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EMPIRE PETROLEUM CORP
Form 10-Q
November 15, 2010

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

(Mark One)

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

For the quarterly period ended September 30, 2010

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 001-16653

EMPIRE PETROLEUM CORPORATION

(Exact name of registrant 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
(Registrant's telephone number, including area code)

Not Applicable

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

Indicate by check 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 (Sec. 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.

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See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDING 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 November 15, 2010 was 83,069,235

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PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

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EMPIRE PETROLEUM CORPORATION

BALANCE SHEETS

| | September 30, 2010 (Unaudited) | December 31, 2009 |
|---|--------------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 59,825 | \$ 1,171,565 |
| Accounts receivable (net of allowance of \$3,750 at September 30, 2010 and December 31, 2009) | 55,915 | 45,915 |
| Prepaid expenses | 9,353 | 0 |
| Total current assets | 125,093 | 1,217,480 |
| Property & equipment, net of accumulated depreciation and depletion | 2,620,947 | 920,215 |
| Total assets | \$ 2,746,040 | \$ 2,137,695 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Account payable and accrued liabilities | \$ 199,336 | \$ 10,583 |
| Total current liabilities | 199,336 | 10,583 |
| Long-term liabilities: | | |
| Asset retirement obligation | 34,200 | 34,200 |
| Total liabilities | 233,536 | 44,783 |
| Stockholders' equity: | | |
| Common stock - \$.001 par value, authorized 100,000,000 shares, issued and outstanding 83,069,235 and 74,553,361 shares, respectively | 83,069 | 74,553 |
| Additional paid in capital | 13,891,642 | 13,149,578 |
| Accumulated deficit | (11,462,207) | (11,131,219) |
| Total stockholders' equity | 2,512,504 | 2,092,912 |
| Total liabilities and stockholders' equity | \$ 2,746,040 | \$ 2,137,695 |

See accompanying notes to unaudited financial statements.

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EMPIRE PETROLEUM CORPORATION

STATEMENTS OF OPERATIONS

(UNAUDITED)

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| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-------------|-------------------|--------------|
| | September 30, | | September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Revenue: | | | | |
| Petroleum sales | \$ 0 | \$ 0 | \$ 0 | \$ 9,794 |
| | 0 | 0 | 0 | 9,794 |
| Costs and expenses: | | | | |
| Production & operating | 68,067 | 57,008 | 149,892 | 98,395 |
| General & administrative | 56,119 | 41,153 | 194,549 | 159,750 |
| | 124,186 | 98,161 | 344,441 | 258,145 |
| Operating loss | (124,186) | (98,161) | (344,441) | (248,351) |
| Other income and (expense): | | | | |
| Gain on sale of Cheyenne | | | | |
| River Prospect | 0 | 0 | 0 | 102,708 |
| Interest income | 547 | 262 | 3,453 | 262 |
| Other income | 10,000 | 0 | 10,000 | 0 |
| Total other income and (expense) | 10,547 | 262 | 13,453 | 102,970 |
| Net income (loss) | \$ (113,639) | \$ (97,899) | \$ (330,988) | \$ (145,381) |
| Net income (loss) per common share, basic and diluted | \$ (.00) | \$ (.00) | \$ (.00) | \$ (.00) |
| Weighted average number of common shares outstanding, basic and diluted | 82,931,872 | 57,193,128 | 79,614,023 | 57,193,128 |

See accompanying notes to unaudited financial statements.

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EMPIRE PETROLEUM CORPORATION

STATEMENTS OF CASH FLOWS

(UNAUDITED)

Nine Months Ended

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| | September 30, 2010 | September 30, 2009 |
|--|-----------------------|-----------------------|
| Cash flows from operating activities: | | |
| Net loss | \$ (330,988) | \$ (145,381) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Value of services contributed by employee | 37,500 | 37,500 |
| Stock option plan expense | 28,080 | 0 |
| Gain on sale of Cheyenne River Prospect | 0 | (102,708) |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (10,000) | (27,492) |
| Prepaid expenses | (9,353) | 9,075 |
| Accounts payable and accrued liabilities | 188,753 | (11,870) |
| Net cash used in operating activities | (96,008) | (240,876) |
| Cash flows from investing activities: | | |
| Acquisition of lease acres | (35,000) | (7,191) |
| Well equipment & drilling costs | (1,665,732) | 0 |
| Sale of Cheyenne River interests | 0 | 166,525 |
| Purchase of option on South Okie Prospect | 0 | (25,000) |
| Net cash provided by (used in) investing activities | (1,700,732) | 134,334 |
| Cash flows from financing activities: | | |
| Proceeds from private equity placement | 685,000 | 600,000 |
| Net increase (decrease) in cash | (1,111,740) | 493,458 |
| Cash - Beginning of period | 1,171,565 | 124,122 |
| Cash - End of period | \$ 59,825 | \$ 617,580 |

See accompanying notes to unaudited financial statements.

