

Edgar Filing: GULFWEST ENERGY INC - Form 10-Q

GULFWEST ENERGY INC  
Form 10-Q  
May 16, 2005

FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For the quarterly period ended March 31, 2005

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
for the transition period from to \_\_\_\_

Commission file number 1-12108

GULFWEST ENERGY INC.  
-----

(Exact name of Registrant as specified in its charter)

Texas  
-----

(State or other jurisdiction  
of incorporation)

87-0444770  
-----

(IRS Employer  
Identification No.)

480 North Sam Houston Parkway East  
Suite 300  
Houston, Texas  
(Address of principal executive offices)

77060  
(zip code)

(281) 820-1919 (Registrant's telephone number,  
including area code)

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

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date, May 13, 2005, was 28,726,831 shares of Class A Common Stock, \$.001 par value.

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GULFWEST ENERGY INC.

FORM 10-Q FOR THE QUARTER ENDED  
MARCH 31, 2005

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Part I: Financial Statements

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

GULFWEST ENERGY INC.  
CONSOLIDATED BALANCE SHEETS  
MARCH 31, 2005 AND DECEMBER 31, 2004

ASSETS

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	March 31, 2005 (Unaudited)	December 31, 2004 (Audited)
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,274,825	\$ 411,377
Accounts receivable - trade, net of allowance for doubtful accounts of \$-0- in 2005 and 2004	2,634,920	1,674,448
Prepaid expenses	302,785	128,717
	-----	-----
Total current assets	5,212,530	2,214,542
	-----	-----
PROPERTY AND EQUIPMENT		
Oil and gas properties, using the successful efforts method of accounting	60,541,372	58,557,072
Other property and equipment	1,482,930	1,437,206
Less: accumulated depreciation, depletion and amortization	(10,526,740)	(9,870,962)
	-----	-----
Net property and equipment	51,497,562	50,123,316
	-----	-----
OTHER ASSETS		
Deposits	9,804	9,804
Investments	297,368	274,362
Debt issue cost, net	--	1,756,316
Deferred tax asset	4,710,242	3,322,551
	-----	-----
Total other assets	5,017,414	5,363,033
	-----	-----
TOTAL ASSETS	\$ 61,727,506	\$ 57,700,891
	=====	=====

The Notes to Consolidated Financial Statements are an integral part of these statements.

GULFWEST ENERGY INC.  
CONSOLIDATED BALANCE SHEETS  
MARCH 31, 2005 AND DECEMBER 31, 2004

LIABILITIES AND STOCKHOLDERS' EQUITY

March 31, 2005 (Unaudited)	December 31, 2004 (Audited)
-----	-----

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CURRENT LIABILITIES

Notes payable	\$ 40,300	\$ 4,916,568
Notes payable - related parties	--	2,140,000
Current portion of long-term debt	92,544	22,686,254
Current portion of long-term debt - related parties	--	112,192
Accounts payable - trade	2,800,703	4,654,561
Accrued expenses	293,072	940,587
Income taxes payable	118,255	118,255
	-----	-----
Total current liabilities	3,344,874	35,568,417
	-----	-----

NONCURRENT LIABILITIES

Long-term debt, net of current portion	92,245	805,450
Asset retirement obligations	1,164,015	1,144,854
	-----	-----
Total noncurrent liabilities	1,256,260	1,950,304
	-----	-----

OTHER LIABILITIES

Derivative instruments	3,519,009	1,505,527
	-----	-----
Total Liabilities	8,120,143	39,024,248
	-----	-----

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY

Preferred stock	1,045	253
Common stock	24,923	19,394
Additional paid-in capital	72,767,869	34,062,502
Retained deficit	(19,186,474)	(15,405,506)
	-----	-----
Total stockholders' equity	53,607,363	18,676,643
	-----	-----

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 61,727,506	\$ 57,700,891
	=====	=====

The Notes to Consolidated Financial Statements are an integral part of these statements.

