EMPIRE PETROLEUM CORP
Form 10QSB
May 15, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-QSB

(Mark One)

[X] Quarterly Report Under Section 13 OR 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2007

[ ] Transition Report Under Section 13 or 15(d) of the Exchange Act

For the transition period from _______________to________________

Commission file number 001-16653

EMPIRE PETROLEUM CORPORATION

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

DELAWARE	73-1238709
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8801 S. Yale, Suite 120, Tulsa, Oklahoma 74137-3575
(Address of principal executive offices)

(918) 488-8068
(Issuer's telephone number)

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

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.
[X] Yes [ ] No

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Common Stock, $.001 Par Value 50,080,190 shares outstanding as of March 31, 2007.

Transitional Small Business Disclosure Format: [ ] Yes [X] No

EMPIRE PETROLEUM CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

EMPIRE PETROLEUM CORPORATION

BALANCE SHEET

	March 31, 2007 (Unaudited)
ASSETS	
Current assets:	
Cash	$ 95,431
Accounts receivable (net of allowance of $3,750)	19,065
Total current assets	114,496
Property & equipment, net of accumulated depreciation and depletion	1,013,602
Total Assets	$ 1,128,098
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued liabilities	$ 133,402
Accounts payable to related party	274,682
Note payable	107,846
Total current liabilities	515,930
Long term liabilities:	
Asset retirement obligation	18,000
Total liabilities	533,930
Stockholders' equity:	
Common stock - $.001 par value, authorized 100,000,000 shares, issued 50,080,190 shares	50,080
Additional paid in capital	10,499,676
Accumulated deficit	(9,955,588)
Total stockholders' equity	594,168
Total liabilities and stockholders' equity	$ 1,128,098

See accompanying notes to financial statements.

EMPIRE PETROLEUM CORPORATION

STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended	
	2007	2006
Revenue:		
Petroleum sales	$ 649	$ 1,646
Costs and expenses:		
Production & operating	4,071	59,416
General & administrative	43,783	65,892
Well abandonment	809,750	
	857,604	125,308
Operating income (loss)	(856,955)	(123,662)
Other (income) and expense:		
Interest income	(71)	0
Interest expense	1,725	1,725
Total other (income) expense	1,654	1,725
Net income (loss)	$ (858,609)	$(125,387)
Net income (loss) per common share	$ (.02)	$ .00
Weighted average number of common shares outstanding	50,080,190	42,830,190

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended	
	March 31, 2006	March 31, 2005
Cash flows from operating activities:		
Net income (loss)	$(858,609)	$(125,387)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Value of services contributed by employees	12,500	12,500
Well abandonment	809,750	0
(Increase) decrease in assets:		
Accounts receivable	71,080	(26,122)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	3,604	2,760
Net cash used in operating activities	38,325	(136,249)
Cash flows from financing activities:		
Advances from related party	0	0
Proceeds from private equity placement	0	0
Net cash provided by financing activities	0	0
Cash flows from investing activities:		
Lease interest acquisition-Gabbs Valley	0	0
Well equipment and drilling costs	(3,680)	0
Net cash used by investing activities	(3,680)	0
Net increase (decrease) in cash	34,645	(136,249)
Cash - Beginning	60,786	369,292
Cash -Ending	$ 95,431	$233,043

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

(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-QSB. 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. Operating results for the interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The information contained in this Form 10-QSB should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2006 which are contained in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission (the SEC) on April 3, 2007.

The Company has been incurring 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. These financial statements have been prepared on the basis of United States generally accepted accounting principles applicable to a company with continuing operations, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations. Management believes the going concern assumption to be appropriate for these financial statements. If the going concern assumption were not appropriate for these financial statements, then adjustments might be necessary to adjust the carrying value of assets and liabilities and reported expenses.

