

EMPIRE PETROLEUM CORP  
Form 10-K  
March 21, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-K**

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**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2011**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**EMPIRE PETROLEUM CORPORATION**

(Exact name of registrant as specified in its charter)

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

**4444 E. 66th Street, Lower Annex, Tulsa, OK 74316-4207**

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(Address of principal executive offices) (Zip Code)

**918-488-8068**

(Registrant's telephone number, including area code, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class: NONE

Name of each exchange on which registered: N/A

**Securities registered pursuant to 12(g) of the Act:**

Title of each class: Common Stock, \$0.001 par value

Name of each exchange on which registered

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates, based upon the average bid and asked prices of the registrant's Common Stock on the last business day of the registrant's most recently completed second fiscal quarter was \$3,609,232.

**Note.**—If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided that the assumptions are set forth in the Form.

**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 REGISTRANTS)**

The number of shares of the registrant's common stock, \$0.001 par value, outstanding as of December 31, 2011 was 85,564,235.

**DOCUMENTS INCORPORATED BY REFERENCE**

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

EMPIRE PETROLEUM CORPORATION

FORM 10-K

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## PART I

### ITEM 1. BUSINESS.

#### Background

Empire Petroleum Corporation, a Delaware corporation (the "Company"), was incorporated in the State of Utah in August 1983 under the name Chambers Energy Corporation and domesticated in Delaware in March 1985 under the name Americomm Corporation. The Company's name was changed to Americomm Resources Corporation in July 1995. On May 29, 2001, Americomm Resources Corporation acquired Empire Petroleum Corporation, which became a wholly owned subsidiary of Americomm Resources Corporation. On August 15, 2001, Americomm Resources Corporation and Empire Petroleum Corporation merged and the Company's name was changed to Empire Petroleum Corporation. The Company operates from leased office space at 4444 E. 66th Street, Lower Annex, Tulsa, OK 74136-4207, and its telephone number is (918) 488-8068.

During the past three fiscal years, the Company has focused on the exploration of the Gabbs Valley Prospect and the evaluation of the South Okie Prospect as further described below.

#### Gabbs Valley Prospect

The Company owns a working interest in oil and gas leases in Nye and Mineral Counties, Nevada (the "Gabbs Valley Prospect"). As of December 31, 2011, the Company's working interest was 50% on 30,346 gross acres and 88.5% on 3,840 gross acres. The Gabbs Valley Prospect consisted of 34,186 gross acres.

In 2006, a test well, the Empire Cobble Cuesta 1-12-12N-34E, Nye County, Nevada was drilled to a depth of 5,195 feet. The well encountered a volcanic formation at 1,760 feet and scattered oil shows from 2,000 feet to total depth. After reaching 5,195 feet, 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.

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

During 2010, the Company had a new Federal drilling unit formed and approved by the Bureau of Land Management ("BLM"). This unit was formed according to the Company's plans to drill a second test well on the prospect to be known as the Empire Paradise Unit 2-12. This test well was to be drilled to 6,000 feet, or 500 feet into the Triassic formation or into a zone that establishes commercial production at a lesser depth. Drilling operations were commenced July 19, 2010 and ceased on November 5, 2010. During the drilling phase, the Company had several zones where oil shows were observed. During its test from 3,698' to 3,786' a small amount of oil was recovered. Drilling continued to 4,248', encountering additional oil shows and the decision was made to set 7" production casing to 4,225'. A further attempt to deepen the hole failed when a heavy water flow was encountered at 4,248'. One further test through the pipe at 4,140' to 4,167' tested water. It was then decided to test the area between 3,700' to 3,782'. Oil was recovered from this interval and was swabbed at the rate of three (3) to five (5) barrels of oil per day. The recovered oil contained a significant amount of paraffin, which could have restricted the oil production. The Company then made the decision to plug the well, considering it to be non-commercial. One of the parties that had farmed out their interest to Empire for drilling the 2-12 test well asked for an assignment of the lease on which the well was drilled. Empire agreed to this assignment subject to such party's assumption of the plugging liabilities of both the 1-12 and 2-12 wells, plus the reclaiming and seeding of the two well sites and replacing Empire's \$25,000 drilling bond. The acquiring party conducted additional testing of the well. The Company has been provided with such additional well data. Although the Company is not optimistic that further testing will improve the 2-12 well, it believes there is producible oil in the very large Cobble Cuesta Structure, which is located 150 miles from the nearest oil production. As a result, the Company is conducting additional geological studies with the expectation it will likely promote the drilling of another test on the prospect.

Other than a small refinery located approximately 100 miles from the Gabbs Valley Prospect, and a six inch gas pipeline crossing our prospect, there are no service networks are located near the prospect.

#### 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 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. The Tensleep Sand at depths from 3,300 feet to 4,500 feet is the primary target. As of December 31, 2009, the Company acquired 11 miles of seismic data and studies of this data were completed in early January 2010. An additional geological study was also completed early January 2010. Based on these studies, the Company exercised its option in 2010. Subject to securing additional financing and/or engaging an industry partner, the Company plans to drill or cause to be drilled a test well in 2012.



As of December 31, 2011, the Company's interest in the Okie Draw Prospect consisted of approximately 830 net acres of leases.

### Competition

The oil and gas business is extremely competitive. The Company must compete with many long-established companies with greater financial resources and technical capabilities. The Company is not a significant participant in the oil and gas industry.

### Markets; Price Volatility

The market price of oil and gas is volatile, subject to speculative movement and depends upon numerous factors beyond the control of the Company, including expectations regarding inflation, global and regional demand, political and economic conditions and production costs. Future profitability, if any, will depend substantially upon the prevailing prices for oil and gas. If the market price for oil and gas is significantly depressed in the future, it could have a material adverse effect on the Company's ability to raise additional capital necessary to finance operations and to explore the Gabbs Valley and South Okie Prospects. Lower oil and gas prices may also reduce the amount of oil and gas, if any, that can be produced economically from the Company's properties. While the prices of oil and gas remain volatile, the oil and gas industry has recently experienced historically high prices for oil and gas. The Company anticipates that the prices of oil and gas will fluctuate somewhat in the near future.

### Regulation

The oil and gas industry is subject to extensive federal, state and local laws and regulations governing the production, transportation and sale of hydrocarbons as well as the taxation of income resulting therefrom.

Legislation affecting the oil and gas industry is constantly changing. Numerous federal and state departments and agencies have issued rules and regulations applicable to the oil and gas industry. In general, these rules and regulations regulate, among other things, the extent to which acreage may be acquired or relinquished; spacing of wells; measures required for preventing waste of oil and gas resources; and, in some cases, rates of production. The heavy and increasing regulatory burdens on the oil and gas industry increase the Company's cost of doing business and, consequently, affect profitability.

A substantial portion of the leases, which constitute the South Okie and Gabbs Valley Prospects are granted by the federal government and administered by the BLM and the Minerals Management Service ("MMS") of the U.S. Department of the Interior, both of which are federal agencies. Such leases are issued through competitive bidding, contain relatively standardized terms and require compliance with detailed BLM and MMS regulations and orders (which are subject to change by the BLM and the MMS). Leases are also accompanied by stipulations imposing restrictions on surface use and operations. Operations to be conducted by the Company on federal oil and gas leases must comply with numerous regulatory restrictions, including various nondiscrimination statutes. Federal leases also generally require a complete archaeology and environmental impact assessment prior to the authorization of an exploration or development plan.

The Company's oil and gas properties and operations are also subject to numerous federal, state and local laws and regulations relating to environmental protection. These laws govern, among other things, the amounts and types of substances and materials that may be released into the environment, the issuance of permits in connection with exploration, drilling and production activities, the reclamation and abandonment of wells and facility sites and the remediation of contaminated sites. These laws and regulations may impose substantial liabilities if the Company fails to comply or if any contamination results from the Company's operations.

#### Employees

As of December 31, 2011, the Company had one employee, a full-time secretary. Mr. Albert E. Whitehead, Chairman and Chief Executive Officer, devotes a considerable amount of time to the affairs of the Company and receives no compensation. For financial statement purposes, Mr. Whitehead's services have been recorded as contributed capital and expense in the amount of \$50,000 for the years ended December 31, 2011 and 2010.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

#### ITEM 2. PROPERTIES.

##### Gabbs Valley Prospect

As of December 31, 2011, the Gabbs Valley Prospect consisted of approximately 34,186 gross acres of federal leases located in Nye County, Nevada, of which the Company owns a 50% working interest.

As of December 31, 2011, two wells, the Empire Cobble Cuesta 1-12 and the Empire Paradise 2-12, had been drilled and tested on this prospect, but the wells were not completed. For more information regarding the Gabbs Valley Prospect, see "Gabbs Valley Prospect" under Item 1. Business.

