EMPIRE PETROLEUM CORP
Form 10-Q
October 31, 2014

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

FORM 10-Q

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

For the quarterly period ended: September 30, 2014

or

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

For the transition period from: _____________ to _____________

EMPIRE PETROLEUM CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes S No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

The number of shares outstanding of the issuer’s common stock, as of October 31, 2014 was 7,630,609.

EMPIRE PETROLEUM CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

EMPIRE PETROLEUM CORPORATION

BALANCE SHEETS

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 216	$ 2,926
Accounts receivable	67	0
Prepaid expenses and other current assets	3,300	2,200
Total current assets	3,583	5,126
Property and equipment less accumulated depreciation and depletion	191,715	223,465
Total assets	$ 195,298	$ 228,591
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 2,963	$ 572
Notes payable – related party	148,300	91,580
Total current liabilities	151,263	92,152
Stockholders' equity:		
Common stock - $.001 par value		
authorized 150,000,000 shares,		
issued and outstanding 7,630,609 shares	7,630	7,630
Additional paid in capital	14,704,033	14,616,533
Accumulated deficit	(14,667,628)	(14,487,724)
Total stockholders' equity	44,035	136,439
Total liabilities and stockholders' equity	$ 195,298	$ 228,591

See accompanying notes to unaudited financial statements

EMPIRE PETROLEUM CORPORATION

STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue:				
Petroleum sales	$0	$0	$0	$ 0
Costs and expenses:				
Lease abandonment expense	31,750	0	31,750	0
Production and operating	12,082	13,347	17,005	20,535
General and administrative	33,436	43,141	127,998	150,541
	77,268	56,488	176,753	171,076
Operating loss	(77,268)	(56,488)	(176,753)	(171,076)
Other expense:				
Interest expense	(1,300)	0	(3,151)	0
Total other expense	(1,300)	0	(3,151)	0
Net loss	$(78,568)	$(56,488)	$(179,904)	$(171,076)
Net loss per common share, basic & diluted	$(0.01)	$(0.01)	$(0.02)	$(0.02)
Weighted average number of common shares outstanding basic and diluted	7,630,609	7,630,374	7,630,609	7,630,374

See accompanying notes to unaudited financial statements

EMPIRE PETROLEUM CORPORATION

STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended September 30, 2014	September 30, 2013
Cash flows from operating activities:		
Net loss	$(179,904)	$(171,076)
Adjustments to reconcile net loss to net cash used in operating activities:		
Value of services contributed by employee	37,500	37,500
Lease abandonment	31,750	0
Change in operating assets and liabilities:		
Accounts receivable and other assets	(67)	70,488
Prepaid expenses and other current assets	(1,100)	(1,100)
Accounts payable and accrued liabilities	2,391	(9,588)
Net cash used in operating activities	(109,430)	(73,776)
Cash flows from financing activities:		
Proceeds from call option agreement	50,000	0
Proceeds from related party notes payable	56,720	56,000
Net cash from financing activities	106,720	56,000
Net change in cash	(2,710)	(17,776)
Cash - Beginning of period	2,926	20,766
Cash - End of period	$216	$2,990

See accompanying notes to unaudited financial statements 0

EMPIRE PETROLEUM CORPORATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

(UNAUDITED)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES:

The accompanying unaudited financial statements of Empire Petroleum Corporation ("Empire" or the "Company") have been prepared in accordance with United States generally accepted accounting principles for interim financial information and the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the Company's financial position, the results of operations, and the cash flows for the interim period are included. All adjustments are of a normal, recurring nature. Operating results for the interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

The information contained in this Form 10-Q should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2013 which are contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 3, 2014.

The Company has incurred significant losses in recent years. The continuation of the Company as a going concern is dependent upon the ability of the Company to attain future profitable operations and/or additional debt or equity financing until profitable operations are achieved. These financial statements have been prepared on the basis of United States generally accepted accounting principles applicable to a company with continuing operations, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations. Management believes the going concern assumption to be appropriate for these financial statements. If the going concern assumption were not appropriate for these financial statements, then adjustments might be necessary to adjust the carrying value of assets and liabilities and reported expenses.

