

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10QSB

EMPIRE PETROLEUM CORP
Form 10QSB
November 13, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2006

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
(State or other jurisdiction of
incorporation or organization)

73-1238709
(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.

Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes 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 September 30, 2006.

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10QSB

Transitional Small Business Disclosure Format: [] Yes [X] No
EMPIRE PETROLEUM CORPORATION

INDEX TO FORM 10-QSB

| Part I. FINANCIAL INFORMATION | Page |
|---|-------|
| Item 1. Financial Statements | |
| Balance Sheet at September 30, 2006 (Unaudited) | 1 |
| Statements of Operations for the three months and nine months ended September 30, 2006 and 2005 (Unaudited) | 2 |
| Statements of Cash Flows for the nine months ended September 30, 2006 and 2005 (Unaudited) | 3 |
| Notes to Financial Statements | 4-8 |
| Item 2. Management's Discussion and Analysis | 8-10 |
| Item 3. Controls and Procedures | 10 |
| Part II. OTHER INFORMATION | |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 10-11 |
| Item 6. Exhibits and Reports on Form 8-K | 11 |
| Signatures | 11 |

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10QSB

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

EMPIRE PETROLEUM CORPORATION

BALANCE SHEET

| | September 30, 2006 (Unaudited) |
|---|--|
| ASSETS | |
| Current assets: | |
| Cash | \$ 156,465 |
| Accounts receivable (net of allowance of \$3,750) | 458,895 |
| Total current assets | 615,360 |
| Property & equipment, net of accumulated depreciation and depletion | 1,405,636 |
| Total Assets | \$ 2,020,996 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| Current liabilities: | |
| Accounts payable and accrued liabilities | \$ 218,234 |
| Accounts payable to related party | 274,682 |
| Note payable | 104,396 |
| Total current liabilities | 597,312 |
| Total liabilities | 597,312 |
| Stockholders' equity: | |
| Common stock at par value | 50,080 |
| Warrants to purchase common stock | 223,300 |
| Additional paid in capital | 10,220,085 |
| Accumulated deficit | (9,096,705) |
| Total stockholders' equity | 1,423,685 |
| Total liabilities and stockholders' equity | \$ 2,020,996 |

See accompanying notes to financial statements.

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10QSB

EMPIRE PETROLEUM CORPORATION

STATEMENTS OF OPERATIONS

(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| Revenue: | | | | |
| Petroleum sales | \$ 6,575 | \$ 41,757 | \$ 29,476 | \$ 116,115 |
| | 6,575 | 41,757 | 29,476 | 116,115 |
| Costs and expenses: | | | | |
| Production & operating | 31,403 | 49,353 | 127,524 | 68,282 |
| General & administrative | 86,757 | 32,759 | 214,728 | 114,981 |
| Reversal of accrued lease Obligation | 0 | 0 | 0 | (222,561) |
| | 118,160 | 82,112 | 342,252 | (39,298) |
| Operating income (loss) | (111,585) | (40,355) | (312,776) | 155,413 |
| Other (income) and expense: | | | | |
| Miscellaneous | 0 | 0 | (43) | (4,401) |
| Interest income | 0 | 0 | (148) | 0 |
| Interest expense | 1,725 | 1,725 | 5,175 | 5,175 |
| Total other (income) expense | 1,725 | 1,725 | 4,984 | 774 |
| Net income (loss) | \$ (113,310) | \$ (42,080) | \$ (317,760) | \$ 154,639 |
| Net income (loss) per common share | \$.00 | \$.00 | \$.01 | \$.00 |
| Weighted average number of common shares outstanding | 47,420,849 | 41,044,476 | 44,366,036 | 39,980,925 |

See accompanying notes to financial statements.

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10QSB

STATEMENTS OF CASH FLOWS

(UNAUDITED)

| | Nine Months Ended | |
|---|-----------------------|-----------------------|
| | September 30, 2006 | September 30, 2005 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (317,760) | \$ 154,639 |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Value of services contributed by employees | 37,500 | 37,500 |
| Stock option plan expense | 26,925 | 0 |
| Reversal of accrued lease obligation | 0 | (222,561) |
| (Increase) decrease in assets: | | |
| Accounts receivable | (420,043) | (95,932) |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | 77,585 | (30,577) |
| Net cash used in operating activities | <u>(595,793)</u> | <u>(156,931)</u> |
| Cash flows from financing activities: | | |
| Advances from related party | 0 | 60,190 |
| Proceeds from private equity placement | 1,450,000 | 500,000 |
| Net cash provided by financing activities | <u>1,450,000</u> | <u>560,190</u> |
| Cash flows from investing activities: | | |
| Lease interest acquisition-Gabbs Valley | (675,000) | 0 |
| Well equipment and drilling costs | (392,034) | 0 |
| Net cash used by investing activities | <u>(1,067,034)</u> | <u>0</u> |
| Net increase (decrease) in cash | (212,827) | 403,235 |
| Cash - Beginning | 369,292 | 3,406 |
| Cash -Ending | <u>\$156,465</u> | <u>\$406,665</u> |

See accompanying notes to financial statements.

