

GULFPORT ENERGY CORP  
Form 10KSB/A  
September 08, 2005

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**Form 10-KSB/A**  
**Amendment No. 1**

**(Mark One)**

- ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended  
December 31, 2004**  
**OR**  
 **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**Commission File Number: 000-19514**  
**Gulfport Energy Corporation**  
*(Name of Small Business Issuer in its Charter)*

**Delaware** **73-1521290**  
*(State or Other Jurisdiction of Incorporation or (I.R.S. Employer Identification No.)  
Organization)*

**14313 North May Avenue, Suite 100**  
**Oklahoma City, Oklahoma 73134**  
*(Address of Principal Executive Offices, Zip code)*

*(Issuer's Telephone Number, Including Area Code)* **(405) 848-8807**

**Securities registered pursuant to Section 12(b) of the Act:** None

**Securities registered pursuant to Section 12(g) of the Act:**

| <u>Title of Each Class</u> | <u>Name of Each Exchange on Which<br/>Registered</u> |
|----------------------------|--|
|----------------------------|--|

|   |             |
|---|-------------|
| <b>Common Stock, par value \$0.01 per share</b> | <b>None</b> |
|---|-------------|

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

Registrant's revenues for its most recent fiscal year: \$23,071,876

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of September 7, 2005 was \$87,521,258.44

As of September 7, 2005, 31,936,306 shares of common stock were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information called for by Part III is incorporated by reference to certain sections of the Proxy Statement for the 2004 Annual Meeting of our stockholders.

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

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### **Explanatory Note**

Gulfport Energy Corporation (the “Company”) is filing this Amendment No. 1 on Form 10-KSB/A (this “Amendment”) to its Annual Report on Form 10-KSB for the year ended December 31, 2004, originally filed with the Securities and Exchange Commission (the “Commission”) on March 31, 2005 (the “Original Form 10-KSB”). This Amendment reflects the Company’s reclassification of “accounts receivable from hurricane” for the year ended December 31, 2003 from “cash flows provided by operating activities” to “cash flows provided by investing activities” on the Company’s Statements of Cash Flows. Revisions have been made to Item 6 in Part II, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources--Overview” of the Original Form 10-KSB to reflect the reclassification.

In addition, pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, the certifications pursuant to Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, have been re-executed as of the date of, and are refiled as part of, this Amendment as Exhibits 31.1, 31.2, 32.1 and 32.2. Finally, Consents of Independent Registered Public Accounting Firms have been filed as part of this Amendment. Item 13 in Part III hereof is accordingly amended.

Except for the items described above or contained in the Amendment, this Amendment continues to speak as of the date of the Original Form 10-KSB, and does not modify, amend or update in any way the financial statements or any other item or disclosures in the Original Form 10-KSB.

## **ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of the Company's financial condition and results of operations is based in part on the financial statements and the notes thereto included elsewhere in this annual report on Form 10-KSB and should be read in conjunction therewith.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Our significant accounting policies are described in Note 1 to our financial statements included elsewhere in this annual report on Form 10-KSB. We have identified certain of these policies as being of particular importance to the portrayal of our financial position and results of operations and which require the application of significant judgment by our management. We analyze our estimates, including those related to oil and gas properties, revenues recognition, income taxes and commitments and contingencies, and base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements:

*Oil and Gas Properties.* The Company uses the full cost method of accounting for oil and gas operations. Accordingly, all costs, including nonproductive costs and certain general and administrative costs associated with acquisition, exploration and development of oil and gas properties, are capitalized. Net capitalized costs are limited to the estimated future net revenues, after income taxes, discounted at 10% per year, from proven oil and gas reserves and the cost of the properties not subject to amortization. Such capitalized costs, including the estimated future development costs and site remediation costs, if any, are depleted by an equivalent units-of-production method, converting gas to barrels at the ratio of six MCF of gas to one barrel of oil. No gain or loss is recognized upon the disposal of oil and gas properties, unless such dispositions significantly alter the relationship between capitalized costs and proven oil and gas reserves. Oil and gas properties not subject to amortization consist of the cost of undeveloped leaseholds and totaled \$1,600 at December 31, 2004 and December 31, 2003. These costs are reviewed periodically by management for impairment, with the impairment provision included in the cost of oil and gas properties subject to amortization. Factors considered by management in its impairment assessment include drilling results by Gulfport and other operators, the terms of oil and gas leases not held by production, and available funds for exploration and development.

*Income Taxes.* Gulfport uses the asset and liability method of accounting for income taxes, under which deferred tax assets and liabilities are recognized for the future tax consequences of (1) temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and (2) operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are based on enacted tax rates applicable to the future period when those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income during the period the rate change is enacted. Deferred tax assets are recognized in the year in which realization becomes determinable. Periodically, management performs a forecast of its taxable income to determine whether it is more likely than not that a valuation allowance is needed, looking at both positive and negative factors. A valuation allowance for our deferred tax assets is established, if in management's opinion, it is more likely than not that some portion will not be realized. At December 31, 2004 a valuation allowance of \$41,458,000 has been provided for deferred tax assets.



*Revenue Recognition.* Gas revenues are recorded in the month produced using the entitlement method, whereby any production volumes received in excess of the Company's ownership percentage in the property are recorded as a liability. If less than Gulfport's entitlement is received, the underproduction is recorded as a receivable. There is no such liability or asset recorded at December 31, 2004 or December 31, 2003. Oil revenues are recognized when ownership transfers, which occurs in the month produced.

*Commitments and Contingencies.* Liabilities for loss contingencies arising from claims, assessments, litigation or other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

### Full Year and Fourth Quarter Highlights

- Rights Offering - On July 22, 2004, the Company launched its rights offering of common stock subscription rights to purchase up to an aggregate of 10 million shares of its Common Stock at a subscription price of \$1.20 per share. Rights to purchase all 10 million shares of Common Stock were exercised in the rights offering, which expired on August 20, 2004. The Company received net cash proceeds of approximately \$11.1 million, after deducting offering expenses of approximately \$120,000. In addition, \$510,547 of the amount owed to CD Holding was applied to the subscription price payable upon exercise of the rights issued to CD Holding in the rights offering.
- 2004 Drilling Program and Recompletions - In July 2004 Gulfport initiated an eight well drilling program at West Cote Blanche Bay. The wells ranged in depth from approximately 2,500 feet to 9,900 feet; all with multiple production horizon targets. The drilling program had a 100% success rate. The logs of the eight wells indicate a total of 38 productive horizons with 678 feet of net pay. The total gross initial production rates for the eight wells was 784 barrels of oil per day and 2,418 mcf of gas per day. In addition, the Company also recompleted four existing wells at WCBB which had total initial gross production rates of 480 barrels of oil per day and 742 mcf of gas per day.

### Results of Operations

The markets for oil and gas have historically been, and will continue to be, volatile. Prices for oil and gas may fluctuate in response to relatively minor changes in supply and demand, market uncertainty and a variety of factors beyond the control of Gulfport. Set forth in the tables below are the average prices received by the Company and production volumes during the periods indicated.

|                        | <b>2004</b> | <b>2003</b> | <b>2002</b> |
|------------------------|-------------|-------------|-------------|
| Production Volumes:    |             |             |             |
| Oil (MBBLS)            | 584         | 571         | 464         |
| Gas (MMCF)             | 284         | 123         | 103         |
| Oil Equivalents (MBOE) | 631         | 592         | 481         |

Average Prices:

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|                                    |    |                      |    |                      |    |                      |
|------------------------------------|----|----------------------|----|----------------------|----|----------------------|
| Oil (per BBL)                      | \$ | 36.97 <sup>(1)</sup> | \$ | 27.66 <sup>(1)</sup> | \$ | 24.69 <sup>(2)</sup> |
| Gas (per MCF)                      | \$ | 5.24                 | \$ | 4.04                 | \$ | 3.66                 |
| Oil Equivalents (per MBOE)         | \$ | 36.58                | \$ | 26.70                | \$ | 24.59                |
| Average Production Costs (per BOE) | \$ | 10.44 <sup>(3)</sup> | \$ | 9.93 <sup>(3)</sup>  | \$ | 10.65 <sup>(3)</sup> |
| Average Production Taxes (per BOE) | \$ | 4.17                 | \$ | 3.17                 | \$ | 2.81                 |

(1) Includes fixed contract prices of:

|                |         |
|----------------|---------|
| January 2003   | \$28.50 |
| February 2003  | \$28.34 |
| March 2003     | \$27.95 |
| April 2003     | \$27.08 |
| May 2003       | \$26.95 |
| June 2003      | \$24.27 |
| July 2003      | \$24.33 |
| August 2003    | \$24.42 |
| September 2003 | \$24.45 |

|               |         |
|---------------|---------|
| October 2003  | \$24.45 |
| November 2003 | \$24.25 |
| December 2003 | \$24.10 |

January - June 2004 \$30.00

July - December 2004 \$33.60

January - June 2005 \$33.10

July - December 2005 \$39.70

Excluding the effect of the fixed price contracts, the average oil price for 2003 would have been \$32.38 per BBL and \$32.08 per BBL oil equivalent price. Excluding the effect of the fixed price contracts, the average oil price for 2004 would have been \$42.72 per BBL and \$41.88 per BBL oil equivalent price.

- (2) Includes fixed contract prices of \$26.50 for the months May through October 2002 and \$25.90 for November and December.
- (3) Does not include production taxes.

### **Comparison of the Years Ended December 31, 2004 and December 31, 2003**

Gulfport reported net income attributable to common stock of \$4,304,000 for the year ended December 31, 2004, as compared with a net loss attributable to common stock of \$219,000 for the year ended December 31, 2003. The increase in income attributable to common stock was primarily due to increases in oil and gas prices.

*Oil and Gas Revenues.* For the year ended December 31, 2004, Gulfport reported oil and gas revenues of \$23,071,000, a 46% increase from revenues of \$15,809,000 during 2003. This increase in revenues is attributable to a 34% increase in the average oil price received for the year ended December 31, 2004 of \$36.97 as compared to \$27.66 for 2003. In addition, there was an increase in barrels of oil equivalents (“BOEs”) produced to 631 BOE for the year ended December 31, 2004 as compared to 592 BOE for 2003. This increase in production was due mainly to the net increase in production resulting from the Company’s 2004 drilling program commenced in July 2004.

*Operating Expenses.* Lease operating expenses not including production taxes increased to \$6,586,000 for the year ended December 31, 2004 as compared to \$5,886,000 for 2003. This increase was mainly attributable to non-capitalized workovers performed during 2004.

*Production Taxes.* Production taxes increased to \$2,629,000 for the year ended December 31, 2004 as compared to \$1,882,000 for the same period in 2003. This increase was directly related to the increases in oil and gas sale proceeds for the year ended December 31, 2004 as compared to 2003.