## COMPANY UNDEVELOPED ACREAGE (LEASES)

### GABBS VALLEY PROSPECT, NYE COUNTY, NEVADA

#### AS OF DECEMBER 31, 2011

| Federal Lease Number | Undeveloped Gross Acres | Acres Acreage Net Acres | Productive Gross Acres | Acres Acreage Net Acres | Effective Date | Remaining Term (Years) |
|----------------------|-------------------------|-------------------------|------------------------|-------------------------|----------------|------------------------|
| N-82185              | 1,927.00                | 963.50                  | -                      | -                       | 9/1/2006       | 5                      |
| N-82186              | 2,355.00                | 1,177.50                | -                      | -                       | 9/1/2006       | 5                      |
| N-82187              | 760.00                  | 380.00                  | -                      | -                       | 9/1/2006       | 5                      |
| N-82195              | 2,560.00                | 1,280.00                | -                      | -                       | 9/1/2006       | 5                      |
| N-82196              | 2,560.00                | 1,280.00                | -                      | -                       | 9/1/2006       | 5                      |
| N-82197              | 1,920.00                | 960.00                  | -                      | -                       | 9/1/2006       | 5                      |
| N-85867              | 2,538.67                | 1,269.34                | -                      | -                       | 11/1/2006      | 7                      |
| N-85871              | 2,544.24                | 1,272.12                | -                      | -                       | 11/1/2006      | 7                      |
| N-85873              | 2,400.00                | 1,200.00                | -                      | -                       | 11/1/2006      | 7                      |
| N-85876              | 2,461.00                | 1,230.50                | -                      | -                       | 11/1/2006      | 7                      |
| N-86998              | 2,560.00                | 1,280.00                | -                      | -                       | 11/1/2006      | 7                      |
| N-86999              | 2,560.00                | 1,280.00                | -                      | -                       | 11/1/2006      | 7                      |
| N-87000              | 2,560.00                | 1,280.00                | -                      | -                       | 11/1/2006      | 7                      |
| N-89136              | 640.00                  | 320.00                  | -                      | -                       | 12/1/2011      | 9                      |
| N-90505              | 1,920.00                | 1,699.20                | -                      | -                       | 2/1/2012       | 10                     |
| N-90506              | 1,920.00                | 1,699.20                | -                      | -                       | 2/1/2012       | 10                     |
| TOTALS               | 34,185.91               | 18,571.36               |                        |                         |                |                        |

During the last three years, the Company has drilled one well, the Empire Paradise Unit 2-12, which is in the Gabbs Valley Prospect. For additional information regarding this well, see Item 1 of this Form 10-K.

As of December 31, 2011, the Company's interest in the Okie Draw Prospect consisted of approximately 830 net acres of leases.

## COMPANY UNDEVELOPED ACREAGE (LEASES)

**OKIE DRAW PROSPECT, NATRONA COUNTY, WYOMING****AS OF DECEMBER 31, 2011**

| Federal Lease Number | Undeveloped Gross Acres | Acreage Net Acres | Productive Gross Acres | Acreage Net Acres | Effective Date | Remaining Term (Years) |
|----------------------|-------------------------|-------------------|------------------------|-------------------|----------------|------------------------|
| WYW-0323746          | 240.00                  | 30.00             | -                      | -                 | 11/1/1972      | HBP                    |
| WYW-036587           | 320.00                  | 40.00             | -                      | -                 | 11/1/1972      | HBP                    |
| WYW-036587           | 40.00                   | 40.00             | -                      | -                 | 11/1/1972      | HBP                    |
| WYW-1744647          | 720.00                  | 720.00            | -                      | -                 | 10/1/2007      | 6                      |
|                      | 1,320.00                | 830.00            |                        |                   |                |                        |

**CHEYENNE RIVER PROSPECT****NIOBRARA COUNTY, WYOMING****OIL & GAS PRODUCTION**

|   | 2011*  | 2010*  | 2009**     |
|---|--------|--------|------------|
| Revenue   | \$0.00 | \$0.00 | \$9,793.57 |
| Production costs excluding depreciation, depletion, amortization and impairment | \$0.00 | \$0.00 | \$7,244.85 |
| Average sales prices (Bbl)  | \$0.00 | \$0.00 | \$33.65    |
| Oil production (Bbl)  | 0.00   | 0.00   | 1,991.81   |
| Depreciation, depletion & amortization  | \$0.00 | \$0.00 | \$0.00     |
| Impairment of oil & gas production  | \$0.00 | \$0.00 | \$0.00     |

\* The Company sold the Cheyenne River Prospect in 2009.

\*\* All oil sales revenue and production for fiscal year 2009 related to the Cheyenne River Prospect.

**ITEM 3. LEGAL PROCEEDINGS.**

As of December 31, 2011, neither the Company nor its properties were subject to any legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

**PART II**

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

The Company's Common Stock is traded on the OTCQB under the symbol "EMPR".

The following table sets forth the high and low bid information for the Company's common stock during the time periods indicated, as reported by NASDAQ.

Year ending December 31, 2010:

| Quarter  | High | Low  |
|----------|------|------|
| 03/31/10 | .25  | .065 |
| 06/30/10 | .19  | .05  |
| 09/30/10 | .245 | .01  |
| 12/31/10 | .21  | .03  |

Year ending December 31, 2011:

| Quarter  | High | Low   |
|----------|------|-------|
| 03/31/11 | .094 | .0264 |
| 06/30/11 | .07  | .0415 |
| 09/30/11 | .055 | .031  |

12/31/11.045 .017

Quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

#### Number of Holders of Common Stock

At December 31, 2011, there were approximately 197 stockholders of record of the Company's Common Stock.

#### Dividends

The Company has never paid cash dividends on its Common Stock. The Company intends to retain future earnings for use in its business and, therefore, does not anticipate paying cash dividends on its Common Stock in the foreseeable future.

#### Recent Sales of Unregistered Securities

On or about February 24, 2011, the Company settled outstanding invoices of two third party service providers. One such invoice was settled in the net amount of \$54,990 by paying \$25,000 in cash and issuing 60,000 shares of Common Stock and the other such invoice was settled by issuing 435,000 shares of Common Stock for the amount owed of \$43,500.

In August 2011, the Company issued 2,000,000 shares of its common stock to Albert E. Whitehead, its Chief Executive Officer, for a purchase price of \$0.05 per share, which resulted in a total investment of \$100,000.

For information about additional private equity placements conducted by the Company, see "Private Equity Placements" in Item 7 of this Form 10-K.

The offers and sales related to the securities 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. The recipients of the securities are sophisticated investors with the experience and expertise necessary 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.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

**Cautionary Note Regarding Forward-Looking Statements.**

All statements, other than statements of historical fact, contained in this report are forward-looking statements. Forward-looking statements generally are accompanied by words such as "anticipate," "believe," "estimate," "expect," "may," "might," "potential," "project" or similar statements.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to be correct. Factors that could cause results to differ materially from the results discussed in such forward-looking statements include:

- \* the need for additional capital,
- \* the costs expected to be incurred in exploration and development,
- \* unforeseen engineering, mechanical or technological difficulties in drilling wells,
- \* uncertainty of exploration results,
- \* operating hazards,
- \* competition from other natural resource companies,
- \* the fluctuations of prices for oil and gas,

\* the effects of governmental and environmental regulation, and

\* general economic conditions and other risks described in the Company's filings with the Securities and Exchange Commission (the "SEC").

Information on these and other risk factors are discussed under "Factors That May Affect Future Results" below. Accordingly, the actual results of operations in the future may vary widely from the forward-looking statements included herein, and all forward-looking statements in this Form 10-K are expressly qualified in their entirety by the cautionary statements in this paragraph.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, judgment, belief and expectations only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof.

### **Factors That May Affect Future Results.**

The Company does not have any significant on-going income producing oil and gas properties and has limited financial resources.

For the past three fiscal years, the Company has financed its operations primarily from sales of its equity securities and from loans made to the Company by Albert E. Whitehead, the Company's Chief Executive Officer. There is no assurance that the Company will be able to continue to finance its operations through the sale of its equity securities, or through loans or advances by third parties. In addition, Mr. Whitehead has no obligation to advance the Company any additional money, and there is no assurance that he will do so.

The Company reported losses of \$247,432 and \$2,627,902 for the years ended December 31, 2011 and 2010, respectively. The Company also had an accumulated deficit of \$14,006,553 as of December 31, 2011. The Company can provide no assurance that it will be profitable in the future and, if the Company does not become profitable, it may have to suspend its operations. As a result of the foregoing, the audit report of the Company's independent registered public accounting firm relating to the Company's financial statements has been modified because of a going concern uncertainty. If the Company is able to raise the funds necessary to continue its operations, its future performance will be dependent on the successful drilling results of its inventory of unproved locations in Wyoming and Nevada. The failure of drilling activities to achieve sufficient quantities of economically attractive reserves and production would have a material adverse effect on the Company's liquidity, operations and financial results.



**The Company could be adversely affected by fluctuations in oil and gas prices.**

Even if the Company's drilling activities achieve commercial quantities of economically attractive reserves and production revenue, the Company will remain subject to prevailing prices for oil, natural gas and natural gas liquids, which are dependent upon numerous factors such as weather, economic, political and regulatory developments and competition from other sources of energy. The volatile nature of the energy markets makes it particularly difficult to estimate future prices of oil, natural gas and natural gas liquids. Prices of oil, natural gas and natural gas liquids are subject to wide fluctuations in response to relatively minor changes in circumstances,

and there can be no assurance that future prolonged decreases in such prices will not occur. All of these factors are beyond the control of the Company. Any significant decline in oil and gas prices could have a material adverse effect on the Company's liquidity, operations and financial condition.

**The Company could be adversely affected by increased costs of service providers utilized by the Company.**

In accordance with customary industry practice, the Company relies on independent third party service providers to provide most of the services necessary to drill new wells, including drilling rigs and related equipment and services, horizontal drilling equipment and services, trucking services, tubulars, fracing and completion services and production equipment. The industry has experienced significant price fluctuations for these services during the last year and this trend is expected to continue into the future. These cost uncertainties could, in the future, significantly increase the Company's development costs and decrease the return possible from drilling and development activities, and possibly render the development of certain proved undeveloped reserves uneconomical.