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10QSB

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

(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, 2006.

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, 2005 which are contained in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission (the SEC) on March 31, 2006.

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

-4-

warrants may be exercised until November 2006 (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

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10QSB

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 agreed to pay 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 will be 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 and as of September 30, 2006, the Company had 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 5). The Company believes that its available cash as of September 30, 2006 will be sufficient to finance its operations and its oil and gas investing plans through the next six months depending on the Company's decision as to the completion of the Cobble Cuesta 1-12 test well. Should the Company elect to test or attempt to complete the well it will require additional funds to pay for its share of the cost. The Company would likely 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.

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, 2006, the Company recorded \$37,500 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 September 30, 2006, the Company has accrued a liability of \$104,396 in connection with this note.

3. PROPERTY AND EQUIPMENT:

-5-

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

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10QSB

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 or farmout 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 (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. Pursuant to the Duffield Agreement, the Company is also entitled to acquire up to a 10% interest in a block of 26,080 acres also located in the Gabbs Valley Prospect should Duffield acquire an interest in this block. 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 continuing as of September 30, 2006. 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 (See Note 6).

PetroWorld Nevada Corp. (PWC) is a participant in the Gabbs Valley Prospect with a seismic option under which it has 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 PWC 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 \$314,853 at September 30, 2006. Such amount was paid as of October 18, 2006. The Company also had \$93,868 of

-6-

accrued receivables from Coastal at September 30, 2006 which were invoiced in October.

4. CONTINGENCIES

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10QSB

The Company's former management (Messrs. McGrain and Jacobsen) entered into a lease agreement for office space in Canada. This office was closed after Messrs. McGrain and Jacobsen resigned as officers of the Company. This lease agreement called for monthly lease and tax payments of approximately \$6,834 (Canadian) through April of 2006. A subtenant continued to pay the rentals under the lease until December 2002 and moved out of the office space in January 2003. The Company accrued its obligation under the lease as of the "cease use date" of January 2003. During the second quarter of 2005, the Company determined that the statute of limitations had expired with respect to its obligation under the lease. Accordingly, the Company reversed expenses of \$222,561 (U.S.) including foreign exchange losses accrued in connection with the lease.

5. STOCKHOLDER'S EQUITY

At the Company's 2006 Annual Meeting of Stockholders, the stockholders approved increasing the authorized number of shares of common stock to 100,000,000 (one hundred million) from 50,000,000 (fifty million) shares.

As of September 30, 2006 the Company had completed a private placement of its common stock with total shares having been issued of 7,250,000 with an aggregate purchase price of \$1,450,400. Total warrants issued were 1,812,500 at a exercise price of \$.50 per share. Proceeds of the private placement were allocated \$143,675 to common stock warrants and \$1,306,325 to common stock and paid in capital. The funds will be used for general corporate purposes and to pay for costs associated with the exploratory well the Company is drilling in the Gabb's Valley Prospect in Nevada. The private placement offering is more fully described in Footnote 1.

6. STOCK INCENTIVE PLAN

At the Company's 2006 Annual Meeting of Stockholders, the stockholders approved the 2006 Stock Incentive Plan ("the Plan"). The Plan approves granting incentive options to purchase up to 5,000,000 (five million) shares of the Company's common stock to employees, directors, and consultants. The Plan is administered by the Compensation Committee, as appointed by the Board of Directors, and has a term of ten years. Options granted under the Plan vest depending upon the award, but no later than 10 years from date of grant. The Plan limits the aggregate awards to any individual participant to 200,000 shares.

New Director, Montague H. Hackett, Jr., was awarded a 150,000 share option at \$0.25 per share, the current market price on the date of the grant. Mr. Hackett was appointed to the Board of Directors to fill an existing vacancy on June 27, 2006.

Fair values were estimated at the date of grant of the options, using the Black-Scholes option valuation model with the following weighted average assumptions: risk-free interest rate of 5.2%, volatility factor of the expected market price of the Company's common stock of 146%, no dividend yield on the Company's common stock, and a weighted average expected life of the options of 5 years. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions

-7-

and are fully transferable. For purposes of determining the expected life of the options, the Company utilizes the Simplified Method as defined in Staff Accounting Bulletin No. 107 issued by the Securities and Exchange Commission.