The Company continues to seek partners to help it explore and develop its oil and gas interests. The ultimate recoverability of the Company's investment in its oil and gas interests is dependent upon the existence and discovery of economically recoverable oil and gas reserves, confirmation of the Company's interest in the oil and gas interests, the ability of the Company to obtain necessary financing to further develop the interests, and the ability of the Company to attain future profitable production.

As of September 30, 2014, the Company had $216 of cash on hand. In order to sustain the Company's operations on a long-term basis, the Company continues to look for merger opportunities and consider public or private financings.

Reverse Stock Split

The share and per share information for the prior periods has been retroactively adjusted to reflect the August 12, 2013 one-for-twelve reverse stock split described in Note 3.

Compensation of Officers and Employees

The Company's only executive officer serves without pay or other compensation. The fair value of these services is estimated by management and is recognized as a capital contribution. For the nine months ended September 30, 2014, the Company recorded $37,500 as a capital contribution by its executive officer who is a stockholder.

Fair Value Measurements

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

2. PROPERTY AND EQUIPMENT:

GABBS VALLEY PROSPECT

The Company has an interest in 34,186 gross acres of federal oil and gas leases on the Gabbs Valley Prospect in Western Nevada. The leases renew beginning in November 2014 through September 2015. Since 2003, the Company has conducted extensive geological studies, conducted a seismic survey, carried out a geochemical imaging survey, conducted satellite and gravity studies and drilled two test wells.

Both test wells had significant oil shows. The second test well resulted in a small oil discovery, however the Company deemed it non-commercial and elected to abandon it. One of the co-owners of the leases elected to take over the well and make further tests. The co-owner secured other parties to conduct such tests. Well completion equipment was installed and further production testing was carried out, however as of September 30, 2014, to the Company's knowledge, commercial production has not been established. It is the Company's understanding that further testing is being carried out, but no results have been reported. Empire does feel the prospect has considerable geological merit since the primary target, being the Triassic formation, was not reached in either of the two test wells. Empire has entered into a call option agreement with the owners of the lease on which the two test wells were drilled. See Note 3.

SOUTH OKIE PROSPECT

In 2009, the Company originally purchased 2,630 net acres of oil and gas leases known as the South Okie Prospect in Natrona County, Wyoming. The Tensleep Sand at depths from 3,300 feet to 4,500 feet is the primary target. As of December 31, 2009, the Company acquired 11 miles of seismic data and studies of this data were completed in early January 2010. An additional geological study was also completed in early January 2010. On September 10, 2014, the Company re-assigned the aforementioned leases to the original owner, Viking Exploration, LLC as required by the corresponding Option to Purchase Agreement, since the Company had not drilled a well on the site.

3. EQUITY

Diluted Earnings per Share ("EPS") gives effect to all dilutive potential common shares outstanding during the period. The computation of Diluted EPS does not assume conversion, exercise or contingent exercise of securities that would have an anti-dilutive effect on losses. As a result, if there is a loss from continuing operations, Diluted EPS is computed in the same manner as Basic EPS. At September 30, 2014 and 2013, the Company had, respectively, 60,417 and 103,750 post-split options outstanding, that were not included in the calculation of earnings per share for the periods then ended. Such financial instruments may become dilutive and would then need to be included in future calculations of Diluted EPS. At September 30, 2014 and 2013, the outstanding options were considered anti-dilutive since the strike prices were above the market price and since the Company has incurred losses year to date.

On December 11, 2012, the Company entered in a note conversion agreement with the Albert E. Whitehead Living Trust (the "Whitehead Trust"). Pursuant to the note conversion agreement, on December 11, 2012, the Company converted $300,013 in debt owed by the Company to the Whitehead Trust into shares of Common Stock at a conversion rate of $0.60 per share (post-split), resulting in the issuance of 500,021 shares (6,000,250 pre-split shares) of Common Stock to the Whitehead Trust. Upon the issuance of such shares, such debt owed by the Company to the Whitehead Trust was deemed paid in full and certain notes issued by the Company and the other obligations relating to such debt were terminated. Albert E. Whitehead, the Chief Executive Officer of the Company and Chairman of its

Board of Directors, is the trustee of the Whitehead Trust.

At the Company’s annual shareholders meeting on July 10, 2013, shareholders approved a proposal to allow the Company’s Board of Directors to authorize a one-for-twelve reverse stock split. The Board of Directors approved the reverse stock split on July 29, 2013 which became effective August 12, 2013. The reverse split did not change the authorized number of shares of Common Stock of the Company or the par value of the Common Stock.