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

In 2003, the Company engaged a partner to explore its Cheyenne River Prospect, and signed an agreement to acquire a 10% interest in a block of acreage in the Gabbs Valley Prospect of western Nevada. In June 2005, the Company completed a private placement of 5,000,000 shares of its common stock along with warrants to purchase 1,250,000 shares of its Common Stock for an aggregate purchase price of $500,000. Subject to certain restrictions, the warrants may be exercised until August 2007 (extended from the previous date of June 2006) at an exercise price of $0.25 per share. Proceeds of the private placement were allocated $67,875 to common stock warrants and $432,125 to common stock and paid-in capital. These funds were used for general corporate purposes and

to pay the Company's share of the costs associated with its 10% interest in the Gabbs Valley Oil Prospect in Nevada. By subsequent agreement with Cortez Exploration, LLC (formerly O. F. Duffield) dated May 8, 2006, Empire acquired an additional 30% interest by agreeing to pay $675,000 in land and related costs to Cortez and 45% of the drilling and completion costs on a test well to be known as the Empire Cobble Cuesta 1-12-12-34E, Nye County, Nevada. When combined with the original 10% working interest in the well and lease block which was expanded to 75,721 gross acres by the acquisition of an additional 30,917 acres from the U. S. Department of the Interior on June 14, 2006, the Company's working interest increased to 40%, after paying 55% of the drilling and completion costs of the Empire Cobble Cuesta 1-12-12N-34E test well. To fund this increased interest, the Company initiated a private placement of common stock along with warrants to purchase common stock in June 2006. In connection with this private placement, the Company issued 7,250,000 shares of common stock and warrants to purchase 1,812,500 shares of its common stock for an aggregate purchase price of $1,450,000 (See Note 4). The Company believes that its available cash as of March 31, 2007 will be sufficient to finance its operations and its oil and gas investing plans through the next nine months depending on the Company's decision based on the results of the Cobble Cuesta 1-12 test well and further exploration in the Gabbs Valley Prospect (See Note 4). In order to sustain the Company's operations on a long term basis, the Company intends to continue to look for merger opportunities and consider public or private financings. The Company anticipates that its Chief Executive Officer will advance the Company the funds necessary to continue its operations through the next nine months, if necessary. However, there is no assurance that he will do so.

Compensation of Officers and Employees

The Company's only executive officer serves without pay or other compensation. The fair value of these services is estimated by management and is recognized as a capital contribution. For the three months ended March 31, 2007, the Company recorded $12,500 as a capital contribution by its executive officer.

2. NOTES PAYABLE:

In December 2001, the Company executed a note with Weatherford U.S., L.P. to satisfy an outstanding indebtedness for service in the drilling of the Timber Draw #1-AH well. The principal amount of this note was $108,334 with interest payments at 10% per annum commencing on May 27, 2001, until all interest and principal amounts are paid in full. Timely payments were made in accordance with the terms of this note through March 2002. In April 2002, the "payee" of this note agreed to a revised payment schedule extending final payment of $66,997 from April 10, 2002, until June 10, 2002. In connection with this payment schedule, an initial payment of $10,000 was made in April 2002, however, since that time, no further payments have been made. At March 31, 2007, the Company has accrued a liability of $107,846 in connection with this note.

3. PROPERTY AND EQUIPMENT:

The Company owns a working interest in approximately 33,485 acres of oil and gas leases located in Niobrara County, Wyoming (the "Cheyenne River Prospect") and an overriding royalty interest of between 1.5% and 2% in 40,758 acres of oil and gas leases located in or near the Cheyenne River Prospect. On March 31, 2004, a third party paid approximately $52,128 of the Company's lease rentals on 32,643 acres in the Cheyenne River Prospect in exchange for an option to drill a test well in order to earn an interest in the farmout block, which option was subject to the third party first completing a seismic survey

covering 16 square miles in the Cheyenne River Prospect. This survey was completed in September of 2003. The processing and interpreting of the data from such survey was completed September 30, 2003, and earned the third party a 25% interest in the Timber Draw #1-AH well and prospect acreage. This third party commenced a test well in the NW/4NE/4 Section 15, Twp 39N, Rge 66W, Niobrara County, Wyoming, known as the Empire Hooligan Draw Unit #1-AH, on August 6, 2004. The well was drilled horizontally to a measured drilling depth of 9,332 feet. As a result of this earning well being drilled the Company's working interest in the Hooligan Draw #1-AH well and prospect acreage was reduced to 26.785% and to 17.5% of the Timber Draw #1-AH well. The Company and the operator are currently considering alternative means of developing this prospect, including entering into a farmout pursuant to which a third party could earn an interest in this prospect for a drilling commitment. Additionally, the Company has also continued to explore opportunities to sell its interest in the Cheyenne River Prospect. As a result of the reduction in the Company's working interest as described above, the Company recorded an impairment charge of $188,507 in 2005.

