

EMPIRE PETROLEUM CORP  
Form 10-K  
April 02, 2018

---

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

---

FORM 10-K

---

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

For the fiscal year ended December 31, 2017

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)

---

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

2651 E. 21<sup>st</sup> Street, Suite 310, Tulsa Oklahoma 74114  
(Address of Principal Executive Offices)    (Zip Code)

(539) 444-8002  
(Registrant's telephone number, 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

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10-K

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: OTCQB

---

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

Yes    No

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

---

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10-K

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  
Emerging growth company      (Do not check if a smaller reporting company)

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

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

Yes      No

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 \$381,992.

The number of shares of the registrant's common stock, \$0.001 par value, outstanding as of March 26, 2018 was 11,228,942.

DOCUMENTS INCORPORATED BY REFERENCE

None.

## EMPIRE PETROLEUM CORPORATION

## FORM 10-K

## TABLE OF CONTENTS

| ITEM NUMBER AND CAPTION  | PAGE NO.  |
|--|-----------|
| PART I   |           |
| <u>Item 1.</u> <u>Business</u>   | <u>4</u>  |
| <u>Item 1A.</u> <u>Risk Factors</u>  | <u>6</u>  |
| <u>Item 1B.</u> <u>Unresolved Staff Comments</u>   | <u>6</u>  |
| <u>Item 2.</u> <u>Properties</u>   | <u>6</u>  |
| <u>Item 3.</u> <u>Legal Proceedings</u>  | <u>6</u>  |
| <u>Item 4.</u> <u>Mine Safety Disclosures</u>  | <u>6</u>  |
| PART II  |           |
| <u>Item 5.</u> <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | <u>7</u>  |
| <u>Item 6.</u> <u>Selected Financial Data</u>  | <u>7</u>  |
| <u>Item 7.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                        | <u>7</u>  |
| <u>Item 7A.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | <u>11</u> |
| <u>Item 8.</u> <u>Financial Statements and Supplementary Data</u>  | <u>11</u> |
| <u>Item 9.</u> <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>                         | <u>11</u> |
| <u>Item 9A.</u> <u>Controls and Procedures</u>   | <u>12</u> |
| <u>Item 9B.</u> <u>Other Information</u>   | <u>12</u> |
| PART III   |           |
| <u>Item 10.</u> <u>Directors, Executive Officers and Corporate Governance</u>  | <u>13</u> |

|                           |   |           |
|---------------------------|---|-----------|
| <u>Item</u><br><u>11.</u> | <u>Executive Compensation</u>   | <u>14</u> |
| <u>Item</u><br><u>12.</u> | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | <u>14</u> |
| <u>Item</u><br><u>13.</u> | <u>Certain Relationships and Related Transactions and Director Independence</u>                       | <u>16</u> |
| <u>Item</u><br><u>14.</u> | <u>Principal Accounting Fees and Services</u>   | <u>16</u> |
|                           | PART IV   |           |
| <u>Item</u><br><u>15.</u> | <u>Exhibits, Financial Statement Schedules</u>  | <u>17</u> |
|                           | <u>Signatures</u>   | <u>18</u> |

## PART I

### ITEM 1. BUSINESS.

#### Background

Empire Petroleum Corporation, a Delaware corporation (the "Company" or "Empire"), 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.

#### Lease Option Agreements

During 2015, the Company entered into two Lease Option Agreements primarily in South Dakota.

In the first, with BHPP Group, the Company had an exclusive option for a period of two years ended April 8, 2017 to enter into oil and gas leases with respect to mineral interests owned by BHPP in Haakon, Meade, and Pennington Counties in South Dakota. The Lease Option Agreement covered approximately 150,000 gross leasable acres. The Company granted BHPP the option to acquire 1,000,000 shares of the Company's stock at an exercise price of \$0.25 per share.

Under Lease Option Agreement II, with Anderson Brothers, the Company had an exclusive option for a period of two years ended April 30, 2017 to enter into oil and lease leases with respect to mineral interests owned by the Anderson Brothers in Perkins and Harding Counties in South Dakota and Adams County in North Dakota. The Lease Option Agreement covered approximate 10,000 gross leasable acres. The Company granted Anderson Brothers the option to acquire 250,000 shares of the Company's stock at an exercise price of \$0.25 per share.

Both lease options were determined to be impaired at the end of 2016 due to management's expectation that the lease options would not be exercised prior to expiring in April 2017. The result of the impairment was the write off of the carrying value of the lease options as of December 31, 2016.

#### Investment in Masterson West II

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

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

entitled to a distribution of all or a portion of the 38,000,000 shares of Common Stock if and when the final closing occurs.

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

All of Contributed Properties are located in Moore and Potter Counties in Texas and the wells to be included in such Contributed Properties primarily target the red cave formation at a depth of 2,100 to 2,300 feet. Masterson West and affiliate of Masterson West, Adams Affiliates Inc., have owned and operated the Contributed Properties for over 20 years. The Company has targeted this transaction for a number of reasons. First, the Contributed Properties are currently producing approximately 1,000 barrels of oil per day equivalent and include approximately 8,000 net acres of leasehold that are held by such production. Second, the Company believes this transaction is a lower risk oil-weighted infill drilling opportunity as Masterson West has identified approximately 380 locations to develop on five to ten acre spacing units, with approximately 200 proved undeveloped drilling locations. The Company estimates the total cost to complete each well will be approximately \$250,000.

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

#### Changes in Directors and Executive Officers

On December 22, 2016, J. C. Whorton, Jr. resigned as the Chairman of the Board of Directors and Chief Executive Officer of the Company. On December 23, 2016, the sole remaining member of the Board of Directors, Michael R. Morrisett, appointed Anthony N. Kamin to fill the vacancy on the Board of Directors created by Mr. Whorton's resignation.

On November 28, 2017, Thomas Pritchard was appointed as Chief Executive Officer of the Company.

#### 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 remains depressed in the future, it could have a material adverse effect on the Company's ability to raise additional capital necessary to finance operations. 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. 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.