**The Company is subject to numerous drilling and operating risks.**

Oil and gas drilling activities are subject to numerous risks, many of which are beyond the Company's control. The Company's operations may be curtailed, delayed or canceled as a result of title problems, weather conditions, compliance with governmental requirements, mechanical difficulties and shortages or delays in the delivery of equipment. In addition, the Company's properties may be susceptible to hydrocarbon drainage from production by other operators on adjacent properties. Industry operating risks include the risk of fire, explosions, blow-outs, pipe failure, abnormally pressured formations and environmental hazards such as oil spills, gas leaks, ruptures or discharges of toxic gases, the occurrence of any of which could result in substantial losses to the Company due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations.

**The Company's insurance policies may not adequately protect the Company against certain unforeseen risks.**

In accordance with customary industry practice, when conducting drilling operations, the Company maintains insurance against some, but not all, of the risks described herein. There can be no assurance that any insurance will be adequate to cover the Company's losses or liabilities. The Company cannot predict the continued availability of insurance, or its availability at premium levels that justify its purchase.

**The Company is subject to various environmental risks, and governmental regulation relating to environmental matters.**

The Company is subject to a variety of federal, state and local governmental laws and regulations related to the storage, use, discharge and disposal of toxic, volatile or otherwise hazardous materials. These regulations subject the Company to increased operating costs and potential liability associated with the use and disposal of hazardous materials. Although these laws and regulations have not had a material adverse effect on the Company's financial condition or results of operations, there can be no assurance that the Company will not be required to make material expenditures in the future. Moreover, the Company anticipates that such laws and regulations will become increasingly stringent in the future, which could lead to material costs for environmental compliance and remediation by the Company. Any failure by the Company to obtain required permits for, control the use of, or adequately restrict the discharge of hazardous substances under present or future regulations could subject the Company to substantial liability or could cause its operations to be suspended. Such liability or suspension of operations could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's activities are subject to extensive governmental regulation. Oil and gas operations are subject to various federal, state and local governmental regulations that may be changed from time to time in response to economic or political conditions. From time to time, regulatory agencies have imposed price controls and limitations on production in order to conserve supplies of oil and gas. In addition, the production, handling, storage, transportation and disposal of oil and gas, by-products thereof and other

substances and materials produced or used in connection with oil and gas operations are subject to regulation under federal, state and local laws and regulations primarily relating to protection of human health and the environment. To date, expenditures related to complying with these laws and for remediation of existing environmental contamination have not been significant in relation to the operations of the Company. There can be no assurance that the trend of more expansive and stricter environmental legislation and regulations will not continue.

**The Company is subject to intense competition.**

The Company operates in a highly competitive environment and competes with major and independent oil and gas companies for the acquisition of desirable oil and gas properties, as well as for the equipment and labor required to develop and operate such properties. Many of these competitors have financial and other resources substantially greater than those of the Company.

**The Company currently depends on the Company's Chief Executive Officer.**

The Company is dependent on the experience, abilities and continued services of its current Chief Executive Officer and President, Albert E. Whitehead. Mr. Whitehead has played a significant role in the development and management of the Company. The loss or reduction of services of Mr. Whitehead could have a material adverse effect on the Company.

**There has been a limited public trading market for the Company's Common Stock, and there can be no assurance that an active trading market will be sustained.**

There can be no assurance that the Common Stock will trade at or above any particular price in the public market, if at all. The trading price of the Common Stock could be subject to significant fluctuations in response to variations in quarterly operating results or even mild expressions of interest on a given day. Accordingly, the Common Stock could experience substantial price changes in short periods of time. Even if the Company is performing according to its plan and there is no legitimate company-specific financial basis for this volatility, it must still be expected that substantial percentage price swings will occur in the Company's Common Stock

for the foreseeable future.

Certain of the outstanding shares of the Company's Common Stock are "restricted securities" under Rule 144 of the Securities Act of 1933, as amended, and (except for shares purchased by "affiliates" of the Company as such term is defined in Rule 144) would be eligible for sale as the applicable holding periods expire. In the future, these shares may be sold only pursuant to a registration statement under the Securities Act of 1933, as amended, or an applicable exemption, including pursuant to Rule 144. Under Rule 144, a person who has owned common stock for at least one year may, under certain circumstances, sell within any three-month period a number of shares of common stock that does not exceed the greater of 1% of the then outstanding shares of common stock or the average weekly trading volume during the four calendar weeks prior to such sale. A person who is not deemed to have been an affiliate of the Company at any time during the three months preceding a sale, and who has beneficially owned the restricted securities for the last two years is entitled to sell all such shares without regard to the volume limitations, current public information requirements, manner of sale provisions and notice requirements. Sale or the expectation of sales of a substantial number of shares of Common Stock in the public market by selling stockholders could adversely affect the prevailing market price of the Common Stock, possibly having a depressive effect on any trading market for the Common Stock, and may impair the Company's ability to raise capital at that time through additional sales of its equity securities.

**The Company does not expect to declare or pay any dividends in the foreseeable future.**

The Company has not declared or paid any dividends on its Common Stock. The Company currently intends to retain future earnings to fund the development and growth of its business, to repay indebtedness and for general corporate purposes, and therefore, does not anticipate paying any cash dividends on its Common Stock in the foreseeable future.

**The Company's Common Stock may be subject to secondary trading restrictions related to penny stocks.**

Certain transactions involving the purchase or sale of Common Stock of the Company may be affected by a SEC rule for "penny stocks" that imposes additional sales practice burdens and requirements upon broker-dealers that purchase or sell such securities. For transactions covered by this penny stock rule, broker-dealers must make certain disclosures to purchasers prior to purchase or sale. Consequently, the penny stock rule may impede the ability of broker-dealers to purchase or sell the Company's securities for their customers and the ability of persons now owning or subsequently acquiring the Company's securities to resell such securities.

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.

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.

TWELVE MONTH PERIOD ENDED DECEMBER 31, 2011, COMPARED TO TWELVE MONTH PERIOD ENDED DECEMBER 31, 2010

For the twelve months ended December 31, 2011 and 2010, sales revenue was \$0. The Company does not have any producing wells at this time.

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Production and operating expenses decreased \$156,114 to \$22,060 for the twelve months ended December 31, 2011, from \$178,174 for the same period in 2010. This decrease was primarily due to the termination of leases on the Gabbs Valley Prospect.

General and administrative expenses decreased by \$9,863 to \$222,133 for the twelve months ended December 31, 2011, from \$231,996 for the same period in 2010. The decrease was primarily due to a decrease in insurance costs in 2011.

Well abandonment expense decreased to \$0 for the twelve months ended December 31, 2011 from \$2,221,293 in 2010 due to the Company's assignment of the Paradise Unit 1-12 well to another leaseholder in 2010.

There was no depreciation expense attributable to the twelve months ended December 31, 2011 or December 31, 2010 because the depreciable assets were fully depreciated.

For the reasons discussed above, net loss decreased \$(2,380,470) from \$(2,627,902) for the twelve months ended December 31, 2010, to \$(247,432) for the twelve months ended December 31, 2011.

## LIQUIDITY AND CAPITAL RESOURCES

### GENERAL

As of December 31, 2011, the Company had \$4,978 of cash on hand. The Company's cash on hand will not be sufficient to fund its operations during the next 12 months. The Company expects to incur costs of approximately \$10,000 per month relating to general administrative, office and other expenses. 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. To the extent that it is necessary, the Company expects that management will support the Company financially for several months to allow the Company to consummate a merger

opportunity, or public or private financing (see subsequent events).

### PRIVATE EQUITY PLACEMENTS

In a private placement concluded on January 26, 2010, the Company received subscriptions for 21,431,661 shares of its common stock, par value \$0.001 per share, with the aggregate offering price of such shares being \$1,500,216. 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 Agreement included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2009.

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 July 2010, the Company completed the 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 expired on December 31, 2011, as applicable, with an aggregate purchase price of \$225,000. Proceeds from this private placement were utilized for the Company's share of costs to drill a new well on the Gabbs Valley Prospect (see Note 2). Any remaining funds were used for general working capital purposes.

Proceeds of the July 2010 private placement were allocated \$57,500 to common stock warrants and \$167,500 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 155% to 157% (depending on the date of sale), and a weighted average expected life of the warrants of one year. These warrants have expired.

In August 2011, the Company issued 2,000,000 shares of its common stock to Albert E. Whitehead, its Chief Executive Officer, for a purchase price of \$0.05 per share, which resulted in a total investment of \$100,000.

#### SALE OF WORKING INTEREST

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

#### ADVANCE FROM RELATED PARTY

On February 1, 2011, the Albert E. Whitehead Living Trust, under the terms of a convertible note, advanced \$100,000 to the Company. The note has a term of one (1) year and accrues interest at the rate of four (4) percent per annum. During 2011, there was no principal or interest paid on the note. At December 31, 2011, \$3,250 of interest had accrued. The principal and interest owed under the note may be converted by the holder into Common Stock at the rate of \$0.10 per share. The maturity date of the note has been extended to August 1, 2012.

## OFF-BALANCE SHEET ARRANGEMENTS

None

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Because estimates and assumptions require significant judgment, future actual results could differ from those estimates and could have a significant impact on the Company's results of operations, financial position and cash flows. The Company re-evaluates its estimates and assumptions at least on a quarterly basis. The following policies may involve a higher degree of estimation and assumption:

**Successful Efforts Accounting** - Under the successful efforts method of accounting, the Company capitalizes all costs related to property acquisitions and successful exploratory wells, all development costs and the costs of support equipment and facilities. Certain costs of exploratory wells are capitalized pending determination that proved reserves have been found. Such determination is dependent upon the results of planned additional wells and the cost of required capital expenditures to produce the reserves found.