On March 4, 2014, Empire, Albert E. Whitehead and Sierra Nevada Oil LLC (“Sierra”) entered into a Call Option Agreement (the “Call Option Agreement”). The Call Option Agreement provided Sierra with a call option to purchase 4,000,000 shares of common stock of the Company at a price of (i) $0.25 per share or an aggregate of $1,000,000, less (ii) the $50,000 paid by Sierra to the Company as consideration for the Call Option Agreement. The Call Option Agreement also provided that, if the Call Option is exercised by Sierra, Albert E. Whitehead, the Company’s Chief Executive Officer and the Chairman of the Company’s Board of Directors, would take commercially reasonable efforts to cause the current members of the Company’s Board of Directors, Albert E. Whitehead, Montague H. Hackett, Jr. and Kevin R. Seth, to resign from the Company’s Board of Directors and three of Sierra’s designees to be appointed to the Company’s Board of Directors.

On June 27, 2014, the parties to the Call Option Agreement agreed to extend the date by which Sierra may exercise the call option to September 1, 2014. The call option was not exercised by September 1, 2014 therefore expired.

4. RELATED PARTY TRANSACTIONS

In 2014, Albert E. Whitehead, the Company’s Chief Executive Officer, has further advanced the Company $56,720 bringing the principal amount of the Company’s Notes Payable – Related Party to $148,300 plus accrued interest in the amount of $3,151 as of September 30, 2014.

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

RESULTS OF OPERATIONS

GENERAL TO ALL PERIODS

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

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2014 COMPARED TO THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2013.

Lease abandonment expense increased by $31,750 for the three months ended September 30, 2014 from $0 in 2013. The increase was due to the re-assignment by the Company of the South Okie leases in 2014.

Production and operating expenses decreased by $1,265 to $12,082 for the three months ended September 30, 2014, from $13,347 for the same period in 2013. The decrease was due to an analysis of the Okie Draw prospect in 2013 which did not occur in 2014.

General and administrative expenses decreased by $9,705 to $33,436 for the three months ended September 30, 2014, from $43,141 for the same period in 2013. General and administrative expenses were higher for the three months ended September 30, 2013 primarily due to legal costs and other costs related to the Company’s annual meeting and reverse stock split in 2013.

There was no depreciation expense attributable to the three months ended September 30, 2014 or September 30, 2013 because the depreciable assets were fully depreciated.

Interest expense increased by $1,300 for the three months ended September 30, 2014 from $0 for the same period in 2013. The increase was due to interest on the note payable to the Company’s CEO.

For the reasons discussed above, net loss increased by $22,080 from $(56,488) for the three months ended September 30, 2013, to $(78,568) for the three months ended September 30, 2014.

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2014 COMPARED TO NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013.

Lease abandonment expense increased by $31,750 for the three months ended September 30, 2014 from $0 in 2013. The increase was due to the re-assignment by the Company of the South Okie leases in 2014.

Production and operating expenses decreased $3,530 to $17,005 for the nine months ended September 30, 2014, from $20,535 for the same period in 2013. The decrease was due to an analysis of the Okie Draw prospect in 2013 which did not occur in 2014.

General and administrative expenses decreased by $22,543 to $127,998 for the nine months ended September 30, 2014, from $150,541 for the same period in 2013. General and administrative expenses were higher for the nine months ended September 30, 2013 primarily due to legal costs and other costs related to the Company’s annual meeting and reverse stock split in 2013.

There was no depreciation expense attributable to the nine months ended September 30, 2014 or September 30, 2013 because the depreciable assets were fully depreciated.

Interest expense was $3,151 for the nine months ended September 30, 2014 from $0 for the same period in 2013. The increase was due to interest on the note payable to the Company’s CEO.

For the reasons discussed above, net loss increased $8,828 from $(171,076) for the nine months ended September 30, 2013, to $(179,904) for the nine months ended September 30, 2014.

RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board (“FASB”) periodically issues new accounting standards in a continuing effort to improve standards of financial accounting and reporting. The Company has reviewed the recently issued pronouncements and no new accounting standards have been adopted since the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 was filed with the SEC.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

As of September 30, 2014, the Company had $216 of cash on hand. The Company believes that its cash on hand and further loans from the Whitehead Trust will allow it to finance its operations for the next six months. However, in order to sustain the Company's operations on a long term basis the Company will consider control sales or merger opportunities.