Many times leases 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 oil and gas 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

The Company has no employees. Until December 22, 2016, J.C. Whorton served as the Company's Chief Executive Officer and Michael R. Morrisett was appointed as the Company's President. On December 22, 2016, Mr. Whorton resigned his position as Chief Executive Officer at which time Mr. Morrisett appointed Anthony Kamin to fill the vacancy on the Board of Directors created by Mr. Whorton's resignation. On November 28, 2017, Thomas Pritchard was appointed as the Company's Chief Executive Officer.

No board members received cash compensation from the Company in 2016. On November 29, 2017, the Company issued warrants to purchase 500,000 shares of Common Stock at \$0.15 per share, and 2,500,000 shares of Common Stock at \$0.25 per share, to Anthony Kamin as consideration for his service on the Board of Directors. For the year ended December 31, 2017, the Company paid Mr. Morrisett \$54,700 for services rendered. In addition, for the year ended December 31, 2017 but before his appointment as Chief Executive Officer, Mr. Pritchard's firm was paid \$56,764 for professional services. For the year ended December 31, 2017, the Company paid Mr. Pritchard \$10,000 for services rendered as Chief Executive Officer. On November 29, 2017, the Company issued warrants to purchase 500,000 shares of Common Stock at \$0.25 per share to each of Mr. Pritchard and Mr. Morrisett for services rendered to the Company.

ITEM 1A. RISK FACTORS.

Not applicable.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

As of December 31, 2016, the Company owned options to acquire approximately 160,000 gross leasable acres in South Dakota and North Dakota as further described under Item 1, Business. These leases were identified as impaired as of December 31, 2016 and the Company's carrying value of these lease options were reduced to zero.

As of December 31, 2017, the Company owned 50% of the ownership interest in Masterson West II, which has entered into the Contribution Agreement with Masterson West pertaining to certain oil and gas properties as further described under Item 1, Business. Due to the unexpected death of the majority owner of Masterson West, Gary C. Adams, the final closing under the Contribution Agreement is in doubt.

ITEM 3. LEGAL PROCEEDINGS.

As of December 31, 2017, the Company was not 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.

Year ended December 31, 2016:

| Quarter | High | Low |
|---------|------|-----|
|---------|------|-----|

|          |        |        |
|----------|--------|--------|
| 03/31/16 | \$0.10 | \$0.07 |
|----------|--------|--------|

|          |        |        |
|----------|--------|--------|
| 06/30/16 | \$0.12 | \$0.05 |
|----------|--------|--------|

|          |        |        |
|----------|--------|--------|
| 09/30/16 | \$0.12 | \$0.09 |
|----------|--------|--------|

|          |        |        |
|----------|--------|--------|
| 12/31/16 | \$0.25 | \$0.07 |
|----------|--------|--------|

Year ended December 31, 2017:

| Quarter | High | Low |
|---------|------|-----|
|---------|------|-----|

|          |        |        |
|----------|--------|--------|
| 03/31/17 | \$0.51 | \$0.15 |
|----------|--------|--------|

|          |        |        |
|----------|--------|--------|
| 06/30/17 | \$0.17 | \$0.06 |
|----------|--------|--------|

|          |        |        |
|----------|--------|--------|
| 09/30/17 | \$0.25 | \$0.04 |
|----------|--------|--------|

|          |        |        |
|----------|--------|--------|
| 12/31/17 | \$0.25 | \$0.10 |
|----------|--------|--------|

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

At December 31, 2017, there were approximately 184 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.

ITEM 6. SELECTED FINANCIAL DATA.

Not applicable.

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 has executed Subscription and Contribution agreements to acquire a significant ownership position in Masterson West II, which may not occur.

The Subscription and Contribution agreements require the Company to raise between \$9,000,000 and \$18,000,000 of new capital, the majority of which will be contributed to Masterson West II in exchange for Class B Common Shares. The Company may not be successful at raising the required capital which will result in the cancellation of the agreements. On February 18, 2017, Gary C. Adams, the majority owner of Masterson West, unexpectedly passed away. As a result of this development, the final closing under the Subscription and Contribution Agreement did not occur. As of the date of this filing, either party may terminate the Subscription and Contribution Agreement, but neither party has elected to do so.

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

For the past three years, the Company has financed its operations primarily from sales of its equity securities and convertible notes issued to individual investors. 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.

The Company reported losses of \$(830,067) and \$(381,915) for the years ended December 31, 2017 and 2016, respectively. The Company also had an accumulated deficit of \$(16,111,215) as of December 31, 2017. 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 success of its investments. The failure of completing the investment in Masterson West II or other 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 has relied and will rely 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 the Company again begins conducting drilling operations, the Company intends to maintain 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 President.

The Company is dependent on the experience, abilities and continued services of its current President, Michael R. Morrisett, which currently serves the Company without a formal compensation plan. The loss or reduction of services of Mr. Morrisett 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.



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 future 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, 2017, COMPARED TO TWELVE MONTH PERIOD ENDED DECEMBER 31, 2016

For the twelve months ended December 31, 2017 and 2016, revenues were \$0. The Company does not have any producing wells at this time.

Lease option impairments of \$181,475 were recognized for the twelve months ended December 31, 2016 due to the Company's expectation that it would not pursue exercising the options to lease properties primarily in South Dakota. There were no impairments recognized in 2017.

The Company incurred no production and operating expenses in 2017 and 2016.

General and administrative expenses increased by \$560,466 to \$757,069 for the twelve months ended December 31, 2017, from \$196,603 for the same period in 2016. The increase was primarily due to stock warrants issued to management and Board members and higher consulting and marketing costs related to finding oil & gas investments.

Interest expense was \$72,998 and \$3,837 for the twelve months ended December 31, 2017 and 2016, respectively. The increase in interest expense resulted from the amortization of Debt Issue costs and accrued interest associated with the Company's issuance of convertible notes in December 2016 and 2017.

