EMPIRE PETROLEUM CORP
Form 10-Q
May 13, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

_____

FORM 10-Q

_____

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

For the quarterly period ended: March 31, 2013

or

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

For the transition period from: _____ to _____

_____

EMPIRE PETROLEUM CORPORATION

(Exact name of registrant as specified in its charter)

_____

DELAWARE	**001-16653**	**73-1238709**
(State or Other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

6506 S. LEWIS AVE., SUITE 112, TULSA, OKLAHOMA 74136-1020
(Address of Principal Executive Offices) (Zip Code)

(918) 488-8068
(Registrant's telephone number, including area code)

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

_____

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 S 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 x 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 o Accelerated filer o Non-accelerated filer o Smaller reporting company x
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

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 Sections 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

The number of shares outstanding of the issuer’s common stock, as of May 13, 2013 was 91,564,485.

EMPIRE PETROLEUM CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

EMPIRE PETROLEUM CORPORATION

BALANCE SHEETS

	March 31, 2013	December 31, 2012
	(Unaudited)	(Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,237	$ 20,766
Accounts receivable	0	1,370
Prepaid expenses and other current assets	1,100	1,100
Total current assets	4,337	23,236
Property and equipment less accumulated depreciation and depletion	223,465	223,465
Other assets	77,754	77,696
Total assets	$ 305,556	$ 324,397
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 40,631	$ 10,135
Total current liabilities	40,631	10,135
Stockholders' equity:		
Common stock - $.001 par value		
authorized 150,000,000 shares,		
issued and outstanding 91,564,485 shares	91,564	91,564
Additional paid in capital	14,495,099	14,482,599
Accumulated deficit	(14,321,738)	(14,259,901)
Total stockholders' equity	264,925	314,262
Total liabilities and stockholders' equity	$ 305,556	$ 324,397

See accompanying notes to unaudited financial statements

EMPIRE PETROLEUM CORPORATION

STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended March 31,	
	2013	2012
Revenue:		
Petroleum Sales	$ 0	$ 0
Costs and expenses:		
Production and operating	5,098	12,161
General and administrative	56,739	67,296
	61,837	79,457
Operating loss	(61,837)	(79,457)
Other income (expense):		
Interest income	0	0
Interest expense	0	(1,000)
Total other income (expense)	0	(1,000)
Net loss	$(61,837)	(80,457)
Net loss per common share, basic & diluted	$(0.00)	(0.00)
Weighted average number of common shares outstanding basic and diluted	91,564,485	85,564,235

See accompanying notes to unaudited financial statements

EMPIRE PETROLEUM CORPORATION

STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended March 31, 2013	March 31, 2012
Cash flows from operating activities:		
Net loss	$(61,837)	$(80,457)
Adjustments to reconcile net loss to net cash used in operating activities:		
Value of services contributed by employee	12,500	12,500
Change in operating assets and liabilities:		
Accounts receivable and other assets	1,312	(2,146)
Prepaid expenses and other current costs	0	0
Accounts payable and accrued liabilities	30,496	37,595
Net cash used in operating activities	(17,529)	(32,508)
Cash flows from financing activities:		
Proceeds from shareholder advance and related party note payable	0	33,603
Net change in cash	(17,529)	1,095
Cash - Beginning of period	20,766	4,978
Cash - End of period	$3,237	$6,073

See accompanying notes to unaudited financial statements 0

EMPIRE PETROLEUM CORPORATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

(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, 2013.

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, 2012 which are contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 8, 2013.

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 seek partners to help it 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 March 31, 2013, the Company had $3,237 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. The fair value of these services is estimated by management and is recognized as a capital contribution. For the three months ended March 31, 2013, the Company recorded $12,500 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 has an interest in 34,186 acres of federal oil and gas leases on the Gabbs Valley Prospect in Western Nevada. Since 2003 the Company has conducted extensive geological studies, conducted a seismic survey, carried out

a geochemical imaging survey, conducted satellite and gravity studies and drilled two test wells.

