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PYR ENERGY CORP  
Form 10-Q  
April 15, 2002

U.S. Securities And Exchange Commission  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended February 28, 2002

OR

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

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

Commission File No. 0-20879

PYR ENERGY CORPORATION

-----  
(Exact name of registrant as specified in its charter)

Maryland

95-4580642

-----  
(State or jurisdiction of incorporation or organization)

-----  
(I.R.S. Employer Identification No.)

1675 Broadway, Suite 2450, Denver, CO

80202

-----  
(Address of principal executive offices)

-----  
(Zip Code)

Registrant's telephone number, including area code (303) 825-3748

Check whether the issuer (1) 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\_\_\_

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

The number of shares outstanding of each of the issuer's classes of common

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equity as of April 12, 2002 is as follows:

\$ .001 Par Value Common Stock 23,691,357

PYR ENERGY CORPORATION  
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## PART I

### ITEM 1. FINANCIAL STATEMENTS

PYR ENERGY CORPORATION  
(A Development Stage Company)  
BALANCE SHEETS

	ASSETS	2/28/02	8/31/01
		-----	-----
		(UNAUDITED)	
<b>CURRENT ASSETS</b>			
Cash		\$ 6,699,222	\$ 9,800,842
Oil and gas receivables		1,210,647	1,173,751
Deposits and prepaid expenses		82,813	74,636
		-----	-----
Total Current Assets		7,992,682	11,049,229
		-----	-----
<b>PROPERTY AND EQUIPMENT, at cost</b>			
Furniture and equipment, net		42,153	40,638
Oil and gas properties, net		15,069,068	10,977,317
		-----	-----
		15,111,221	11,017,955
		-----	-----
		\$ 23,103,903	\$ 22,067,184
		=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities		\$ 3,937,625	\$ 2,263,368
		-----	-----
Total Current Liabilities		3,937,625	2,263,368
		-----	-----
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>STOCKHOLDERS' EQUITY</b>			
Common stock, \$.001 par value			
Authorized 75,000,000 shares			
Issued and outstanding - 23,691,357 shares			
at 2/28/02 and 8/31/01		23,691	23,691
Capital in excess of par value		35,214,002	35,214,002
Deficit accumulated during the development stage		(16,071,415)	(15,433,877)
		-----	-----
		19,166,278	19,803,816
		-----	-----
		\$ 23,103,903	\$ 22,067,184
		=====	=====

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(UNAUDITED)

	Three Months Ended 2/28/02	Three Months Ended 2/28/01	Six Months Ended 2/28/02	Si Mo En 2/
REVENUES				
Oil and gas revenues	\$ 26,056	\$ 252,360	\$ 72,312	\$
Interest	32,508	57,206	95,166	
Other	--	--	--	
	58,564	309,566	167,478	
OPERATING EXPENSES				
Lease operating expenses	6,794	3,052	31,961	
Impairment, dry hole, and abandonments	--	--	113,544	
General and administrative	328,142	320,781	652,285	
Depreciation and amortization	3,730	20,878	7,226	
Interest	--	--	--	
	338,666	344,711	805,016	
OTHER INCOME				
Gain on sale of oil and gas prospects	--	--	--	
	(280,102)	(35,145)	(637,538)	
INCOME APPLICABLE TO PREDECESSOR LLC (Note 1)	--	--	--	
NET (LOSS) INCOME	(280,102)	(35,145)	(637,538)	
Less dividends on preferred stock	--	(62,899)	--	
NET (LOSS) TO COMMON STOCKHOLDERS	\$ (280,102)	\$ (98,044)	\$ (637,538)	\$
NET (LOSS) PER COMMON SHARE -BASIC AND DILUTED	\$ (0.01)	\$ (0.00)	\$ (0.03)	\$
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	23,691,357	22,067,791	23,691,357	20,

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PYR ENERGY CORPORATION  
(A Development Stage Company)  
STATEMENTS OF CASH FLOWS  
(UNAUDITED)