*General and Administrative Expenses.* Net general and administrative expenses increased to \$2,107,000 for the year ended December 31, 2004 from \$1,843,000 for 2003. This increase was due primarily to a \$68,000 increase in the Company’s legal expenses related to various legal matters and \$85,000 of expenses related to the office building the Company purchased during 2004.

*Interest Expense.* Ordinary interest expense increased to \$246,000 for the year ended December 31, 2004 from \$112,000 for 2003. This increase was due to an increase in the average debt outstanding for the year ended December 31, 2004 as compared to 2003, primarily as a result of the loan on the building the Company purchased in June 2004.



*Interest Expense - Preferred Offering.* In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or as an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 is generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Previously, our Series A Preferred Stock had been classified on our balance sheet between total liabilities and equity. As of December 31, 2004, the amount of the Company's liability related to the Series A Preferred Stock was \$14,020,000. As a result of the adoption of SFAS No. 150 in May 2003, the balance of the liability related to the Series A preferred stock includes \$1,949,000 of interest expense for the year ended December 31, 2004, which the Company paid by accruing additional shares of Series A preferred stock in lieu of cash. During the first quarter of 2005, the Company anticipates redeeming all outstanding preferred stock.

Other changes in income for the year ended December 31, 2004 as compared to the year ended December 31, 2003 were attributable to the following factors:

*Depreciation, Depletion and Amortization.* Depreciation, depletion and amortization expense increased to \$4,952,000 for the year ended December 31, 2004, consisting of \$4,688,550 in depletion on oil and gas properties and \$263,000 in depreciation of other property and equipment. This compares to total depreciation, depletion and amortization expense of \$4,637,000 for the year ended December 31, 2003. This increase is due primarily to an increase in the Company's oil and gas assets as a result of the Company's 2004 drilling program commenced in July 2004 and the resulting increase in production.

*Income Taxes.* As of December 31, 2004, the Company had a net operating loss carryforward of approximately \$99,000,000, in addition to numerous timing differences which gave rise to a deferred tax asset of approximately \$41,000,000, which was fully reserved by a valuation allowance at that date. A current tax provision of \$2,501,000 was provided for the twelve-month period ended December 31, 2004 which was completely offset by a deferred tax benefit.

*Asset Retirement Obligation (SFAS 143).* For the three months ended March 31, 2003 and upon adoption of SFAS No. 143 on January 1, 2003, the Company recorded a net benefit of \$270,000 as the cumulative effect of a change in accounting principle. The non-cash transition adjustment increased oil and natural gas properties and asset retirement obligations by \$7.59 million and \$7.37 million, respectively, and decreased accumulated depreciation by \$0.05 million. Accretion expense increased to \$490,000 for the twelve-month period ended December 31, 2004 as compared to \$393,000 for the same period in 2003, a 25% increase due to a larger obligation at the beginning of 2004.

## Liquidity and Capital Resources

*Overview.* Historically, our primary sources of funds have been cash flow from our producing oil and gas properties, the issuance of equity securities, borrowings under our bank and other credit facilities and, from time to time, the sale of oil and gas properties. Our ability to access any of these sources of funds can be significantly impacted by unexpected decreases in oil and natural gas prices. To mitigate the effects of dramatic commodity price fluctuations, we have entered into fixed price contracts for the WCBB production as follows:

|                 |                  |
|-----------------|------------------|
| January - June  | 1,000 bbls @ day |
| 2005            | \$33.10          |
| July - December | 1,000 bbls @ day |
| 2005            | \$39.70          |

Net cash flow provided by operating was \$8,402,000 for the year ended December 31, 2004, as compared to net cash flow provided by operating activities of \$6,872,000 for 2003. This decrease was a result of various changes in balance sheet accounts.

Net cash used in investing activities for the year ended December 31, 2004 was \$15,123,000 as compared to \$8,617,000 used during 2003. During 2004, Gulfport spent \$11,252,000 in additions to oil and gas properties, of which \$9,054,000 was spent on the Company's 2004 drilling program initiated in July 2004 with the remainder spent on workover and recompletion activities on existing wells. Of the remaining \$3,881,000 net cash used in investing activities, \$3,700,000 was used to purchase the building the Company currently occupies. Gulfport financed its capital expenditures with cash flow provided by operations, borrowings under its credit facilities and proceeds from the rights offering.

Net cash provided by financing activities for the year ended December 31, 2004 was \$12,731,000 as compared to \$2,178,000 provided by financing activities for 2003. The \$12,731,000 provided by financing activities includes (1)

net cash proceeds of approximately \$11,134,000 from the rights offering after deducting offering expenses of approximately \$120,000; (2) the issuance of notes with a combined original principal amount of \$3,389,000 to finance the purchase the office building the Company occupies and (3) borrowings of \$500,000 under our credit facility with CD Holding which was used to purchase a portion of the pipe needed for the wells to be drilled in the Company's 2004 drilling program which commenced in July 2004. Approximately \$2,200,000 was used to pay off the outstanding balance of the Company's line of credit with Bank of Oklahoma, CD Holding elected to apply the outstanding principal balance amount and accrued but unpaid interest in the aggregate amount of \$511,000 under its bridge loan to the Company to the subscription price payable by CD Holding upon exercise of the rights issued to it in the rights offering.

*Credit Facilities.* The Company has a \$2.3 million line of credit with the Bank of Oklahoma. Amounts borrowed under the line bear interest at the prime rate charged from time to time by JPMorgan Chase plus 1%, with payments of interest on outstanding balances due monthly. Originated in June 2002, the Company subsequently extended the maturity date of this credit facility to July 1, 2005. There was no outstanding balance under this credit facility at December 31, 2004.

In connection with the rights offering, on April 30, 2004, the Company entered into a \$3.0 million revolving credit facility with CD Holding, L.L.C., a principal stockholder of the Company. Borrowings under the credit facility were due on the earlier of the closing of the rights offering or August 1, 2005 and bore interest at the rate of 10.0% per annum. The credit facility provided that if the rights offering was not completed, CD Holding had the right to convert any borrowings plus any accrued but unpaid interest under the facility into shares of our common stock at a conversion price equal to \$1.20 per share. Under the credit facility, CD Holding had the option to apply the outstanding principal amount and any accrued but unpaid interest either (1) to the subscription price payable upon exercise of the rights issued to CD Holding in the rights offering, or (2) to the purchase price for the common stock. Upon closing of the rights offering, \$500,000 had been borrowed on the facility to fund a part of the Company's 2004 drilling program. CD Holding applied all amounts due it under this credit facility to the exercise price payable upon exercise of rights it received in the rights offering.

On March 11, 2005, Gulfport entered into a three-year secured reducing credit agreement for a \$30.0 million revolving credit facility with Bank of America, N.A.. Borrowings under the revolving credit facility are subject to a borrowing base limitation which is initially set at \$18.0 million, subject to adjustment. The credit facility has a term of three years and all principal amounts of revolving loans outstanding under the credit facility, together with all accrued and unpaid interest and fees, will be due and payable on March 11, 2008. The Company's obligations under the credit facility are collateralized by a lien on substantially all of the Company's assets. The Company has not yet accessed the credit facility as of the date hereof. The proceeds of the credit extensions under the credit facility will be used for the exploration of oil and gas properties and other capital expenditures, acquisition opportunities, and for general corporate purposes and will enhance Gulfport's ability to accelerate and expand its drilling operations and more aggressively seek out other investment opportunities.

*Building Loans.* The Company has three loans associated with two of its buildings. One loan was for \$99,000 related to a building in Lafayette, Louisiana, purchased in 1996 to be used as the Company's Louisiana headquarters. This loan matures in February of 2008 and bears interest at the rate of 5.75%. In addition, in June 2004 the company purchased the office building it occupies for \$3,700,000. The two loans associated with this building mature in March of 2006 and June of 2011 and bear interest at the rate of 6% and 6.5%, respectively. All building loans require monthly interest and principal payments and are collateralized by the respective land and buildings.

*Issuance of Equity.* On July 22, 2004, the Company launched its rights offering of common stock subscription rights to purchase up to an aggregate of 10 million shares of its common stock at a subscription price of \$1.20 per share. Rights to purchase all ten million shares of common stock were exercised in the rights offering, which expired on August 20, 2004. The Company received net cash proceeds of approximately \$11.1 million from the rights offering after deducting offering expenses of approximately \$120,000. In addition, CD Holding, one of the Company's principal stockholders, elected to apply the outstanding principal balance amount and accrued but unpaid interest in the aggregate amount of \$511,000 under its revolving credit facility with the Company to the subscription price payable by CD Holding upon exercise of the rights issued to it in the rights offering. CD Holding had agreed, subject to certain conditions, to back-stop the rights offering for a commitment fee of 2% of the gross proceeds from the rights offering, which was also applied to the subscription price payable upon exercise of the rights issued to it in the rights offering. The net cash proceeds from the rights offering were used to fund a portion of the Company's seismic and drilling programs at WCBB and East Hackberry Field and to repay in full the outstanding principal balance of approximately \$2.2 million on the Company's line of credit with the Bank of Oklahoma.

On February 17, 2005, the Company entered into a stock purchase agreement with certain accredited investors providing for the issuance by the Company of an aggregate of 2,000,000 shares of the Company's common stock at a price of \$3.50 per share for gross proceeds to the Company of \$7,000,000. On February 22, 2005 the Company entered into another stock purchase agreement with certain other accredited investors providing for the issuance by the Company of an aggregate of 2,000,000 shares of the Company's common stock at a price of \$3.50 per share for gross proceeds to the Company of \$7,000,000. The transactions closed effective as of February 18, 2005 and February 23, 2005, respectively. The Company has agreed to file, within 60 days of the closing date, a registration statement on Form S-3 (the "Shelf Registration Statement") with respect to the resale of the shares of common stock purchased by the investors in the private placements. The Company also granted certain piggy-back registration rights to the investors. No underwriting discounts or commissions were paid in conjunction with the issuances.

On February 23, 2005, the holders of warrants to purchase 7,336,687 shares of the Company's common stock exercised their warrants for an exercise price of \$1.19 per share resulting in gross proceeds to the Company of \$8.7 million. No underwriting discounts or commissions were paid in conjunction with the issuances.