For the reasons discussed above, net loss increased \$448,152 from \$(381,915) for the twelve months ended December 31, 2016, to \$(830,067) for the twelve months ended December 31, 2017.

## LIQUIDITY AND CAPITAL RESOURCES

### GENERAL

As of December 31, 2017, the Company had \$77,780 of cash on hand. The Company expects to incur costs of approximately \$25,000 per month relating to general administrative and other expenses for the foreseeable future. It is expected that management will attempt to raise additional capital for future investment and working capital opportunities.

### OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

- 10 -

---

## 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements of the Company are set forth on pages 20 through 32 at the end of this Form 10-K.

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

None.

- 11 -

---

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 President (principal 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 President (principal financial officer) 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 President (principal financial officer) are 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 President (principal financial officer) made an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. In making this assessment, the Company's Chief Executive Officer and President (principal financial officer) used the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 1992. Based on this assessment, the Company's Chief Executive Officer and President (principal financial officer) concluded that as of December 31, 2017, 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                |
|----------------------|-----|-------------------------|
| Thomas Pritchard     | 56  | Chief Executive Officer |
| Michael R. Morrisett | 54  | Director and President  |
| Anthony N. Kamin     | 57  | Director                |

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

#### Thomas Pritchard

Tommy Pritchard co-founded Pritchard Griffin Advisors ("PGA") in 2015 to serve the unique investment banking needs of the energy sector, including upstream, midstream, downstream and renewables. Prior to PGA, he formed Pritchard Energy Advisors, LLC in 2014 and partnered with Parkman Whaling, including the establishment of a Houston office. From 2012 to 2014, Mr. Pritchard served as Managing Director of the Energy Investment Banking division of Imperial Capital. Prior to this role, Mr. Pritchard served as CEO and Managing Director of Pritchard Capital Partners, which he founded in 2001 and later sold majority ownership in 2011. Over a period of ten years, Pritchard Capital Partners participated in raising over \$15 billion in capital for firms in the oil and gas industry and provided trading and research services annually to over 150 energy companies. In 1997, Mr. Pritchard co-founded Offshore Tool and Energy, Inc., an oilfield services company that was sold in 2001. He began his professional career in 1984 with Drexel Burnham Lambert, and later held key roles at Bear Stearns, Jefferies and Johnson Rice. Mr. Pritchard earned his undergraduate degree in Geology from Washington and Lee University.

#### Michael R. Morrisett

Mr. Morrisett has served as a director of the Company and as the Company's President since January 19, 2015. Mr. Morrisett has over 25 years of experience in investment banking and considerable experience in the management of non-operated oil and gas operations. From April 2014 to May 2017, Mr. Morrisett has served as the Chief Financial Officer and currently Director of Wearable World, Inc., a privately held media and technology portfolio company based in San Francisco, California. From November 2012 to the present, Mr. Morrisett has served Total Energy Partners Funds, an investment fund engaged in the ownership of non-operated oil and gas working interests, in several capacities, including as a partner. From May 2011 to July 2013, Mr. Morrisett served in several roles at Osage Investments, Inc., a FINRA member investment banking firm, initially as Head of Investment Banking, and then later as President. From April 2010 to December 2012, Mr. Morrisett served as Vice President of Investment Banking of Equity Station, Inc., a FINRA member investment banking firm. Prior to 2010, Mr. Morrisett served in various executive capacities at other investment banking firms and oil and gas concerns.

#### Anthony N. Kamin

Anthony N. Kamin serves as the President of Eastwood Investment Management (EIM), which he founded in 2001. EIM is a multi-strategy, multi-asset class family office which has been an active investor in energy and resource companies. Mr. Kamin is on the Board of ReadWrite, which through its RW Labs incubators in the U.S. and China helps accelerate early stage companies involved in IoT and related technologies. Mr. Kamin is the Founder and

Executive Chairman of Clean Plate Restaurants Inc. He was a Venture Partner with Venture Strategy Partners from 1998 to 2003 helping launch its venture operations. Mr. Kamin received a Masters Degree from Yale University in international relations with a concentration in international law in 1985.

#### Identification of Audit Committee; Audit Committee Financial Expert

As of December 31, 2017, 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, 2017, the entire Board of Directors 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, 2651 E. 21<sup>st</sup> Street, Suite 310, Tulsa Oklahoma, 74114, or by calling (539) 444-8002.

- 13 -

---



## 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, 2017, 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, 2016 were complied with on a timely basis.

## ITEM 11. EXECUTIVE COMPENSATION.

The Board of Directors does not have a Compensation Committee.

### Executive Compensation

During 2016, Mr. Morrisett did not receive any recurring compensation. For the year ended December 31, 2017, the Company paid Mr. Morrisett \$54,700 for services rendered. In addition, for the year ended December 31, 2017 but before his appointment as Chief Executive Officer, Mr. Pritchard's firm was paid \$56,764 for professional services. For the year ended December 31, 2017, the Company paid Mr. Pritchard \$10,000 for services rendered as Chief Executive Officer. In November 2017, the Company issued warrants to management to purchase 1,000,000 shares of common stock of the Company; the warrants were valued at \$117,900.

### Director Compensation

In November 2017, the Company issued warrants to board members to purchase 3,000,000 shares of common stock of the Company; the warrants were valued at \$354,800.

## 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, 2017, the Company had one equity incentive plan 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. 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, 2017, adjusted for the 2013 reverse stock split:

| (a) | (b) | (c)                  |
|-----|-----|----------------------|
|     |     | Number of securities |

| Plan Category  | Number of securities to be issued upon exercise of outstanding options and rights | Weighted-average exercise price of outstanding options and rights | remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|--|---|---|--|
| Equity compensation plans approved by security holders     | 1,154,167   | \$0.21  | 0  |
| Equity compensation plans not approved by security holders | N/A   | N/A   | N/A  |
| TOTAL  | 1,154,167   |   | 0  |

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10-K

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 1, 2018 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 11,228,942 shares of Common Stock outstanding as of March 26, 2018.