OUTLOOK

As stated elsewhere in this Form 10-Q, the Company has conducted extensive geological studies, conducted a seismic survey, carried out a geochemical imaging survey, conducted satellite and gravity studies and drilled two test wells on its Gabbs Valley Prospect. The federal oil and gas leases have a renewal period beginning in November 2014 through September 2015. The additional studies of such data, as well as, the assistance of geological and engineering consultants led the Company to determine that further drilling was warranted. It was determined that a new test well should be drilled using a different method of drilling.

The Company drilled the Paradise Unit 2-12 well to a depth of 4,250 feet before drilling problems caused the Company to cease drilling. The Company recovered small amounts of oil containing paraffin, which may have been restricting the oil flow. However, swab tests failed to increase the oil flow and the Company suspended operations on the well and assigned the lease and the 1-12 and 2-12 wells to the other leasehold owners from which the Company had taken a farmout. The new owners secured other parties to conduct such tests. Well completion equipment was installed and further production testing was carried out, however as of September 30, 2014, to the Company's knowledge, commercial production has not been established. It is the Company's understanding that further testing is being carried out, but we are not privy to the results. Empire does feel the prospect has considerable geological merit since the primary target, being the Triassic formation, was not reached in either of the two test wells.

On March 4, 2014, the Company, Albert E. Whitehead and Sierra Nevada Oil LLC ("Sierra") entered into a Call Option Agreement (the "Call Option Agreement"). The Call Option Agreement provided Sierra with a call option (the "Call Option") to purchase 4,000,000 shares of common stock of the Company at a price of (i) $0.25 per share or an aggregate of $1,000,000, less (ii) the $50,000 paid by Sierra to the Company as consideration for the Call Option Agreement. The Call Option Agreement also provided that, if the Call Option is exercised by Sierra, Albert E. Whitehead, the Company's Chief Executive Officer and the Chairman of the Company's Board of Directors, would take commercially reasonable efforts to cause the current members of the Company's Board of Directors, Albert E. Whitehead, Montague H. Hackett, Jr. and Kevin R. Seth, to resign from the Company's Board of Directors and three of Sierra's designees to be appointed to the Company's Board of Directors.

On June 27, 2014, the parties to the Call Option Agreement agreed to extend the date by which Sierra may exercise the option to September 1, 2014. This call option was not exercised by September 1, 2014 and therefore expired.

MATERIAL RISKS

The Company has incurred significant losses from operations and there is no assurance that it will achieve profitability or obtain the funds necessary to finance continued operations. For other material risks, see the Company's Form 10-K for the period ended December 31, 2013, which was filed on March 3, 2014.

FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q, including this section, includes certain statements that may be deemed "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are made in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, that address activities, events or developments that the Company expects, believes or anticipates will or may occur in the future, including future sources of financing and other possible business developments, are forward-looking statements. Such statements are subject to a number of assumptions, risks and uncertainties and could be affected by a number of different factors, including the Company's failure to secure short and long-term financing necessary to sustain and grow its operations, increased competition, changes in the markets in which the Company participates and the technology utilized by the Company and new legislation regarding environmental matters. These risks and other risks that could affect the Company's business are more fully described in reports it files with the SEC, including its Form 10-K for the fiscal year ended December 31, 2013. Actual results may vary materially from the forward-looking statements.

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Item 4. CONTROLS AND PROCEDURES

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Not applicable.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

EMPIRE PETROLEUM CORPORATION

SIGNATURES

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

EMPIRE PETROLEUM CORPORATION

October 31, 2014 By: /s/ Albert E. Whitehead
Albert E. Whitehead
Chairman, Chief Executive
Officer and Principal

Financial Officer

EXHIBIT INDEX

NO.	DESCRIPTION
31	Certification of Chief Executive Officer (and principal financial officer) pursuant to Rules 13a - 14 (a) and 15(d) - 14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(1) (31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (submitted herewith).
32	Certification of Chief Executive Officer (and principal financial officer) pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (submitted herewith).
101	Financial Statements for XBRL format (submitted herewith).