On May 8, 2003, the Company entered into an agreement with O.F. Duffield (now Cortez Exploration, LLC)(Duffield Agreement) to acquire a ten percent (10%) working interest in a block of acreage in the Gabbs Valley Prospect by agreeing to issue 2,000,000 shares of the Company's Common Stock to Mr. Duffield for such 10% interest. The shares were issued in July 2003. This block of acreage in the Gabbs Valley Prospect consists of federal leases covering 44,604 acres in Nye and Mineral Counties, Nevada in which Mr. Duffield had a 100% working interest. The shares were valued at $.10 per share based on the closing price of the Company's common stock on the date of issuance.

During September 2005, surveyors laid out a 19.5 mile seismic program on the Gabbs Valley Prospect, and a seismic survey was commenced in October 2005. Field work was carried out and final interpretation of the data was completed in November 2005. Based on the results of the seismic survey, the Company increased its working interest in the prospect to 40% (See Note 1) and contracted a drilling rig which commenced drilling the Empire Cobble Cuesta 1-12-12N-34E, Nye County, Nevada on September 14, 2006. Drilling operations were suspended October 23, 2006 in order to give the Company time to evaluate the drilling results. The total gross acres of this prospect was increased to 75,721 acres by the acquisition of 30,917 acres from the U. S. Department of the Interior on June 14, 2006.

Coastal Energy Company Nevada (CECN)(formerly PetroWorld Nevada Corp.)was a participant in the Gabbs Valley Prospect with a seismic option under which it elected to drill a well and earn a 30% interest from Cortez Exploration, Inc. The Company's Chief Executive Officer is a member of the Board of Directors of both CECN and its parent company Coastal Energy Company (formerly PetroWorld Corporation) and owns approximately 1.63 (%) percent of the parent Company which is traded on the AIM Exchange in London and the Toronto Venture Exchange in Toronto. Accounts receivable from Coastal totaled $4,449 at March 31, 2007.

On May 1, 2007, after further testing the Cobble Cuesta 1-12-12N-34E, the Company decided to plug and abandon the well since no hydrocarbons were present. The Company has recognized impairment expenses of $809,750 for the three month period ending March 31, 2007 which represents its share of capitalized drilling costs and estimated costs to plug and abandon the well (See Note 4).

4. SUBSEQUENT EVENTS

On May 1, 2007 the Company announced it had re-entered and completed testing

on the Empire Cobble Cuesta 1-12-12N-34E, Nye County, Nevada well. As no hydrocarbons were found, the Company has taken steps to plug and abandon the well. The Company plans to analyze data obtained from the Cobble Cuesta test well to determine if further drilling is warranted. As of March 31, 2007 the Company has capitalized $789,750 of well equipment and intangible drilling costs related to the Cobble Cuesta test well which have been expensed in the three month period ending March 31, 2007.

In April, 2007 the Company completed a privte placement of it common stock with total shares issued of 5,000,000 with an aggregate purchase price of $1,000,000. The private placement also included issuance of 1,250,000 warrants which have an exercise price of $.50 per share. Approximately $275,000 of the funds were used to pay for the Company's costs associated with the re-entry and testing of the Cobble Cuesta 1-12 well in the Gabbs Valley Prospect in Nevada and the remaining funds will be used for general Corporate purposes.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

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 funds necessary to finance its operations. Sales revenue for all periods presented is attributable to the production of oil from the Company's Timber Draw #1-AH and the Hooligan Draw #1-AH wells located in the Eastern Powder River Basin in the State of Wyoming, otherwise known as the Cheyenne River Prospect. For all periods presented, the Company's effective tax rate is 0%. The Company has generated net operating losses since inception, which would normally reflect a tax benefit in the statement of operations and a deferred asset on the balance sheet. However, because of the current uncertainty as to the Company's ability to achieve profitability, a valuation reserve has been established that offsets the amount of any tax benefit available for each period presented in the statements of operations.

THREE MONTH PERIOD ENDED MARCH 31, 2007, COMPARED TO THREE MONTH PERIOD ENDED MARCH 31, 2006.

For the three months ended March 31, 2007, sales revenue decreased $997 to $649, compared to $1,646 for the same period during 2006. The decrease in sales revenue was the result of lower production from the Timber Draw #1-AH and the Hooligan Draw #1-AH wells.

