2002. The compensation expense recorded in September, 2001 was comprised of \$100,000 payable monthly for one year plus the value of 100,000 shares to be issued.

In January, 2000, the Company entered into two additional employment contracts, both for the duration of two years and provides that the Company be obligated for an aggregate compensation of \$115,000 in year 2000 and \$126,500 in year 2001. Effective August 2, 2000, both of these employment contracts were amended to reflect upon termination from employment, these individuals will be entitled to nine months of compensation and will receive in the aggregate 35,000 shares of common stock which the Company has agreed to reimburse the respective employees the difference between the gross proceeds they receive upon sale and \$105,000, regardless of the term the employees hold such shares. Upon termination of the employee contract, the Company will record additional compensation at the greater of the market price of the Company stock or the guaranteed price stipulated in the contract.

The Company entered into two additional one-year employment agreements with the Chief Operating Officer and the Chief Executive Officer requiring the Company issue to each 100,000 shares of stock individually and 750,000 warrants to purchase additional common stock at \$1.75 per shares, individually, in March 2002, 1,500,000 warrants to purchase additional common stock were cancelled (Note 4). In June, 2002, the Board of Directors authorized the payment of officers compensation for each of the officers at \$12,000 per month retroactive to October, 2001. Included in Selling, General and Administrative Expenses are \$216,000 of salaries in regard to this arrangement for the six months ended June 30, 2002.

Read accountants' review report.

NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2002 AND DECEMBER 31, 2001

Note 9. Commitments and Contingencies (Continued)

C Foreign Assets

The accompanying consolidated balance sheets for the period ended June 30, 2002, includes assets relating to the Company's slot machine operations in Peru and Colombia of \$733,000 and \$685,000 respectively. Although these countries are considered politically and economically stable, it is possible that unanticipated events in foreign countries could disrupt the company's operations. In that regard, the company was informed that in Peru an excise tax has been instituted effective October 1, 1996, on the leases of gaming equipment. The company with others in the industry negotiated with the appropriate governmental agencies and have had the excise tax significantly curtailed

Revenue from rental operations is entirely earned in Columbia and Peru.

The assets of the oil and gas operations, which aggregate approximately

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\$1,455,000 are entirely in Canada. All revenue from oil and gas is earned in Canada.

Approximately \$300,000 of the Company's inventory of cigars is being stored in South America, awaiting instructions for delivery to the Miami distribution facility.

D Lease Commitment

As at June 30, 2002, all operating leases for corporate facilities are either short term leases or have expired and are being continued on a month to month basis.

E Contractual Commitment

In February, 2002, the Company entered into an agreement with Avalon Capital, Inc. (AVA) whereby AVA will use its best efforts to find a merger candidate for the Company. If a merger is consummated within a year of introduction, AVA will be entitled a finders fee equal to 3% of the value of the aggregate number of shares outstanding after the merger, on a fully diluted basis.

Note 10 Impairment Loss

In 2001, the Company recorded an impairment loss as a result of the obsolescence of parts used in the gaming equipment and reduction of values of the utility of the gaming equipment.

Note 11 Going Concern

The Company has accumulated net losses of \$12,919,000 through June 30, 2002, and has a history of deficiency of operating cash flows and losses from operations. These factors create an uncertainty about the Company's ability to continue as a going concern. Management of the Company is developing a plan to reduce current liabilities, reduce expenses, raise additional capital, and considering the sale of certain oil well assets to generate sufficient cash to sustain operating overhead. The financial statements do not include any adjustments that might be necessary if the company is unable to continue as a going concern.

Read accountants' review report.

NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2002 AND DECEMBER 31, 2001

Note 12 Operating Segments

NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2002 AND DECEMBER 31, 2001

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Note 12 Operating Segments

| | For the Six Months Ended June 31, 2002 | | | | |
|--|--|------------------|--------------|------------------|-------------|
| | Total | Cigar Operations | Oil & Gas | Gaming Equipment | Unallocated |
| Revenues | \$443,810 | \$45,908 | \$214,562 | \$183,340 | \$ - |
| Cost & Expenses | | | | | |
| Cost of Product Sold | 26,914 | 26,914 | - | - | - |
| Direct Overhead Cost | 442,419 | 65,920 | 98,484 | 278,015 | - |
| Allocated Overhead Cost | 713,389 | 51,450 | 240,465 | 205,474 | 216,000 |
| Depreciation & Depletion | 233,674 | 3,602 | 211,009 | 13,863 | 5,200 |
| Expenses Assoc., With Options, Warrants, and Stock Issued For Services | 349,500 | - | - | - | 349,500 |
| Total Cost and Expenses | 1,765,896 | 147,886 | 549,958 | 497,652 | 570,700 |
| Operating Income (Loss) | (\$1,322,086) | (\$101,978) | (\$ 335,396) | (\$314,012) | (\$570,700) |
| Total Assets | \$3,855,000 | \$515,000 | \$1,455,000 | \$1,418,000 | \$ 467,000 |

