EMPIRE PETROLEUM CORP
Form 10-Q
August 14, 2018

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

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FORM 10-Q

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

For the quarterly period ended: June 30, 2018

or

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

For the transition period from: _____________ to _____________

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EMPIRE PETROLEUM CORPORATION
(Exact name of registrant as specified in its charter)

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

2651 East 21st Street, Suite 310, Tulsa, OK 74114
(Address of Principal Executive Offices) (Zip Code)

(539) 444-8002
(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 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 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 | Accelerated filer |
| Non-accelerated filer<br>(Do not check if a smaller reporting company) | Smaller reporting company |
| | Emerging growth Company |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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 of the registrant's common stock, $0.001 par value, outstanding as of June 30, 2018 was 11,328,942.

EMPIRE PETROLEUM CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

EMPIRE PETROLEUM CORPORATION
BALANCE SHEETS

| | June 30, 2018 (UNAUDITED) | December 31, 2017 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash | $ 4,235 | $ 77,780 |
| Total current assets | 4,235 | 77,780 |
| Investment in Masterson West II | 300,000 | 300,000 |
| Total assets | $ 304,235 | $ 377,780 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 184,273 | $ 64,964 |
| Current portion of convertible notes, net | 164,447 | 137,256 |
| Total current liabilities | 348,720 | 202,220 |
| Convertible notes, net | 51,805 | 47,366 |
| Stockholders' equity (deficit): | | |
| Common stock-$.001 par value authorized 150,000,000 shares, issued and outstanding 11,328,942 and 8,803,942 respectively | 11,328 | 8,803 |
| Common stock subscribed not yet issued (2,000,000 and 3,225,000 shares), respectively | 2,000 | 3,225 |
| Stock subscriptions receivable | 0 | (5,000) |
| Additional paid in capital | 16,478,149 | 16,232,381 |
| Accumulated deficit | (16,587,767) | (16,111,215) |
| Total stockholders' equity (deficit) | (96,290) | 128,194 |
| Total liabilities and stockholders' equity (deficit) | $ 304,235 | $ 377,780 |

See accompanying notes to unaudited financial statements

EMPIRE PETROLEUM CORPORATION
STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue: | | | | |
| Petroleum sales | $0 | 0 | 0 | 0 |
| Costs and expenses: | | | | |
| General and administrative | 210,402 | 26,926 | 437,079 | 113,010 |
| | 210,402 | 26,926 | 437,079 | 113,010 |
| Operating loss | (210,402) | (26,926) | (437,079) | (113,010) |
| Other expense: | | | | |
| Interest expense | 19,845 | 16,628 | 39,473 | 34,914 |
| Total other expense | 19,845 | 16,628 | 39,473 | 34,914 |
| Net loss | $(230,247) | (43,554) | (476,552) | (147,924) |
| Net loss per common share, basic & diluted | $(0.02) | (0.01) | (0.04) | (0.02) |
| Weighted average number of common shares outstanding basic and diluted | 11,248,942 | 8,710,609 | 11,071,720 | 8,710,609 |

See accompanying notes to unaudited financial statements

EMPIRE PETROLEUM CORPORATION
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

For the six months ended June 30, 2018

| | Common Stock | | Common Stock Subscribed, not yet issued | Stock Subscription Receivable | Additional Paid in Capital | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|---|
| | Shares | Par Value | | | | | |
| Balances, December 31, 2017 | 8,803,942 | 8,803 | 3,225 | (5,000) | 16,232,381 | (16,111,215) | 128,194 |
| Net loss | | | | | | (476,552) | (476,552) |
| Shares, options, warrants and conversion features issued | 2,525,000 | 2,525 | (1,225) | 5,000 | 245,768 | 0 | 252,068 |
| Balances June 30, 2018 | 11,328,942 | $11,328 | $ 2,000 | $ 0 | $16,478,149 | $(16,587,767) | $(96,290) |

See accompanying notes to unaudited financial statements

EMPIRE PETROLEUM CORPORATION
STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Six Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net loss | $(476,552) | $(147,924) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Value of warrants granted | 117,068 | 0 |
| Amortization of warrant value and conversion feature on convertible notes | 31,630 | 29,162 |
| Change in operating assets and liabilities: | | |
| Prepaids | 0 | (23,894) |
| Accounts payable and accrued liabilities | 111,466 | 26,229 |
| Accrued interest payable | 7,843 | 7,014 |
| Net cash used in operating activities | (208,545) | (109,413) |
| Cash flows from financing activities: | | |
| Proceeds from convertible notes issued | 0 | 62,500 |
| Proceeds from stock issuance | 135,000 | 0 |
| Net cash provided by financing activities | 135,000 | 62,500 |
| Net change in cash | (73,545) | (46,913) |
| Cash - Beginning of period | 77,780 | 68,743 |
| Cash - End of period | $4,235 | $21,830 |

See accompanying notes to unaudited financial statements

EMPIRE PETROLEUM CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018
(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, 2018.