All costs related to unsuccessful exploratory wells are expensed when such wells are determined to be non-productive and other exploration costs, including geological and geophysical costs, are expensed as incurred. The application of the successful efforts method of accounting requires management's judgment to determine the proper designation of wells as either developmental or exploratory, which will ultimately determine the proper accounting treatment of the costs incurred. The results from a drilling operation can take considerable time to analyze, and the determination that commercial reserves have been discovered requires both judgment and application of industry experience. Wells may be completed that are assumed to be productive and actually deliver oil and gas in quantities insufficient to be economic, which may result in the abandonment of the wells at a later date. The evaluation of oil and gas leasehold acquisition costs requires management's judgment to estimate the fair value of exploratory costs related to drilling activity in a given area.

**Impairment of unproved oil and gas properties** - Capitalized drilling costs are reviewed periodically for impairment. Costs related to impaired prospects or unsuccessful exploratory drilling are charged to expense. Management's assessment of the results of exploration activities, commodity price outlooks, planned future sales or expiration of all or a portion of such leaseholds impact the amount and timing of impairment provisions. An impairment expense could result if oil and gas prices decline in the future as it may not be economic to develop some of these unproved properties.

Estimates of future dismantlement, restoration, and abandonment costs - the Company accounts for future abandonment costs of wells and related facilities in accordance with the provisions of Financial Accounting Standards Board ("FASB") Accounting for Asset Retirement Obligations. Under this method of accounting, the accrual for future dismantlement and abandonment costs is based on estimates of these costs for each of the Company's properties based upon the type of production structure, reservoir characteristics, depth of the reservoir, market demand for equipment, currently available procedures and consultations with construction and engineering consultants. Because these costs typically extend many years into the future, estimating these future costs is difficult and requires management to make estimates and judgments that are subject to future revisions based upon numerous factors, including changing technology and the political and regulatory environment and, estimates as to the proper discount rate to use and timing of abandonment.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements of the Company are set forth on pages 25 through 34 at the end of this Form 10-K.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

#### ITEM 9A. CONTROLS AND PROCEDURES.

##### **Evaluation of Disclosure 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.

##### **Management's Annual Report on Internal Control Over Financial Reporting**



The Company's Chief Executive Officer (and principal financial officer) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. The Company's internal controls were designed to provide reasonable assurance as to the reliability of the Company's financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles in the United States.

Due to inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of control effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

The Company's Chief Executive Officer (and principal financial officer) made an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. In making this assessment, the Company's Chief Executive Officer (and principal financial officer) used the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the Company's Chief Executive Officer (and principal financial officer) concluded that as of December 31, 2011, the Company's internal control over financial reporting is effective based on those criteria.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the SEC, which only require management's report in this annual report.

#### **Changes on Internal Control over Financial Reporting**

There was no change in the Company's internal control over financial reporting identified in connection with the Company's evaluation of disclosure controls and procedures which occurred during the Company's last fiscal quarter (the fourth fiscal quarter in the case of an annual report) that has materially affected or that is reasonably likely to materially affect the Company's internal control over financial reporting.

#### **ITEM 9B. OTHER INFORMATION.**

None.

**PART III**

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The following lists the directors and executive officers of the Company:

| Name                     | Age | Position                                     |
|--------------------------|-----|--|
| Albert E. Whitehead      | 81  | Director, Chairman & Chief Executive Officer |
| John C. Kinard           | 78  | Director                                     |
| Montague H. Hackett, Jr. | 79  | Director                                     |
| Kevin R. Seth            | 52  | Director                                     |

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Directors hold office until their successors are elected by the shareholders of the Company and qualified. Executive officers serve at the pleasure of the Board of Directors.

Albert E. Whitehead.

Mr. Whitehead has been a member of the Company's Board of Directors since 1991 and served as Chairman of the Board and Chief Executive Officer from March 1998 to May 2001, when John P. McGrain assumed such role. Mr. Whitehead again assumed the role of Chairman and Chief Executive Officer on April 16, 2002 upon the resignation of Mr. McGrain. Until February 5, 2008 Mr. Whitehead also served as the Non-Executive Chairman of Coastal Energy Company (formerly PetroWorld Corp.), a company that is traded on the London Stock Exchange's Alternative Investment Market and the Toronto Stock Exchange in Canada. Mr. Whitehead served as the Chairman and Chief Executive Officer of Seven Seas Petroleum Inc., a publicly held company, engaged in international oil and gas exploration from February 1995 to May 1997. From April 1987 through January 1995, Mr. Whitehead served as Chairman and Chief Executive Officer of Garnet Resources Corporation, a publicly held oil and gas exploration and development company. Mr. Whitehead's experience in the oil and gas industry, along with his familiarity with the day-to-day operations of the Company, make him well suited to serve on the Company's Board of Directors.

John C. Kinard.

Mr. Kinard has served as a Director of the Company since June 1998 and is currently a Partner in Silver Run Investments, LLC, an oil and gas investment firm. Mr. Kinard serves as a Managing Partner of Remuda Resources LLC, a private oil and gas exploration company. From 1990 through December 1995, Mr. Kinard served as President of Glen Petroleum, Inc., a private oil and gas exploration company. From 1990 through 2002, Mr. Kinard also served as the Chairman of Envirosolutions UK Ltd., a private industrial wastewater treatment company. Mr. Kinard's

longstanding relationship with the Company and his knowledge of the oil and gas industry make him well equipped to serve on the Company's Board of Directors.

Montague H. Hackett, Jr.

Montague H. Hackett, Jr., a graduate of Princeton University and Harvard Law School, joined the Empire Board as a director in June 2006. Over the years, Mr. Hackett has been associated with various natural resource companies both as a director and as an officer. In the past five years, he has been Co-Chairman and a director of Victory Ventures LLC, a New York venture capital company and International Energy Services, Inc., a Houston based oilfield service company, with operations in Russia and Kazakhstan. Given Mr. Hackett's knowledge of the oil and gas industry and his general business knowledge, Mr. Hackett is a good fit as a member of the Company's Board of Directors.

Kevin R. Seth.

Mr. Seth has served as a Director of the Company since February 23, 2011 and is a partner of Edgewood Management LLC, a registered investment advisor, based in New York City. Prior to joining Edgewood in 1995, Mr. Seth worked with Credit Suisse First Boston in London, New York and Boston. Mr. Seth graduated from Montana State University with a B.S. Degree in Pre-Law and Economics and has served for the past ten (10) years as either Vice-Chairman or Chairman of the University Investment Committee at Montana State University. Mr. Seth's broad business experience will allow him to provide considerable insight into the business decisions the Company will face and results in him being well suited to serve as a member of the Company's Board of Directors.

#### IDENTIFICATION OF THE AUDIT COMMITTEE; AUDIT COMMITTEE FINANCIAL EXPERT

As of December 31, 2011, the Company had not established any committees (including an audit committee) because of the small size of its Board of Directors. As such, the Company does not have an audit committee or an audit committee financial expert serving on such committee. As of December 31, 2011, the entire Board of Directors (Messrs. Whitehead, Kinard, Hackett and Seth)

essentially serve as the Company's audit committee.

#### CODE OF ETHICS

The Company has adopted a Code of Ethics that applies to all of the Company's directors and employees, including the Company's principal executive officer, principal financial officer and principal accounting officer or persons

performing similar functions. The Company undertakes to provide any person without charge, upon request, a copy of the Code of Ethics. Requests may be directed to Empire Petroleum Corporation, 4444 E. 66th Street, Lower Annex, Tulsa, Oklahoma 74136-4207, or by calling (918) 488-8068.

#### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors, executive officers, and persons who beneficially own more than 10 percent of a registered class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company.

Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on review of the copies of such reports furnished to the Company and any written representations that in other reports were required during the year ended December 31, 2011, to the Company's knowledge, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% beneficial owners during the year ended December 31, 2011 were complied with on a timely basis.

#### ITEM 11. EXECUTIVE COMPENSATION.

The Board of Directors does not have a Compensation Committee.

#### EXECUTIVE COMPENSATION

During the last two completed fiscal years, no executive officer received a salary or any other benefits as a part of executive compensation. The Company's only named executive officer, Albert E. Whitehead, does not hold any stock options and has not received any other award under an equity incentive plan.

#### DIRECTORS COMPENSATION

In return for serving as a member of the Board of Directors of the Company, Mr. Seth was granted in 2011 options to purchase 150,000 shares of the Company's stock under the 2006 Stock Incentive Plan, at a strike price of \$0.10 per share, which was the closing price on the date of the grant. At the end of fiscal year 2011, all of such options remained outstanding.

Except for Mr. Seth, no Director received compensation or any other benefits from the registrant during the last completed fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Securities Authorized for Issuance under Equity Compensation Plans

As of December 31, 2011, the Company had two equity incentive plans under which equity securities were authorized for issuance to the Company's directors, officers, employees and other persons who performed substantial services for or on behalf of the Company. The "1995 Stock Option Plan", which expired in May 2005, remains only to the extent necessary to govern outstanding options issued under the Plan. At the Company's 2006 Annual Meeting of Stockholders, the stockholders approved the "2006 Stock Incentive Plan", which authorizes granting up to 5,000,000 options for up to 5,000,000 shares of the Company's Common Stock.