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EMPIRE PETROLEUM CORPORATION

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

(UNAUDITED)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES:

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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, 2010.

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, 2009 which are contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 30, 2010.

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. 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 the ability of the Company to attain future profitable production.

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 November 15, 2010 (extended from the previous date of August 15, 2010) 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

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the Company's share of the costs associated with its then 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 75,201 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

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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 at an exercise price of \$0.50 per share for an aggregate purchase price of \$1,450,000. In April 2007, the Company raised \$1,000,000 through 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 which have an exercise price of \$0.50 per share and which expire November 15, 2010. On August 2, 2007, the Company acquired an additional 17% interest, which increased its interest in the Gabbs Valley Prospect and leases to 57% (See Note 2). The Company acquired an additional 9,943.91 acres of leases at a September 2008 lease sale and 7,680 acres at a September 2009 lease sale bringing the total acreage in which it has a 57% interest to 92,825 acres. The Company was encouraged by the data it acquired in connection with the drilling, logging and testing of the well. Such data, additional studies of such data, the assistance of geological and engineering consultants and an Advanced Geochemical Imaging Survey conducted in December 2008 led the Company to determine that further drilling was warranted.

During the quarter ended March 31, 2010, the Company received stock subscriptions of \$285,000 as a part of its private placement offering, which concluded on January 26, 2010. The subscribers received 4,071,428 shares of stock valued at \$.07 per share. The shares were issued in January 2010. Proceeds were utilized for the Company's share of costs to drill a new well on the Gabbs Valley Prospect.

In July 2010, the Company completed its most recent private placement offering by issuing 2,500,002 additional shares of common stock, and 1,250,001 additional warrants to purchase shares of common stock at a price of \$.50, which expire in June and July, 2011, as applicable, with an aggregate purchase price of \$225,000. Proceeds from the two most recent private placements will be utilized for the Company's share of costs to drill a new well on the Gabbs Valley Prospect (See Note 2). Any remaining funds will be used for general working capital purposes.

As of September 30, 2010, the Company had \$59,825 of cash on hand. In order to sustain the Company's operations on a long-term basis, the Company continues to look for merger opportunities and consider public or private financings. The Company anticipates that with the sale of a portion of its working interest in October 2010 (See Note 4) it has the funds necessary to continue its operations through the next three months.

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

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as a capital contribution. For the nine months ended September 30, 2010, the Company recorded \$37,500 as a capital contribution by its executive officer.

Fair Value Measurements

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

2. PROPERTY AND EQUIPMENT:

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GABBS VALLEY PROSPECT

The Company owns a 57% working interest in oil and gas leases in Nye and Mineral Counties, Nevada (the "Gabbs Valley Prospect"). Initially, the Company's working interest was 10% and the Gabbs Valley Prospect consisted of 44,604 acres, but now consists of 92,825 acres.

As of December 31, 2005, there had been no wells drilled on the Gabbs Valley Prospect. However, in November 2005, the Company received the results of a 19-mile 2-D swath seismograph survey conducted on the prospect and, based on the results of the survey, the Company and its partners determined that a test well should be drilled on the prospect. The Company also elected to increase its interest in the prospect by taking a farm-in from Cortez Exploration LLC (formerly O. F. Duffield). Empire agreed to pay Cortez \$675,000 in lease costs plus 45% of the costs associated with the drilling of a test well to earn an additional 30% working interest which made its total working interest 40%. The lease block of 44,604 acres was increased to 75,521 acres by the acquisition of an additional 30,917 acres from the Department of the Interior (Bureau of Land Management) in June 2006. The block was reduced to 75,201 acres due to the expiration of one 320-acre lease during 2007. In 2008 and 2009, the Company acquired leases on 17,624 additional acres through federal lease sales, bringing its total to 92,825 acres.