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	2005	2004
OPERATING REVENUES		
Oil and gas sales	\$ 3,634,160	\$ 2,500,640
Operating overhead and other income	30,173	38,089
Total Operating Revenues	3,664,333	2,538,729
OPERATING EXPENSES		
Lease operating expenses	1,400,864	1,314,284
Depreciation, depletion and amortization	655,778	439,202
Dry holes, abandoned property and impaired assets	--	2,156
Accretion expense	19,161	20,358
General administrative	618,227	401,192
Total Operating Expenses	2,696,186	2,175,036
INCOME FROM OPERATIONS	968,147	363,693
OTHER INCOME AND EXPENSE		
Interest expense	(1,198,501)	(920,168)
Other financing costs	--	(1,905,159)
Loss on sale of property and equipment	(13,022)	--
Unrealized gain (loss) on derivative instruments	(2,013,481)	287,847
Total Other Income and (Expense)	(5,130,163)	(632,321)
INCOME (LOSS) BEFORE INCOME TAXES	(4,162,016)	(268,628)
INCOME TAX BENEFIT	1,387,691	--
NET INCOME (LOSS)	(2,774,325)	(268,628)
DIVIDENDS ON PREFERRED STOCK (Paid 2005 - \$1,006,643; Paid 2004 - 0)	(773,120)	(34,375)
NET INCOME (LOSS) AVAILABE TO COMMON SHAREHOLDERS	\$ (3,547,445)	\$ (303,003)
NET INCOME (LOSS) PER SHARE, BASIC AND DILUTED	\$ (.17)	\$ (.02)

The Notes to Consolidated Financial Statements are an integral part of these statements

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	Three Months Ended March	
	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (2,774,325)	\$ (268,000)
Adjustments to reconcile net income (loss) to net cash Provided by operating activities:		
Depreciation, depletion and amortization	655,778	439,000
Accretion expense	19,161	20,000
Stock option expense	70,250	
Debt issue cost expense	1,779,596	
Discount on note payable	502,120	
Deferred tax asset	(1,387,691)	
Note payable issued and charged to interest	--	61,000
Loss on sale of property and equipment	13,022	
Unrealized (gain) loss on derivative instruments	2,013,482	(287,000)
(Increase) in accounts receivable - trade, net	(949,222)	(269,000)
(Increase) in prepaid expenses	(174,068)	(236,000)
Increase (decrease) in accounts payable and accrued expenses	(2,571,623)	373,000
Net cash provided by (used in) operating activities	(2,803,520)	(168,000)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of property and equipment	41,175	
Capital expenditures	(2,061,503)	(84,000)
Net cash used in investing activities	(2,020,328)	(84,000)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from sale of preferred stock, net	38,345,646	
Proceeds from common stock warrants exercised	200	
Payments on debt	(31,803,219)	(122,000)
Proceeds from debt issuance	820,000	130,000
Dividends paid	(675,331)	
Net cash provided by financing activities	6,687,296	7,000
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,863,448	(245,000)
CASH AND CASH EQUIVALENTS, Beginning of period	411,377	483,000
CASH AND CASH EQUIVALENTS, End of period	\$ 2,274,825	\$ 238,000
CASH PAID FOR INTEREST	\$ 1,906,616	\$ 778,000

The Notes to Consolidated Financial Statements are an integral part of these statements.

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GULFWEST ENERGY INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2005 AND 2004  
(UNAUDITED)

## 1. BASIS OF PRESENTATION

During interim periods, we follow the accounting policies set forth in our Annual Report on Form 10-K filed with the Securities and Exchange Commission. Users of financial information produced for interim periods are encouraged to refer to the footnotes contained in the Annual Report when reviewing interim financial results.

The accompanying financial statements include the Company and its wholly-owned subsidiaries: RigWest Well Service, Inc. formed September 5, 1996; GulfWest Texas Company formed September 23, 1996; DutchWest Oil Company formed July 28, 1997; Southeast Texas Oil and Gas Company, L.L.C. acquired September 1, 1998; SETEX Oil and Gas Company formed August 11, 1998; GulfWest Oil & Gas Company formed February 8, 1999; LTW Pipeline Co. formed April 19, 1999; GulfWest Development Company formed November 9, 2000; and, GulfWest Oil & Gas Company (Louisiana) LLC formed July 31, 2001. All material intercompany transactions and balances are eliminated upon consolidation.