The following table provides certain information relating to the 1995 Stock Option Plan and the 2006 Stock Incentive Plan as of December 31, 2011:

| Plan Category  | (a)<br>Number of securities to be issued upon exercise of outstanding options and rights | (b)<br>Weighted-average exercise price of outstanding options and rights | (c)<br>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|--|--|--|--|
| Equity compensation plans approved by security holders | 1,245,000  | \$0.142  | 3,955,000  |
| Equity compensation plans not approved by security     |  |  |  |

|         |           |     |           |
|---------|-----------|-----|-----------|
| holders | N/A       | N/A | N/A       |
| TOTAL   | 1,245,000 |     | 3,955,000 |

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our Common Stock as of March 21, 2012 for:

\* each person who is known to own beneficially more than 5% of our outstanding Common Stock;

\* each of our executive officers and directors; and

\* all executive officers and directors as a group.

The percentage of beneficial ownership for the following table is based on 85,564,235 shares of Common Stock outstanding as of March 21, 2012.

Unless otherwise indicated below, to the Company's knowledge, all persons and entities listed below have sole voting and investment power over their shares of Common Stock.

| Name and address of beneficial owner   | Amount and nature of beneficial ownership | Percent of class (1) |
|--|---|----------------------|
| Albert E. Whitehead<br>Chairman of the Board and<br>Chief Executive Officer<br>3214 E. 73rd Street<br>Tulsa, OK 74136-5927 | 21,113,661 shares (2)                     | 24.68%               |
| John C. Kinard<br>Director<br>52 S. Roslyn Street<br>Denver, CO 80230  | 781,331 shares (3)                        | 0.91%                |

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|   |                       |        |
|---|-----------------------|--------|
| Montague H. Hackett, Jr.<br>Director<br>550 Park Avenue<br>New York, NY 10065 | 14,759,416 shares (4) | 17.17% |
|---|-----------------------|--------|

|   |                    |       |
|---|--------------------|-------|
| Kevin R. Seth<br>Director<br>c/o Edgewood Management LLC<br>350 Park Avenue<br>New York, NY 10022 | 761,111 shares (5) | 0.89% |
|---|--------------------|-------|

|   |               |       |
|---|---------------|-------|
| George H. Plewes<br>P. O. Box HM 1431<br>Hamilton HMFY<br>Bermuda | 5,160,238 (6) | 6.03% |
|---|---------------|-------|

|   |                       |        |
|---|-----------------------|--------|
| All current directors and executive officers as a group (4 persons) | 37,470,519 shares (7) | 43.21% |
|---|-----------------------|--------|

(1) The percentage ownership for each person is calculated in accordance with the rules of the SEC, which provide that any shares a person is deemed to beneficially own by virtue of having a right to acquire shares upon the conversion of options or other rights are considered outstanding solely for purposes of calculating such person's percentage ownership.

(2) This number includes: (i) 18,268,378 shares directly owned by the Albert E. Whitehead Living Trust, of which Mr. Whitehead is the trustee; (ii) 30,000 shares owned by Mr. Whitehead's grandchildren for which he acts as custodian; and (iii) 2,815,283 shares directly owned by the Lacy E. Whitehead Living Trust, of which Ms. Whitehead, Mr. Whitehead's wife, is trustee. Mr. Whitehead disclaims any interest in the shares owned by the Lacy E. Whitehead Living Trust and the shares owned by his grandchildren.

(3) This number includes: (i) 161,331 shares directly owned by Mr. Kinard; (ii) 220,000 shares Mr. Kinard has the right to acquire pursuant to options granted to him under the 1995 Stock Option Plan; (iii) 250,000 shares Mr. Kinard has the right to acquire pursuant to options granted to him under the Company's 2006 Stock Incentive Plan; and (iv) 150,000 shares directly owned by Mr. Kinard's wife, of which Mr. Kinard disclaims any interest.

(4) This number includes (i) 9,600,288 shares directly owned by Mr. Hackett (ii) 400,000 shares Mr. Hackett has the right to acquire under the Company's 2006 Stock Incentive Plan; (iii) 2,206,350 shares directly owned by the Trust F/B/O Melinda Hackett of which Mr. Hackett disclaims any interest; (iv) 1,945,635 shares directly owned by the Trust F/B/O Montague H. Hackett, III of which Mr. Hackett disclaims any interest; and (v) 607,143 shares directly owned by Mayme M. Hackett, Mr. Hackett's wife, of which Mr. Hackett disclaims any interest.

(5) This number includes (i) 253,968 shares directly owned by Mr. Seth; (ii) 150,000 shares Mr. Seth has the right to acquire under the Company's 2006 Stock Incentive Plan; and (iii) 357,143 shares held by Edgewood Management LLC Retirement plan F/B/O Kevin R. Seth.

(6) This number includes 5,160,238 shares directly owned by Mr. Plewes.

(7) This number is based on the numbers listed in footnotes 2 through 5 above.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Messrs. Whitehead and Hackett participated in the Company's 2009-2010 private placements on the same terms and conditions as the other investors in the private placement. For more information regarding such private placements, see "Private Equity Placements" under Item 7 of this Form 10-K.

In 2011, Mr. Whitehead advanced \$100,000 to the Company through a Convertible Note from the Company. For more information regarding the Convertible Note, see "Advance from Related Party" under Item 7 of this Form 10-K.

In August 2011, the Company issued 2,000,000 shares of its common stock to Albert E. Whitehead, its Chief Executive Officer for a purchase price of \$0.05 per share, which resulted in a total investment of \$100,000. For more information regarding such purchase see "Recent Sales of Unregistered Securities" under Item 5 of this Form 10-K.

In October 2010, Messrs. Whitehead and Hackett participated in the sale of working interests by the Company on the same terms and conditions as the other purchasers of the working interest. For more information regarding such transaction, see "Sale of Working Interest" under Item 7 of this Form 10-K.

#### DIRECTOR INDEPENDENCE



The Company has determined that Mr. Kinard, Mr. Hackett and Mr. Seth are "independent" within the meaning of Rule 4200(a)(15) of the NASDAQ listing standards. Because of the small size of the Company's Board of Directors, the Company has not established any committees. Rather, the entire Board acts as, and performs the same functions as, the audit committee, compensation committee and nominating committee. Mr. Whitehead is not considered "independent" within the meaning of Rule 4200(a)(15) of the NASDAQ listing standards.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The following is a summary of the fees billed or to be billed to the Company by HoganTaylor LLP, the Company's independent registered public accounting firm, for professional services rendered for the fiscal years ended December 31, 2011 and December 31, 2010:

| Fee Category             | Fiscal 2011 Fees | Fiscal 2010 Fees |
|--------------------------|------------------|------------------|
| Audit Fees (1)           | \$36,250         | \$35,000         |
| Audit - Related Fees (2) | 0                | 0                |
| Tax Fees                 | 0                | 0                |
| All Other Fees (3)       | 0                | 0                |
| Total Fees               | \$36,250         | \$35,000         |

(1) Audit Fees consist of aggregate fees billed for professional services rendered for the audit of the Company's annual financial statements and review of the interim financial statements included in quarterly reports or services that are normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings or engagements for the fiscal years ended December 31, 2011 and December 31, 2010, respectively.

(2) Audit-Related fees consist of aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under "Audit Fees."

(3) All Other Fees consist of aggregate fees billed for products and services provided by HoganTaylor LLP, other than those disclosed above.

The entire Board of Directors of the Company is responsible for the appointment, compensation and oversight of the work of the independent registered public accounting firm and approves in advance any services to be performed by the independent registered public accounting firm, whether audit-related or not. The entire Board of Directors reviews each proposed engagement to determine whether the provision of services is compatible with maintaining the independence of the independent registered public accounting firm. All of the fees shown above were pre-approved by the entire Board of Directors.

**PART IV.**

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) (1) Financial Statements

The financial statements under this item are included in Item 8 of Part II.

(2) Schedules

NONE

(3) Exhibits

Exhibit Description

- NO.
- 3.1 Articles of Incorporation of the Company, as amended (incorporated herein by reference to Exhibit 3.1 of the Company's Form 10-QSB for the period ended September 30, 1995, which was filed November 6, 1995).
  - 3.2 Bylaws of the Company (incorporated herein by reference to Exhibit 3.2 of the Company's Form 10-QSB for the period ended March 31, 1998, which was filed May 15, 1998).
  - 10.1 1995 Stock Option Plan (incorporated herein by reference to Appendix A of the Company's Form DEFS 14A dated June 13, 1995, which was filed June 14, 1995).
  - 10.2 Form of Stock Option Agreement (incorporated herein by reference to Exhibit 10(g) of the Company's Form 10-KSB for the year ended December 31, 1995, which was filed March 29, 1996).  
  
Letter Agreement dated May 8, 2003 between the Company and O. F. Duffield (incorporated herein by reference to Exhibit 10.6 of the Company's Form 10-KSB for the year ended December 31, 2003, which was filed March 30, 2004).
  - 10.4 2006 Stock Incentive Plan (incorporated herein by reference to Exhibit A to the Company's 2006 Proxy Statement on Schedule 14A dated May 10, 2006).
  - 10.5

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Form of Non-qualified Stock Option Agreement (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K dated June 5, 2006, which was filed on June 9, 2006).

10.6 Form of Non-qualified Stock Option Agreement for Non-employee Directors (incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K dated June 5, 2006, which was filed on June 9, 2006).