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	2/28/02	2/28/01	Cumulative from In Through
	-----	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net (loss)	\$ (637,538)	\$ (192,381)	\$ (16,03
Adjustments to reconcile net (loss) to net cash (used) by operating activities			
Depreciation and amortization	7,226	24,981	9
Contributed services	--	--	3
Gain on sale of oil and gas prospects	--	--	(55
Impairment, dry hole and abandonments	113,544	--	13,97
Common stock issued for interest on debt	--	--	11
Common stock issued for services	--	--	2
Amortization of financing costs	--	--	2
Amortization of marketable securities	--	--	(2
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	(36,896)	(356,806)	(1,21
(Increase) decrease in prepaids	(8,178)	(135,296)	(8
(Decrease) increase in accounts payable	(44,455)	359,725	3
Other	2,551	1,888	1
	-----	-----	-----
Net cash (used) by operating activities	(603,746)	(297,889)	(3,59
	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash paid for furniture and equipment	(11,293)	(15,382)	(13
Cash paid for oil and gas properties	(2,486,581)	(6,863,475)	(24,97
Proceeds from sale of oil and gas properties	--	--	1,05
Cash paid for marketable securities	--	--	(5,09
Proceeds from sale of marketable securities	--	--	5,11
Cash received (paid) for reimbursable property costs	--	--	(2
	-----	-----	-----
Net cash (used) in investing activities	(2,497,874)	(6,878,857)	(24,06
	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Members capital contributions	--	--	2
Distributions to members	--	--	(6
Cash from short-term borrowings	--	--	28
Repayment of short-term borrowings	--	--	(28
Cash received upon recapitalization and merger	--	--	
Proceeds from sale of common stock	--	--	30,78
Proceeds from sale of convertible debt	--	--	2,50
Proceeds from exercise of warrants	--	1,557,165	2,01
Proceeds from exercise of options	--	117,706	18
Cash paid for offering costs	--	(17,191)	(1,03
Payments on capital lease	--	(920)	(
Preferred dividends paid	--	--	(5
	-----	-----	-----
Net cash provided by financing activities	--	1,656,760	34,35
	-----	-----	-----
NET (DECREASE) INCREASE IN CASH	(3,101,620)	(5,519,986)	6,69
CASH, BEGINNING OF PERIODS	9,800,842	8,598,016	
	-----	-----	-----
CASH, END OF PERIODS	\$ 6,699,222	\$ 3,078,030	\$ 6,69
	=====	=====	=====

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PYR ENERGY CORPORATION  
(A Development Stage Company)  
Notes to Financial Statements  
February 28, 2002

The accompanying interim financial statements of PYR Energy Corporation are unaudited. In the opinion of management, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim period. The results of operations for the periods ended February 28, 2002 are not necessarily indicative of the operating results for the entire year.

We have prepared the financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. We believe the disclosures made are adequate to make the information not misleading and recommend that these condensed financial statements be read in conjunction with the financial statements and notes included in our Form 10-K for the year ended August 31, 2001.

PYR Energy Corporation (formerly known as Mar Ventures Inc. ("Mar")) was incorporated under the laws of the State of Delaware on March 27, 1996. Mar was a public company with no significant operations as of July 31, 1997. On August 6, 1997, Mar acquired all the interests in PYR Energy LLC ("PYR LLC") (a Colorado limited liability company organized on May 31, 1996), a development stage company as defined by Statement of Financial Accounting Standards (SFAS) No. 7. PYR LLC, an independent oil and gas exploration company, was engaged in the acquisition of undeveloped oil and gas interests for exploration and exploitation in the Rocky Mountain region and California. As of August 6, 1997, PYR LLC had acquired only non-producing leases and acreage, and no exploration had commenced on the properties. Upon completion of the acquisition of PYR LLC by Mar, PYR LLC ceased to exist as a separate entity. Mar remained as the surviving legal entity and, effective November 12, 1997, Mar changed its name to PYR Energy Corporation. Effective July 2, 2001, the Company was re-incorporated in Maryland through the merger of the Company into a wholly owned subsidiary, PYR Energy Corporation, a Maryland corporation.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**USE OF ESTIMATES** - The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CASH EQUIVALENTS** - For purposes of reporting cash flows, we consider as cash equivalents all highly liquid investments with a maturity of three months or less at the time of purchase. At February 28, 2002, there were no cash equivalents.