In management's opinion, the accompanying interim financial statements contain all material adjustments, consisting only of normal recurring adjustments necessary to present fairly the financial condition, the results of operations, and the cash flows of GulfWest Energy Inc. for the interim periods.

## 2. NON-CASH INVESTING AND FINANCING ACTIVITIES

During the three month period ended March 31, 2005 we paid \$331,313 in dividends by issuing 356,250 shares of common stock and we issued 29,100 shares of common stock to satisfy and record a \$23,280 fee for a loan extension. Also, on March 30, 2005 one of our employees exercised 25,000 common stock options for \$11,250 which is recorded as an account receivable. Under our cashless exercise procedures, the stock has been posted for sale by a broker and the receivable will be settled when the stock is sold. During the period we invested \$23,006 in an oil and gas partnership by contributing our cost basis in undrilled oil and gas leases. In addition, we financed new field trucks for the \$45,724 cost.

During the three month period ended March 31, 2004, we issued a note payable for \$600,000 in exchange for an account payable for \$538,954 and \$61,046 in interest expense was recorded.

## 3. DERIVATIVE INSTRUMENTS

In the past we have entered into, and may in the future enter into, certain derivative arrangements with respect to portions of our oil and natural gas production to reduce our sensitivity to volatile commodity prices. During 2005 and 2004, we entered into price swaps and put agreements with financial institutions. We believe that these derivative arrangements, although not free of risk, allow us to achieve a more predictable cash flow and to reduce exposure to price fluctuations. However, derivative arrangements limit the benefit to us of increases in the prices of crude oil and natural gas sales. Moreover, our derivative arrangements apply only to a portion of our production and provide only partial price protection against declines in price. Such arrangements may expose us to risk of financial loss in certain circumstances. We expect that the monthly volume of derivative

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arrangements will vary from time to time. We continuously reevaluate our price hedging program in light of market conditions, commodity price forecasts, capital spending and debt service requirements. The following hedges were in place at March 31, 2005 or were added subsequent to that date and are effective for the periods shown.

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Crude Oil -----		Volume/ Month -----	Average -----
May 2004 thru October 2005	Swap	10,000 Bbls	\$
April 2005 thru June 2005	Swap	2,000 Bbls	\$
July 2005 thru October 2005	Swap	1,000 Bbls	\$
November & December 2005	Swap	11,000 Bbls	\$
January 2006 thru March 2006	Collar	10,000 Bbls	Floor \$50.0
April 2006 thru December 2006	Collar	9,000 Bbls	Floor \$50.0
January 2007 thru December 2007	Collar	3,000 Bbls	Floor \$45.0
Natural Gas -----		Volume/ Month -----	Average -----
June 2004 thru October 2005	Swap	60,000 MMBTU	
April 2005 thru June 2005	Swap	20,000 MMBTU	
July 2005 thru October 2005	Swap	10,000 MMBTU	
November & December 2005	Swap	70,000 MMBTU	
January 2006 thru December 2006	Collar	70,000 MMBTU	Floor \$6.0
January 2007 thru December 2007	Collar	20,000 MMBTU	Floor \$6.0

These volumes represent approximately 75% of the estimated production (for both oil and natural gas) on currently producing properties for the remainder of 2005 and for 2006 and approximately 30% of estimated production for 2007.

We also had the following put options in place during the first quarter of 2005, for the months reflected. These contracts were terminated in conjunction with the new swap and cost-less collars added effective April 1, 2005.