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, 2017 which are contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on April 2, 2018.

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 oil and gas interests. The ultimate recoverability of the Company's investment in oil and gas interests is dependent upon the existence and discovery of economically recoverable oil and gas reserves, 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 June 30, 2018, the Company had $4,235 of cash. In order to sustain the Company's operations on a long-term basis, the Company continues to look for acquisitions and consider public or private financings.

Compensation of Officers and Employees

As of June 30, 2018, the Company had no employees. No Board members received compensation from the Company in the first six months of 2018 or 2017. For the six months ended June 30, 2017, the Company paid Mr. Morrisett $12,500 for services rendered. For the six months ended June 30, 2018, the Company paid Mr. Morrisett $58,500 and Mr. Pritchard $65,062 for services rendered.

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 carrying value of the convertible debt and investment in Masterson West II approximate fair value as of June 30, 2108. Management's estimates are based on the assessment of qualitative factors that are considered Level 3 measurements in the fair value hierarchy as required by FASB ASC 820.

## 2. PROPERTY AND EQUIPMENT

As of June 30, 2018, the Company did not own any interest in oil and gas properties or equipment.

## 3. INVESTMENT IN MASTERSON WEST II

On December 22, 2016, the Company entered into a subscription and contribution agreement with Masterson West, LLC ("Masterson West") (the "Contribution Agreement") relating to the newly formed Masterson West II, LLC, a Texas limited liability company ("Masterson West II"). Pursuant to the Contribution Agreement, among other things, (a) at the initial closing, the Company agreed to contribute 2,000,000 shares of its common stock, par value $0.001 per share (the "Common Stock"), to Masterson West II, along with an additional 38,000,000 shares of Common Stock and (b) at the final closing, Masterson West has an obligation to contribute certain oil and gas properties (the "Contributed Properties") to Masterson West II in exchange for the Company contributing cash of not less than $9,000,000 and up to $18,000,000 to Masterson West II. There is no assurance that the Company will be able to secure the funds necessary for the final closing. Under the terms of the Agreement, the final closing was scheduled to occur no later than April 1, 2017. After April 1, 2017 either party has the right to terminate the Agreement. If the final closing occurs, the Company will own 50% of Masterson West II if it delivers $18,000,000 of cash at the final closing and 25% of Masterson West II if it delivers $9,000,000 of cash at the final closing.

Also on December 22, 2016, the Company entered into a limited liability agreement of Masterson West II with Masterson West (the "LLC Agreement"). Pursuant to the Contribution Agreement and the LLC Agreement, Masterson West was immediately entitled to a distribution of the 2,000,000 shares of Common Stock, but is only entitled to a distribution of all or a portion of the 38,000,000 shares of Common Stock if and when the final closing occurs.

In connection with the contribution of the Contributed Properties by Masterson West, at the final closing, Masterson West II will assume a credit facility affiliated with the Contributed Properties that has approximately $20,000,000 outstanding as of the date hereof. Masterson West and the Company intends to use the cash consideration paid by the Company at the final closing to pay down such credit facility and/or as working capital to continue to develop the Contributed Properties. If the proceeds are used to pay down part or all of such credit facility, the credit facility will be used to continue to develop the Contributed Properties.

On February 18, 2017, Gary C. Adams, the majority owner of Masterson West unexpectedly passed away. As a result of this development, the final closing did not occur on April 1, 2017, the final close date per the Contribution Agreement. Though the transaction did not close before the stated final closing date, the Agreement remains in effect until one or both parties serve a notice of termination. As of the date of this filing, neither party has elected to terminate the Contribution Agreement. The Company is continuing its discussions with representatives of Masterson West regarding a potential transaction.

## 4. 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 June 30, 2018 and 2017, the Company had 4,167 and 1,154,167 respectively, 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 June 30, 2018 and 2017, 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.