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) |
|---|---|----------------------|
| J. C. Whorton, Jr.<br>6657 S. High Drive<br>Morrison, CO 80465  | 1,673,128 (2)                             | 14.9%                |
| Michael R. Morrisett<br>Director and President<br>2651 E. 21 <sup>st</sup> Street, Suite 310<br>Tulsa, Oklahoma 74114 | 2,173,128 (2)(3)                          | 18.5%                |
| Empire Petroleum Holdings, LLC<br>2651 E. 21 <sup>st</sup> Street, Suite 310<br>Tulsa, OK 74114                       | 3,718,064 (4)                             | 33.1%                |
| Anthony Kamin<br>Director<br>4870 S Lewis Ave. Suite 250<br>Tulsa, Oklahoma 74105                                     | 4,424,304 (5)                             | 29.4%                |
| Gary Adams<br>1437 South Boulder Ave, Suite 930<br>Tulsa, OK 74119  | 2,000,000 (6)                             | 17.8%                |
| Thomas Pritchard<br>15798 Spyglass Hill Loop<br>Gainesville, VA 20155   | 500,000 (7)                               | 4.3%                 |
| All current directors, executive officers and beneficial owners as a group (5 persons)                                | 10,770,560 (4)                            | 67.1%                |

(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) Mr. Whorton and Mr. Morrisett each own 45% of the outstanding membership interests in Empire Petroleum Holdings, LLC ("Holdings"). Holdings own 3,718,064 shares of common stock of the Company. Mr. Whorton and Mr. Morrisett are each therefore deemed to beneficially own 1,673,128 shares of common stock of the Company.

(3) The total includes 500,000 shares of common stock issuable upon the exercise of a warrant at an exercise price of \$0.25 per share.

(4) The shares owned by Empire Petroleum Holdings, LLC have not been included in the percentage ownership of all current directors, executive officers and beneficial owners as a group, but rather the shares owned by Empire Petroleum Holdings, LLC that are deemed owned by Mr. Whorton and Mr. Morrisett individually have been included in such line item.

- 15 -

---

(5) The total includes 500,000 shares of common stock issuable upon the exercise of a warrant at \$0.15 per share, 1,500,000 shares of common stock issuable upon the exercise of a warrant at an exercise price of \$0.25 per share and 1,000,000 shares of common stock issuable upon the exercise of a warrant at an exercise price of \$0.25 per share. The total also includes a convertible note in the amount of \$40,000 which is convertible at \$0.15 per share, and 160,000 shares of common stock issuable upon the exercise of a warrant at an exercise price of \$0.25 per share. The total also includes 390,000 shares of common stock issuable upon the exercise of a warrant at an exercise price of \$0.25 per share.

(6) The 2,000,000 shares shown as owned by Gary Adams have been subscribed, but not yet issued, to Masterson West II. Mr. Adams has the right to cause these shares to be issued to Masterson West II and distributed to Masterson West, of which Mr. Adams owns a majority interest and controls. Such shares have been included as outstanding for purposes of calculating Mr. Adam's percentage ownership and the percentage ownership of all current directors, executive officers and beneficial owners as a group.

(7) The total includes 500,000 shares of common stock issuable upon the exercise of a warrant at \$0.25 per share.

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

#### Director Independence

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. Morrisett is not considered "independent" within the meaning of Rule 5605(a)(2) 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, 2016 and December 31, 2015:

| Fee Category             | Fiscal 2017 Fees | Fiscal 2016 Fees |
|--------------------------|------------------|------------------|
| Audit Fees (1)           | \$30,250         | \$30,250         |
| Audit - Related Fees (2) | 0                | 0                |
| Tax Fees                 | 0                | 0                |
| All Other Fees (3)       | 0                | 0                |
| Total Fees               | \$30,250         | \$30,250         |

(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 years ended December 31, 2017 and December 31, 2016, 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.

- 16 -

---

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 No. | Description  |
|-------------|--|
| 2.1         | Subscription and Contribution Agreement dated as of December 22, 2016, by and between Masterson West, LLC and Empire Petroleum Corporation (incorporated herein by reference to Exhibit 2.1 of the Company's Form 8-K dated December 22, 2016 filed on December 28, 2016). |
| 2.2         | Limited Liability Company Agreement of Masterson West II, LLC dated as of December 22, 2016 (incorporated herein by reference to Exhibit 2.1 of the Company's Form 8-K dated December 22, 2016 filed on December 28, 2016).  |
| 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         | Certificate of Amendment to Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K dated May 31, 2012, which was filed on June 1, 2012).  |
| 3.3         | 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).  |
| 4.1         | Form of Securities Purchase Agreement entered into between Empire Petroleum Corporation and five accredited investors (incorporated herein by reference to Exhibit 2.1 of the Company's Form 8-K dated December 22, 2016 filed on December 28, 2016).                      |
| 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        | 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).  |
| 10.4        | 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).   |
| 10.5        |  |

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10-K

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).

- 10.6 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).
- 31.1 Rule 13a – 14(a)/15d – 14(a) Certification of Thomas Pritchard, Chief Executive Officer (submitted herewith).
- 31.2 Rule 13a – 14(a)/15d – 14(a) Certification of Michael R. Morrisett, principal financial officer (submitted herewith).
- 32.1 Section 1350 Certification of Thomas Pritchard, Chief Executive Officer (submitted herewith).
- 32.2 Section 1350 Certification of Michael R. Morrisett, principal financial officer (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: April 2, 2017 By: /s/ Michael R. Morrisett  
Name: Michael R. Morrisett  
Title: President

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/ Thomas Pritchard<br>THOMAS PRITCHARD         | Director and Chief Executive Officer                     | April 2, 2017 |
| /s/ Michael R. Morrisett<br>MICHAEL R. MORRISETT | Director, and President<br>(principal financial officer) | April 2, 2017 |
| /s/ Anthony J. Kamin<br>ANTHONY J. KAMIN         | Director   | April 2, 2017 |



EXHIBIT INDEX

NO.