10.7 Form of Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 10.4 to the Company's Form 8-K dated June 5, 2006, which was filed on June 9, 2006).

10.8 Form of Securities Purchase Agreement entered into between Empire Petroleum Corporation and certain accredited investors in connection with the 2009 private placement (incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q for the period ended September 30, 2009, which was filed on November 16, 2009).

10.9 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).

10.10 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).

10.11 Convertible Note Due February 1, 2012 (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated February 1, 2011, which was filed on February 7, 2011).

10.12 Letter Agreement dated November 17, 2010 between the Company and Cortez Exploration, LLC (incorporated herein by reference to Exhibit 10.14 to the Company's Form 10-K/A (Amendment No. 1) for the fiscal year ended December 31, 2010, which was filed on September 30, 2011).

10.13 Designation of Agent (Agency Agreement), dated April 27, 2005, between the Company and Cortez Exploration, LLC (incorporated herein by reference to Exhibit 10.15 to the Company's Form 10-K/A (Amendment No. 2) for the fiscal year ended December 31, 2010, which was filed on December 14, 2011).

10.14 Participation Agreement dated May 8, 2006 between the Company and Cortez Exploration, LLC (submitted herewith).

10.15 Option to Purchase Okie Draw and South Okie Prospects, Natrona County, Wyoming, dated August 4, 2009, between the Company and Viking Exploration, LLC (submitted herewith).

10.16 Amendment, dated February 4, 2010, of Option to Purchase Okie Draw and South Okie Prospects, Natrona County, Wyoming, dated August 4, 2009, between the Company and Viking Exploration, LLC (incorporated herein by reference to Exhibit 10.18 to the Company's Form 10-K/A (Amendment No. 2) for the fiscal year ended December 31, 2010, which was filed on December 14, 2011).

10.17 Designation of Agent (Agency Agreement), dated June 10, 2010, between the Company and Cortez Exploration, LLC (incorporated herein by reference to Exhibit 10.19 to the Company's Form 10-K/A (Amendment No. 2) for the fiscal year ended December 31, 2010, which was filed on December 14, 2011).

10.18

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Prospect Letter Agreement dated October 4, 2010 between the Company and seven (7) investors to purchase a 1% interest in the Company's Gabbs Valley Prospect (submitted herewith).

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

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: March 21, 2012 By: /s/ Albert E. Whitehead  
Albert E. Whitehead  
Chief Executive Officer  
(principal executive officer, principal financial officer  
and principal accounting officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature  | Title  | Date           |
|--|--|----------------|
| /s/ Albert E. Whitehead<br>Albert E. Whitehead           | Director, Chairman and Chief Executive Officer | March 21, 2012 |
| /s/ John C. Kinard<br>John C. Kinard                     | Director                                       | March 21, 2012 |
| /s/ Montague H. Hackett, Jr.<br>Montague H. Hackett, Jr. | Director                                       | March 21, 2012 |
| /s/ Kevin R. Seth<br>Kevin R. Seth                       | Director                                       | March 21, 2012 |



## EXHIBIT INDEX

- NO.
- 3.1 Articles of Incorporation of the Company, as amended (incorporated herein by reference to Exhibit 3.1 of the Company's Form 10-QSB for the period ended September 30, 1995, which was filed November 6, 1995).
- 3.2 Bylaws of the Company (incorporated herein by reference to Exhibit 3.2 of the Company's Form 10-QSB for the period ended March 31, 1998, which was filed May 15, 1998).
- 10.1 1995 Stock Option Plan (incorporated herein by reference to Appendix A of the Company's Form DEFS 14A dated June 13, 1995, which was filed June 14, 1995).
- 10.2 Form of Stock Option Agreement (incorporated herein by reference to Exhibit 10(g) of the Company's Form 10-KSB for the year ended December 31, 1995, which was filed March 29, 1996).
- 10.3 Letter Agreement dated May 8, 2003 between the Company and O. F. Duffield (incorporated herein by reference to Exhibit 10.6 of the Company's Form 10-KSB for the year ended December 31, 2003, which was filed March 30, 2004).
- 10.4 2006 Stock Incentive Plan (incorporated herein by reference to Exhibit A to the Company's 2006 Proxy Statement on Schedule 14A dated May 10, 2006).
- 10.5 Form of Non-qualified Stock Option Agreement (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K dated June 5, 2006, which was filed on June 9, 2006).
- 10.6 Form of Non-qualified Stock Option Agreement for Non-employee Directors (incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K dated June 5, 2006, which was filed on June 9, 2006).
- 10.7 Form of Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 10.4 to the Company's Form 8-K dated June 5, 2006, which was filed on June 9, 2006).
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August 13, 2010).

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101 Financial Statements for XBRL format (submitted herewith).





EMPIRE PETROLEUM CORPORATION

FINANCIAL STATEMENTS

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| Statements of Changes in Stockholders' Equity for the years ended<br>December 31, 2011 and 2010 | 27    |
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REPORT OF INDEPENDENT

REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Empire Petroleum Corporation

We have audited the accompanying balance sheets of Empire Petroleum Corporation as of December 31, 2011 and 2010, and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Empire Petroleum Corporation as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred significant losses since inception. The ultimate recoverability of the Company's investment in its oil and gas interests is dependent upon the existence and discovery and development of economically recoverable oil and gas reserves and the ability of the Company to obtain necessary financing to carry out its exploration and development program. This condition raises substantial doubt about the Company's ability to continue as a going concern. Management's plan concerning this matter is also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We were not engaged to examine management's assertion about the effectiveness of Empire Petroleum Corporation's internal control over financial reporting as of December 31, 2011, included in the accompanying Management's Annual Report on Internal Controls and, accordingly, we do not express an opinion thereon.

/s/ HOGANTAYLOR LLP

Tulsa, Oklahoma

March 21, 2012



## BALANCE SHEETS

DECEMBER 31, 2011 AND 2010

|   | 2011         |         | 2010         |
|---|--------------|---------|--------------|
| <b>ASSETS</b>   |              |         |              |
| Current assets:   |              |         |              |
| Cash and cash equivalents   | \$           | 4,978   | \$ 68,689    |
| Accounts receivable (net of allowance of \$3,750)   | 7,195        |         | 45,915       |
| Prepaid expenses and other current assets   | 1,100        |         | 7,336        |
| Total current assets  | 13,273       |         | 121,940      |
| Property & equipment less accumulated depreciation and depletion  | 255,215      |         | 255,215      |
| Other assets  | 58,442       |         | 0            |
| Total assets  | \$           | 326,930 | \$ 377,155   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |              |         |              |
| Current liabilities:  |              |         |              |
| Accounts payable and accrued liabilities  | \$           | 11,487  | \$ 149,065   |
| Notes payable – related party   | 100,000      |         | 0            |
| Total current liabilities   | 111,487      |         | 149,065      |
| Stockholders' equity:   |              |         |              |
| Common stock - \$.001 par value 100,000,000 shares authorized,<br>85,564,235 and 83,069,235 shares issued and outstanding<br>respectively | 85,564       |         | 83,069       |
| Additional paid in capital  | 14,136,432   |         | 13,904,142   |
| Accumulated deficit   | (14,006,553) |         | (13,759,121) |
| Total stockholders' equity  | 215,443      |         | 228,090      |
| Total liabilities and stockholders' equity  | \$           | 326,930 | \$ 377,155   |

See accompanying notes to financial statements

EMPIRE PETROLEUM CORPORATION

STATEMENTS OF OPERATIONS

Years Ended December 31, 2011 and 2010

|                             | 2011      | 2010        |
|-----------------------------|-----------|-------------|
| Revenue:                    |           |             |
| Petroleum Sales             | \$ 0      | \$ 0        |
| Costs and expenses:         |           |             |
| Well abandonment expense    | 0         | 2,221,293   |
| Production & operating      | 22,060    | 178,174     |
| General & administrative    | 222,133   | 231,996     |
|                             | 244,193   | 2,631,463   |
| Operating loss              | (244,193) | (2,631,463) |
| Other income and (expense): |           |             |
| Interest income             | 11        | 3,561       |



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|  |              |                |
|--|--------------|----------------|
| Interest expense   | (3,250)      | 0              |
| Total other income and (expense)                                       | (3,239)      | 3,561          |
| Net income (loss)  | \$ (247,432) | \$ (2,627,902) |
| Net income (loss) per common share, basic and diluted                  | \$ (0.00)    | \$ (0.03)      |
| Weighted average number of common shares outstanding basic and diluted | 84,163,193   | 80,487,318     |

See accompanying notes to financial statements

## EMPIRE PETROLEUM CORPORATION

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years ended December 31, 2011 and 2010

|   | Shares     | Par Value | Additional<br>Paid in<br>Capital | Accumulated<br>Deficit | Total        |
|---|------------|-----------|----------------------------------|------------------------|--------------|
| Balances December 31, 2009                | 74,553,361 | \$ 74,553 | \$ 13,149,578                    | \$ (11,131,219)        | \$ 2,092,912 |
| Net loss                                  | 0          | 0         | 0                                | (2,627,902)            | (2,627,902)  |
| Value of services contributed by employee | 0          | 0         | 50,000                           | 0                      | 50,000       |
| Issuance of Stock Options                 | 0          | 0         | 28,080                           | 0                      | 28,080       |
| Issuance of Common Stock                  | 8,515,874  | 8,516     | 676,484                          | 0                      | 685,000      |
| Balances December 31, 2010                | 83,069,235 | 83,069    | 13,904,142                       | (13,759,121)           | 228,090      |
| Net loss                                  | 0          | 0         | 0                                | (247,432)              | (247,432)    |
| Value of services contributed by employee | 0          | 0         | 50,000                           | 0                      | 50,000       |
| Issuance of Stock Options                 | 0          | 0         | 11,295                           | 0                      | 11,295       |
| Issuance of Common Stock                  | 2,495,000  | 2,495     | 170,995                          | 0                      | 173,490      |
| Balances December 31, 2011                | 85,564,235 | \$ 5,564  | \$ 4,136,432                     | \$ (14,006,553)        | \$ 215,443   |