On February 23, 2005, the Company used the proceeds from the exercise of the warrants, along with a portion of the proceeds from the sale of common stock, to redeem 12,502 shares of the 14,271 shares of the Company's then outstanding Series A preferred stock for an aggregate of \$12.5 million, including accrued but unpaid dividends. After the sale of the common stock, the exercise of the warrants and the redemption of the preferred stock, Gulfport received net proceeds of \$10.2 million. Gulfport intends to use these net proceeds, together with the cash-on-hand of approximately \$5.0 million, cash from operations and, as necessary, borrowings under its credit facility, to redeem, all or in part, the remaining outstanding shares of preferred stock, execute the Company's 2005 drilling program and explore and undertake acquisitions if attractive opportunities become available.

On March 25, 2005, the Company used the proceeds from the exercise of the warrants, along with a portion of the proceeds from the sale of common stock, to redeem 96.6 shares of the 1,834 shares of the Company's then outstanding Series A preferred stock for an aggregate of \$145,800, including accrued but unpaid dividends.

*Capital Expenditures.* The primary capital commitments faced by the Company over the past several years have been the capital requirements needed to continue developing the Company's proved reserves and obligations under our credit facilities and outstanding Series A preferred stock.

Our strategy is to continue to increase cash flows generated by our properties by undertaking new drilling, workover, sidetrack and recompletion projects to exploit our reserves and exploring other acquisition opportunities. We have upgraded our infrastructure by enhancing our existing facilities to increase operating efficiencies, increase volume capacities and lower lease operating expenses. Additionally, we completed the reprocessing of 3-D seismic data in our principal property, WCBB. The reprocessed data will continue to enable our geophysicists to generate new prospects and enhance existing prospects in the intermediate zones in the field, thus creating a portfolio of new drilling opportunities.

In our December 31, 2004 reserve report, 78% of our net reserves were categorized as proved undeveloped. Our proved reserves will generally decline as reserves are depleted, except to the extent that we conduct successful exploration or development activities or acquire properties containing proved developed reserves, or both. To realize reserves and increase production, we must continue our exploratory drilling, undertake other replacement activities or utilize third parties to accomplish those activities.

Our inventory of prospects includes 135 proved undeveloped (PUD) wells at WCBB. The drilling schedule used in the reserve report anticipates that all of those wells will be drilled by 2011. Gulfport is in the process of permitting 20 additional wells to be drilled at West Cote Blanche Bay, including one sidetrack, and spud the first well in the 2005 drilling program in March 2005. The Company also plans on converting a well that is currently inactive to a salt water disposal well for the field during 2005. Gulfport began a five well workover and eight well recompletion program in November of 2004. The Company began to workover and recomplete six to ten wells during the first quarter of 2005.

Late in 2004, Gulfport began the process of shooting 3-D seismic at East Hackberry Field at an estimated total cost of approximately \$4.5 million, most of which will be expended in 2005.

On June 28, 2004, the Company purchased the office building it occupies in Oklahoma City, Oklahoma for \$3.7 million. The building contains approximately 24,823 total rentable square feet. Immediately upon the closing, the Company gained access to an additional 3,000 square feet with the remaining space to be leased for approximately 12 months by the existing tenant/owner. At the end of the twelve-month period, the Company will either occupy or sub-lease any unused space.

We believe that our cash on hand, cash flow from operations and borrowings under our credit facility will be sufficient to fund our capital expenditures for the foreseeable future.

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## **Commitments**

In connection with the acquisition of the remaining 50% interest in the WCBB properties, the Company assumed the seller's obligation to contribute approximately \$18,000 per month through March 2004, to a plugging and abandonment trust and the obligation to plug a minimum of 20 wells per year for 20 years commencing March 11, 1997. ChevronTexaco retained a security interest in production from these properties until these abandonment obligations have been fulfilled. Beginning in 2007, the Company can access the trust for use in plugging and abandonment charges associated with the property. As of December 31, 2004, the plugging and abandonment trust totaled approximately \$2,814,000, including interest received during the year ended December 31, 2004 of approximately \$17,000. The Company has plugged 132 wells at WCBB since it began its plugging program in 1997. The Company has fulfilled its funding obligations and is current in its plugging obligations.

In addition, the Company has letters of credit totaling \$200,000 secured by certificates of deposit being held for plugging costs in the East Hackberry field. Once specific wells are plugged and abandoned, the \$200,000 will be returned to the Company.

## **Accounting and Reporting Changes**

### *SFAS No. 143*

On January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"), which requires the Company to record a liability equal to the fair value of the estimated cost to retire an asset. The asset retirement liability is recorded in the period in which the obligation meets the definition of a liability, which is generally when the asset is placed into service. When the liability is initially recorded, the Company will increase the carrying amount of the related long lived asset by an amount equal to the original liability. The liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related long-lived asset. Upon settlement of the liability or sale of the well, the liability is reversed. The asset retirement obligation is based on a number of assumptions requiring significant judgment. The Company cannot predict the type of revisions to these assumptions that will be required in future periods due to the availability of additional information, including prices for oil field services, technological changes, governmental requirements and other factors. Upon adoption of SFAS No. 143, the Company recorded a net benefit of \$270,000 as the cumulative effect of a change in accounting principle. The non-cash transition adjustment increased oil and natural gas properties and asset retirement obligations by \$7,590,000 and \$7,370,000, respectively, and decreased accumulated depreciation by \$50,000.

The asset retirement obligation recognized by the Company at December 31, 2003, relates to the estimated costs to dismantle and abandon its investment in producing oil and gas properties and the related facilities. Of the total asset retirement liability, \$480,000 that has been classified as short-term is the estimated portion of the total liability to be settled during the next year as the Company meets its plugging and abandonment requirements as discussed in Note 8.

### *SFAS No. 150*

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or as an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 is generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company has recorded a liability related to the Series A preferred stock of \$14,020,000. Previously, the Series A preferred stock had been classified on the balance sheet between total liabilities and equity. This amount



represents the 14,020 preferred shares issued and outstanding as of December 31, 2004, at the redemption and liquidation value of \$1,000 per share. In the opinion of management, the \$1,000 per share redemption and liquidation value approximates fair value. The shares are mandatorily redeemable on the fifth anniversary of the first issuance of Series A preferred stock. The Company redeemed 12,502 shares of the Series A preferred stock in February 2005 and is in the process of redeeming the remaining outstanding shares of Series A preferred stock.

*SFAS No. 123(R)*

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 123(R), "Share Based Payment", which revised SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123(R) requires entities to measure the fair value of equity share-based payments (stock compensation) at grant date, and recognize the fair value over the period during which an employee is required to provide services in exchange for the equity instrument as a component of the income statement. SFAS No. 123(R) is effective for periods beginning after December 15, 2005. We have not evaluated the impact of adoption of SFAS No. 123(R), but adoption could have a material impact on our financial position and results of operations.

## **ITEM 7. FINANCIAL STATEMENTS**

The information required by this item appears beginning on page F-1 following the signature pages of this Report.

## **ITEM 13. EXHIBITS**

(a) List the following documents filed as part of this report:

| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
| 3.1                       | Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Form 10-Q, File No. 000-19514, filed by the Company with the SEC on December 1, 1997).   |
| 3.2                       | Amendment to Certificate of Incorporation changing name of corporation to Gulfport Energy Corporation (incorporated by reference to Exhibit 3.2 to Amendment No. 1 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on June 21, 2004)                                 |
| 3.3                       | Amendment to Certificate of Incorporation to increase the number of authorized shares of Common Stock from 50,000,000 to 250,000,000 (incorporated by reference to Exhibit 3.4 to Amendment No. 1 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on June 21, 2004). |
| 3.4                       | Amendment to Certificate of Incorporation to effect a 50 to 1 reverse stock split of the issued and outstanding Common Stock (incorporated by reference to Exhibit 3.5 to Amendment No. 1 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on June 21, 2004).         |
| 3.5                       | Amendment to Certificate of Incorporation to reduce the number of authorized shares of Common Stock from 250,000,000 to 15,000,000 (incorporated by reference to Exhibit 3.6 to Amendment No. 1 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on June 21, 2004).   |



| Exhibit<br>Number | Description   |
|-------------------|---|
| 3.6               | Amendment to Certificate of Incorporation to increase the number of shares of capital stock from 15,000,000 to 25,000,000 (incorporated by reference to Exhibit A to Information Statement filed by the Company with the SEC on February 20, 2004).   |
| 3.7               | Certificate of Amendment, dated July 20, 2004, of the Restated Certificate of Incorporation to increase the number of shares of capital stock from 25,000,000 to 40,000,000 (incorporated by reference to Exhibit 3.7 of Amendment No. 1 to Form 10-QSB, File No. 000-19514, filed by the Company with the SEC on February 18, 2005).   |
| 3.8               | Certificate of Designations, Preferences and Relative Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof of Cumulative Preferred Stock Series A, dated March 28, 2002 (incorporated by reference to Exhibit 3.8 of Amendment No. 1 to Form 10-QSB, File No. 000-19514, filed by the Company with the SEC on February 18, 2005).                                   |
| 3.9               | Certificate of Amendment, dated July 20, 2004, of the Certificate of Designations, Preferences and Relative Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof of Cumulative Preferred Stock Series A. (incorporated by reference to Exhibit 3.9 of Amendment No. 1 to Form 10-QSB/A File No. 000-19514, filed by the Company with the SEC on February 18, 2005). |
| 3.10              | Bylaws (incorporated by reference to Exhibit 3.2 to Form 10-QSB, File No. 000-19514, filed by the Company with the SEC on December 1, 1997).  |
| 4.1               | Form of Common Stock certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 2 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on July 22, 2004).   |
| 10.1              | Credit Agreement, dated July 1, 2004, by and between the Company and Bank of Oklahoma (incorporated by reference to Exhibit 10.2 to Amendment No. 1 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on June 21, 2004).   |
| 10.2              | 2005 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to Form 8-K, File No. 333-19514, filed by the Company with the SEC on February 18, 2005).  |
| 10.3              | Form of Stock Option Agreement (incorporated by reference to Exhibit 10.2 to Form 8-K, File No. 333-19514, filed by the Company with the SEC on February 18, 2005).   |
| 10.4              | Form of Stock Option Exercise Agreement (incorporated by reference to Exhibit 10.3 to Form 8-K, File No. 333-19514, filed by the Company with the SEC on February 18, 2005)   |
| 10.5              | Form of Warrant Agreement (incorporated by reference to Exhibit 10.4 to Amendment No. 2 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on July 22, 2004).   |
| 10.6              | Employment Agreement, dated June 2003, by and between the Registrant and Mike Liddell (incorporated by reference to Exhibit 10.5 to Amendment No. 1 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on June 21, 2004).   |
| 10.7**            | Registration Rights Agreement, dated as of February 23, 2005, by and among the Company, Southpoint Fund LP, a Delaware limited partnership, Southpoint Qualified Fund LP, a Delaware limited partnership and Southpoint Offshore Operating Fund, LP, a Cayman Islands exempted limited partnership.   |
| 10.8**            | Registration Rights Agreement, dated as of February 18, 2005, by and among the Company and Harbert Distressed Investment Master Fund, Ltd., a Cayman Islands exempt company, and Alpha US Sub Fund VI, LLC, a Delaware limited liability company.   |
| 10.9**            | Credit Agreement, dated as of March 11, 2005, by and among the Company, each lender from time to time party thereto and Bank of America, N.A., as agent.  |
| 10.10**           |   |

Stock Purchase Agreement, dated as of February 17, 2005, by and among the Company, Harbert Distressed Investment Master Fund, Ltd and Alpha US Sub Fund VI, LLC.