- 2.1 Subscription and Contribution Agreement dated as of December 22, 2016, by and between Masterson West, LLC and Empire Petroleum Corporation (incorporated herein by reference to Exhibit 2.1 of the Company's Form 8-K dated December 22, 2016 filed on December 28, 2016).
- 2.2 Limited Liability Company Agreement of Masterson West II, LLC dated as of December 22, 2016 (incorporated herein by reference to Exhibit 2.1 of the Company's Form 8-K dated December 22, 2016 filed on December 28, 2016).
- 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 Certificate of Amendment to Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K dated May 31, 2012, which was filed on June 1, 2012).
- 3.3 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).
- 4.1 Form of Securities Purchase Agreement entered into between Empire Petroleum Corporation and five accredited investors (incorporated herein by reference to Exhibit 2.1 of the Company's Form 8-K dated December 22, 2016 filed on December 28, 2016).
- 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 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).
- 10.4 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).
- 10.5 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).
- 10.6 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).
- 31.1 Rule 13a – 14(a)/15d – 14(a) Certification of Thomas Pritchard, Chief Executive Officer (submitted herewith).
- 31.2 Rule 13a – 14(a)/15d – 14(a) Michael R. Morrisett, principal financial officer (submitted herewith).
- 32.1 Section 1350 Certification of Thomas Pritchard, Chief Executive Officer (submitted herewith).
- 32.2 Section 1350 Certification of Michael R. Morrisett, principal financial officer (submitted herewith).

101 Financial Statements for XBRL format (submitted herewith).

- 19 -

---

EMPIRE PETROLEUM CORPORATION

FINANCIAL STATEMENTS

CONTENTS

|  | Page No. |
|--|----------|
| Report of Independent Registered Public Accounting Firm  | 21       |
| Balance Sheets as of December 31, 2017 and 2016  | 22       |
| Statements of Operations for the years ended December 31, 2017 and 2016                                | 23       |
| Statements of Changes in Stockholders' Equity (Deficit) for the years ended December 31, 2017 and 2016 | 24       |
| Statements of Cash Flows for the years ended December 31, 2017 and 2016                                | 25       |
| Notes to Financial Statements  | 26       |



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of  
Empire Petroleum Corporation

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Empire Petroleum Corporation (the Company) as of December 31, 2017 and 2016, and the related statements of operations, changes in stockholders' equity (deficit) and cash flows for the years then ended, and the related notes to the financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Going Concern

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 Company's ability to continue as a going concern is dependent upon the existence, discovery, and development of economically recoverable oil and gas reserves and is dependent upon the Company obtaining necessary financing to carry out its exploration and development program. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ HOGANTAYLOR LLP

We have served as the Company's auditor since 2003.

Tulsa, Oklahoma  
April 2, 2018

- 21 -

---



## EMPIRE PETROLEUM CORPORATION

## BALANCE SHEETS

DECEMBER 31, 2017 AND 2016

|   | 2017         | 2016         |
|---|--------------|--------------|
| <u>ASSETS</u>   |              |              |
| Current assets:   |              |              |
| Cash  | \$77,780     | \$68,743     |
| Prepays   | 0            | 14,000       |
| Total current assets  | 77,780       | 82,743       |
| Lease options, at cost  | 0            | 0            |
| Investment in Masterson West II   | 300,000      | 300,000      |
| Total assets  | \$377,780    | \$382,743    |
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>   |              |              |
| Current liabilities:  |              |              |
| Accounts payable and accrued liabilities  | \$64,964     | \$22,518     |
| Current portion of convertible notes, net   | 137,256      | 0            |
| Total current liabilities   | 202,220      | 22,518       |
| Convertible Notes, net  | 47,366       | 58,844       |
| Stockholders' equity (deficit):   |              |              |
| Common stock - \$.001 par value 150,000,000 shares authorized,<br>8,803,942 and 8,710,609 shares issued and outstanding, respectively | 8,803        | 8,710        |
| Common stock subscribed not yet issued (3,225,000 shares at 2017<br>and 2,000,000 shares at 2016)                                     | 3,225        | 2,000        |
| Stock subscription receivable   | (5,000 )     | 0            |
| Additional paid in capital  | 16,232,381   | 15,571,819   |
| Accumulated deficit   | (16,111,215) | (15,281,148) |
| Total stockholders' equity  | 128,194      | 301,381      |
| Total liabilities and stockholders' equity  | \$377,780    | \$382,743    |

See accompanying notes to financial statements



## EMPIRE PETROLEUM CORPORATION

## STATEMENTS OF OPERATIONS

Years Ended December 31, 2017 and 2016

|  | 2017         | 2016         |
|--|--------------|--------------|
| Revenue:   |              |              |
| Petroleum sales  | \$0          | \$0          |
| Costs and expenses:  |              |              |
| Lease option impairment  | 0            | 181,475      |
| General and administrative   | 757,069      | 196,603      |
|  | 757,069      | 378,078      |
| Operating loss   | (757,069 )   | (378,078 )   |
| Other income and (expense):  |              |              |
| Interest expense   | (72,998 )    | (3,837 )     |
| Total other income and (expense)   | (72,998 )    | (3,837 )     |
| Net loss   | \$(830,067 ) | \$(381,915 ) |
| Net loss per common<br>share, basic and diluted                              | \$(0.08 )    | \$(0.04 )    |
| Weighted average number of<br>common shares outstanding<br>basic and diluted | 10,859,070   | 8,727,047    |