Crude Oil -----	Monthly Volume -----	Pri -----
November 1, 2005 to April 30, 2006	7,000 Bbls	
May 1, 2006 to October 31, 2006	6,000 Bbls	
November 1, 2006 to April 30, 2007	5,000 Bbls	
Natural Gas -----	Monthly Volume -----	Pric -----
November 1, 2005 to April 30, 2006	50,000 MMBTU	
May 1, 2006 to October 31, 2006	40,000 MMBTU	
November 1, 2006 to April 30, 2007	30,000 MMBTU	

At the end of each reporting period we are required by SFAS 133 to



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record on our balance sheet the marked to market valuation of our derivative instruments. These valuations are based on the NYMEX strip prices for those future periods, as of the balance sheet date. As a result of these agreements, we recorded a non-cash charge to earnings of \$2,013,481 for the three month period ended March 31, 2005 and a benefit of \$287,847 for the three month period ended March 31, 2004.

The estimated change in fair value of the derivatives is reported in Other Income and Expense as unrealized (gain) loss on derivative instruments. The estimated fair value of the derivatives is reported in Other Liabilities as derivative instruments.

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#### 4. STOCK BASED COMPENSATION

In October 1995, SFAS No. 123, "Stock Based Compensation," (SFAS 123) was issued. This statement requires that we choose between two different methods of accounting for stock options and warrants. The statement defines a fair-value-based method of accounting for stock options and warrants but allows an entity to continue to measure compensation cost for stock options and warrants using the accounting prescribed by APB Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees." Use of the APB 25 accounting method results in no compensation cost being recognized if options are granted at an exercise price at the current market value of the stock on the date of grant or higher. We will continue to use the intrinsic value method under APB 25 but are required by SFAS 123 to make pro forma disclosures of net income (loss) and earnings (loss) per share as if the fair value method had been applied in our 2005 and 2004 financial statements.

We use the Black Sholes option pricing model to estimate the fair value of the options. If we had used the fair value method required by SFAS 123, our net loss and per share information would approximate the following amounts:

	2005		
	As Reported	Proforma	As Reported
SFAS 123			
compensation cost	\$	\$(11,322,000)	\$
APB 25			
compensation cost	\$	\$	\$
Net income (loss)	\$ (3,547,445)	\$ (14,869,445)	\$ (303,003)
Income (loss) per			
common share,			
Basic and diluted	\$ (.21)	(.72)	(.02)

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), Share-Based Payments which is a revision of FASB No. 123, Accounting for Stock-Based Compensation. Statement 123 (R) supercedes APB opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in Statement 123

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(R) is similar to the approach described in Statement 123. However, Statement 123 (R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure will no longer be an alternative. The effective date of this statement will be our first quarter of 2006. Management has not yet determined the impact that this statement will have on our consolidated financial statements.

### 5. FINANCING ACTIVITY

On April 27, 2004, we completed an \$18,000,000 financing package with new energy lenders. We used \$15,700,000 in net proceeds from the financing to retire existing debt of \$27,584,145, resulting in forgiveness of debt of \$12,475,612, the elimination of a hedging liability and the return to the Company of Series F Preferred Stock with an aggregate liquidation preference of \$1,000,000 (this preferred stock, at the request of the Company, was transferred by the previous lender to a financial advisor to the Company and to two companies affiliated with two transactions. The taxable gain resulting from these transactions will be completely offset by available net operating loss carryforwards. The term of the note was eighteen months and it bore interest at the prime rate plus 11%. The rate increased by .75% per month beginning in month ten. We paid the new lenders \$1,180,000 in cash fees and also issued them warrants to purchase 2,035,621 shares of our Common Stock at an exercise price of \$.01 per share, expiring in five years. The warrants were subject to anti-dilution provisions. In connection with the February 2005 transactions described below, the anti-dilution provisions were amended such that additional issuances of stock (other than issuances to all holders) would not trigger an adjustment to the number of shares issuable upon exercise of the warrants.

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On January 7, 2005, we amended our April 2004 credit agreement to extend the target date for repayment to February 28, 2005. We exercised this option on January 26, 2005 and issued 29,100 shares of our common stock in connection with this amendment.