10.11\*\* Stock Purchase Agreement, dated as of February 22, 2005, by and among the Company, Southpoint Fund LP, Southpoint Qualified Fund LP and Southpoint Offshore Operating Fund, LP.

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 14.0**                    | Code of Ethics.  |
| 21**                      | Subsidiaries of the Registrant.  |
| 23.1*                     | Consent of Grant Thornton LLP.   |
| 23.2*                     | Consent of Hogan & Sloacek.  |
| 23.3*                     | Consent of Netherland, Sewell & Associated, Inc.   |
| 31.1*                     | Certification of Chief Executive Officer of the Registrant pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.   |
| 31.2*                     | Certification of Chief Financial Officer of the Registrant pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.   |
| 32.1*                     | Certification of Chief Executive Officer of the Registrant pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code. |
| 32.2*                     | Certification of Chief Financial Officer of the Registrant pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code. |

\*Filed herewith

\*\*Filed with oriignal Form 10-KSB

(b) Reports on Form 8K

The Company has filed or furnished the following Current Reports on Form 8-K during the fourth quarter of 2004: Current report on Form 8-K furnished on November 24, 2004 regarding its results of operations for the quarter ended September 30, 2004.

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GULFPORT ENERGY CORPORATION

Date: September 8, 2005

By: /s/ Mike Liddell

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Mike Liddell  
Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

GULFPORT ENERGY CORPORATION

Date: September 8, 2005

By: /s/ Mike Liddell

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Mike Liddell  
Chief Executive Officer and Director

Date: September 8, 2005

By: /s/ Robert E. Brooks

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Robert E. Brooks  
Director

Date: September 8, 2005

By: /s/ David L. Houston

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David L. Houston  
Director

Date: September 8, 2005

By: /s/ Mickey Liddell

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Mickey Liddell  
Director

Date: September 8, 2005

By: /s/ Dan Noles

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Dan Noles  
Director

Date: September 8, 2005

By: /s/ Michael G. Moore

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Michael G. Moore  
Vice President and Chief Financial Officer

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***Item 7. Financial Statements***

INDEX TO FINANCIAL STATEMENTS

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INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and  
Stockholders of Gulfport Energy Corporation:

We have audited the accompanying balance sheet of Gulfport Energy Corporation (a Delaware corporation) as of December 31, 2004, and the related statements of operations, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gulfport Energy Corporation as of December 31, 2004, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON

Oklahoma City, Oklahoma  
March 25, 2005

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and  
Stockholders of Gulfport Energy Corporation:

We have audited the statements of operations, stockholders' equity, and cash flows for the year ended December 31, 2003 of Gulfport Energy Corporation (a Delaware corporation). These financial statements are the responsibility of Gulfport's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the results of operations and cash flows for the year ended December 31, 2003 of Gulfport Energy Corporation, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 18 to the financial statements, Gulfport changed its method of accounting for asset retirement obligations and its redeemable 12% cumulative preferred stock as required by the provisions of Statement of Financial Accounting Standards No. 143 and 150, respectively.

/s/ Hogan & Slovacek

Oklahoma City, Oklahoma  
April 14, 2004

**GULFPORT ENERGY CORPORATION  
BALANCE SHEET**

**December 31,  
2004**

| <b>Assets</b>   |        |                                    |
|---|--------|------------------------------------|
| Current assets:   |        |                                    |
| Cash and cash equivalents   | \$     | 7,542,000                          |
| Accounts receivable   |        | 3,560,000                          |
| Accounts receivable - related parties   |        | 1,023,000                          |
| Prepaid expenses and other current assets   |        | 212,000                            |
| <br>Total current assets  |        | <br>12,337,000                     |
| Property and equipment:   |        |                                    |
| Oil and natural gas properties, full-cost accounting  |        | 139,366,000                        |
| Other property and equipment  |        | 5,689,000                          |
| Accumulated depletion, depreciation, amortization   |        | (82,374,000)                       |
| <br>Property and equipment, net   |        | <br>62,681,000                     |
| <br>Other assets  |        | <br>3,132,000                      |
| <br><b>Total assets</b>   | <br>\$ | <br>78,150,000                     |
| <br><b>Liabilities and Stockholders' Equity</b>   |        |                                    |
| Current liabilities:  |        |                                    |
| Accounts payable and accrued liabilities  | \$     | 4,056,000                          |
| Accrued payable - royalty audit   |        | 121,000                            |
| Asset retirement obligation - current   |        | 480,000                            |
| Current maturities of long-term debt  |        | 205,000                            |
| <br>Total current liabilities   |        | <br>4,862,000                      |
| Asset retirement obligation - long-term   |        | 6,972,000                          |
| Long-term debt, net of current maturities   |        | 3,199,000                          |
| Redeemable 12% cumulative preferred stock, Series A,<br>\$.01<br>par value, with a redemption and liquidation value of<br>\$1,000 per share; 30,000 authorized, 14,020 issued and<br>outstanding at December 31, 2004 |        | <br><br><br><br><br><br>14,020,000 |
| <br><b>Total liabilities</b>  |        | <br><br><br><br><br><br>29,053,000 |
| <br>Commitments and contingencies   |        |                                    |
| Preferred stock, \$.01 par value; 5,000,000 authorized<br>at December 31, 2004, 30,000 authorized as redeemable<br>12%  |        |                                    |

|   |           |                   |
|---|-----------|-------------------|
| cumulative preferred stock, Series A, above   |           | -                 |
| Stockholders' equity:   |           |                   |
| Common stock - \$.01 par value, 35,000,000 authorized,<br>20,146,566 issued and outstanding at December 31,<br>2004 |           | 201,000           |
| Paid-in capital   |           | 95,737,000        |
| Accumulated deficit   |           | (46,841,000)      |
| Total stockholders' equity  |           | 49,097,000        |
| <b>Total liabilities and stockholders' equity</b>   | <b>\$</b> | <b>78,150,000</b> |

See accompanying notes to financial statements.

**GULFPORT ENERGY CORPORATION**  
**STATEMENTS OF OPERATIONS**

|  | <b>Year Ended December 31,</b> |              |
|--|--------------------------------|--------------|
|  | <b>2004</b>                    | <b>2003</b>  |
| <b>Revenues:</b>   |                                |              |
| Gas sales  | \$ 1,484,000                   | \$ 498,000   |
| Oil and condensate sales   | 21,587,000                     | 15,311,000   |
| Other income   | 119,000                        | 138,000      |
|  | 23,190,000                     | 15,947,000   |
| <b>Costs and expenses:</b>   |                                |              |
| Operating expenses   | 6,586,000                      | 5,886,000    |
| Production taxes   | 2,629,000                      | 1,882,000    |
| Depreciation, depletion, and amortization                                      | 4,952,000                      | 4,637,000    |
| Accretion expense  | 490,000                        | 393,000      |
| General and administrative   | 2,107,000                      | 1,843,000    |
|  | 16,764,000                     | 14,641,000   |
| <b>INCOME FROM OPERATIONS:</b>   | 6,426,000                      | 1,306,000    |
| <b>OTHER (INCOME) EXPENSE:</b>   |                                |              |
| Interest expense   | 246,000                        | 112,000      |
| Interest expense - preferred stock   | 1,949,000                      | 875,000      |
| Interest income  | (73,000)                       | (30,000)     |
|  | 2,122,000                      | 957,000      |
| <b>INCOME BEFORE INCOME TAXES AND EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE</b> | 4,304,000                      | 349,000      |
| <b>INCOME TAX EXPENSE (BENEFIT):</b>   | -                              | -            |
| <b>NET INCOME (LOSS) BEFORE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE</b>       | 4,304,000                      | 349,000      |
| Cumulative effect of change in accounting principle                            | -                              | 270,000      |
| <b>NET INCOME</b>  | 4,304,000                      | 619,000      |
| Less: Preferred stock dividends  | -                              | (838,000)    |
| <b>NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS</b>                      | \$ 4,304,000                   | \$ (219,000) |

**NET INCOME (LOSS) PER COMMON  
SHARE - BASIC:**

|   |    |      |    |        |
|---|----|------|----|--------|
| Per common share before effect of change<br>in accounting principle | \$ | 0.31 | \$ | (0.05) |
| Effect per common share of change in<br>accounting principle        |    | -    |    | 0.03   |
|   | \$ | 0.31 | \$ | (0.02) |

**NET INCOME (LOSS) PER COMMON  
SHARE - DILUTED:**

|   |    |      |    |        |
|---|----|------|----|--------|
| Per common share before effect of change<br>in accounting principle | \$ | 0.28 | \$ | (0.05) |
| Effect per common share of change in<br>accounting principle        |    | -    |    | 0.03   |
|   | \$ | 0.28 | \$ | (0.02) |

See accompanying notes to financial statements.

**GULFPORT ENERGY CORPORATION**  
**Statements of Stockholders' Equity**

|   | Common Stock |            | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit |
|---|--------------|------------|----------------------------------|------------------------|
|   | Shares       | Amount     |                                  |                        |
| <b>Balance at December 31,<br/>2002</b>                         | 10,146,566   | \$ 101,000 | \$ 84,192,000                    | \$ (50,926,000)        |
| Net income  | -            | -          | -                                | 619,000                |
| Preferred stock dividends                                       | -            | -          | -                                | (838,000)              |
| <b>Balance at December 31,<br/>2003</b>                         | 10,146,566   | 101,000    | 84,192,000                       | (51,145,000)           |
| Net income  | -            | -          | -                                | 4,304,000              |
| Issuance of Common<br>Stock, net of<br>issue costs of \$120,000 | 10,000,000   | 100,000    | 11,545,000                       | -                      |
| <b>Balance at December 31,<br/>2004</b>                         | 20,146,566   | \$ 201,000 | \$ 95,737,000                    | \$ (46,841,000)        |

See accompanying notes to financial statements.