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NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2002 AND DECEMBER 31, 2001

Note 12 Operating Segments (Continued)

| | For the Six Months Ended June 30, 2001 | | | | |
|--|--|------------------|-----------|------------------|-------------|
| | Total | Cigar Operations | Oil & Gas | Gaming Equipment | Unallocated |

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| | | | | | |
|------------------|---------------|-------------|-------|---------------|-------------|
| Revenues | \$337,493 | \$71,775 | \$ - | \$265,718 | \$ 0 |
| ----- | | | | | |
| Cost & Expenses | ----- | | | | |
| Cost of Product | | | | | |
| Sold | 43,316 | 43,316 | 0 | 0 | 0 |
| Direct Overhead | | | | | |
| Cost | 577,374 | 81,085 | 0 | 496,289 | 0 |
| Allocated | | | | | |
| Overhead Cost | 766,772 | 163,070 | 0 | 603,702 | 0 |
| Depreciation and | | | | | |
| Depletion | 50,869 | 5,202 | 0 | 42,167 | 3,500 |
| Asset Impairment | | | | | |
| Charges | 347,071 | 0 | 0 | 347,071 | 0 |
| ----- | | | | | |
| Total Cost and | | | | | |
| Expenses | 1,785,402 | 292,673 | 0 | 1,489,229 | 3,500 |
| ----- | | | | | |
| Operating | ----- | | | | |
| Income (Loss) | (\$1,447,909) | (\$220,898) | (\$0) | (\$1,223,511) | (\$3,500) |
| ----- | | | | | |
| Total Assets | \$9,267,000 | \$ 687,000 | \$ - | \$4,467,000 | \$4,114,000 |
| ===== | | | | | |

Read accountants' review report.

NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2002 AND DECEMBER 31, 2001

Note 13 Oil and Gas Producing Activities

The following information includes estimates which are subject to rapid and unanticipated change. The Company cautions that the discounted future net cash flows from proved oil and gas reserves are not an indication of the fair market value of the Company's oil and gas properties or the future net cash flows expected to be generated from the properties. The discounted future net cash flows do not include the fair market value of exploratory properties and probable or possible oil and gas reserves. Also, the estimates do not consider the effect of future changes in oil and gas prices, development, sit restoration and production costs, and possible changes in tax and royalty regulations. The prescribed discount rate of 10% may not appropriately reflect future interest rates.

All amounts below, except for cost, acreage, wells drilled and present activities, relate to Canada. McDaniel & Associates Consultants Ltd., Independent consultants, provided oil and gas reserve data and the information relating to cash flows.

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Estimated net quantities of proved oil and gas reserves at are as follows:

| Proved reserves: | Oil (bbls) | Gas (mcf) |
|---------------------------|---------------|--------------|
| | ----- | ----- |
| June 30, 2002 | 122,500 | 70,700 |
| | ----- | ----- |
| Proved developed reserves | | |
| June 30, 2002 | 122,500 | 70,700 |
| | ----- | ----- |

Results of Oil and Gas Operations

| | |
|---|-------------|
| Income: | |
| Oil Sales | \$ 214,562 |
| | ----- |
| Cost and expenses: | |
| Lease operating cost | 70,736 |
| Depletion, depreciation amortization | 211,009 |
| Site restoration costs | 10,169 |
| | ----- |
| | 291,917 |
| | ----- |
| Net loss from operations | (\$ 77,352) |
| | ===== |
| Capitalized cost of oil and gas activities: | |
| Acquisition costs | \$ 787,982 |
| Exploration | 314,827 |
| Development | 634,041 |

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NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2002 AND DECEMBER 31, 2001

Note 13 Oil and Gas Producing Activities Continued

Standardized measure of discounted future net cash flows relating to proved oil and gas reserve quantities during The following period:

| | |
|---------------------|-------------|
| Future cash inflows | \$1,631,000 |
|---------------------|-------------|

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| | |
|---|------------|
| Future development and production cost | 921,000 |
| | ----- |
| | 710,000 |
| Future income tax expense* | - |
| | ----- |
| Future net cash flows | 710,000 |
| 10% annual discount | (53,000) |
| | ----- |
| Standardized measure of discounted future net cash flows | \$ 657,000 |
| | ===== |

*Reflects total tax pools for the period to June 30, 2002 that may be used to offset oil and gas income. The tax pools are comprised of carry forward of exploration, development and lease acquisition costs, under-appreciated capital costs and earned depletion of \$1,559,000.