See accompanying notes to financial statements

## EMPIRE PETROLEUM CORPORATION

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

Years ended December 31, 2017 and 2016

|  | Common Stock<br>Shares | Common<br>Stock<br>Par<br>Value | Common<br>Stock<br>Subscribed,<br>not<br>yet issued | Stock<br>Subscription<br>Receivable | Additional<br>Paid in<br>Capital | Accumulated<br>Deficit | Total     |
|--|------------------------|---------------------------------|---|-------------------------------------|----------------------------------|------------------------|-----------|
| Balances December 31,<br>2015                                  | 8,710,609              | \$8,710                         | \$ 0  | \$ 0                                | \$15,081,928                     | \$(14,899,233)         | \$191,405 |
| Value of services<br>contributed                               | 0                      | 0                               | 0   | 0                                   | 50,000                           | 0                      | 50,000    |
| Net loss   | 0                      | 0                               | 0   | 0                                   | 0                                | (381,915 )             | (381,915) |
| Subscription of Stock  | 0                      | 0                               | 2,000   | 0                                   | 298,000                          | 0                      | 300,000   |
| Options, warrants and<br>conversion features issued            | 0                      | 0                               | 0   | 0                                   | 141,891                          | 0                      | 141,891   |
| Balances December 31,<br>2016                                  | 8,710,609              | 8,710                           | 2,000   | 0                                   | 15,571,819                       | (15,281,148)           | 301,381   |
| Net loss   |                        |                                 |   |                                     |                                  | (830,067 )             | (830,067) |
| Shares, options, warrants<br>and conversion features<br>issued | 93,333                 | 93                              | 1,225   | (5,000 )                            | 660,562                          | 0                      | 656,880   |
| Balances December 31,<br>2017                                  | 8,803,942              | \$8,803                         | \$ 3,225  | \$ (5,000 )                         | \$16,232,381                     | \$(16,111,215)         | \$128,194 |

See accompanying notes to financial statements

## EMPIRE PETROLEUM CORPORATION

## STATEMENTS OF CASH FLOWS

Years ended December 31, 2017 and 2016

|   | 2017        | 2016        |
|---|-------------|-------------|
| Cash flows from operating activities:                                       |             |             |
| Net loss  | \$(830,067) | \$(381,915) |
| Adjustments to reconcile net loss to net cash used in operating activities: |             |             |
| Value of fair value of options and warrants granted                         | 472,700     | 65,660      |
| Value of services contributed by employee                                   | 0           | 50,000      |
| Amortization of warrant value and conversion feature on convertible notes   | 60,064      | 2,574       |
| Lease option impairment   | 0           | 181,475     |
| Change in operating assets and liabilities:                                 |             |             |
| Prepays   | 14,000      | (14,000 )   |
| Accounts payable and accrued liabilities                                    | 47,340      | 14,344      |
| Net cash used in operating activities                                       | (235,963)   | (81,862 )   |
| Cash flows from financing activities:                                       |             |             |
| Proceeds from convertible notes issued                                      | 127,500     | 132,500     |
| Proceeds from stock issuance  | 117,500     | 0           |
| Net cash provided by financing activities                                   | 245,000     | 132,500     |
| Net increase in cash  | 9,037       | 50,638      |
| Cash - Beginning of year  | 68,743      | 18,105      |
| Cash - End of year  | \$77,780    | \$68,743    |
| Noncash Investing and Financing Activities                                  |             |             |
| Common stock subscribed in exchange for investment                          | \$5,000     | \$300,000   |
| Common stock options issued for outstanding payables                        | \$4,894     | \$0         |

See accompanying notes to financial statements

EMPIRE PETROLEUM CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 and 2016

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, discovery, and development 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 and future financing is uncertain. These factors indicate that there is a substantial doubt about the Company's ability to continue as a going concern.

The continuation of the Company is dependent upon the ability of the Company to raise capital and 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. These financial statements do not include any adjustments that might be necessary to the carrying value of assets and liabilities, reported expenses and the balance sheet classifications used should the Company be unable to continue as a going concern.

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 is 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.

Lease options are capitalized as unproved property acquisition costs and are reviewed for impairment if indicators exist that the carrying value of the lease option may not be recoverable. If the lease options become impaired, expire or are abandoned, the options will be expensed. If proved reserves are discovered after the options are exercised, these costs will be reclassified as proved property.

(b) Equity Method Investments:

Companies in which Empire owns a 20% to 50% interest, but does not have a controlling interest, are accounted for by the equity method. The Company owns a 50% non-controlling interest in Masterson West II. Masterson West II is accounted for under the equity method and is not required to be consolidated in the financial statements. The carrying value of the Company's investment in Masterson West II is reflected in the Balance Sheets as Investment in Masterson West II. For more information about the investment in Masterson West II and the summarized Masterson West II balance sheet, refer to Note 4.

(c) 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 Earnings per Share ("EPS") gives effect to all dilutive potential common shares outstanding during the period. The computation of Diluted EPS does not assume conversion, exercise or contingent exercise of securities that would have an anti-dilutive effect on losses. As a result, if there is a loss from continuing operations, Diluted EPS is computed in the same manner as Basic EPS. At December 31, 2016 and 2017, the Company had 3,287,500 and 8,775,167 options and warrants outstanding, respectively, that were not included in the calculation of earnings per share for the periods then ended. Such financial instruments may become dilutive and would then need to be included in future calculations of Diluted EPS. At December 31, 2017 and 2016, the outstanding options were considered anti-dilutive since the strike prices were above the market price and since the Company has incurred losses year to date.

(d) 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.

(e) 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. The carrying value of the convertible debt and investments in Masterson West II also approximate their fair value as of December 31, 2017. Management's estimates are based on an assessment of qualitative factors that are considered level 3 measurements in the fair value valuation hierarchy required by FASB ASC 820.

(f) Stock option plan:

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

(g) 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.

(h) Recent Accounting Pronouncements:

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

In May 2017, the FASB issued ASU 2017-09 which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. Entities should apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. ASU 2017-09 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted and prospective application is required. The Company does not expect the adoption of ASU 2017-09 to have a material impact on its financial position, results of operations or cash flows.

- 27 -

---

### 3. Property and Lease Options:

In 2015, the Company acquired exclusive options to enter into two separate oil and gas leases with respect to 160,000 gross acres of mineral interests primarily in South Dakota. The Company conducted geological and geophysical studies of the prospective acreage to identify potential areas for seismic surveys, geochemical imaging surveys and satellite and gravity studies to identify certain areas within the acreage for prospect development. The options expired in April 2017.