Both test wells had significant oil shows. The second test well resulted in a small oil discovery, however the Company deemed it non-commercial and elected to abandon it. One of the co-owners of the leases elected to take over the well and make further tests. It secured other parties to conduct such tests. Well completion equipment was installed and further production testing was carried out, however as of March 31, 2013, to the Company's knowledge, commercial production has not been established. It is the Company's understanding that further testing is being considered. Empire does feel the prospect has considerable geological merit since the primary target, being the Triassic formation, was not reached in either of the two test wells. Empire is now in discussions with other companies about drilling a new test well, however no agreements have yet been reached.

SOUTH OKIE PROSPECT

In 2009, the Company originally purchased 2,630 net acres of oil and gas leases known as the South Okie Prospect in Natrona County, Wyoming. The Tensleep Sand at depths from 3,300 feet to 4,500 feet is the primary target. 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 in early January 2010. After further review of all the seismic and geological data and considering the Company's financial condition it has reduced its holdings to 600 gross (110 net) acres. Subject to securing additional financing and/or engaging an industry partner, the Company plans to drill or cause to be drilled a test well.

3. EQUITY

Diluted Earnings per Share ("EPS") 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 March 31, 2013 and 2012, the Company had 1,245,000 options outstanding, that were not included in the calculation of earnings per share for the periods then ended. Such financial instruments may become dilutive and would then need to be included in future calculations of Diluted EPS. At March 31, 2013 and 2012, the outstanding options were considered anti-dilutive since the strike prices were above the market price and since the Company has incurred losses year to date.

On August 24, 2011, Albert E. Whitehead, the Company's Chief Executive Officer, was issued 2,000,000 shares of the Company's common stock for a purchase price of $.05 per share for a total investment of $100,000.

On May 31, 2012, at an Annual Meeting of Stockholders, the stockholders approved an increase of the Company's authorized shares of common stock by 50,000,000 to 150,000,000.

On December 11, 2012, the Company entered in a note conversion agreement with the Albert E. Whitehead Living Trust (the “Whitehead Trust”). Pursuant to the note conversion agreement, on December 11, 2012, the Company converted $300,013 in debt owed by the Company to the Whitehead Trust into shares of Common Stock at a conversion rate of $0.05 per share, resulting in the issuance of 6,000,250 shares of Common Stock to the Whitehead Trust. Upon the issuance of such shares, such debt owed by the Company to the Whitehead Trust was deemed paid in full and certain notes issued by the Company and the other obligations relating to such debt were terminated. Albert E. Whitehead, the Chief Executive Officer of the Company and Chairman of its Board of Directors, is the trustee of the Whitehead Trust.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

GENERAL TO ALL PERIODS

The Company's primary business is the exploration and development of oil and gas interests. The Company has incurred significant losses from operations, and there is no assurance that it will achieve profitability or obtain the funds necessary to finance its operations. For all periods presented, the Company's effective tax rate is 0%. The Company has generated net operating losses since inception, which would normally reflect a tax benefit in the statement of operations and a deferred asset on the balance sheet. However, because of the current uncertainty as to the Company's ability to achieve profitability, a valuation reserve has been established that offsets the amount of any tax benefit available for each period presented in the statements of operations.

THREE MONTH PERIOD ENDED MARCH 31, 2013, COMPARED TO THREE MONTH PERIOD ENDED MARCH 31, 2012.

Production and operating expenses decreased by $7,063 to $5,098 for the three months ended March 31, 2013, from $12,161 for the same period in 2012. The decrease was due to the lower lease rentals paid for Okie Draw leases in 2013.

General and administrative expenses decreased by $10,557 to $56,739 for the three months ended March 31, 2013, from $67,296 for the same period in 2012. The decrease was primarily due to lower professional fees in 2013.

There was no depreciation expense attributable to the three months ended March 31, 2013 or March 31, 2012 because the depreciable assets were fully depreciated.

Interest expense decreased by $1,000 to $0 for the three months ended March 31, 2013 from $1,000 for the same period in 2012. The decrease was due to the conversion of all notes by a shareholder as described in Note 3 above.

For the reasons discussed above, net loss decreased by $18,620 from $(80,457) for the three months ended March 31, 2012, to $(61,837) for the three months ended March 31, 2013.

RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board (“FASB”) periodically issues new accounting standards in a continuing effort to improve standards of financial accounting and reporting. The Company has reviewed the recently issued pronouncements and no new accounting standards have been adopted since the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 was filed with the SEC.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

As of March 31, 2013, the Company had $3,237 of cash on hand. The Company believes that its cash on hand will allow it to finance its operations for the next month. 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. The Company plans to undertake further exploration of the Gabbs Valley and South Okie Prospects in 2013. However, the Company will likely look to industry partners to drill the next wells on these prospects.

OUTLOOK

As stated elsewhere in this Form 10-Q, the Company has conducted extensive geological studies, conducted a seismic survey, carried out a geochemical imaging survey, conducted satellite and gravity studies and drilled two test wells on its Gabbs Valley Prospect. The additional studies of such data, as well as, the assistance of geological and engineering consultants led the Company to determine that further drilling was warranted. It was determined that a new test well should be drilled using a different method of drilling.

The Company drilled the Paradise Unit 2-12 well to a depth of 4,250 feet before drilling problems caused the Company to cease drilling. 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 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 secured other parties to conduct such tests. Well completion equipment was installed and further production testing was carried out, however as of March 31, 2013, to the Company’s knowledge, commercial production has not been established. It is the Company’s understanding that further testing is being considered. Empire does feel the prospect has considerable geological merit since the primary target, being the Triassic formation, was not reached in either of the two test wells. Empire is now discussing with other companies about drilling a new test well, however no agreements have yet been reached.

Subject to securing additional financing and/or engaging an industry partner, the Company plans to drill or cause to be drilled a test well on its South Okie Prospect in 2013.

MATERIAL RISKS

The Company has incurred significant losses from operations and there is no assurance that it will achieve profitability or obtain the funds necessary to finance continued operations. For other material risks, see the Company's Form 10-K for the period ended December 31, 2012, which was filed on March 8, 2013.

FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q, including this section, includes certain statements that may be deemed "forward-looking statements" within the meaning of federal securities laws. All statements, other than statements of historical facts, that address activities, events or developments that the Company expects, believes or anticipates will or may occur in the future, including future sources of financing and other possible business developments, are forward-looking statements. Such statements are subject to a number of assumptions, risks and uncertainties and could be affected by a number of different factors, including the Company's failure to secure short and long-term financing necessary to sustain and grow its operations, increased competition, changes in the markets in which the Company participates and the technology utilized by the Company and new legislation regarding environmental matters. These risks and other risks that could affect the Company's business are more fully described in reports it files with the SEC, including its Form 10-K for the fiscal year ended December 31, 2012. Actual results may vary materially from the forward-looking statements.

The Company undertakes no duty to update any of the forward-looking statements in this Form 10-Q.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Item 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Company carried out an evaluation under the supervision of the Company's Chief Executive Officer (and principal financial officer) of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Securities Exchange Act Rules 13a-15(e) and 15d-15(e). Based on this evaluation, the Company's Chief Executive Officer (and principal financial officer) has concluded that the disclosure controls and procedures as of the end of the period covered by this report are effective. During the period covered by this report, there was no change in the Company's internal controls over financial reporting that has materially affected or that is reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None.

Item 6. Exhibits

31	Certification of Chief Executive Officer (and principal financial officer) pursuant to Rules 13a - 14 (a) and 15(d) - 14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(1) (31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (submitted herewith).
32	Certification of Chief Executive Officer (and principal financial officer) pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (submitted herewith).
101	Financial Statements for XBRL format (submitted herewith).

EMPIRE PETROLEUM CORPORATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EMPIRE PETROLEUM CORPORATION

May 13, 2013 /s/ Albert E. Whitehead
Albert E. Whitehead
Chairman, Chief Executive
Officer and Principal
Financial Officer

EXHIBIT INDEX

NO.	DESCRIPTION
31	Certification of Chief Executive Officer (and principal financial officer) pursuant to Rules 13a - 14 (a) and 15(d) - 14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(1) (31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (submitted herewith).
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101	Financial Statements for XBRL format (submitted herewith).