Current prices used in the above estimates were based upon selling prices at the wellhead at January 1, 2002 less the historical quality and price differentials for each respective field as follows:

| | |
|---|-----------|
| Oil - Hardisty Heavy (\$CDN./bbl) (In U.S. \$) | \$ 11.831 |
| Gas - Alberta average @ Field gate \$CDN./Mmbm) (In US\$) | \$ 3.458 |

Current cost was based upon estimates made by consulting engineers at December 31, 2001.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

General

The Company entered the gaming and casino industry in Peru in 1994. Since January 1995, the Company has been engaged in the renting of slot machines and other gaming equipment to licensed gaming establishments in various cities through its wholly owned subsidiaries in South and Central America. In 1994, the Company formed its Peruvian subsidiary, and in late 1995 the Company formed its Colombian subsidiary.

As of June 30, 2002, the Company had approximately 538 machines under rental contracts in Peru and Colombia.

The Company in this segment concentrates its efforts on the rental of used five reel slot machines. These machines were purchased at a fraction of the cost of new machines and are refurbished for use in South and Central America. Whereas a new slot machine would cost approximately \$10,000 plus additional charges for duty, the used slot machines cost approximately \$700 each including freight, duty, and refurbishing expenditures.

In September 1997, the Company incorporated World's Best Rated Cigar

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Company, as a wholly owned subsidiary, to distribute premium cigars. It was originally intended that the company would acquire quality cigars from six manufacturers and market them at "off price" through large retail chains. In February 2000, the marketing strategy was modified to include selling directly to consumers through our web site, www.worldsbestrated.com, and our toll free number. Substantially all advertising expense incurred is paid with barter transactions.

Beginning in July 2001 the Company directed part of its efforts to the exploration for and the development of oil and gas properties in Canada. The Company's exploration and development activities related to oil and gas are conducted jointly with others. The Company purchased a 30% working interest in the Superb area of Saskatchewan, Canada and a 20% working interest in the Altares Gas project in Northeast British Columbia.

Future trends

Over the next four quarters, we intend to shift our business focus away from the gaming equipment and cigar industries, and toward the medical technology and healthcare services industries. The reason for this is the Board of Directors believes the healthcare sector represents a significant business opportunity for Nuway, and current management has the experience to take advantage of current market conditions in this sector. Accordingly, we have entered into two agreements with two companies operating in the healthcare industry, both of which we believe will be beneficial to enacting our new business plan. The first agreement, dated June 27, 2002, is with Camden Holdings, Inc., a diversified holding company with interests in many industries, including the healthcare industry. According to the terms of this agreement, we are to receive a financing of \$250,000 in exchange for 1,000,000 shares of our restricted common stock. Shareholder consent was not required for the agreement. The second agreement, dated June 28, 2002, is an asset purchase agreement with Genesis Health Tech, Inc., a wholly-owned subsidiary of Camden Holdings. We intend to purchase a comprehensive database of healthcare providers throughout the U.S., in exchange for 666,667 shares of our restricted common stock. Both the Camden agreement and the Genesis agreement will result in one individual receiving 24% interest in our company. This agreement has been approved by the Board, and a majority of the stockholders have consented to the transaction. The closing of this transaction remains subject to our compliance with Regulation 14C of the Securities and Exchange Act of 1934, as amended, and NASDAQ regulations, including all requisite filings.