### 4. Investment in Masterson West II, LLC

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

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

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

All of Contributed Properties are located in Moore and Potter Counties in Texas and the wells to be included in such Contributed Properties primarily target the red cave formation at a depth of 2,100 to 2,300 feet. Masterson West and affiliate of Masterson West, Adams Affiliates Inc., have owned and operated the Contributed Properties for over 20 years. The Company has targeted this transaction for a number of reasons. First, the Contributed Properties are currently producing approximately 1,000 barrels of oil per day equivalent and include approximately 8,000 net acres of leasehold that are held by such production. Second, the Company believes this transaction is a lower risk oil-weighted infill drilling opportunity as Masterson West has identified approximately 380 locations to develop on five to ten acre spacing units, with approximately 200 proved undeveloped drilling locations. The Company estimates the total cost to complete each well will be approximately \$250,000.

As stated above, if the final closing does not occur, the Contributed Properties will not be transferred to Masterson West II and the additional 38,000,000 shares of the Common Stock will not be issued by the Company. Also as stated above, under the Contribution Agreement, the final closing was scheduled to occur no later than April 1, 2017. However, on February 18, 2017, the majority owner of Masterson West, Gary C. Adams, unexpectedly passed away. As a result of this development, the final closing did not occur on April 1, 2017, the final close date per the Contribution Agreement. Though the transaction did not close before the stated final closing date, the Agreement

remains in effect until one or both parties serve a notice of termination. As of the date of this filing, neither party has elected to terminate the Contribution Agreement. The Company is continuing its discussions with representatives of Masterson West regarding a potential acquisition.

Masterson West II had no operations during the year. The following table reflects the balance sheet of Masterson West II as of December 31, 2017:

| Masterson West II Summarized Balance Sheet   | 2017       |
|--|------------|
| Total Assets (option and partial consideration to purchase certain oil and gas assets) | \$ 300,000 |
| Total Liabilities and Equity   | \$ 300,000 |

- 28 -

---

## 5. Senior Unsecured Convertible Promissory Notes

In December 2016, the Company entered into securities purchase agreements (each, a "Securities Purchase Agreement" and, collectively, the "Securities Purchase Agreements") with four accredited investors, pursuant to which it issued senior unsecured convertible promissory notes due December 31, 2018 (each, a "Convertible Note" and, collectively, the "Convertible Notes") in the aggregate amount of \$132,500 in cash. Each Convertible Note accrues interest at 6%, is due December 31, 2018 and is convertible at the option of the holder at \$0.15 per share. Each investor was also issued a warrant certificate (each, a "Warrant Certificate" and, collectively, the "Warrant Certificates"), pursuant to which such investor could acquire one share of Common Stock at \$0.25 per share for each \$0.25 invested in the applicable Convertible Note until December 31, 2018. The full amount interest under each Convertible Note is accrued and paid upon the maturity date or earlier conversion.

The value allocated to the Warrant Certificates was the fair value determined using the Black-Scholes option valuation with the following assumptions: no dividend yield, expected annual volatility of 112%, risk free interest rate of 0.91% and an expected useful life of two years. The fair value of the Warrant Certificates was allocated \$38,115 to Paid in Capital and \$38,115 as Debt Issue Costs. The Notes' conversion features were valued at their intrinsic value in excess of the debt's allocated value of \$38,115 and resulted in additional Paid in Capital and Debt Issue Costs. The Debt Issue Costs represent a direct deduction of the face amount the Convertible Notes is amortized as interest expense over the life of the Notes.

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

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

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

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10-K

the Warrant Certificates of \$13,918 was allocated to Paid in Capital. The Notes' conversion features were valued at their intrinsic value in excess of the debt's allocated value of \$13,918 and resulted in additional Paid in Capital. The Debt Issue Costs represent a direct deduction of the face amount the Convertible Notes and is amortized as interest expense over the life of the Notes.

The following table reflects the changes in long term debt during the years ended December 31, 2017 and 2016, respectively:

|  | 2017      |           | 2016      |           |
|--|-----------|-----------|-----------|-----------|
|  | Current   | Long Term | Total     |           |
| Convertible Notes Outstanding                      | \$208,950 | \$51,050  | \$260,000 | \$132,500 |
| Debt Issue Costs – Warrants and Conversion Feature | (71,694)  | (3,684)   | (75,378)  | (73,656)  |
| Convertible Notes Outstanding, Net                 | \$137,256 | \$47,366  | \$184,622 | \$58,844  |

- 29 -

---

## 6. Capital Stock:

During December 2016, the Company issued \$132,500 of senior unsecured convertible promissory notes ("Convertible Notes") due December 31, 2018 to several accredited investors, See Note 5. The Convertible Notes are convertible at the option of the holder into Common Stock at \$0.15 per share. Each investor was also issued a warrant certificate, pursuant to which such investor could acquire one share of Common Stock at \$0.25 per share for each \$0.25 invested in the applicable Convertible Note until December 31, 2018.

During January 2017 the Company issued \$62,500 of senior unsecured convertible promissory notes ("Convertible Notes") due December 31, 2018 to several accredited investors, See Note 5. The Convertible Notes are convertible at the option of the holder into Common Stock at \$0.15 per share. Each investor was also issued a warrant certificate, pursuant to which such investor could acquire one share of Common Stock at \$0.25 per share for each \$0.25 invested in the applicable Convertible Note until December 31, 2018.

On July 25, 2017 the Company issued 93,333 shares of its common stock and warrants to purchase 56,000 shares of its common stock for \$.25 per share which expires on December 31, 2018 to an investment banking service firm in return for past and future services. The Common Stock was valued at \$4,200 which represents the market price of 4.5 cents per share on the date of issuance. The value allocated to the warrants was the fair value determined using the Black-Scholes option valuation with the following assumptions: no dividend yield, expected annual volatility of 145%, risk free interest rate of 1.32% and an expected useful life of 17 months. The fair value of the warrants of \$694 was allocated to Paid in Capital.