After reaching 5,195 feet in connection with drilling this first test well, the Company and its partners elected to suspend operations on the well, release the drilling rig, and associated equipment and personnel to evaluate the drilling and logging data. After the study was completed, Empire and its partners decided to conduct a thorough testing program on the well. The Company re-entered the well on April 17, 2007 and conducted a series of drill stem tests and recovered only drilling mud. It was then determined after considerable study that the formation is likely very sensitive to mud and water used in drilling which may have caused clays in the formation to swell preventing any oil that might be present to flow into the wellbore. During 2007, the Company increased its interest in the prospect leases to 57% when one of the joint participants elected to surrender its 30% share of the prospect. The Company and its joint owners assumed liabilities of approximately \$68,000 to acquire this interest.

Other than a 5,000 barrel-per-day refinery located approximately 200 miles from the Gabbs Valley Prospect, there are no pipelines or service networks located near the prospect. A small refinery located about 115 miles from the prospect has now shut down.

In 2008, the Company and its partners engaged W. L. Gore and Associates to

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carryout an Amplified Geochemical Imaging Survey which covered approximately sixteen square miles. The survey was concentrated along the apex of the large Cobble Cuesta structure which included the areas around the Empire Cobble Cuesta 1-12 exploratory test and the other test well drilled in the immediate area. Both of these tests encountered oil shows and the geochemical survey indicated potential hydrocarbons beyond the two well bores. A new Federal drilling unit has been formed and approved by the Bureau of Land Management. This unit is known as the Paradise Drilling Unit and contains 40,073 acres out of our total lease block now containing 92,825 acres.

In July 2010, the Company entered into a farm-in agreement with its joint lease holders holding a 41% working interest in the 40,073 acre Paradise Unit. On July 19, 2010, the Company commenced drilling a test well in the Paradise Unit on the Gabbs Valley Prospect in Nevada.

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Subsequent to September 30, 2010, the Company drilled a test well, the Paradise Unit 2-12, to a depth of 4,250 feet before drilling problems caused the Company to cease drilling. The Company tested the well between 3,700 feet and 3,782 feet where oil shows had been found. The Company recovered small amounts of oil containing paraffin, which may have been restricting the oil flow. However, swab tests failed to increase the oil flow and the Company has suspended operations on the well pending an engineering analysis of whether chemical additives might increase the flow of oil.

SOUTH OKIE PROSPECT

On August 4, 2009, the Company purchased, for \$25,000 and payment of lease rentals of \$4,680, a nine-month option to purchase 2,630 net acres of oil and gas leases known as the South Okie Prospect in Natrona County, Wyoming.

The option allowed the Company to purchase the leasehold interests for \$35,000 which was exercised in 2010. The Tensleep Sand at depths from 3,300 feet to 4,500 feet is the primary target. The Tensleep is an excellent oil reservoir with the potential of 700 barrels of oil per acre foot recovery. The Company has completed its geological and seismic studies and subsequent to the completion of these studies it has carried out a thorough engineering study. This later study focused on the most promising locations and potential reserves. The Company has elected to concentrate on drilling its Nevada prospect before deciding on a course of action on this prospect.

3. EQUITY

On June 14, 2010, the Company extended all of its outstanding warrants to November 15, 2010. Fair values of the extended warrants were estimated at the date of extension using the Black-Scholes Option Valuation Model with the following weighted average assumptions: risk free interest rate of .15%, volatility factor of the expected market price of the Company's common stock of 154%, no dividend yield, and a weighted average expected life of the warrants of 5 months. As a result of the extension, the outstanding warrants were revalued at \$131,125, which had no income statement effect.

On March 17, 2010, John C. Kinard, a member of the Company's Board of Directors, was issued options to purchase 70,000 shares of the Company's common stock under the 2006 Stock Option Plan at a strike price of \$0.25 per share. The options immediately vested and expire after ten years. The Company recorded an expense of \$16,380 for the options. Fair values were estimated at the date of grant of the options, using the Black-Scholes

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Option Valuation Model with the following weighted average assumptions: risk free interest rate of 3.65%, volatility factor of the expected market price of the Company's common stock of 162%, no dividend yield, and a weighted average expected life of the options of 5 years. For the purpose 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 SEC.