**PROPERTY AND EQUIPMENT** - Furniture and equipment is recorded at cost. Depreciation is provided by use of the straight-line method over the estimated useful lives of the related assets of three to five years. Expenditures for replacements, renewals, and betterments are capitalized. Maintenance and repairs

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are charged to operations as incurred.

OIL AND GAS PROPERTIES - We follow the full cost method to account for our oil and gas exploration and development activities. Under the full cost method, all costs incurred which are directly related to oil and gas exploration and development are capitalized and subjected to depreciation and depletion. Depletable costs also include estimates of future development costs of proved reserves. Costs related to undeveloped oil and gas properties may be excluded from depletable costs until such properties are evaluated as either proved or unproved. The net capitalized costs are subject to a ceiling limitation. Gains or losses upon disposition of oil and gas properties are treated as adjustments to capitalized costs, unless the disposition represents a significant portion of the Company's proved reserves.

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Unevaluated oil and gas properties consists of ongoing exploratory drilling costs, for which no results have been obtained, and of leases and acreage that we acquire for our exploration and development activities. The cost of these non-producing leases is recorded at the lower of cost or fair market value.

We have adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long Lived Assets to Be Disposed of", which requires that long-lived assets to be held and used be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. During the fiscal year ended August 31, 2001, we earned our initial revenues from our oil and gas producing activities. A reserve report prepared as of August 31, 2001 by an independent petroleum engineering firm concluded that based on information available at that time, reserves from our producing properties were not economic to produce. Therefore, at August 31, 2001, we had no proved reserves and recorded an impairment charge against the entire net value of our evaluated properties of \$13,339,911 based on the ceiling test limitation. Although properties may be considered as evaluated for purposes of the ceiling test and included in the impairment calculation, until these properties are completely abandoned, we may continue to incur costs associated with these properties. Until we can establish economic reserves, of which there is no assurance, additional costs associated with these properties are charged directly to impairment expense as incurred.

INCOME TAXES - We have adopted the provisions of SFAS No. 109, "Accounting for Income Taxes". SFAS 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE - Accounts receivable at February 28, 2002 includes \$1,210,461 of net revenue due from operator for oil and gas sales at our East Lost Hills project since commencement of production on February 6, 2001 through February 28, 2002. We have not received any payments for our working interest share of production from the operator, and the joint operating agreement underlying the East Lost Hills project does not provide for an offset of the receivable for oil and gas revenue against amounts due to the operator. We believe that the operator is legally responsible to remit payment and have withheld payments on certain billings in order to have the operator agree, at minimum, to offset the unpaid revenues against amounts we owe. As of February 28, 2002, we had recorded a liability due to the operator in excess of the amount of the receivable for oil and gas sales by \$2,441,647, although we have raised questions with the operator as to whether some of these charges are

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valid.

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

We are a development stage independent oil and gas exploration company whose strategic focus is the application of advanced seismic imaging and computer aided exploration technologies in the systematic search for commercial hydrocarbon reserves, primarily in the onshore western United States. We attempt to leverage our technical experience and expertise with seismic data to identify exploration and exploitation projects with significant potential economic return. We intend to participate in selected exploration projects as a working interest owner, sharing both risk and rewards with other participants. We do not currently operate any projects in which we own a working interest. We may operate projects in the future. Whether we participate in our projects as operator or non-operator, our financial results depend on our ability to sell prospect interests to outside industry participants. We do not have the ability to commence exploratory drilling operations without outside industry participation. We have pursued, and will continue to pursue, exploration opportunities in regions in which we believe significant opportunity for discovery of oil and gas exists. By attempting to reduce drilling risk through seismic technology, we seek to improve the expected return on investment in our oil and gas exploration projects.