See accompanying notes to financial statements

EMPIRE PETROLEUM CORPORATION

STATEMENTS OF CASH FLOWS

Years ended December 31, 2011 and 2010

|   | 2011         | 2010           |
|---|--------------|----------------|
| Cash flows from operating activities:                                       |              |                |
| Net loss  | \$ (247,432) | \$ (2,627,902) |
| Adjustments to reconcile net loss to net cash used in operating activities: |              |                |
| Value of services contributed by employee                                   | 50,000       | 50,000         |
| Stock option plan expense   | 11,295       | 28,080         |
| Well abandonment expense  | 0            | 2,221,293      |
| Change in operating assets and liabilities:                                 |              |                |
| Accounts receivable and other assets  | (19,722)     | 0              |
| Prepaid expenses  | 6,236        | (7,336)        |
| Accounts payable and accrued liabilities                                    | (64,088)     | 138,482        |
| Net cash used in operating activities                                       | (263,711)    | (197,383)      |

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|   |          |        |             |
|---|----------|--------|-------------|
| Cash flow from investing activities:                |          |        |             |
| Sale of working interest                            | 0        |        | 700,000     |
| Acquisition of lease acres                          | 0        |        | (35,000)    |
| Well equipment and drilling costs                   | 0        |        | (2,255,493) |
| Net cash provided by (used in) investing activities | 0        |        | (1,590,493) |
| Cash flows from financing activities:               |          |        |             |
| Proceeds from private equity placement              | 100,000  |        | 685,000     |
| Proceeds from related party, note payable           | 100,000  | 0      |             |
| Net cash provided by Financing Activities           | 200,000  |        | 685,000     |
| Net increase (decrease) in cash                     | (63,711) |        | (1,102,876) |
| Cash - Beginning of period                          | 68,689   |        | 1,171,565   |
| Cash - End of period                                | \$       | 4,978  | \$ 68,689   |
| Supplemental Disclosure of Non Cash Items:          |          |        |             |
| Common Stock issued for accounts payable            | \$       | 73,490 | \$ 0        |

See accompanying notes to financial statements

EMPIRE PETROLEUM CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 and 2010

General:

On July 20, 2001, Americomm Resources Corporation merged with its wholly-owned subsidiary, Empire Petroleum Corporation, and simultaneously changed the name of the corporation to Empire Petroleum Corporation (the "Company"). Both the merger and name change were effective as of August 15, 2001. Americomm Resources Corporation was originally incorporated in the State of Utah on the 22nd day of August 1983, as Chambers Energy Corporation. On the 7th day of March 1985, the state of incorporation was changed to Delaware by means of a merger with Americomm Corporation, a Delaware corporation formed for the purpose of effecting the said change. In July 1995, the Company changed its name to Americomm Resources Corporation.

1. Continuing operations:

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, the ability of the Company to obtain necessary financing to further develop the interests, and upon the ability to attain future profitable production. The Company has been incurring significant losses in recent years.

Virtually all of the Company's assets are invested in the Gabbs Valley and South Okie Prospects, both of which are unproven, that is, they have not been evaluated as being capable of producing economical quantities of reserves. The Company acquired additional leasehold interests in and drilled a test well on its Gabbs Valley Prospect in 2006. Completion of the test well was suspended pending evaluation of the geologic information and the securing of additional capital to continue the evaluation and possibly to complete the well. The Company drilled a test well on the Prospect in 2010 which recovered oil, however the oil contained paraffin which prevented it from producing at economic rates. The Company continues to believe that the Prospect contains economical reserve quantities and is actively conducting additional studies and will be pursuing potential funding and/or partners to continue evaluation and exploration.

The Company plans to supplement current studies of the South Okie Prospect with a seismograph evaluation to verify the potential of the prospect. The Company has acquired 11 miles of seismic and studies of this data were completed in early January 2010 and an additional geological study was also completed in early January 2010.

The continuation of the Company 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 the carrying value of assets and liabilities, reported expenses and the balance sheet classifications used.

2. Significant accounting policies:

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(a) Capital assets:

The Company uses the successful efforts method of accounting for its oil and gas activities. Costs incurred are deferred until exploration and completion results are evaluated. At such time, costs of activities with economically recoverable reserves are capitalized as proven properties, and costs of unsuccessful or uneconomical activities are expensed.

Capitalized drilling costs are reviewed periodically for impairment. Costs related to impaired prospects or unsuccessful exploratory drilling are charged to expense. Management's assessment of the results of exploration activities, commodity price outlooks, planned future sales or expiration of all or a portion of such leaseholds impact the amount and timing of impairment provisions. An impairment expense could result if oil and gas prices decline in the future as it may not be economical to develop some of these unproved properties.

(b) Per share amounts:

The Company calculates and discloses basic earnings per share ("Basic EPS") and diluted earnings per share ("Diluted EPS"). The computation of basic earnings per share is computed by dividing earnings available to common stockholders by the weighted average number of outstanding common shares during the period.

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 is computed. At December 31, 2011 the Company had 1,245,000 options outstanding that were not included in the calculation of diluted earnings per share. Such financial instruments may become dilutive and would then need to be included in future calculations of Diluted EPS.

(c) Income taxes:

The Company accounts for income taxes in accordance with the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to the taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is established if management determines it is more likely than not that some portion of a deferred tax asset will not be realized.

(d) Financial instruments:

The carrying value of current assets and current liabilities approximate their fair value due to the relatively short period to maturity of the instruments.

(e) Stock option plan:

The Company expenses options granted over the vesting period based on the grant date fair value of the award.

(f) Obligations associated with the retirement of assets:

The Company follows Financial Accounting Standards Board (“FASB”) guidance on accounting for asset retirement obligations, which among other matters, addresses financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This guidance requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred, with the associated asset retirement cost capitalized as part of the related asset and allocated to expense over the asset's useful life. The Company applies its analysis to producing wells. The Company accrued \$0 and \$0, respectively at December 31, 2011 and 2010 as an asset retirement obligation for wells in Nevada, which was recorded as an expense since the well costs have been fully impaired.

(g) Recent Accounting Pronouncements:

The 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 June 2011, the FASB issued Accounting Standards Update 2011-05, *Presentation of Comprehensive Income*. This Update amended the provisions of FASB ASC 220-10 by eliminating the option of reporting other comprehensive income in the statement of changes in stockholders' equity. Companies will have the option of presenting net income and other comprehensive income in a single, continuous statement of comprehensive income or presenting two separate but consecutive statements of net income and comprehensive income. The new presentation requirements are effective for interim and annual periods beginning after December 15, 2011. Therefore, this new presentation will first be reflected in the Company's March 31, 2012 consolidated financial statements.

3. Property and equipment:

In 2003, the Company acquired a 10% interest in the Gabbs Valley Prospect of Western Nevada by issuing 2,000,000 shares of Company stock. The Company has recorded its investment at \$200,000. In 2005, the Company conducted a seismic survey of the Gabbs Valley Prospect. Based on the results of the seismic survey, during 2006, the Company entered into an agreement to increase its working interest in the prospect to 40% by paying \$675,000 plus 55% of the drilling costs through completion. The Company contracted a drilling rig, which commenced drilling the Empire Cobble Cuesta 1-12-12N-34E, Nye County, Nevada in September 2006. After reaching a depth of 5,195 feet the Company ceased drilling operations, ran electronic logs, installed a wellhead, and conditioned the hole so that it might be re-entered or deepened at a later date. In April 2007, the Company re-entered the well and based on the results of drill stem tests, determined that the formation was very sensitive to the mud and water used in drilling the test well, causing clogs in the formation to swell which prevented any oil which might be present to flow into the well bore. The total gross acres of this prospect was increased to 92,826 acres by the acquisition of 30,917 acres from the U.S. Department of Interior in June 2006, at a cost of \$36,689, the acquisition of 9,943.91 acres in September 2008, at a cost of \$13,025 and the acquisition of 7,680 acres in September 2009, at a cost of \$12,615. The Company increased its interest to 57% in the prospect leases in 2007 when one of the joint participants elected to surrender its 30% interest. The Company and the remaining joint owners assumed liabilities of approximately \$68,000 to acquire the interest.

In 2010, the Company drilled a test well in the Paradise Unit of the Gabbs Valley Prospect to a depth of 4,250 feet. The well produced small amounts of oil containing paraffin which may have restricted oil flow. A co-owner of the lease elected to take over the lease and well, including remediation of the site, as of December 31, 2010 the Company had expensed \$2,255,493 of intangible drilling costs related to the Paradise Unit test well. Also in 2010, the Company sold a 7% working interest in the Gabbs Valley Prospect for \$700,000. In December 2011, the Company acquired leases on 3,840 acres of undeveloped land in Nye County, Nevada, which are a part of the Gabbs Valley Prospect. As of December 31, 2011, the Gabbs Valley Prospect consisted of approximately 34,186 gross acres of federal leases located in Nye County, Nevada, of which the Company owns a 50% working interest in 30,346 gross acres and an 88.5% in 3,840 gross acres.