On September 9, 2010, Alfred H. Pekarek, a consulting geologist to the Company was issued options to purchase 50,000 shares of the Company's common stock under the 2006 Stock Option Plan at a strike price of \$0.26 per share. The options immediately vested and expire after ten (10) years. The Company recorded an expense of \$11,700 for the options. 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 2.77% volatility factor of the expected market price of the Company's common stock of 142%, no dividend yield, and a weighted average expected life

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of the options of 5 years. For the purpose 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 SEC.

Diluted EPS gives effect to all dilutive potential common shares outstanding during the period. The computation of Diluted EPS does not assume conversion, exercise or contingent exercise of securities that would have an anti-dilutive effect on losses. As a result, if there is a loss from continuing operations, Diluted EPS is computed in the same manner as Basic EPS. At September 30, 2010, the Company had 1,095,000 and 6,534,726 options and warrants outstanding, respectively, that were not included in the calculation of earnings per share for the periods then ended. Such financial instruments may become dilutive and would then need to be included in future calculations of Diluted EPS. At September 30, 2010, the outstanding options and warrants were considered anti-dilutive since the strike prices were below the market price and since the Company has incurred losses year to date.

In January 2010, the Company received stock subscriptions of \$285,000 as a part of its then ongoing private placement offering, which concluded on January 26, 2010. The subscribers received 4,071,428 shares of stock valued at \$.07 per share. Subsequent to this private placement, the Company determined that it needed to enter into the farm-in agreement (See Note 4) and raise additional funds in order to successfully drill a new test well on the Gabbs Valley Prospect.

In June 2010, the Company issued 1,944,444 shares of its common stock and warrants to purchase 972,225 shares of common stock (with an exercise price of \$0.50 per share and which expire in June 2011), with an aggregate purchase price of \$175,000 as a part of its most recent private placement offering. Proceeds of the private placement were allocated \$43,750 to common stock warrants and \$131,250 to common stock and paid in capital. The value of the warrants was estimated using the Black-Scholes Valuation Model with the following weighted average assumptions: risk free interest rate of .30%, no dividend yield, volatility factor of the expected market price of the Company's common stock of 155%, and a weighted average expected life of the warrants of one year.

In July 2010, the Company completed its most recent private placement offering by issuing 2,500,002 additional shares of common stock, and 1,250,001 additional warrants to purchase shares of common stock at a price of \$.50, which expire in June and July, 2011, as applicable, with an aggregate purchase

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price of \$225,000. Proceeds from the two most recent private placements will be utilized for the Company's share of costs to drill a new well on the Gabbs Valley Prospect (See Note 2). Any remaining funds will be used for general working capital purposes.

Proceeds of the June-July 2010 private placement were allocated \$77,500 to common stock warrants and \$322,500 to common stock and paid in capital. The value of the warrants was estimated using the Black-Scholes Valuation Model with the following weighted average assumptions: risk free interest rate of .30%, no dividend yield, volatility factor of the expected market price of the Company's common stock of 157%, and a weighted average expected life of the warrants of one year.

4. SUBSEQUENT EVENTS

In October 2010 the Company sold 7% of its working interest in the Gabbs Valley Prospect leases for \$700,000. The sale grants the purchasers a working interest in the Paradise Unit 2-12 well and grants an option to participate in the farmin of the non-unit leases.

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In October and November, 2010 the Company continued drilling the Paradise Unit 2-12 well to a depth of 4,250 feet before drilling problems caused the Company to cease drilling. The Company tested the well between 3,700 and 3,782 feet where oil shows had been found. The Company recovered small amounts of oil containing paraffin, which may have been restricting the oil flow. However, swab tests failed to increase the oil flow and the Company has suspended operations on the well pending an engineering analysis of whether chemical additives might increase the flow of oil. See Note 2.

5. RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) periodically issues new accounting standards in a continuing effort to improve standards of financial accounting and reporting. The Company has reviewed the recently issued pronouncements and concluded that the following new accounting standards are applicable:

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements." This Update requires new disclosures regarding the amount of transfers in or out of Levels 1 and 2 along with the reason for such transfers and also requires a greater level of disaggregation when disclosing valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. This Update also includes conforming amendments to the guidance on employers' disclosures about postretirement benefit plan assets. The disclosures are required for reporting beginning in the first quarter 2010. Also, beginning with the first quarter 2011, the standard requires additional categorization of items included in the rollforward of activity for Level 3 inputs on a gross basis. Adoption of this standard will not have a material effect on the Company's financial statements.