We also intend to enter into a third agreement with Med Wireless, Inc., which has developed a number of wireless applications for the healthcare industry. These technologies are primarily based on allowing high-resolution

transfer of diagnostic-quality images, including ultrasound, over the Internet and intranet networks. We intend to license the entire suite of products, and enter into two distribution agreements for the sale of these products once licensed. We have received approval for the general terms of the license agreement, and authorization for the officers to negotiate the final terms of a license agreement with Med Wireless, by a majority of the shareholders, such agreement to be subject to final approval of the terms by the Board. The general terms of the 15-year license agreement provide for the issuance of 33,000,000 shares of our restricted common stock, which will result in Med Wireless owning 44% of our outstanding shares after giving effect to the transaction. Two affiliated parties, each with minority interests in our company, also own minority interests in Med Wireless either directly or indirectly. The two parties combined control 52.3% of Med Wireless, although the two parties do not have any oral or written agreement to act in concert in any respect. After approval by the Board, the closing of this transaction will be subject to

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compliance with Regulation 14C and NASDAQ regulations, including all requisite filings.

All transactions have been and continue to be conducted at arms-length terms, and all shares received were and will be valued at fair market price as determined by our trading price.

We intend to divest ourselves of the gaming equipment and cigar industries when and if such opportunities arise which result in a transaction value that is beneficial to the company and its shareholders. Any such transaction will be conducted at arms-length and for fair value. We do not currently have any such transactions proposed or pending.

Results of Operations

The six-month period ended June 30, 2002 as compared to the six-month period

ended June 30, 2001

Revenues

Revenues from the gaming equipment operations in Peru and Colombia for the six-month period ended June 30, 2002 decreased by \$82,378 or 31%, to \$183,140 from \$265,718 for the comparable period in 2001. This decrease was the result of an overall weakness of the economy in South America, political changes and increased competition in the industry. The company also experienced the effects of government-mandated obsolescence in Peru, which required us to retire 523 machines from our inventory. We also significantly reduced marketing and advertising expensing, in view of our decision to discontinue operations in this business.

Revenues from cigar sales for the six months ended June 30, 2002 were \$71,775, a decrease of \$25,867 or 36% for the same period in 2001. We also significantly reduced marketing and advertising expensing, in view of our decision to discontinue operations in this business.

Revenues from our oil and gas operations for the six months ended June 30, 2002 was \$214,562. The company did not have any oil and gas activities in the corresponding period in 2001.

Capital Expenditures

There were no capital expenditures for the gaming equipment operations for the six-month period ended June 30, 2002, which is equivalent to the capital expenditures of the same period ended 2001.

Capital expenditures for the cigar business were zero for the six months ended June 30, 2002, as compared to zero for the six months ended June 30, 2001.

Capital expenditures for the oil and gas business were zero for the six months ended June 30, 2002, as compared to zero for the six months ended June 30, 2001.

Selling, General and Administrative Expenses

Selling, general, and administrative expenses incurred in the six months

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ended June 30, 2002 decreased \$269,243 or 20%, to \$1,074,903 from \$1,344,146 for the same period in 2001. This reduction is due to our reduction in marketing and advertising expenses for our cigar and gaming equipment industries, as well as our 10% reduction in staff in our Miami operations.

Net Profit (Loss)

Net loss for the six months ended June 30, 2002 was (\$1,312,612), as compared to (\$1,346,132) for the comparable period ended 2001, representing a decrease of \$33,520 in net loss. This reduction is the result of our reduction of costs in selling, general and administrative expenses, discussed above.

The three-month period ended June 30, 2002 as compared to the three-month

period ended June 30, 2001

Revenues

Revenues from the gaming equipment operations in Peru and Colombia for the three-month period ended June 30, 2002 decreased by \$29,671 or 25%, to \$87,712 from \$117,383 for the comparable period in 2001. In addition to overall economic weakness in South America, increased competition and forced retirement of a number of our machines, this reduction was the result of significantly reduced marketing and advertising expensing, in view of our decision to discontinue operations in this business.

Revenues from cigar sales the three months ended June 30, 2002 were \$37,859, a decrease of \$12,756 or 34% for the same period in 2001. This reduction was the result of our significantly reduced marketing and advertising expensing, in view of our decision to discontinue operations in this business.

Revenues from our oil and gas operations for the three months ended June 30, 2002 was \$70,740. The company did not have any oil and gas activities in the corresponding period in 2001.

Capital Expenditures

There were no capital expenditures for the gaming equipment operations for the three month period ended June 30, 2002, which is equivalent to the capital expenditures of the same period ended 2001.

Capital expenditures for the cigar business were zero for the three months ended June 30, 2002, which is equivalent the capital expenditures of the same period ended 2001.