In January 2017, the Company entered into securities purchase agreements (each, a "Securities Purchase Agreement" and, collectively, the "Securities Purchase Agreements") with two accredited investors, pursuant to which it issued senior unsecured convertible promissory notes due December 31, 2018 (each, a "Convertible Note" and, collectively, the "Convertible Notes") in the aggregate amount of $62,500 in cash. Each Convertible Note accrues interest at 6%, is due December 31, 2018 and is convertible at the option of the holder at $0.15 per share. Each investor was also issued a warrant certificate (each, a "Warrant Certificate" and, collectively, the "Warrant Certificates"), pursuant to which such investor could acquire one share of Common Stock at $0.25 per share for each $0.25 invested in the applicable Convertible Note until December 31, 2018. The full amount of interest under each Convertible Note is accrued and paid upon the maturity date or earlier conversion.

The value allocated to the Warrant Certificates was the fair value determined using the Black-Scholes option valuation with the following assumptions: no dividend yield, expected annual volatility of 110%, risk free interest rate of 1.23% and an expected useful life of two years. The fair value of the Warrant Certificates was allocated $16,975 to Paid in Capital. The Notes' conversion features were valued at their intrinsic value in excess of the debt's allocated value of $16,975 and resulted in additional Paid in Capital. The Debt Issue Costs represent a direct deduction of the face amount the Convertible Notes and is amortized as interest expense over the life of the Notes.

On July 25, 2017, the Company issued 93,333 shares of its common stock and warrants to purchase 56,000 shares of its common stock for $.25 per share which expires on December 31, 2018 to an investment banking service firm in return for past and future services. The Common Stock was valued at $4,200 which represents the market price of 4.5 cents per share on the date of issuance. The value allocated to the warrants was the fair value determined using the Black-Scholes option valuation with the following assumptions: no dividend yield, expected annual volatility of 145%, risk free interest rate of 1.23% and an expected useful life of 17 months. The fair value of the warrants of $694 was allocated to Paid in Capital.

In September and October 2017, the Company entered into securities purchase agreements (each, a "Securities Purchase Agreement" and, collectively, the "Securities Purchase Agreements") with two accredited investors, pursuant to which it issued senior unsecured convertible promissory notes due December 31, 2019 (each, a "Convertible Note" and, collectively, the "Convertible Notes") in the aggregate amount of $65,000 in cash. Each Convertible Note accrues interest at 6%, is due December 31, 2019 and is convertible at the option of the holder at $0.15 per share. Each investor was also issued a warrant certificate (each, a "Warrant Certificate" and, collectively, the "Warrant Certificates"), pursuant to which such investor could acquire one share of Common Stock at $0.25 per share for each $0.25 invested in the applicable Convertible Note until December 31, 2019. The full amount of interest under each Convertible Note is accrued and paid upon the maturity date or earlier conversion. The value allocated to the September Warrant Certificates was the fair value determined using the Black-Scholes option valuation with the following assumptions: no dividend yield, expected annual volatility of 154%, risk free interest rate of 1.35% and an expected useful life of 28 months. The value allocated to the October Warrant Certificates was the fair value determined using the Black-Scholes option valuation with the following assumptions: no dividend yield, expected annual volatility of 180%, risk free interest rate of 1.51% and an expected useful life of 27 months The fair value of the Warrant Certificates of $13,918 was allocated to Paid in Capital. The Notes' conversion features were valued at their intrinsic value in excess of the debt's allocated value of $13,918 and resulted in additional Paid in Capital. The Debt Issue Costs represent a direct deduction of the face amount the Convertible Notes and is amortized as interest expense over the life of the Notes.

During November 2017, the Company issued warrants to purchase 4,000,000 shares of its common stock for $.25 per share and $.15 per share which expires on December 31, 2021 to several Board members and management. The value allocated to the warrants was the fair value determined using the Black-Scholes option valuation with the following assumptions: no dividend yield, expected annual volatility of 179%, risk free interest rate of 1.98% and an expected useful life of 49 months. The fair value of the warrants of $472,700 was recorded as compensation expense and allocated to Paid in Capital.

During December 2017, the Company issued 1,225,000 shares of its common stock and warrants to purchase 1,225,000 shares of its common stock for $.15 per share which expires on December 31, 2019 to several accredited investors. The value allocated to the warrants was the fair value determined using the Black-Scholes option valuation with the following assumptions: no dividend yield, expected annual volatility of 179%, risk free interest rate of 1.78% and an expected useful life of 25 months. The fair value of the warrants of $121,275 was allocated to Paid in Capital.

During January 2018, the Company issued to several accredited investors 1,100,000 shares of its common stock and warrants to purchase 1,100,000 shares of its common stock for $.15 per share which expires on December 31, 2019. The value allocated to the warrants was the fair value determined using the Black-Scholes option valuation with the following assumptions: no dividend yield, expected annual volatility of 185%, risk free interest rate of 2.05% and an expected useful life of 24 months. The fair value of the warrants of $108,900 was allocated to Paid in Capital.