On February 28, 2005, we sold in a private placement, 81,000 shares of our Series G Preferred Stock to OCM GW Holdings, LLC ("OCMGW") for an aggregate offering price of \$40.5 million. GulfWest Oil and Gas Company, ("GWOG") a subsidiary of the Company, issued, in a private placement, 2,000 shares of our Series A Preferred Stock, having a liquidation preference of \$1.0 million, to OCMGW for \$1.5 million. Net proceeds of the offerings of approximately \$38 million after expenses are being used for the repayment of substantially all of our outstanding debt and other past due liabilities and for general corporate purposes.

The Series G Preferred Stock bears a coupon of 8% per year, has an aggregate liquidation preference of \$40.5 million, is convertible in to Common Stock at \$0.90 per share and is senior to all of our capital stock. For the first four years after issuance, we may defer the payment of dividends on the Series G Preferred Stock and these deferred dividends will also be convertible into our Common Stock at \$0.90 per share. In addition, the Series G Preferred Stock is entitled to nominate and elect a majority of the members of the Board of Directors of GulfWest.

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In connection with these transactions, the terms of the Series A Preferred Stock were amended such that by March 15, 2005, all such stock would either convert into a newly created Series H Preferred Stock on a one for one basis or into Common Stock at a conversion price of \$0.35 per share. The Series H Preferred Stock is required to be paid a dividend of 40 shares of Common Stock per share of Series H Preferred Stock per year. In addition, the Series H Preferred Stock is convertible into Common Stock at a conversion price of \$0.35 per share. At March 15, 2005, holders of 6,700 shares of Series A Preferred Stock converted to Series H Preferred Stock and holders of 3,250 shares of Series A Preferred Stock converted to an aggregate 4,642,859 shares of Common Stock. One Series H Preferred Stock holder converted its shares of Series H Preferred Stock in to 285,715 shares of Common Stock. The outstanding Series H Preferred Stock has an aggregate liquidation preference of \$3.25 million. The Series H Preferred Stock is senior to all of our capital stock other than Series G Preferred Stock.

In addition, we amended the terms of our 9,000 shares of Series E Preferred Stock such that the coupon of 6% per year may be deferred for the next four years and these deferred dividends will be convertible into Common Stock at conversion price of \$0.90 per share. The original liquidation preference of the Series E Preferred Stock of \$500 per share remains convertible into Common Stock at \$2.00 per share. The Series E Preferred Stock has an aggregate liquidation preference of \$4.5 million, and is senior to all of our Common Stock, of equal preference with our Series D Preferred Stock as to liquidation and junior to our Series G and Series H Preferred Stock.

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### 6. NOTES PAYABLE

March 31, 2005  
-----

Non-interest bearing note payable to an unrelated party; payable out of 50% of the net transportation revenues from a certain natural gas pipeline that is not yet in service; no due date.

\$ 40,300

Promissory note payable to a former director at 8%; due May, 2001; unsecured. Retired March, 2005

Promissory note payable to an unrelated party at 10%; payable on demand; unsecured. Retired March, 2005

Promissory note payable to an unrelated party; payable on demand; interest at 8%; interest increased to 12% on January 1, 2003; secured by certain oil and gas properties. Retired March, 2005.

Note payable to a bank; due July, 2004; secured by guaranty of a director; interest at prime rate (prime rate 5.25% at December 31, 2004 with a floor of 4.75% and a

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ceiling of 8.0%. Retired February, 2005

Promissory note payable to unrelated party; interest at 6%; due June, 2003. Retired January, 2005.

Promissory note payable to one of our directors; interest at 8%; due on demand; unsecured. Retired March, 2005.

Promissory note payable to one of our directors; interest at prime rate (prime rate 5.25% at December 31, 2004); due May, 2003; secured by Common Stock of DutchWest Oil Company, our wholly owned subsidiary. Retired March, 2005

Promissory note payable to an unrelated party at 8%; due June 2003; secured by 4% in the last draft of the Common Stock of DutchWest Oil Company, our wholly owned subsidiary. Retired March, 2005.