**GULFPORT ENERGY CORPORATION**  
**Statements of Cash Flows**

|   | <b>Year Ended December 31,</b> |              |
|---|--------------------------------|--------------|
|   | <b>2004</b>                    | <b>2003</b>  |
| <b>Cash flows from operating activities:</b>                                      |                                |              |
| Net income  | \$ 4,304,000                   | \$ 619,000   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                |              |
| Cumulative effect of change in accounting principle                               | -                              | (270,000)    |
| Accretion of discount - Asset Retirement Obligation                               | 490,000                        | 393,000      |
| Interest expense - preferred stock  | 1,949,000                      | 875,000      |
| Depletion, depreciation and amortization  | 4,952,000                      | 4,631,000    |
| Amortization of debt issuance costs   | -                              | 6,000        |
| Changes in operating assets and liabilities:                                      |                                |              |
| (Increase) Decrease in accounts receivable  | (2,220,000)                    | 493,000      |
| (Increase) in accounts receivable - related party                                 | (644,000)                      | (321,000)    |
| (Increase) Decrease in prepaid expenses   | (33,000)                       | 26,000       |
| Increase in accounts payable and accrued liabilities                              | 570,000                        | 420,000      |
| Settlement of asset retirement obligation   | (965,000)                      | -            |
| Net cash provided by operating activities   | 8,403,000                      | 6,872,000    |
| <b>Cash flows from investing activities:</b>                                      |                                |              |
| Additions to cash held in escrow  | (72,000)                       | (235,000)    |
| Additions to other property, plant and equipment                                  | (3,777,000)                    | (40,000)     |
| Additions to oil and gas properties   | (11,242,000)                   | (10,145,000) |
| Decrease in insurance settlement receivable net of expenditures                   | (32,000)                       | 1,803,000    |
| Net cash used in investing activities   | (15,123,000)                   | (8,617,000)  |
| <b>Cash flows from financing activities:</b>                                      |                                |              |
| Borrowings on note payable - related party  | 500,000                        | -            |
| Borrowings on note payable  | 3,389,000                      | 2,200,000    |
| Principal payments on borrowings  | (2,303,000)                    | (22,000)     |
| Proceeds from issuance of common stock  | 11,134,000                     | -            |
| Net cash provided by financing activities   | 12,720,000                     | 2,178,000    |
| Net increase in cash and cash equivalents   | 6,000,000                      | 433,000      |
| Cash and cash equivalents at beginning of period                                  | 1,542,000                      | 1,109,000    |
| Cash and cash equivalents at end of period  | \$ 7,542,000                   | \$ 1,542,000 |

**Supplemental disclosure of cash flow information:**

|                   |    |         |    |         |
|-------------------|----|---------|----|---------|
| Interest payments | \$ | 246,000 | \$ | 112,000 |
|-------------------|----|---------|----|---------|

**Supplemental disclosure of non-cash, investing and financing transactions:**

|  |    |           |    |         |
|--|----|-----------|----|---------|
| Payment of Series A Preferred Stock dividends through issuance of Series A Preferred Stock | \$ | 1,949,000 | \$ | 838,000 |
|--|----|-----------|----|---------|

|   |  |        |  |        |
|---|--|--------|--|--------|
| Asset retirement obligation capitalized |  | 92,000 |  | 73,000 |
|---|--|--------|--|--------|

|   |  |         |  |   |
|---|--|---------|--|---|
| Retirement of related party note and accrued interest for stock |  | 511,000 |  | - |
|---|--|---------|--|---|

See accompanying notes to financial statements.

GULFPORT ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Business

Gulfport Energy Corporation (“Gulfport” or “Company”) is a domestic independent oil and gas exploration, development and production company with its principal properties located in the Louisiana Gulf Coast.

### Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents for purposes of the statement of cash flows.

### Accounts Receivable

The Company’s accounts receivable primarily are from companies in the oil and gas industry located in the southwestern part of the United States. The majority of its receivables are from two purchasers of the Company’s oil and gas. Credit is extended based on evaluation of a customer’s payment history and, generally, collateral is not required. Accounts receivable are due within 30 days and are stated at amounts due from customers, net of an allowance for doubtful accounts when the Company believes collection is doubtful. Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the Company’s previous loss history, the customer’s current ability to pay its obligation to the Company, amounts which may be obtained by an offset against production proceeds due the customer and the condition of the general economy and the industry as a whole. The Company writes off specific accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

### Oil and Gas Properties

The Company uses the full cost method of accounting for oil and gas operations. Accordingly, all costs, including nonproductive costs and certain general and administrative costs directly associated with acquisition, exploration and development of oil and gas properties, are capitalized. Net capitalized costs are limited to the estimated future net revenues, after income taxes, discounted at 10% per year, from proven oil and gas reserves and the cost of the properties not subject to amortization. Such capitalized costs, including the estimated future development costs and site remediation costs are depleted by an equivalent units-of-production method, converting gas to barrels at the ratio of six MCF of gas to one barrel of oil. No gain or loss is recognized upon the disposal of oil and gas properties, unless such dispositions significantly alter the relationship between capitalized costs and proven oil and gas reserves. Oil and gas properties not subject to amortization consist of the cost of undeveloped leaseholds and totaled \$1,600 at December 31, 2004. These costs are reviewed periodically by management for impairment, with the impairment provision included in the cost of oil and gas properties subject to amortization. Factors considered by management in its impairment assessment include drilling results by Gulfport and other operators, the terms of oil and gas leases not held by production, and available funds for exploration and development.



GULFPORT ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003  
(CONTINUED)

On January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"), which requires the Company to record a liability equal to the fair value of the estimated cost to retire an asset. The asset retirement liability is recorded in the period in which the obligation meets the definition of a liability, which is generally when the asset is placed into service. When the liability is initially recorded, the Company will increase the carrying amount of the related long-lived asset by an amount equal to the original liability. The liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related long-lived asset. Upon settlement of the liability or the sale of the well, the liability is reversed. These liability amounts may change because of changes in asset lives, estimated costs of abandonment or legal or statutory remediation requirements.

#### Other Property and Equipment

Depreciation of other property and equipment is provided on a straight-line basis over estimated useful lives of the related assets, which range from 7 to 30 years.

#### Reclassifications

Certain reclassifications have been made to the 2003 financial statement presentation in order to conform to the 2004 financial statement presentation.

#### Net Income (Loss) per Common Share

Basic net income (loss) per common share is computed by dividing income or loss attributable to common stock by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per common share reflects the potential dilution that could occur if options or other contracts to issue common stock were exercised or converted into common stock. Diluted net loss per common share does not reflect dilution from potential common shares, because to do so would be anti-dilutive. Calculations of basic and diluted net income (loss) per common share are illustrated in Note 13.

#### Income Taxes

Gulfport uses the asset and liability method of accounting for income taxes, under which deferred tax assets and liabilities are recognized for the future tax consequences of (1) temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and (2) operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are based on enacted tax rates applicable to the future period when those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income during the period the rate change is enacted. Deferred tax assets are recognized as income in the year in which realization becomes determinable. A valuation allowance is provided for deferred tax assets when it is more likely than not the deferred tax assets will not be realized.

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### Revenue Recognition

Gas revenues are recorded in the month produced using the entitlement method, whereby any production volumes received in excess of the Company's ownership percentage in the property are recorded as a liability. If less than Gulfport's entitlement is received, the underproduction is recorded as a receivable. There is no such liability or asset recorded at December 31, 2004. Oil revenues are recognized when ownership transfers, which occurs in the month produced.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ materially from those estimates. Significant estimates with regard to these financial statements include the estimate of proved oil and gas reserve quantities and the related present value of estimated future net cash flows there from, the amount and timing of asset retirement obligations and the realization of future net operating loss carryforwards available as reductions of income tax expense.

### Segment Information

The Company's only revenue generating activity is the production and sale of oil and gas from properties located on the Louisiana Gulf Coast. Therefore, no reporting of business segments has been included in these financial statements or the notes thereto.

### Accounting Standards Yet to be Adopted

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 123(R), "Share Based Payment", which revised SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123(R) requires entities to measure the fair value of equity share-based payments (stock compensation) at grant date, and recognize the fair value over the period during which an employee is required to provide services in exchange for the equity instrument as a component of the income statement. SFAS No. 123(R) is effective for periods beginning after December 15, 2005. We have not evaluated the impact of adoption of SFAS No. 123(R), but adoption could have a material impact on our financial position and results of operations.

### Stock-Based Compensation

The Company applies the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees*, in accounting for its stock options. Accordingly, no compensation cost has been recognized for stock options granted in the accompanying financial statements. SFAS No. 123, *Accounting for Stock-Based Compensation*, ("SFAS No. 123") established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123.



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If the Company had elected the fair value provisions of SFAS No. 123 and recognized compensation expense over the vesting period based on the fair value of the stock options granted as of their grant date, the Company's 2004 and 2003 pro forma net income and pro forma net income per share would have been as follows:

|  | Year Ended December 31, |              |
|--|-------------------------|--------------|
|  | 2004                    | 2003         |
| Net income available to common stockholders, as reported | \$ 4,304,000            | \$ (219,000) |
| Stock-based employee compensation expense                | 16,000                  | 152,000      |
| Net income available to common stockholders, pro forma   | \$ 4,288,000            | \$ (371,000) |
| Net income per share available to common stockholders:   |                         |              |
| As reported:   |                         |              |
| Basic  | \$ 0.31                 | \$ (0.02)    |
| Diluted  | \$ 0.28                 | \$ (0.02)    |
| Pro forma:   |                         |              |
| Basic  | \$ 0.31                 | \$ (0.04)    |
| Diluted  | \$ 0.28                 | \$ (0.04)    |

The fair value of each option grant is estimated for disclosure purposes on the date of grant using the Black-Scholes option-pricing model with the expected lives equal to the vesting period. The weighted average contractual life of the options outstanding at December 31, 2004, is 4.9 years. No options were granted during the years ended December 31, 2004 or 2003.

## 2. INSURANCE SETTLEMENT RECEIVABLE

A major hurricane caused significant damage to the Company's production facilities and the WCBB field in 2002. The total cost to restore production to the field was estimated by the Company's personnel and insurance carrier to be \$3,510,000. As of December 31, 2004, the Company had received the \$3,510,000 in insurance settlement proceeds. Hurricane related repairs for the years ended December 31, 2004 and 2003, were \$32,000 and \$707,000 respectively.

## 3. ACCOUNTS RECEIVABLE - RELATED PARTY

Included in the accompanying December 31, 2004 balance sheet are amounts receivable from entities that have similar controlling interests as those controlling the Company. These receivables represent amounts billed by the Company for general and administrative functions performed by Gulfport's personnel on behalf of the related party companies. At December 31, 2004, these receivables totaled \$1,023,000.