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Our future financial results continue to depend primarily on (1) our ability to discover commercial quantities of hydrocarbons; (2) the market price for oil and gas; (3) our ability to continue to source and screen potential projects; and (4) our ability to fully implement our exploration and development program with respect to these and other matters. There can be no assurance that we will be successful in any of these respects or that the prices of oil and gas prevailing at the time of production will be at a level allowing for profitable production.

We paid approximately \$2,487,000 and \$6,863,000 during the six months ended February 28, 2002 and 2001, respectively, for drilling costs, delay rentals, acquisition of acreage, direct geological and geophysical costs, and other related direct costs with respect to our identified exploration and exploitation projects.

We currently anticipate that we could participate in the drilling of one to four exploration/development wells during the next 12 months, although the number of wells may increase as additional projects are added to our portfolio. However, there can be no assurance that any wells will be drilled, or if drilled, that any of these wells will be successful.

It is anticipated that the future development of our business will require additional, and possibly substantial, capital expenditures. Depending upon the extent of success of our ability to sell additional prospects for cash, the level of industry participation in our exploration projects, and the continuing results at East Lost Hills and the deep Temblor exploration program, we anticipate spending a minimum of approximately \$7 million for capital expenditures relating to exploration and development of our projects during calendar 2002. To limit additional capital expenditures, we intend to form industry alliances to exchange a portion of our interest for cash and/or a carried interest in our exploration projects. We may need to raise additional funds to cover capital expenditures. These funds may come from cash flow, equity or debt financing, or from sales of interests in our properties although there is no assurance continued funding will be available.



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At February 28, 2002, we had a working capital amount of approximately \$4,055,000. We had no outstanding long-term debt at February 28, 2002 and had not entered into any commodity swap arrangements or hedging transactions. Although we have no current plans to do so, we may enter into commodity swap and/or hedging transactions in the future in conjunction with oil and gas production.

The following is a summary of the current status of the East Lost Hills project in the San Joaquin Basin of California operated by Anadarko Petroleum Corporation:

During the second quarter ended February 28, 2002, our only producing well, the ELH #1, produced a gross total of approximately 123 mmcfe, averaging approximately 1.4 mmcfe per day. Water production during this period averaged approximately 4,700 barrels per day. The oil and gas production from the ELH #1 well continues to be limited by the amount of production water that is accepted at water disposal facilities owned by ChevronTexaco. The operator has reported to the participants that due to its inability to secure a contract with a surface owner, drilling a water disposal well at a site selected about six months ago is unlikely. The operator reports that it has contacted a different surface owner in the same area and they are attempting to negotiate access to this surface for a water disposal well. The participants intend to drill a water disposal well and to build associated pipeline and disposal facilities in order to dispose of water without relying on the ChevronTexaco facility, thereby removing the water disposal constraint that continues to limit the oil and gas production from the ELH #1 well. However, there is no assurance that the drilling of a disposal well will occur, or if drilled, will completely remove the water disposal constraint. Although we expect to be able to increase oil and gas production if we can increase the water disposal capability, it is unknown whether removing the water disposal constraint will result in an increase or decrease in the water to gas ratio.

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The ELH #4 well commenced drilling on November 26, 2000 at a location approximately four miles southeast of the ELH #1 well. After a successful sidetrack operation, this well has been drilled to its total depth of approximately 20,500 feet. Final casing has been run and a production liner has been installed in anticipation of a production test. The operator has notified the working interest participants that because of outstanding balances due from certain outside working interest owners covering costs from operations on the ELH #4 well and other wells, and because there is no non-consent penalty clause for non-payment under the operating agreement, the operator will not commence production testing of the ELH #4 well until the matter is resolved. The participants are currently negotiating concerning this matter. PYR is one of the participants whom the operator claims has an outstanding balance due. PYR has funds available to pay validly owed amounts, however, there is no assurance that all participants will be able to pay their proportionate share. It is uncertain when production testing of the #4 well will occur.