During September and October 2017 the Company issued \$65,000 of senior unsecured convertible promissory notes ("Convertible Notes") due December 31, 2019 to two accredited investors, See Note 5. The Convertible Notes are convertible at the option of the holder into Common Stock at \$0.15 per share. Each investor was also issued a warrant certificate, pursuant to which such investor could acquire one share of Common Stock at \$0.25 per share for each \$0.25 invested in the applicable Convertible Note until December 31, 2019.

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

During December 2017 the Company issued 1,225,000 shares of its common stock and warrants to purchase 1,225,000 shares of its common stock for \$.10 per share which expires on December 31, 2019 to several accredited investors. The value allocated to the warrants was the fair value determined using the Black-Scholes option valuation with the following assumptions: no dividend yield, expected annual volatility of 179%, risk free interest rate of 1.78% and an expected useful life of 25 months. The fair value of the warrants of \$121,275 was allocated to Paid in Capital.

## 7. Stock options:

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. The plan terminated 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. Option fair values are estimated at the grant date using the Black-Scholes option valuation model. 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, the Black-Scholes option valuation model requires the input of other highly subjective assumptions including stock price volatility.

On June 1, 2016 the Company issued options to purchase a total of 1,150,000 shares of the Company's common stock under the 2006 Stock Incentive Plan for services rendered to the Company, including capital formation, prospective deal origination, evaluation, due diligence, and administrative support. The options immediately vested and expire after 2 years. Options totaling 600,000 have a strike price of \$0.15, with the remainder 550,000 having a strike price of \$.25. The Company recorded an expense of \$65,660 for the options; \$27,500 related to options with a strike price of \$0.25 and \$38,160 related to options with a strike price of \$0.15.

Edgar Filing: EMPIRE PETROLEUM CORP - Form 10-K

A summary of the Company's Incentive Plan as of December 31, 2017 and changes during the year is presented below:

|                                 | Options   | Weighted<br>Average<br>Exercise<br>Price |
|---------------------------------|-----------|--|
| Outstanding at End of Year 2015 | 6,250     | \$ 2.56                                  |
| Granted                         | 600,000   | \$ 0.15                                  |
| Granted                         | 550,000   | \$ 0.25                                  |
| Cancelled or Exercised          | 2,083     | \$ 1.44                                  |
| Outstanding at End of Year 2016 | 1,154,167 | \$ 0.21                                  |
| Granted                         | 0         |  |
| Cancelled or Exercised          | 0         |  |
| Outstanding at End of Year 2017 | 1,154,167 | 0.21                                     |

The following table summarizes information about stock options outstanding at December 31, 2017:

| Range of<br>Exercise<br>Prices | Options Outstanding                  |   | Options Exercisable                      |                                      |  |
|--------------------------------|--------------------------------------|---|--|--------------------------------------|--|
|                                | Number<br>Outstanding<br>at 12/31/17 | Weighted<br>Average<br>Remaining<br>Contractual<br>Life | Weighted<br>Average<br>Exercise<br>Price | Number<br>Exercisable<br>at 12/31/16 | Weighted<br>Average<br>Exercise<br>Price |
| \$0.15 - \$3.12                | 1,154,167                            | 0.42 years  | \$0.21                                   | 1,154,167                            | \$0.21                                   |

8. 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:

|                                  | 2017        | 2016        |
|----------------------------------|-------------|-------------|
| Statutory tax rate               | 34%         | 34%         |
| Expected tax benefit             | \$(280,000) | \$(129,000) |
| Nondeductible expenses           | 0           | 101,000     |
| Benefit of losses not recognized | 280,000     | 28,000      |



Tax provision (benefit) as reported \$0 \$0

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

|                      | 2017        | 2016        |
|----------------------|-------------|-------------|
| Deferred tax assets: |             |             |
| Loss carry-forwards  | \$2,065,000 | \$2,960,000 |
| Valuation allowance  | (2,065,000) | (2,960,000) |
| Net deferred taxes   | \$0         | \$0         |

- 31 -

---

At December 31, 2017, the Company has accumulated net operating loss carryforwards totaling approximately \$9,800,000 which begin to expire if not utilized starting in 2018.

On December 22, 2017 H.R. 1, originally known as the Tax Cuts and Jobs Act, (the "Tax Act") was enacted. Among the significant changes to the U.S. Internal Revenue Code, the Tax Act lowers the U.S. federal corporate income tax rate ("Federal Tax Rate") from 35% to 21% effective January 1, 2018. The Company must re-measure its net deferred tax assets and liabilities using the Federal Tax Rate that will apply when these amounts are expected to reverse. Accordingly, the Company utilized a 21% tax rate to evaluate its net deferred taxes for the period ended December 31, 2017.

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 2013. 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.

#### 9. Oil Sale Revenue:

The Company records revenue from petroleum sales when received from the operator of the well. Petroleum sales are reported net of working interest and overriding royalty amounts due.

#### 10. Operating lease:

Rent expense for the year ended December 31, 2017 was \$4,650. The Company incurred no rent expense in 2016.

#### 11. Related Party Transactions:

On November 28, 2017, the Company named Thomas Pritchard as Chief Executive Officer of the Company. Mr. Pritchard is the co-founder/ partner for Pritchard Griffin Advisors and the Managing Director of Pritchard Energy Advisors. Both of the companies have provided services to the Company, primarily related to raising capital and locating oil & gas investments. In 2017, the Company paid Pritchard Griffin Advisors \$56,764 for consulting services.

#### 12. Subsequent Events:

Subsequent to December 31, 2017, the Company received subscriptions for 1,200,000 shares of its Common Stock and warrants to purchase an additional 1,200,000 shares of common stock at an exercise price of \$0.25 per share which expire December 31, 2019 to a group of accredited investors. The Company received \$120,000 as consideration for the transactions.