## 4. PROPERTY AND EQUIPMENT

The major categories of property and equipment and related accumulated depreciation, depletion and amortization as of December 31, 2004 are as follows:





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|   |        | December 31, 2004 |
|---|--------|-------------------|
| Oil and gas properties  | \$     | 139,366,000       |
| Office furniture and fixtures   |        | 1,503,000         |
| Building  |        | 3,926,000         |
| Land  |        | 260,000           |
| <br>Total property and equipment  |        | <br>145,055,000   |
| <br>Accumulated depreciation, depletion,<br>amortization and impairment reserve |        | <br>(82,374,000)  |
| <br>Property and equipment, net   | <br>\$ | <br>62,681,000    |

Included in oil and gas properties at December 31, 2004 is the cumulative capitalization of \$2,606,000 in general and administrative costs incurred and capitalized to the full cost pool. General and administrative costs capitalized to the full cost pool represent management's estimate of costs incurred directly related to exploration and development activities such as geological and other administrative costs associated with overseeing the exploration and development activities. All general and administrative costs not directly associated with exploration and development activities were charged to expense as they were incurred.

A reconciliation of the asset retirement obligation for the year ended December 31, 2004, is as follows:

|   |    | December 31, 2004 |
|---|----|-------------------|
| Asset retirement obligation as of beginning of year | \$ | 7,835,000         |
| Liabilities incurred                                |    | 92,000            |
| Liabilities settled                                 |    | (965,000)         |
| Accretion expense                                   |    | 490,000           |
| Asset retirement obligation as of end of year       |    | 7,452,000         |
| <br>Less current portion                            |    | <br>480,000       |
| <br>Asset retirement obligation, long-term          |    | <br>6,972,000     |

## 5. OTHER ASSETS

Other assets as of December 31, 2004 consist of the following:

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|   |    |           |
|---|----|-----------|
| Plugging and abandonment escrow account<br>on the WCBB properties (Note 17) | \$ | 2,821,000 |
| CD's securing letter of credit  |    | 200,000   |
| Deposits  |    | 111,000   |
|   | \$ | 3,132,000 |

#### 6. ACCRUED PAYABLE - ROYALTY AUDIT

During 2002, the Company underwent a royalty audit which was conducted by the State of Louisiana. The audit covered the period from January 1, 1999 through December 31, 2001. The Company was notified during the fourth quarter of 2002 that the total amount to be paid as a result of the audit was \$492,000, including \$146,000 in penalties and interest. As a result of the Company paying the obligation in installments at December 31, 2004, the liability is \$121,000 and is classified as "Accrued payable - royalty audit" in the current liability section of the accompanying balance sheet.

#### 7. LONG-TERM DEBT

Long-term debt as of December 31, 2004 is as follows:

|   |    |                   |
|---|----|-------------------|
|   |    | December 31, 2004 |
| Building loans                              | \$ | 3,404,000         |
| Less - current maturities of long term debt |    | 205,000           |
| Debt reflected as long term                 | \$ | 3,199,000         |

Maturities of long-term debt as of December 31, 2004 are as follows:

|            |    |           |
|------------|----|-----------|
| 2005       | \$ | 205,000   |
| 2006       |    | 358,000   |
| 2007       |    | 121,000   |
| 2008       |    | 99,000    |
| 2009       |    | 101,000   |
| Thereafter |    | 2,520,000 |
| Total      | \$ | 3,404,000 |

#### Building Loans

The building loans include \$99,000 related to a building in Lafayette, Louisiana, purchased in 1996 to be used as the Company's Louisiana headquarters. This loan matures in February of 2008 and bears interest at the rate of 5.75%. In addition, in June 2004 the Company purchased the office building it occupies for \$3,700,000. The loans associated with this building mature in March of 2006 and June of 2011 and bear interest at the rate of 6% and 6.5%, respectively. All building loans require monthly interest and principal payments and are collateralized by the respective land and buildings.

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8. REVOLVING LINE OF CREDIT

The Company maintains a line of credit with Bank of Oklahoma, under which the Company may borrow up to \$2,300,000. Amounts borrowed under the line bear interest at Chase Manhattan Prime plus 1%, with payments of interest on outstanding balances due monthly. Any principal amounts borrowed under the line will be due on July 1, 2005. Subsequent to the rights offering described in Note 9, a portion of the proceeds were used to repay in full the outstanding principal balance of approximately \$2,200,000 on the Company's line of credit with the Bank of Oklahoma. As of December 31, 2004, no amounts were outstanding under this line.

9. COMMON STOCK OPTIONS, WARRANTS AND CHANGES IN CAPITALIZATION

Options

The Company sponsors the 1999 Stock Option Plan (the "Plan"), which is administered by the Compensation Committee (the "Committee") of the Board of Directors of the Company. Under the terms of the Plan, the Committee may determine: to which eligible participants options shall be granted, the number of shares covered by such options, the purchase price or exercise price of such options, the vesting period of such options and the exercisable period of such options. Eligible participants are defined as (i) all directors of the Company; (ii) all officers of the Company; and (iii) all key employees of the Company with a customary work week of at least 40 hours in the employ of the Company. The maximum number of shares for which options may be granted under the Plan, as adjusted for changes in capitalization which have taken place since the Plan's adoption, is 883,000.

The Company applies the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees*, in accounting for its stock options. SFAS No. 123, *Accounting for Stock-Based Compensation*, ("SFAS No. 123") established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123. Presented below is a summary of the status of stock options and related activity for the years ended December 31, 2004 and 2003:

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|  | Shares  | Weighted<br>Average<br>Exercise Price<br>per Share |
|--|---------|--|
| Options outstanding at December 31, 2002 | 627,337 | \$ 2.00  |
| Granted                                  | -       | -  |
| Exercised                                | -       | -  |
| Forfeited/expired                        | -       | -  |
| Options outstanding at December 31, 2003 | 627,337 | \$ 2.00  |
| Granted                                  | -       | -  |
| Exercised                                | -       | -  |
| Forfeited/expired                        | -       | -  |
| Options outstanding at December 31, 2004 | 627,337 | \$ 2.00  |

All options granted, exercised and outstanding have an exercise price of \$2.00.

Options outstanding at December 31, 2004 totaled 627,337. Of this total, 619,520 options were exercisable at December 31, 2004, with the remaining options vesting in 2005.

#### Warrants

In accordance with the origination of the note payable to Gulfport Funding in 2002 (and retired during 2002), the Company issued 108,625 warrants to CD Holdings, LLC. The exercise price of these warrants is \$1.19 and was based on the average closing price of the Company's common stock for the five days following the issuance of the warrants and adjusted for subsequent equity changes. The warrant agreement provided for pro rata adjustments to the number of warrants granted if the Company at any time increased the number of outstanding shares or otherwise adjusted its capitalization.

#### Private Placement Offering

In March 2002, the Company completed a private placement offering of 10,000 units. Each unit consisted of (i) one share of Cumulative Preferred Stock, Series A, of the Company (Preferred) and (ii) a warrant to purchase up to 250 shares of common stock, par value \$0.01 per share, of the Company. Holders of the Preferred are entitled to receive dividends at the rate of 12% of the liquidation preference per annum payable quarterly in cash or, at the option of the Company for all quarters ending on or prior to March 31, 2004, payable in whole or in part in additional shares of Preferred at the rate of 15% of the liquidation preference per annum. To the extent funds are legally available, the Company is obligated to declare and pay the dividends on the Preferred. The Preferred may be redeemed at any time for an amount per share equal to \$1,000 and all accrued and unpaid dividends thereon, whether or not declared or payable, and must be redeemed on March 29, 2007 for \$1,000 per share and all accrued and unpaid dividends thereon, whether or not declared or payable. Accordingly, the Preferred issued in connection with this Offering is treated as redeemable stock and a liability on the Company's balance sheet. The affirmative vote of at least two thirds of the votes entitled to be cast by holders of the Preferred is necessary for any amendment to the certificate of incorporation which (1) adversely affects the rights and privileges of the Preferred or (2) creates or authorizes an increase in any shares ranking senior to the Preferred or securities convertible into the foregoing. The Preferred cannot be sold or transferred by its holders, subject to certain exceptions.



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The 2,322,962 Warrants issued have a term of ten years and an exercise price of \$1.20 per share of common stock subject to adjustment. The Company granted to holders of the Warrants certain demand and piggyback registration rights with respect to shares of common stock issuable upon exercise of the warrants. The Company considered the valuation of these warrants and did not consider them materially significant.

#### 2004 Rights Offering

On August 2004, the Company completed a rights offering of common stock of 10,000,000 shares of its common stock at a subscription price of \$1.20 per share pursuant to a Registration Statement on Form SB-2, File No. 333-115396 and received net cash proceeds of approximately \$11.1 million from the rights offering after deducting offering expenses of approximately \$.12 million. In addition, CD Holding, one of the Company's principal stockholders, elected to apply the outstanding principal amount and accrued but unpaid interest in the amount of \$511,000 under its bridge loan to the Company to the subscription price payable by CD Holding upon exercise of the rights issued to it in the rights offering. CD Holding had agreed subject to certain conditions, to back-stop the rights offering for a commitment fee of 2% of the gross proceeds from the rights offering, which, at the option of CD Holding, was also applied to the subscription price payable upon exercise of the rights issued to it in the rights offering. The net cash proceeds from the rights offering were used to fund the Company's seismic and drilling programs at WCBB and East Hackberry Field and to repay in full the outstanding principal balance of approximately \$2,200,000 on the Company's line of credit with the Bank of Oklahoma.

Borrowings under the bridge loan from CD Holding were used to fund in part the Company's 2004 drilling program which commenced in July 2004 and were due on the earlier of the closing of the rights offering or August 1, 2005 and bore interest at the rate of 10.0% per annum. The credit facility provided that if the rights offering was not completed, CD Holding had the right to convert any borrowings plus any accrued but unpaid interest under the facility into shares of our common stock at a conversion price equal to the rights offering issue price per share. Under the credit facility, CD Holding had the option to apply the outstanding principal amount and any accrued but unpaid interest either (1) to the subscription price payable upon exercise of the rights issued to CD Holding in the rights offering, or (2) to the purchase price for the Common Stock.

#### 10. DIVIDENDS ON SERIES A PREFERRED STOCK

As discussed in Note 9, the Company may, at its option, accrue additional shares of Preferred Stock for the payment of dividends at a rate of 15% per annum rather than accrue cash dividends at a rate of 12% per annum during the initial two years following the closing date of its Offering which expired on March 31, 2004. Effective April 1, 2004, as a result of the amendment discussed below, the Company will continue to accrue additional shares of Preferred Stock for payment of dividends. As a result, the Company has issued additional shares totaling \$1,949,000 for the year ended December 31, 2004, related to the Preferred Stock Series A shares issued and outstanding during that time period. These dividends were calculated based upon the Preferred's \$1,000 per share redemptive value and are reflected as "Series A preferred stock" in the accompanying balance sheet. As a result of the adoption of SFAS 150, the dividends issued as additional shares for the years ended December 31, 2004 and 2003, are shown as "Interest expense - preferred stock" in the accompanying statement of operations.