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

RESULTS OF OPERATIONS

GENERAL TO ALL PERIODS

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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. Sales revenue in 2009 was 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, which was sold in 2009. 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, 2010, COMPARED TO THREE MONTH PERIOD ENDED SEPTEMBER 30, 2009.

Production and operating expenses increased \$11,059 to \$68,067 for the three months ended September 30, 2010, from \$57,008 for the same period in 2009.

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The increase was primarily due to Empire's higher share of Gabbs Valley lease rentals due to its increased percentage.

General and administrative expenses increased by \$14,966 to \$56,119 for the three months ended September 30, 2010, from \$41,153 for the same period in 2009. The increase was primarily due to increased options granted and legal and travel costs associated with the Company's private placement offering.

Other income increased to \$10,000 for the three months ended September 30, 2010 from \$0 for the same period in 2009. The increase was due to the sale of well log data to a third party in September 2010.

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2010, COMPARED TO NINE MONTH PERIOD ENDED SEPTEMBER 30, 2009.

For the nine months ended September 30, 2010, sales revenue decreased \$9,794 to \$0 compared to \$9,794 for the same period during 2009. As of September 30, 2009 the Timber Draw #1-AH and the Hooligan Draw #1-AH wells had been sold.

Production and operating expenses increased \$51,497 to \$149,892 for the nine months ended September 30, 2010, from \$98,395 for the same period in 2009. The increase was primarily due to Empire's higher share of Gabbs Valley lease rentals due to its increased percentage.

General and administrative expenses increased by \$34,799 to \$194,549 for the nine months ended September 30, 2010, from \$159,750 for the same period in 2009. The increase was primarily due to options granted and costs associated with the issuance of stock options in 2010.

Other income increased to \$10,000 for the nine months ended September 30, 2010 from \$0 for the same period in 2009. The increase was due to the sale of well log data to a third party in September 2010.

RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) periodically issues new accounting standards in a continuing effort to improve standards of financial

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accounting and reporting. The Company has reviewed the recently issued pronouncements and concluded that the following new accounting standards are applicable:

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements." This Update requires new disclosures regarding the amount of transfers in or out of Levels 1 and 2 along with the reason for such transfers and also requires a greater level of disaggregation when disclosing valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. This Update also includes conforming amendments to the guidance on employers' disclosures about postretirement benefit plan assets. The disclosures are required for reporting beginning in the first quarter 2010. Also, beginning with the first quarter 2011, the standard requires additional categorization of items included in the rollforward of activity for Level 3 inputs on a gross basis. Adoption of this standard will not have a material effect on the Company's financial statements.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

As of September 30, 2010, the Company had \$59,825 of cash on hand. The

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Company believes that its cash on hand along with proceeds from the sale of a portion of its working interest in the Paradise Unit, will allow it to finance its operations for the next six months. 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 plans to undertake further exploration of the Gabbs Valley Prospect in 2010.

OUTLOOK

As stated elsewhere in this Form 10-Q, on May 1, 2007, after further testing of the Company's only well in the Gabbs Valley Prospect, the Company decided to partially plug and abandon the well since no hydrocarbons were recovered. However, the Company was encouraged by the data it acquired in connection with the drilling, logging and testing of the well. Such data, additional studies of such data, the assistance of geological and engineering consultants and an Advanced Geochemical Imaging Survey conducted in December 2008 led the Company to determine that further drilling is warranted. It is possible that excessive mud exposure in the hole for over five months seriously impeded the process of recovering hydrocarbons. It was determined that a new test well should be drilled using a different method of drilling.

The Company drilled the Paradise Unit 2-12 well to a depth of 4,250 feet before drilling problems caused the Company to cease drilling. The Company recovered small amounts of oil containing paraffin, which may have been restricting the oil flow. However, swab tests failed to increase the oil flow and the Company has suspended operations on the well pending an engineering analysis of whether chemical additives might increase the flow of oil. Based on the engineering analysis the Company will determine its next actions related to the well.