The Company's other property and equipment, totaling \$2,561 at December 31, 2011, consists entirely of office furniture, fixtures and equipment, which are fully depreciated.

#### 4. Capital Stock:

In 2005, the Company raised \$500,000 of net proceeds by selling 5,000,000 shares of newly issued common stock along with warrants to purchase 1,250,000 shares of common stock which, subject to certain restrictions, could have been exercised for a period of one year at an exercise price of \$0.25. Proceeds of the original placement were allocated \$67,875 to common stock warrants and \$432,125 to common stock and paid in capital. In 2006, the warrants were extended twice; the extensions reduced the value of the warrants to \$18,250. The value assigned to the warrants was determined using the Black-Scholes option valuation method with the following assumptions: no dividend yield, expected volatility of 154%, risk free interest rate of 3.28% and expected life of one year. Assumptions used for the extensions were: no dividend yield, expected volatility of 153%, risk free interest rate of 4.86% and expected life of 6 months. The warrants expired on November 15, 2010 with none being exercised.



In 2006, the Company raised \$1,450,000 of net proceeds by selling 7,250,000 shares of newly issued stock along with warrants to purchase 1,812,500 shares of common stock, which, subject to certain restrictions, could have been exercised on or before March 15, 2009 subsequently extended to November 15, 2010 at an exercise price of \$0.50. Proceeds of the placement were allocated \$144,675 to common stock warrants and \$1,305,325 to common stock and paid in capital. The value assigned to the warrants was determined using the Black-Scholes option valuation method with the following assumptions: no dividend yield, expected volatility of 148% risk-free interest rate of 5.09% and an expected life of one year. The warrants expired November 15, 2010 with none being exercised.

In 2007, the Company raised \$1,000,000 of net proceeds by selling 5,000,000 shares of newly issued stock, along with warrants to purchase 1,250,000 shares of common stock, which subject to certain restrictions, could have been exercised until March 15, 2009 (subsequently extended to November 15, 2010 at an exercise price of \$0.50 per share. Proceeds of the placement were allocated \$80,000 to common stock warrants and \$920,000 to common stock and paid in capital. The value assigned to the warrants was determined by using the Black-Scholes option valuation methods with the following assumptions: no dividend yield, expected volatility of 136%, risk free interest rate of 4.94%, and an expected useful life of one year. The warrants expired November 15, 2010 with none being exercised.

In 2009, the Company raised \$1,215,216 of net proceeds by selling 17,360,233 shares of newly issued common stock. Proceeds were utilized for the Company's share of costs to drill a new well on the Gabbs Valley Prospect (See Note 1).

In 2010, the Company raised \$685,000 of net proceeds by selling 8,515,874 shares of newly issued stock, along with warrants to purchase 2,222,226 shares of Common Stock which, subject to certain restrictions, could have been exercised until June 16, 2011 at an exercise price of \$0.50 per share. Proceeds of the placements were allocated \$101,250 to Common Stock Warrants and \$583,750 to Common Stock and paid in capital. The value assigned to the warrants was determined by using the Black-Scholes option valuation methods with the following assumptions: no dividend yield, expected volatility of 155%, risk free interest rate of .3% and an expected useful life of one year. The warrants expired in 2011 with none being exercised.

In August 2011, the Company issued 2,000,000 shares of its common stock to Albert E. Whitehead, its Chief Executive Officer, for a purchase price of \$0.05 per share, which resulted in a total investment of \$100,000.

#### 5. Stock options:

Under a stock option plan adopted in 1995, the Company had the discretion to grant options for up to 1,600,000 shares of common stock until May 15, 2005, at which time the plan terminated except to the extent necessary to govern outstanding options. Stock options granted under the plan vest on grant date and expire ten years from the date of grant plus 30 days. The exercise price of the options is the fair market value on the date of grant.

At the Company's 2006 Annual Meeting of Stockholders, the stockholders approved the 2006 Stock Incentive Plan (the "Plan"). The Plan permits the issuance of stock options, restricted stock awards, and performance shares to employees, officers, directors, and consultants of the Company. Initially, and until such time as the Board creates a Compensation Committee, the Board of Directors will administer the Plan. The total number of shares of common stock that may be issued pursuant to awards under the Plan is 5,000,000. Under the Plan, no participant may receive awards of stock options that cover in the aggregate more than 500,000 shares of common stock in any fiscal year. Unless terminated by the Board, or upon the granting of awards covering all of the shares subject to the Plan, the Plan shall terminate on June 5, 2016.

The Company expenses the cost of options granted over the vesting period of the option based on the grant-date fair value of the award. No options were granted in 2009. For the year ended December 31, 2011 and 2010, the Company recognized an expense of \$11,295 and \$28,080, respectively, related to options granted under the Plan.

Fair values were estimated at the date of grants of the options, using the Black-Scholes option valuation model with the following weighted average assumptions: risk-free interest rate of 3.65% and 2.77%, volatility factor of the expected market price of the Company's common stock of 172% and 142%, 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 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.

As of December 31, 2011, there was no unrecognized compensation expense related to nonvested share-based compensation arrangements under the Plan.

A summary of the Company's Incentive Plan as of December 31, 2011 and changes during the year is presented below:

|                                       | Options   | Weighted Average<br>Exercise Price |
|---------------------------------------|-----------|------------------------------------|
| Outstanding at Beginning of Year 2010 | 1,070,000 | \$0.162                            |

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|                                 |           |         |
|---------------------------------|-----------|---------|
| Granted                         | 120,000   | \$0.25  |
| Cancelled or Exercised          | 95,000    | \$0.44  |
| Outstanding at End of Year 2010 | 1,095,000 | \$0.148 |
| Granted                         | 150,000   | \$0.10  |
| Cancelled or Exercised          | 0         | \$0.00  |
| Outstanding at End of Year 2011 | 1,245,000 | \$0.142 |

The following table summarizes information about stock options outstanding at December 2011:

| Range of Exercise Prices | Options Outstanding            |   | Options Exercisable             |                                |                                 |
|--------------------------|--------------------------------|---|---------------------------------|--------------------------------|---------------------------------|
|                          | Number Outstanding at 12/31/11 | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable at 12/31/11 | Weighted Average Exercise Price |
| \$0.10 - \$0.26          | 1,245,000                      | 5.86 Years                                  | \$0.142                         | 1,245,000                      | \$0.142                         |

6. Income taxes:

The provision for income taxes differs from the amount obtained by applying the Federal income tax rate of 34% to income before income taxes. The difference relates to the following items:

|                                     | 2011        | 2010         |
|-------------------------------------|-------------|--------------|
| Statutory tax rate                  | 34%         | 34%          |
| Expected tax benefit                | \$ (85,000) | \$ (890,000) |
| Benefit of losses not recognized    | 85,000      | 890,000      |
| Tax provision (benefit) as reported | \$0         | \$0          |

The components of deferred income taxes at December 31, 2011 are as follows:

|                      | 2011        | 2010        |
|----------------------|-------------|-------------|
| Deferred tax assets: |             |             |
| Loss carry-forwards  | \$2,300,000 | \$2,650,000 |

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|                           |             |             |
|---------------------------|-------------|-------------|
| Valuation allowance       | (2,015,000) | (2,125,000) |
|                           | 285,000     | \$ 525,000  |
| Deferred tax liabilities: |             |             |
| Property and equipment    | 285,000     | 525,000     |
| Net deferred taxes        | \$0         | \$0         |

At December 31, 2011, the Company had net operating loss carryforwards of approximately \$7,850,000 which expire beginning in 2012.

Utilization of the Company's loss carryforwards is dependent on realizing taxable income. Deferred tax assets for these carryforwards have been reduced by a valuation allowance up to an amount equal to estimated deferred tax liability.

The Company is no longer subject to income tax examinations by tax authorities for years before 2007. The Company is not currently the subject of any income tax examinations by any tax authorities.

Based upon a review of its income tax filing positions, the Company believes that its positions would be sustained upon an audit and does not anticipate any adjustments that would result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded. The Company recognizes interest related to income taxes as interest expense and penalties as operating expenses.

#### 7. Oil Sale Revenue:

The Company currently records revenue from petroleum sales when received from the operator of the well. Oil Sale Revenue is reported net of working interest and overriding royalty amounts due. Prior to 2006, the Company was responsible for distributing allocable portions of oil sale revenue to working interest and royalty owners for production in the Cheyenne River Prospect. Accordingly, a liability for estimated royalty payments was recorded when oil sale proceeds were received since a division order had not been completed, certain amounts were credited to royalties payable until the division order issue was resolved.

#### 8. Operating lease:

The Company leases office space under an operating lease agreement with an unrelated party which expires in June 2012. Monthly lease payments are \$1,100.

Rent expense for each of the years ended December 31, 2011 and 2010 was \$13,200 and \$12,649, respectively.

9. Related Party Transactions:

On February 1, 2011 the Company and its Chief Executive Officer entered into an agreement where the Company received \$100,000 in exchange for entering into a Convertible Note agreement. The note accrues interest at an annual rate of 4% and was originally set to mature on February 1, 2012. The note may be converted into Common Stock of the Company by the holder at a conversion price of \$.10 per share. The maturity date of the Note has been extended to August 1, 2012.

10. Subsequent Events:

In January 2012, the Company's Chief Executive Officer advanced \$20,000 to the Company for general operating purposes.