Production and operating expenses decreased $55,345 to $4,071 for the three months ended March 31, 2007, from $59,416 for the same period in 2006. The decrease was primarily due to site preparation costs incurred in 2006, which were adjusted from expense to property and equipment in a subsequent quarter in 2006.

Well abandonment expenses increased $809,750 to $809,750 for the three months ended March 31, 2007 from $0 in 2006. The increase is due to the determination to plug and abandon the Cobble Cuesta test well in Nevada.

General and administrative expenses decreased by $22,109 to $43,783 for the three months ended March 31, 2007, from $65,892 for the same period in 2006. The decrease was primarily due to lower professional fees in 2007.

There was no depreciation or depletion expense attributable to the three months ended March 31, 2007 and 2006, because the depreciable assets were fully depreciated.

For the three months ended March 31, 2007 and 2006, interest expense remained at $1,725. The Company accrued interest on the Weatherford note in both periods.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

As of March 31, 2007, the Company had $95,431 of cash on hand. In April, 2007 the Company raised $1,000,000 through a private placement of common stock along with warrants to purchase common stock. The Company believes that its cash on hand along with the proceeds of the private placement will allow it to finance its operations for the next nine months, and evaluate the future of the Gabbs Valley Prospect. The Company would likely continue to finance its cost through either a public or private financing. In order to sustain the Company's operations on a long term basis, the Company intends to continue to look for merger opportunities and consider public or private financings. The Company anticipates that its Chief Executive Officer will advance the Company the funds necessary to continue its operations through the next twelve months, if necessary. However, there is no assurance that he will do so.

ADVANCES FROM RELATED PARTY

Through March 31, 2005, the Company financed its operations primarily through advances made to the Company by the Albert E. Whitehead Living Trust, of which the Company's Chairman of the Board and Chief Executive Officer, Mr. Whitehead, is the trustee. At March 31, 2007 the Company is indebted to the Albert E. Whitehead Living Trust in the amount of $274,682.

MATERIAL RISKS

The Company has incurred significant losses from operations and there is no assurance that it will achieve profitability or obtain funds necessary to finance continued operations. For other material risks, see the Company's form 10-KSB for the period ended December 31, 2006, which was filed April 3, 2007.

FORWARD-LOOKING INFORMATION

This quarterly report on Form 10-QSB, including this section, includes certain statements that may be deemed "forward-looking statements" within the meaning of federal securities laws. All statements, other than statements of historical facts, that address activities, events or developments that the Company expects, believes or anticipates will or may occur in the future, including future sources of financing and other possible business developments, are forward-looking statements. Such statements are subject to a number of assumptions, risks and uncertainties and could be affected by a number of different factors, including the Company's failure to secure short and long term financing necessary to sustain and grow its operations, increased competition, changes in the markets in which the Company participates and the technology utilized by the Company and new legislation regarding environmental matters. These risks and other risks that could affect the Company's business are more fully described in reports it files with the Securities and Exchange Commission, including its Form 10-KSB for the fiscal year ended December 31, 2005. Actual results may vary materially from the forward-looking statements.

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

Item 3. 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 6. Exhibits

a) Exhibits

31 Certification of Chief Executive Officer (and principal financial officer) pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-B, 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).

EMPIRE PETROLEUM CORPORATION
SIGNATURES

In accordance with the requirements of the Exchange Act, the small business issuer caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EMPIRE PETROLEUM CORPORATION

Date: May 15, 2007 By: /s/ Albert E. Whitehead

Albert E. Whitehead
Chairman/CEO

EXHIBIT INDEX

NO.	DESCRIPTION
31	Certification of Chief Executive Officer (and principal financial officer) pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-B, 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).

EXHIBIT 31

CERTIFICATION

I, Albert E. Whitehead, Chief Executive Officer (and principal financial Officer) of Empire Petroleum Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Empire Petroleum Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have;

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial

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information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

May 15, 2007

/s/ Albert E. Whitehead
Albert E. Whitehead,

Chief Executive Officer and
Principal Financial Officer

EXHIBIT 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Empire Petroleum Corporation (the "Company") on Form 10-QSB for the period ending March 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Albert E. Whitehead, Chief Executive Officer (and principal financial officer) of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 15, 2007

/s/ Albert E. Whitehead
Albert E. Whitehead
Chief Executive Officer and
Principal Financial Officer