MATERIAL RISKS

The Company has incurred significant losses from operations and there is no

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assurance that it will achieve profitability or obtain the funds necessary to finance continued operations. For other material risks, see the Company's Form 10-K for the period ended December 31, 2009, which was filed on March 30, 2010.

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 fiscal year ended December 31, 2009. Actual results may vary materially from the forward-looking statements.

The Company undertakes no duty to update any of the forward-looking statements

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in this Form 10-Q.

Item 4. CONTROLS AND PROCEDURES

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

PART II. OTHER INFORMATION

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

During the three months ended September 30, 2010, the Company received subscriptions for 1,944,444 shares of its common stock, par value \$0.001 per share, through a private placement. During such period, it also issued warrants to purchase 972,225 shares of its common stock in connection with the private placement (with an exercise price of \$0.50 per share and which expire in June, 2011). The aggregate purchase price for such shares and warrants was \$175,000. The private placement concluded on July 13, 2010. In total in the private placement (including events prior to July 1, 2010), the Company received subscriptions for 4,444,446 shares of its common stock, par value \$0.001 per share, and warrants to purchase 2,222,226 shares of its common stock (with an exercise price of \$0.50 per share and which expire in June and July, 2011, as applicable), with an aggregate purchase price of \$400,000. The material terms and conditions applicable to the purchase and sale of the securities in the private placement are set forth in the form of the securities purchase

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agreement and the common warrant certificate incorporated herein by reference. The funds raised in the private placement will be used for the purposes discussed in Note 3 to the financial statements.

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 SEC thereunder. Each of the investors in the private placement was 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 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.

On September 9, 2010, Alfred H. Pekarek was issued options to purchase 50,000 shares of the Company's common stock under the 2006 Stock Option Plan at a strike price of \$0.26 per share. The options immediately vested and expire after ten years. The options were not registered under the Securities Act of 1933, as amended, and were issued in exchange for consulting engineering services.

In relation to the options issued to Alfred H. Pekarek, the Company relied on the exemption set forth in Section 4(2) of the Securities Act of 1933, as amended, in connection with the issuance of the options described above. Alfred H. Pekarek is a sophisticated person, there was no underwriting in connection with the issuance of these options and no commissions were paid to

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any party upon such issuance. Additional information about the issuance of these options can be found in Note 3 in the Notes to Financial Statements.

Item 6. Exhibits

a) Exhibits

- 10.1 Form of securities purchase agreement entered into between Empire Petroleum Corporation and certain accredited investors in connection with the June-July 2010 private placement (Incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q for the period ended June 30, 2010, which was filed on August 13, 2010).
- 10.2 Form of common share warrant certificate issued by Empire Petroleum Corporation in favor of certain accredited investors in connection with the June-July 2010 private placement (Incorporated herein by reference to Exhibit 10.2 to the Company's Form 10-Q for the period ended June 30, 2010, which was filed on August 13, 2010).
- 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-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (submitted herewith).
- 32 Certification of Chief Executive Officer (and principal financial officer) pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (submitted herewith).

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EMPIRE PETROLEUM CORPORATION SIGNATURES

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

EMPIRE PETROLEUM CORPORATION

Date: November 15, 2010

By: /s/ Albert E. Whitehead

Albert E. Whitehead
Chairman, Chief Executive
Officer and Principal
Financial Officer

EXHIBIT INDEX

| NO. | DESCRIPTION |
|------|--|
| 10.1 | Form of securities purchase agreement entered into between Empire Petroleum Corporation and certain accredited investors in connection with the June-July 2010 private placement (Incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q for the period ended June 30, 2010, which was filed on August 13, 2010). |

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- 10.2 Form of common share warrant certificate issued by Empire Petroleum Corporation in favor of certain accredited investors in connection with the June-July 2010 private placement (Incorporated herein by reference to Exhibit 10.2 to the Company's Form 10-Q for the period ended June 30, 2010, which was filed on August 13, 2010).
- 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-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (submitted herewith).
- 32 Certification of Chief Executive Officer (and principal financial officer) pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (submitted herewith).

EXHIBIT 31

CERTIFICATION

I, Albert E. Whitehead, certify that:

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

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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 registrant as of, and for, the periods presented in this report;

4. The registrant'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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 15, 2010

/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-Q for the period ending September 30, 2010 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 15, 2010

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

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A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Report and shall not be considered filed as part of the Report.