The ELH #9 well commenced drilling on July 17, 2001 approximately six miles southeast of the ELH #1 well. This well has reached its total depth of approximately 21,100 feet. Current operations include running final casing and completion operations are planned in order to production test this well. However, because of the issues described above, it is uncertain when a production test will occur.

The Aera Energy LLC NWLH 1-22 well, located in Section 22, T25S-R20E, commenced drilling on August 23, 2001. This well is approximately three and a

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half miles northwest of the ELH #1 well and is designed to test the Temblor formation to a projected depth of 20,000 feet. We are participating in this well operated by Aera Energy LLC through a pooling arrangement at a 4.04% working interest. Operations to kick-off a sidetrack well bore from a depth of 14,100 feet were successful. An intermediate string of casing has been run to approximately 17,500 feet and the well bore is being prepared for further drilling.

Additional San Joaquin Basin California activities include the following projects:

Pyramid Power Prospect. In April 1999, we purchased a working interest in the Pyramid Power deep natural gas exploration project in the San Joaquin Basin. This project is outside the East Lost Hills joint venture area. Our working interest in this project is 3.75% with our interest being carried through the tanks in the initial test well. The initial test well, operated by Anadarko and located in Section 9, T25S-R18E, commenced drilling on November 22, 2001. This well is designed to test the Temblor and the Point of Rocks formation to a total depth of 18,500 feet. The participants at Pyramid Power jointly control approximately 20,000 gross and 15,000 net acres over the prospect. After a sidetrack operation, this well is currently drilling at an approximate depth of 16,000 feet.

Wedge Prospect. This is a seismic generated Temblor prospect located northwest of and adjacent to the East Lost Hills deep gas discovery. During the first fiscal quarter of 2001, we acquired approximately 17 miles of proprietary, high effort 2D seismic data and combined this data with existing 2D seismic data in order to refine what we interpret as the up-dip extension of the East Lost Hills structure. Our seismic interpretation shows that the same trend that has proven productive at East Lost Hills, extends approximately ten miles further northwest of the East Lost Hills Area of Mutual Interest and can be encountered as much as 3,000 feet higher. We currently control approximately 14,000 gross and approximately 13,000 net acres here. Our approach is to sell down our working interest and retain a 25% to 40% working interest in this prospect.

Bulldog Prospect. This project is a 2D seismic generated light oil and natural gas prospect located adjacent to the giant Kettleman North Dome field in the San Joaquin Basin. This prospect can be best characterized as a classic footwall fault trap, similar to the many known footwall fault trap accumulations that have produced significant quantities of hydrocarbons throughout the San Joaquin basin. We currently control approximately 16,000 gross and approximately 15,000 net acres here. We are attempting to obtain industry participation to drill a 14,000 foot test well, with the intent of retaining a 25% to 40% working interest in this prospect.

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Additional activities located in the Rocky Mountains include the following projects:

Montana Foothills Project. This extensive natural gas project, located in northwestern Montana, is part of the southern Alberta basin, and has been classified as the southern extension of the Alberta Foothills producing province. The USGS and numerous Canadian industry sources have estimated significant recoverable reserves for the Montana portion of the Foothills trend. Based on extensive geologic and seismic analysis, we have identified numerous structural culminations of similar size, geometry, and kinematic history as prolific Canadian foothills fields, such as Waterton and Turner Valley.

The geologic setting and hydrocarbon potential of this area was not

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recognized by industry until the early 1980s. At that time, a number of companies initiated exploration efforts, including Exxon, Arco, Chevron, Amoco, Conoco, and Unocal. This initial exploration phase culminated in a deep test by Unocal in 1989. Although this well was unsuccessful, recent improvements in seismic imaging and pre-stack processing have resulted in our belief that this test well was drilled based upon a misleading seismic image and was located significantly off-structure.