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In April 2004, the Board of Directors of the Company approved and the Company received the consent of holders of the requisite number of shares of capital stock to amend the Company's Certificate of Designation with respect to the Series A preferred stock to give the Company the ability to pay dividends on the Series A preferred stock with additional shares of Series A preferred stock after March 31, 2004, for so long as such shares remain outstanding and prior to the mandatory redemption date.

#### 11. FAIR VALUE OF FINANCIAL INSTRUMENTS

All financial instruments carried as assets and liabilities on the accompanying balance sheet at December 31, 2004 are carried at cost, which approximates market value. The outstanding shares of Series A preferred stock have been stated on the accompanying balance sheet at their redemptive value of \$1,000 per share.

#### 12. INCOME TAXES

A reconciliation of the statutory federal income tax amount to the recorded expense follows:

|                                       | 2004         | 2003       |
|---------------------------------------|--------------|------------|
| Income before federal income taxes    | \$ 4,304,000 | \$ 349,000 |
| Expected income tax at statutory rate | 1,463,000    | 119,000    |
| Interest expense not tax deductible   | 780,000      | 350,000    |
| State income taxes                    | 258,000      | 21,000     |
| Changes in valuation allowance        | (2,501,000)  | (490,000)  |
| Income tax expense recorded           | \$ -         | \$ -       |

The tax effects of temporary differences and net operating loss carryforwards, which give rise to deferred tax assets at December 31, 2004 are estimated as follows:

|                                       | 2004          | 2003          |
|---------------------------------------|---------------|---------------|
| Net operating loss carryforward       | \$ 39,700,000 | \$ 39,349,000 |
| Oil and gas property basis difference | 1,758,000     | 5,564,000     |
| Total deferred tax asset              | 41,458,000    | 44,913,000    |
| Valuation allowance                   | (41,458,000)  | (44,913,000)  |
| Net deferred tax asset (liability)    | \$ -          | \$ -          |

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The Company has an available tax net operating loss carry forward estimated at approximately \$99,251,000 as of December 31, 2004. This carryforward will begin to expire in the year 2013. A valuation allowance has been provided at December 31, 2004 and 2003 because it is management's belief, based upon the Company's past history of no taxable income, it is more likely than not the tax assets will not be realized.

### 13. NET INCOME (LOSS) PER COMMON SHARE

A reconciliation of the components of basic and diluted net income (loss) per common share is presented in the table below:

|  | 2004         |            |           | 2003         |            |           |
|--|--------------|------------|-----------|--------------|------------|-----------|
|  | Income       | Shares     | Per Share | Income       | Shares     | Per Share |
| Income before effect of change in accounting principle | \$ 4,304,000 |            |           | \$ 349,000   |            |           |
| Less: preferred stock dividends                        | -            |            |           | (838,000)    |            |           |
|  | 4,304,000    | 13,790,402 | \$ 0.31   | (489,000)    | 10,146,566 | \$ (0.05) |
| Effect of change in accounting principle               | -            | 13,790,402 | -         | 270,000      | 10,146,566 | 0.03      |
|  | \$ 4,304,000 |            | \$ 0.31   | \$ (219,000) |            | \$ (0.02) |
| Effect of diluted securities                           |              |            |           |              |            |           |
| Stock options and warrants                             |              | 1,619,213  |           |              | 183,699    |           |
| Income before effect of change in accounting principle | \$ 4,304,000 |            |           | \$ 349,000   |            |           |
| Less: preferred stock dividends                        | -            |            |           | (838,000)    |            |           |
|  | 4,304,000    | 15,409,615 | \$ 0.28   | (489,000)    | 10,330,265 | \$ (0.05) |
| Effect of change in accounting principle               | -            | 15,409,615 | -         | 270,000      | 10,330,265 | 0.03      |
|  | \$ 4,304,000 |            | \$ 0.28   | \$ (219,000) |            | \$ (0.02) |

The Company recorded a net loss from continuing operations after preferred stock dividends for the year ended December 31, 2003. Due to this, inclusion of potentially dilutive shares in the computation of dilutive earnings per share would be anti-dilutive.

14. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company conducts business activities with certain affiliates of its significant shareholder.

DLB Oil & Gas, Inc. ("DLB") and Wexford Management LLC ("Wexford") were, along with Gulfport, co-proponents in a 1997 plan of reorganization of the Company. During April of 1998, DLB distributed all of its shares in the Company to its shareholders prior to DLB's acquisition by Chesapeake Energy Corporation. As a result of this distribution, Charles Davidson, Mike Liddell and Mark Liddell collectively received 37.5% of the Company's stock. As of December 31, 2004, Wexford and its affiliates, including Charles Davidson, owned approximately 61.2% of Gulfport's issued and outstanding common stock. Mike Liddell and the Estate of Mark Liddell own collectively 10.1% of the Company's outstanding common stock as of December 31, 2004.

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Certain personnel of the Company perform management and administrative services for affiliate companies. The Company is reimbursed for the salaries and benefits of these individuals based on the estimated time spent on those affiliates compared to time spent on the Company. For the years ended December 31, 2004 and 2003, expenses reimbursed to the Company under this arrangement and reflected as a reduction to general and administrative expense were \$2,146,000 and \$765,000, respectively.

## 15. COMMITMENTS

### Plugging and Abandonment Funds

In connection with the acquisition of the remaining 50% interest in the WCBB properties, the Company assumed the obligation to contribute approximately \$18,000 per month through March, 2004, to a plugging and abandonment trust and the obligation to plug a minimum of 20 wells per year for 20 years commencing March 11, 1997. ChevronTexaco retained a security interest in production from these properties until abandonment obligations to ChevronTexaco have been fulfilled. Beginning in 2007, the Company can access it for use in plugging and abandonment charges associated with the property. As of December 31, 2004, the plugging and abandonment trust totaled approximately \$2,821,000, including interest received during 2004 of approximately \$17,000. The Company has plugged 154 wells at WCBB since it began its plugging program in 1997 which management believes fulfills its minimum plugging obligation through March 31, 2005.

### Texaco Global Settlement

Pursuant to the terms of a global settlement between Texaco and the State of Louisiana which includes the State Lease No. 50 portion of Gulfport's East Hackberry Field, Gulfport was obligated to commence drilling a well or other qualifying development operation on certain non-producing acreage in the field prior to March 1998. Because of prevailing market conditions during 1998, the Company believed it was commercially impractical to shoot seismic or commence drilling operations on the subject property. As a result, Gulfport has agreed to surrender approximately 440 non-producing acres in this field to the State of Louisiana. At December 31, 2004, Gulfport was in the process of releasing these properties to the State of Louisiana.

### Contributions to 401(k) Plan

Gulfport sponsors a 401(k) and Profit Sharing plan under which eligible employees may contribute up to 15% of their total compensation through salary deferrals. Also under these plans, the Company will make a contribution each calendar year on behalf of each employee equal to at least 3% of his or her salary, regardless of the employee's participation in salary deferrals. During the years ended December 31, 2004 and 2003, Gulfport incurred \$90,000 and \$71,000, respectively, in contributions expense related to this plan.

### Employment Agreement

At December 31, 2004, Gulfport has an employment agreement with its Chief Executive Officer. This agreement expires June 1, 2005, and calls for an annual salary of \$200,000, which may be adjusted for cost of living increases.

## 16. CONTINGENCIES

### Litigation Matters

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The Company has been named as a defendant on various litigation matters. The ultimate resolution of these matters is not expected to have a material adverse effect on the Company's financial condition or results of operations for the periods presented in the financial statements.

#### Concentration of Credit Risk

Gulfport operates in the oil and gas industry principally in the state of Louisiana with sales to refineries, re-sellers such as pipeline companies, and local distribution companies. While certain of these customers are affected by periodic downturns in the economy in general or in their specific segment of the oil and gas industry, Gulfport believes that its level of credit-related losses due to such economic fluctuations has been immaterial and will continue to be immaterial to the Company's results of operations in the long term.

The Company maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2004, Gulfport held cash in excess of insured limits in these banks totaling \$7,442,000.

During the year ended December 31, 2004, approximately 99% of Gulfport's revenues from oil and gas sales were attributable to two purchasers: Shell Trading Company, Chevron Texaco and Apache Corporation. During the year ended December 31, 2003, approximately 99% of Gulfport's revenues from oil and gas sales were attributable to Shell Trading Company, Apache Corporation, and ChevronTexaco.

#### 17. LITIGATION TRUST ENTITY

Pursuant to the Company's 1997 plan of reorganization, all of Gulfport's possible causes of action against third parties (with the exception of certain litigation related to recovery of marine and rig equipment assets and claims against Tri-Deck), existing as of the effective date of that plan, were transferred into a "Litigation Trust" controlled by an independent party for the benefit of most of the Company's existing unsecured creditors. The litigation related to recovery of marine and rig equipment and the Tri-Deck claims were subsequently transferred to the Litigation Trust as described below.

The Litigation Trust was funded by a \$3,000,000 cash payment from the Company, which was made on the effective date of reorganization. Gulfport owns a 12% interest in the Litigation Trust with the other 88% being owned by the former general unsecured creditors of Gulfport. For financial statement reporting purposes, Gulfport has not recognized the potential value of recoveries which may ultimately be obtained, if any, as a result of the actions of the Litigation Trust, treating the entire \$3,000,000 payment as a reorganization cost at the time of Gulfport's reorganization.

On January 20, 1998, Gulfport and the Litigation Trust entered into a Clarification Agreement whereby the rights to pursue various claims reserved by Gulfport under the plan of reorganization were assigned to the Litigation Trust. In connection with this agreement, the Litigation Trust agreed to reimburse the Company \$100,000 for legal fees Gulfport had incurred in connection with these claims. As additional consideration for the contribution of this claim to the Litigation Trust, Gulfport is entitled to 20% to 80% of the net proceeds from these claims.

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No proceeds were received from the Litigation Trust for the years ended December 31, 2004 and 2003.

18. RECENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 143

On January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"), which requires the Company to record a liability equal to the fair value of the estimated cost to retire an asset. The asset retirement liability is recorded in the period in which the obligation meets the definition of a liability, which is generally when the asset is placed into service. When the liability is initially recorded, the Company will increase the carrying amount of the related long-lived asset by an amount equal to the original liability. The liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related long-lived asset. The accretion of the asset retirement obligation resulted in an expense of \$490,000 and \$393,000 for the years ended December 31, 2004, and 2003, as shown in the accompanying statement of operations. Upon settlement of the liability or the sale of the well, the liability is reversed. The asset retirement obligation is based on a number of assumptions requiring professional judgment. The Company cannot predict the type of revisions to these assumptions that will be required in future periods due to the availability of additional information, including prices for oil field services, technological changes, governmental requirements and other factors. Upon adoption of SFAS No. 143, the Company recorded a net benefit of \$270,000 as the cumulative effect of a change in accounting principle. The non-cash transition adjustment increased oil and natural gas properties and asset retirement obligations by \$7.59 million and \$7.37 million, respectively, and decreased accumulated depreciation by \$50,000.

SFAS No. 150

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or as an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 is generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company has recorded a liability related to the Series A Preferred Stock of \$14,020,000. Previously, the Series A Preferred Stock had been classified on the balance sheet between total liabilities and equity. This amount represents the 14,020 preferred shares issued and outstanding as of December 31, 2004, at the redemption and liquidation value of \$1,000 per share. In the opinion of management, the \$1,000 per share redemption and liquidation value approximates fair value. The shares are mandatorily redeemable on the fifth anniversary of the first issuance of Series A Preferred Stock.

19. SUBSEQUENT EVENTS

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- Sale of Common Stock - On February 17, 2005, the Company entered into a stock purchase agreement with certain accredited investors providing for the issuance by the Company of an aggregate of 2,000,000 shares of the Company's common stock at a price of \$3.50 per share for gross proceeds to the Company of \$7,000,000. On February 22, 2005 the Company entered into another stock purchase agreement with certain other accredited investors providing for the issuance by the Company of an aggregate of 2,000,000 shares of the Company's common stock at a price of \$3.50 per share for gross proceeds to the Company of \$7,000,000. The transactions closed effective as of February 18, 2005 and February 23, 2005, respectively. The Company has agreed to file, within 60 days of the closing date, a registration statement on Form S-3 (the "Shelf Registration Statement") with respect to the resale of the shares of common stock purchased by the investors in the private placements. The Company also granted certain piggy-back registration rights to the investors. No underwriting discounts or commissions were paid in conjunction with the issuances.
- Redemption of Preferred Stock - On February 23, 2005, the holders of warrants to purchase 7,336,687 shares of the Company's common stock exercised their warrants for an exercise price of \$1.19 per share resulting in gross proceeds to the Company of \$8.7 million. No underwriting discounts or commissions were paid in conjunction with the issuances. On February 23, 2005, the Company used the proceeds from the exercise of the warrants, along with a portion of the proceeds from the sale of common stock, to redeem 12,502 shares of the 14,271 shares of the Company's outstanding Series A preferred stock for an aggregate of \$12.5 million, including accrued but unpaid dividends. After the sale of the common stock, the exercise of the warrants and the redemption of the preferred stock, Gulfport received net proceeds of \$10.2 million. Gulfport intends to use these net proceeds, together with the cash-on-hand of approximately \$5.0 million, cash from operations and, as necessary, borrowings under its credit facility, to redeem, all or in part, the remaining outstanding shares of preferred stock, execute the Company's 2005 drilling program and explore and undertake acquisitions if attractive opportunities become available.

20. SUPPLEMENTAL INFORMATION ON OIL AND GAS EXPLORATION AND PRODUCTION ACTIVITIES

The following is historical revenue and cost information relating to the Company's oil and gas operations located entirely in the southeastern United States:



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## Capitalized Costs Related to Oil and Gas Producing Activities

|  |    | <b>2004</b>  |
|--|----|--------------|
| Proven Properties  | \$ | 139,366,000  |
| Accumulated depreciation, depletion<br>amortization and impairment reserve |    | (80,847,000) |
| Proven properties, net   | \$ | 58,519,000   |

## Costs Incurred in Oil and Gas Property Acquisition and Development Activities

|   |    | <b>2004</b> |    | <b>2003</b> |
|---|----|-------------|----|-------------|
| Acquisition                                     | \$ | -           | \$ | -           |
| Development of Proved<br>Undeveloped Properties |    | 8,994,000   |    | 6,320,000   |
| Exploratory                                     |    | -           |    | -           |
| Recompletions/Workovers                         |    | 2,166,000   |    | 3,825,000   |
| Capitalized Asset Retirement Obligation         |    | 92,000      |    |             |
| Total   | \$ | 11,252,000  | \$ | 10,145,000  |

## Results of Operations for Producing Activities

The following schedule sets forth the revenues and expenses related to the production and sale of oil and gas. The income tax expense is calculated by applying the current statutory tax rates to the revenues after deducting costs, which include depreciation, depletion and amortization allowances, after giving effect to the permanent differences. The results of operations exclude general office overhead and interest expense attributable to oil and gas production.

|  |    | <b>2004</b> |    | <b>2003</b> |
|--|----|-------------|----|-------------|
| Revenues   | \$ | 23,071,000  | \$ | 15,809,000  |
| Production costs                                   |    | (9,215,000) |    | (7,768,000) |
| Depletion  |    | (4,689,000) |    | (4,421,000) |
|  |    | 9,167,000   |    | 3,620,000   |
| Income tax expense                                 |    |             |    |             |
| Current  |    | 3,667,000   |    | 1,448,000   |
| Deferred   |    | (3,667,000) |    | (1,448,000) |
| -  |    |             |    | -           |
| Results of operations<br>from producing activities | \$ | 9,167,000   | \$ | 3,620,000   |



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## Oil and Gas Reserves (Unaudited)

The following table presents estimated volumes of proven and proven undeveloped oil and gas reserves as of December 31, 2004 and 2003 and changes in proven reserves during the last two years, assuming continuation of economic conditions prevailing at the end of each year. Volumes for oil are stated in thousands of barrels (MBbls) and volumes for gas are stated in millions of cubic feet (MMCF). The weighted average prices at December 31, 2004 used for reserve report purposes are \$40.25 and \$6.18, adjusted by lease for transportation fees and regional price differentials, fixed price contracts, and for oil and gas reserves, respectively.

Gulfport emphasizes that the volumes of reserves shown below are estimates which, by their nature, are subject to revision. The estimates are made using all available geological and reservoir data, as well as production performance data. These estimates are reviewed annually and revised, either upward or downward, as warranted by additional performance data.

|  | <b>2004</b> |        | <b>2003</b> |         |
|--|-------------|--------|-------------|---------|
|  | Oil         | Gas    | Oil         | Gas     |
| Proven Reserves                            |             |        |             |         |
| Beginning of the period                    | 19,883      | 13,525 | 23,005      | 18,510  |
| Purchases in oil and gas reserves in place | -           | -      | 377         | 555     |
| Revisions of prior reserve estimates       | 1,606       | 9,921  | (2,928)     | (5,417) |
| Current production                         | (584)       | (284)  | (571)       | (123)   |
| End of period                              | 20,905      | 23,162 | 19,883      | 13,525  |
| Proven developed reserves                  | 4,633       | 4,635  | 1,790       | 1,258   |

## Discounted Future Net Cash Flows (Unaudited)

Estimates of future net cash flows from proven oil and gas reserves were made in accordance with SFAS No. 69, "Disclosures about Oil and Gas Producing activities." The following tables present the estimated future cash flows, and changes therein, from Gulfport's proven oil and gas reserves as of December 31, 2004 and 2003, assuming continuation of economic conditions prevailing at the end of each year.

## Standardized Measure of Discounted Future Net Cash Flows Relating to Proven Oil and Gas Reserves

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|  | <b>Year ended December 31,</b> |                |
|--|--------------------------------|----------------|
|  | <b>2004</b>                    | <b>2003</b>    |
| Future cash flows  | \$ 1,042,272,000               | \$ 715,751,000 |
| Future development costs                                 | (128,689,000)                  | (128,487,000)  |
| Future production costs                                  | (147,792,000)                  | (104,677,000)  |
| Future production taxes                                  | (134,506,000)                  | (81,866,000)   |
| Future income taxes                                      | (123,511,000)                  | (40,307,000)   |
| <br>   |                                |                |
| Future net cash flows before income taxes                | 507,774,000                    | 360,414,000    |
| 10% discount to reflect timing of cash flows             | (206,727,000)                  | (166,405,000)  |
| <br>   |                                |                |
| Standardized measure of discounted future net cash flows | \$ 301,047,000                 | \$ 194,009,000 |

In order to develop its proved undeveloped reserves according to the drilling schedule used by the engineers in Gulfport's reserve report, the Company will need to spend \$9,456,000, \$21,268,000 and \$15,687,000 during years 2005, 2006 and 2007 respectively.

Changes in Standardized Measure of Discounted Future Net Cash Flows Relating to Proven Oil and Gas Reserves

|   | <b>Year ended December 31,</b> |                 |
|---|--------------------------------|-----------------|
|   | <b>2004</b>                    | <b>2003</b>     |
| Sales and transfers of oil and gas produced, net of production costs        | \$ (13,856,000)                | \$ (8,041,000)  |
| Net changes in prices and production costs                                  | 91,119,000                     | 6,146,000       |
| Acquisition of oil and gas reserves in place, less related production costs | -                              | 15,340,000      |
| Revisions of previous quantity estimates, less related production costs     | 40,042,000                     | (36,210,000)    |
| Accretion of discount   | 20,954,000                     | 24,553,000      |
| Net changes in income taxes   | (44,965,000)                   | 18,764,000      |
| Other   | 13,744,000                     | (37,581,000)    |
| <br>  |                                |                 |
| Total change in standardized measure of discounted future net cash flows    | \$ 107,038,000                 | \$ (17,029,000) |

The standardized measure includes a deduction of \$2,410,000 from the P.W. 10% value of the reserves to reflect the cumulative effect of fixed price contracts in place at year-end for future periods as calculated at the time of the reserve report using year-end SEC pricing.

Comparison of Standardized Measure of Discounted Future Net Cash Flows to the Net Carrying Value of Proven Oil and Gas Properties at December 31, 2004 is as follows:



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|   | <b>2004</b>    | <b>2003</b>    |
|---|----------------|----------------|
| Standardized measure of discounted future and net cash flows  | \$ 301,047,000 | \$ 194,009,000 |
| Proven oil and gas properties   | 139,366,000    | 127,991,000    |
| Less accumulated depreciation, depletion, amortization and impairment reserve   | (80,847,000)   | (76,158,000)   |
| Net carrying value of proven oil and gas properties   | 58,519,000     | 51,833,000     |
| Standardized measure of discounted future net cash flows in excess of net carrying value of proven oil and gas properties | \$ 242,528,000 | \$ 142,176,000 |