During March 2018, the Company issued to an accredited investor 100,000 shares of its common stock and warrants to purchase 100,000 shares of its common stock for $.15 per share which expires on December 31, 2019. The value allocated to the warrants was the fair value determined using the Black-Scholes option valuation with the following assumptions:  no dividend yield, expected annual volatility of 179%, risk free interest rate of 2.22% and an expected useful life of 22 months. The fair value of the warrants of $9,900 was allocated to Paid in Capital.

During June 2018, the Company issued warrants to purchase 645,000 shares of its common stock for $.25 per share which expire on December 31, 2019 to several professionals for business assistance provided. The value allocated to the warrants was the fair value determined using the Black-Scholes option valuation with the following assumptions: no dividend yield, expected annual volatility of 174%, risk free interest rate of 2.38% and an expected useful life of 19 months. The fair value of the warrants of $117,068 was recorded as compensation expense and allocated to Paid in Capital.

During June 2018, the Company issued to an accredited investor 100,000 shares of its common stock and warrants to purchase 100,000 shares of its common stock for $.15 per share which expires on December 31, 2019. The value allocated to the warrants was the fair value determined using the Black-Scholes option valuation with the following assumptions: no dividend yield, expected annual volatility of 197%, risk free interest rate of 2.43% and an expected useful life of 18 months. The fair value of the warrants of $9,900 was allocated to Paid in Capital.

The following table reflects the composition of convertible notes as of June 30, 2018:

| | 2018 | | |
|---|---|---|---|
| | Current | Long Term | Total |
| Convertible Notes Outstanding | $195,000 | $65,000 | $260,000 |
| Debt Issue Costs – Warrants and Conversion Feature | (30,553 ) | (13,195) | (43,748 ) |
| Convertible Notes Outstanding, Net | $164,447 | $51,805 | $216,252 |

5. SUBSEQUENT EVENTS

In 2018, the Company formed a subsidiary, Empire Louisiana, LLC for the purpose of acquiring oil & gas properties in Louisiana. On July 12, 2018, the subsidiary entered into an agreement with Exodus Energy ("Exodus") whereby the subsidiary agreed to purchase certain oil and gas properties and assets in Louisiana from Exodus for a purchase price of $950,000. Pursuant to the Agreement, the closing date is to occur on or before August 31, 2018 with an effective date of August 1, 2018. The oil and gas properties subject to the agreement include 1,500 gross developed and undeveloped acres and 8 wells currently producing approximately 135 barrels of oil equivalent (BOE) per day. Empire's working interests in the wells will range from 50% to 86%.

On July 23, 2018, the subsidiary entered into an agreement with Cardinal Exploration and Production Company ("Cardinal") whereby the subsidiary agreed to purchase certain oil and gas properties and assets in Louisiana from Cardinal for a purchase price of $323,000. Pursuant to the agreement, the closing date is to occur on or before August 31, 2018 with an effective date of June 1, 2018. The oil and gas properties subject to the agreement include four active operated wells currently producing approximately 35 barrels of oil equivalent (BOE) per day, and Empire's working interests in the wells will be 100%.

On July 17, 2018, the Company executed a $10,000 promissory note with Mr. Anthony Kamin, a Director of the Company. The note bears an interest rate of 8% and is repayable on demand.

In July 2018, the Company issued to an accredited investor 66,667 shares of its common stock and warrants to purchase 66,667 shares of its common stock for $.25 per share which expires on December 31, 2019. Total proceeds from the transaction was $10,000.

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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 JUNE 30, 2018 COMPARED TO THREE-MONTH PERIOD ENDED JUNE 30, 2017.

General and administrative expenses increased by $183,476 to $210,402 for the three months ended June 30, 2018, from $26,926 for the same period in 2017. The increase is primarily due to warrants granted, professional fees and other costs related to potential asset purchases.

Interest expense increased by $3,217 for the three months ended June 30, 2018 to $19,845 from $16,628 for the same period in 2017. The increase is due to the issuance of additional convertible notes in the second half of 2017 and 2018.

There was no depreciation expense attributable to the three months ended June 30, 2018 or 2017 because there are no assets.

For the reasons discussed above, net loss increased by $186,693 from $(43,554) for the three months ended June 30, 2017, to $(230,247) for the three months ended June 30, 2018.

SIX-MONTH PERIOD ENDED JUNE 30, 2018 COMPARED TO SIX-MONTH PERIOD ENDED JUNE 30, 2017.

General and administrative expenses increased by $324,069 to $437,079 for the six months ended June 30, 2018, from $113,010 for the same period in 2017. The increase is primarily due to warrants granted, professional fees and other costs related to potential asset purchases.