We currently control approximately 262,000 gross and 224,000 net acres in this project and are currently presenting this project to potential industry participants in order to sell down our working interest and generate exploratory drilling activity. We anticipate retaining a working interest in this project of between 20% and 40%.

**Cumberland Project.** The Cumberland project, located within the Overthrust Belt of southwest Wyoming, is a gas-condensate exploration prospect in Uinta County, Wyoming. Cumberland is at the northern end of the historically productive Nugget trend on the hangingwall of the Absaroka thrust fault. The prospect lies along trend of and just north of Ryckman Creek field, which was discovered in 1975.

The Cumberland prospect can be best characterized as a classic hangingwall anticlinal trap, similar to the many known Nugget sandstone accumulations that have produced significant quantities of hydrocarbons from Pineview to Ryckman Creek. The Cumberland culmination is the result of structural deformation related to back-thrusting off of the Absaroka thrust, a similar geometry to that exhibited at East Painter Reservoir field.

We currently control approximately 5,400 gross and net acres in the project and are attempting to secure industry participation in the drilling of the initial exploration test well in the prospect. We anticipate retaining a working interest in this prospect of 25% to 40 %.

**Mallard Project.** The Mallard project, located within the Overthrust Belt of SW Wyoming, is a sour gas and condensate exploration prospect in Uinta County, Wyoming. Mallard is within the Paleozoic trend of productive fields on the Absaroka thrust. Mallard directly offsets and is adjacent to the giant sour gas field of Whitney Canyon-Carter Creek.

We interpret the Mallard prospect to occupy a separate fault block, adjacent to the Whitney Canyon field, generated by a complex imbricated system of faults spaying off of the Absaroka thrust. Paleozoic targets at the Mallard prospect include the Mississippian Mission Canyon, as well as numerous secondary objectives in the Ordovician, Pennsylvanian, and Permian sections.

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We currently control approximately 3,900 gross and net acres in the project. We continue to refine our geological and geophysical model for the prospect, and will be presenting the project to potential industry partners for joint participation in the drilling of an initial exploration test well. We anticipate retaining a working interest in this project of between 25% and 40%.

### Results of Operations

The quarter ended February 28, 2002 compared with the quarter ended February 28, 2001.

Operations during the quarter ended February 28, 2002 resulted in a net loss of \$280,102 compared to a net loss of \$35,145 for the quarter ended

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February 28, 2001. The increase in operating net loss is due largely to a reduction in oil and gas revenues from production at the East Lost Hills #1 well.

Oil and Gas Revenues and Expenses. For the quarter ended February 28, 2002, we recorded \$19,892 from the sale of 9,336 mcf of natural gas for an average price of \$2.13 per mcf and \$5,951 from the sale of 389 bbls of hydrocarbon liquids for an average price of \$15.29 per barrel during the quarter ended February 28, 2002. In addition, we recorded overriding royalty revenues of \$213. Operating expenses during this period were \$6,794. For the quarter ended February 28, 2001, we recorded \$224,834 from the sale of 17,800 mcf of natural gas for an average price of \$12.63 per mcf and \$27,527 from the sale of 1,070 bbls of hydrocarbon liquids for an average price of \$25.73 per barrel. Operating expenses were \$3,052 for this period. Production commenced at the East Lost Hills #1 well on February 6, 2001.

Depreciation, Depletion and Amortization. We recorded no depreciation, depletion and amortization expense from oil and gas properties for the quarter ended February 28, 2002. Although the East Lost Hills #1 began producing in 2001, we recorded an impairment against our entire amortizable full cost pool at August 31, 2001, and therefore have no costs to amortize. No additional impairment was recorded against our oil and gas properties for the quarter ended February 28, 2002. We recorded \$16,065 in depreciation, depletion and amortization from oil and gas properties for the quarter ended February 28, 2001. This amount was computed using reserve report estimates based on the best information available at the time. We recorded \$3,730 and \$4,813 in depreciation expense associated with capitalized office furniture and equipment during the quarters ended February 28, 2002 and February 28, 2001, respectively.