In addition, options valuation models require the input of highly subjective assumptions including stock price volatility.

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10QSB

In connection with the approval of the Plan, the Company adopted SFAS No. 123 (R) "Share-Based Payments" and expenses the cost of options granted over the vesting period of the option based on the grant-date fair value of the award.

For the three months ended September 30, 2006, the Company recognized an expense of \$26,925 related to options granted under the Plan.

7. SUBSEQUENT EVENT

Subsequent to September 30, 2006, the Company ceased drilling operations on the Empire Cobble Cuesta 1-12-12N-34E, Nye County, Nevada at a depth of 5,198 feet. Electric logs were ran, a wellhead was installed and the hole conditioned so that it might be re-entered and deepened or tested at a later date. The results of a complete review of the data obtained from the drilling and logging operation together with previously obtained geological and geophysical data will determine whether or not the well merits deepening or testing. The Company expects this review to be completed in the fourth quarter.

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 SEPTEMBER 30, 2006, COMPARED TO THREE MONTH PERIOD ENDED SEPTEMBER 30, 2005.

For the three months ended September 30, 2006, sales revenue decreased \$35,182 to \$6,575, compared to \$41,757 for the same period during 2005. 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 \$17,950 to \$31,403 for the three months ended September 30, 2006, from \$49,353 for the same period in 2005. During the period 2005, the Company conducted the seismic evaluation of its Gabbs Valley Prospect. No seismic expenses were incurred in the 2006 quarter.

-8-

General and administrative expenses increased by \$53,998 to \$86,757 for the three months ended September 30, 2006, from \$32,759 for the same period in 2005. The increase is attributable to an increase in professional fees and options granted.

There was no depreciation or depletion expense attributable to the three months ended September 30, 2006 and 2005, because the depreciable assets were

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10QSB

fully depreciated.

For the three months ended September 30, 2006, interest expense remained at \$1,725 which is the same as for the three months ended September 30, 2005. The Company accrued interest on the Weatherford note in both periods.

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2006, COMPARED TO NINE MONTH PERIOD ENDED SEPTEMBER 30, 2005.

For the nine months ended September 30, 2006, sales revenue decreased \$86,639 to \$29,476, compared to \$116,115 for the same period during 2005. 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 increased \$59,242 to \$127,524 for the nine months ended September 30, 2006, from \$68,282 for the same period in 2005. The increase was primarily attributable to the additional lease rentals related to the Company's Gabbs Valley Prospect.

General and administrative expenses increased by \$99,747 to \$214,728 for the nine months ended September 30, 2006, from \$114,981 for the same period in 2005. The increase is attributable to an increase in professional fees.

There was no depreciation or depletion expense attributable to the nine months ended September 30, 2006 and 2005, because the depreciable assets were fully depreciated.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

As of September 30, 2006, the Company had \$156,465 of cash on hand. In June 2006, the Company initiated a private placement of common stock along with warrants to purchase common stock. In connection with this private placement the Company had raised approximately \$1,450,000. For more information regarding this private placement, see Part II, Item 2 of this report. The Company believes that its available cash as of September 30, 2006 will be sufficient to finance its operations for the next six months depending on the Company's decision as to the completion of the Cobble Cuesta 1-12 test well. Should the Company elect to test or attempt to complete the well it will require additional funds to pay for its share of the cost. The Company would likely 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

-9-

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 September 30, 2006 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

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10QSB

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, 2005, which was filed March 31, 2006.

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.

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 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the nine months ended September 30, 2006, the Company received subscriptions from 15 accredited investors for 7,250,000 shares of its common stock, par value \$0.001 per share, along with warrants to purchase up to 1,812,500 shares of the company's common stock at an exercise price of \$0.50 for an aggregate purchase price of \$1,450,000. Subject to certain provisions regarding early termination, the warrants may be exercised at any time from the date of issuance until one year after the date of issuance.

-10-

The offers and sales related to the shares described above were not registered under the Securities Act of 1933, as amended, in reliance upon the exemption from the registration requirements of that act provided by Section 4(2) thereof and Regulation D promulgated by the Securities and Exchange Commission thereunder. Each of the investors in the private placement is a sophisticated accredited investor with the experience and expertise to evaluate the merits and risks of an investment in the Company's stock and the financial means to bear the risks of such an investment. In addition, each investor was provided

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10QSB

access to all of the material information regarding the Company that such investor would have received if the offer and sale of the securities had been registered.

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: November 13, 2006

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). |

-11-

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

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10QSB

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 information; and

-12-

(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.

November 13, 2006

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

EXHIBIT 32

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10QSB

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 September 30, 2006 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.

November 13, 2006

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