Interest expense increased by $4,559 for the six months ended June 30, 2018 to $39,473 from $34,914 for the same period in 2017. The increase is due to the issuance of additional convertible notes in the second half of 2017 and 2018.

There was no depreciation expense attributable to the three months ended June 30, 2018 or 2017 because there are no assets.

For the reasons discussed above, net loss increased by $328,628 from $(147,924) for the six months ended June 30, 2017, to $(476,552) for the six months ended June 30, 2018.

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 following is a summary of recent accounting pronouncements that are relevant to the Company:

In February 2016, the FASB issued ASU No. 2016-02: "Leases (Topic 842)" which is intended to improve financial reporting about leasing transactions. This ASU will require organizations ("lessees") that lease assets with lease terms of more than twelve months to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Organizations that own the assets leased by lessees ("lessors") will remain largely unchanged from current GAAP. In addition, this ASU will require disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The guidance is effective for annual periods beginning after December 15, 2018 and early adoption is permitted. Based on management's initial assessment, ASU No. 2016-02 will not have a material impact on the Company's financial statements. The Company is a lessee on an office lease; however, since the lease is on a month to month basis it would not record a right of use asset or liability.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

As of June 30, 2018, the Company had $4,235 of cash. The Company is considering various options, including raising additional equity, in order to raise cash for acquisitions and transactions and continuing operations.

OUTLOOK

See Note 3 to the financial statements for information regarding the Contribution Agreement the Company entered into with Masterson West. On February 18, 2017, Gary C. Adams, the majority owner of Masterson West unexpectedly passed away. As a result of this development, the final closing did not occur on April 1, 2017, the final close date per the Contribution Agreement. Though the transaction did not close before the stated final closing date, the Agreement remains in effect until one or both parties serve a notice of termination. As of the date of this filing, neither party has elected to terminate the Contribution Agreement. The Company is continuing its discussions with representatives of Masterson West regarding the continuation of the Contribution Agreement. The Company anticipates that the Contribution Agreement and/or the LLC Agreement will either be amended, replaced or terminated in 2018.

See Note 5 to the financial statements for information for information regarding the two Purchase Agreements the Company entered into in July 2018 to purchase existing oil and gas properties and mineral interests. The Company is also actively pursuing the acquisition of other operated and non-operated oil and gas properties. It is anticipated that such acquisitions will be financed through equity or debt transactions.

FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q, including this section, includes certain statements that may be deemed "forward-looking statements" within the meaning of federal securities laws. All statements, other than statements of historical facts, that address activities, events or developments that the Company expects, believes or anticipates will or may occur in the future, including future sources of financing and other possible business developments, are forward-looking statements. Such statements are subject to a number of assumptions, risks and uncertainties and could be affected by a number of different factors, including the Company's failure to secure short and long-term financing necessary to sustain and grow its operations, increased competition, changes in the markets in which the Company participates and the technology utilized by the Company and new legislation regarding environmental matters. These risks and other risks that could affect the Company's business are more fully described in reports it files with the SEC, including its Form 10-K for the year ended December 31, 2017. 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.

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 year ended December 31, 2017, which was filed on April 2, 2018.

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 President (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 President (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.

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

| | |
|---|---|
| 10.1 | Purchase and Sale Agreement dated as of July 12, 2018, by and between Exodus Energy, Inc. and Empire Louisiana LLC (incorporated herein by reference to Exhibit 2.1 of Empire's Current Report on Form 8-K filed on July 19, 2018). |
| 10.2 | Purchase and Sale Agreement dated as of July 23, 2018, by and between Cardinal Exploration and Production Company and Empire Louisiana LLC (incorporated herein by reference to Exhibit 2.1 of Empire's Current Report on Form 8-K filed on July 25, 2018). |
| 31.1 | Certification of Thomas Pritchard, Chief Executive 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). |
| 31.2 | Certification of Michael R. Morrisett, President 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). |
| 32.1 | Certification of Thomas Pritchard, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (submitted herewith). |
| 32.2 | Certification of Michael R. Morrisett, President 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).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

| | | | |
|---|---|---|---|
| Date: | August 14, 2018 | By: | /s/ Michael R. Morrisett |
| | | | Michael R. Morrisett |
| | | | President |
| | | | (principal financial officer) |

| | | | |
|---|---|---|---|
| Date: | August 14, 2018 | By: | /s/ Thomas Pritchard |
| | | | Thomas Pritchard |
| | | | Chief Executive Officer |

EXHIBIT INDEX

| NO. | DESCRIPTION |
| --- | --- |
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