General and Administrative Expense. We incurred \$328,142 and \$320,781 in general and administrative expenses during the quarters ended February 28, 2002 and February 28, 2001, respectively. We recorded increases in salary related expenses from additional personnel and higher salaries, funding and acquisition costs and an increase in rent expense. These increases were partially offset by decreases in travel, legal, and shareholder and investor relations expenses.

The six months ended February 28, 2002 compared with the six months ended February 28, 2001.

Oil and Gas Revenues and Expenses. For the six months ended February 28, 2002, we recorded \$40,887 from the sale of 18,321 mcf of natural gas for an average price of \$2.23 per mcf and \$14,650 from the sale of 874 bbls of hydrocarbon liquids for an average price of \$16.76 per barrel. In addition, we recorded overriding royalty revenues of \$16,775 dating back to the commencement of production of the ELH #1 well. Operating expenses during this period were \$31,961. For the six months ended February 28, 2001, we recorded \$224,834 from the sale of 17,800 mcf of natural gas for an average price of \$12.63 per mcf and \$27,527 from the sale of 1,070 bbls of hydrocarbon liquids for an average price of \$25.73 per barrel. Operating expenses were \$3,052 for this period. Production commenced at the East Lost Hills #1 well on February 6, 2001.

Depreciation, Depletion and Amortization. We recorded no depreciation, depletion and amortization expense from oil and gas properties for the six months ended February 28, 2002. Although the East Lost Hills #1 began producing in 2001, we recorded an impairment against our entire amortizable full cost pool at August 31, 2001, and therefore have no costs to amortize. We recorded \$16,065 in depreciation, depletion and amortization from oil and gas properties for the six months ended February 28, 2001. This amount was computed using reserve report estimates based on the best information available at the time. We recorded \$7,226 and \$8,911 in depreciation expense associated with capitalized office furniture and equipment during the six months ended February 28, 2002 and February 28, 2001, respectively.

General and Administrative Expense. We incurred \$652,285 and \$585,047 in general and administrative expenses during the six months ended February 28, 2002 and February 28, 2001, respectively. The increase results primarily from increases in salary related expenses from increasing personnel and salaries, costs associated with our first independent reserve analysis and an increase in rent expense. These increases were partially offset by decreases in travel, legal, and shareholder and investor relations expenses.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable

PART II.  
OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable

Item 2. Changes in Securities and Use of Proceeds; Recent Sales Of Unregistered Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

The following matters were submitted to a vote of security holders at the annual meeting of stockholders which was held on March 13, 2002:

The stockholders voted to re-elect D. Scott Singdahlsen, S.L. Hutchison and Bryce W. Rhodes to continue as directors of the Company. A total of 14,049,943 votes were represented with respect to this matter. 13,938,618 (99.2%) of the shares voted for each nominee, no shares voted against any nominee, and the remaining shares abstained from voting.

A proposal to ratify the selection of Wheeler Wasoff, P.C. as Certified Public Accountants was approved by the stockholders. A total of 14,049,943 votes were represented with a total of 13,993,297 (99.6%) shares voting for the proposal, 50,830 shares voting against the proposal, and 5,816 shares abstaining from voting.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

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(a) Exhibits

None

(b) During the Quarter ended February 28, 2002, we filed two reports on Form 8-K:

A Form 8-K was filed on December 17, 2001 reporting a news release dated December 14, 2001.

A Form 8-K was filed on January 14, 2002 reporting a news release dated January 11, 2002.

SIGNATURES

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In accordance with the requirements of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Signatures -----	Title -----	Date -----
/s/ D. Scott Singdahlsen ----- D. Scott Singdahlsen	President, Chief Executive Officer and Chairman Of The Board	April 15, 2002
/s/ Andrew P. Calerich ----- Andrew P. Calerich	Vice-President and Chief Financial Officer	April 15, 2002