Capital expenditures for the oil and gas business were zero for the three months ended June 30, 2002, which is equivalent the capital expenditures of the same period ended 2001.

Selling, General and Administrative Expenses

Selling, general, and administrative expenses incurred in the three months ended June 30, 2002 decreased \$182,192 or 22%, to \$642,903 from \$825,095 for the same period in 2001. This reduction is due to our reduction in marketing and advertising expenses for our cigar and gaming equipment industries, as well as our 10% reduction in staff in our Miami operations.

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Net Profit (Loss)

Net loss for the three months ended June 30, 2002 was (\$666,814), or (\$0.10) per share on a fully diluted basis, as compared to (\$833,410), or (\$0.20) per share on a fully diluted basis for the comparable period ended 2001, representing a decrease of \$166,596, or \$0.10 per share, in net loss. This reduction is the result of our reduction of costs in selling, general and administrative expenses, discussed above.

Liquidity and Capital Resources

Cash and cash equivalents decreased approximately \$92,899 to \$9,725 at June 30, 2002 from \$102,624 at March 31, 2001. The decrease is attributable to overhead expenditures higher than operating revenues, and the continued slow growth of the cigar operations and increase of oil and gas operations.

The company has \$55,623 outstanding in loans to companies controlled by related parties. Please refer to our discussion in note 3 to our financial statements. The notes are payable quarterly, and accrue interest at prime plus 1% (5.75% at June 30, 2002). The company anticipates full repayment of this loan by the end of 2002.

The company has an outstanding loan of \$40,000 to Jeffrey Felder, the current president of our cigar subsidiary, and formerly an officer of the company. The note was payable quarterly, and accrued interest at prime plus 1%, and matured on October 29, 2001, the termination date of the officer. The company anticipates full repayment of this note by the end of 2002.

In December 2000, the company offered a private placement of \$3,500,000 in principal amount of 6% Convertible Debentures, which are convertible into common stock at an exercise price of \$1.75 per share. These debentures were due June 13, 2001, and were subsequently extended to December 13, 2001. \$150,000 of these debentures remain unconverted and outstanding, with accrued interest of \$9,000. These notes are currently under default, and the company is negotiating the terms of settlement with the noteholders. Please refer to our discussion in note 7 to our financial statements.

Part II

Defaults of Senior Securities

As of December 13, 2001, the company has been in default on its 6% convertible debentures. The current amount in default is \$150,000, not including \$9,000 of accrued interest due. Please refer to our discussion in "Management's Discussion and Analysis - Liquidity and Capital Resources," and note 7 to our financial statements.

Submission of Matters to a Vote of Security Holders

The agreement with Genesis Health Tech, Inc. was submitted to and approved by a majority of the shareholders in final form in a written consent taken without a meeting, as permitted by Nuway's By-Laws, on June 28, 2002. The agreement with Med Wireless, Inc. has been submitted to and approved by a majority of the

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shareholders in general form on August 12, 2002.

Exhibits and Reports on Form 8-K

Exhibits

- 3.1 Articles of Incorporation (Delaware), as amended (1)
- 3.2 Certificate of Merger Merging Repossession Auction, Inc. (Florida corporation) and Repossession Auction, Inc. (Delaware corporation) (1)
- 3.3 Bylaws (1)
- 3.4 Certificate of Amendment to Certificate of Incorporation (1)
- 4.1 Form of publicly traded Warrant Agreement (1)
- 4.2 Form of private warrant dated December 12, 2000 (1)
- 4.3 Form of 6% Convertible Debenture dated December 14, 2000 (1)
- 4.4 Form of Amendment to 6% Convertible Debenture (1)
- 4.5 Amendment to Publicly Traded Warrant (1)
- 10.1 Share Purchase Agreement with Camden Holdings, dated June 27, 2002

- 15.1 Letter on unaudited interim financial statements (2)
- 99.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Previously filed on Form 10-KSB for the fiscal year ended December 31, 2001.

(2) Incorporated into financial statements filed herein.

Forms 8-K

Financial statements representing a preliminary balance sheet for the quarter ended March 31, 2002 were filed on May 6, 2002 on Form 8-K in compliance with NASDAQ requirements.

Signatures

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

NuWay Energy, Inc.

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Date: August 15, 2002

/s/ Dennis Calvert

By: Dennis Calvert
President

Date: August 15, 2002

/s/ Joe Tawil

By: Joe Tawil
Acting Chief Financial Officer
and Chief Accounting Officer