Promissory note payable to an unrelated party at 8%; due May 2003; secured by 8% of the Common Stock of DutchWest Oil Company, our wholly owned subsidiary. Retired March, 2005.

Note payable to an entity owned by two directors of the company, due September 2004; interest at prime plus 2% (prime rate 5.25% at December 31, 2004). Secured by oil and gas leases. Retired March, 2005.

March 31, 2005

Line of credit (up to \$3,500,000) to a bank; due June 2004; secured by the guaranty of a director; interest at prime rate (prime rate 5.25% at December 31, 2004) with a floor of 4.75% and a ceiling of 8.0%. Retired February, 2005.

-----  
\$ 40,300  
=====

Long-term debt is as follows:

March 31,  
2005

Line of credit (up to \$3,000,000) to a bank; due July, 2005; secured by the guaranty of a director; interest greater prime rates less .25% or 5.25% (prime note 5.25% at December 31, 2004); retired February 2005.

\$

Subordinated promissory notes to various individuals at 9.5% interest per annum; amounts include \$50,000 due to related parties. Retired \$100,000 March, 2005.

50,000

Notes payable to finance vehicles, payable in aggregate monthly installments of approximately \$4,000, including interest of.9% to

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13% per annum; secured by the related equipment; due various dates through 2010.

134,789

Promissory note to a director; interest at 8.5%; due December 31, 2003. Retired March, 2005.

Note payable to lender; interest at prime plus 11% (prime rate 5.25% at December 31, 2004) interest only; due October, 2006; secured by related oil and gas properties. Retired February, 2005.

Note payable to a bank with monthly principal payments of \$36,000; interest at prime plus 1% (prime rate 5.25% at December 31, 2004 with a minimum prime rate of 5.5%; final payment due November, 2003; secured by related oil and gas properties; extended to July, 2007. Retired February, 2005

Note payable to unrelated party to finance saltwater disposal well with monthly installments of \$4,540, including interest at 10% per annum; final payment due January, 2005; secured by related well. Retired March, 2005.

Less current portion

92,544

Total long-term debt

\$ 92,245

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### 7. TAXES

We incurred a taxable loss of approximately \$1.5 million and temporary tax differences of approximately \$2.1 million in the first quarter of 2005 which resulted in an increase of approximately \$1.4 in our deferred tax asset. We expect to fully utilize these changes in the future.

### 8. STOCKHOLDERS EQUITY

The following table sets forth the changes in the stockholder's equity during the period ended March 31, 2005.

	NUMBER OF SHARES				
	PREFERRED STOCK	COMMON STOCK	COMMON STOCK	PREFERRED STOCK	ADDITIONAL PAID-IN
BALANCE DECEMBER 31, 2004	19,393,969	25,290	19,394	253	34,000
Common stock issued		29,100	29		
Preferred stock issued					
Series A	2,000			20	1,400
Series G	81,000			810	36,800

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Preferred stock conversions					
Series A to common stock	(3,250)	4,642,859	4,643	(33)	
Series F to common stock	(340)	170,000	170	(3)	
Series H to common stock	(200)	285,715	286	(2)	
Common stock dividends paid					
Series A Preferred		356,250	356		3
Options and warrants exercised		45,000	45		
Current year loss					
Dividends paid on preferred stock					
 BALANCE MARCH 31, 2005	 ----- 104,500 =====	 ----- 24,922,893 =====	 ----- 24,923 =====	 ----- 1,045 =====	 ----- 72,7 =====

Also during the period the holders of the remaining 6,700 shares of the Series A Preferred Stock, of our wholly owned subsidiary GulfWest Oil and Gas Company, converted to our Series H Preferred Stock.

Dividends on all classes of our preferred stock are cumulative until declared as payable by our Board of Directors. Our Series E Preferred Stock accumulates at 6% per annum payable in cash, Series G Preferred Stock accumulates at 8% per annum payable in cash and Series H Preferred Stock accumulates at 40 shares of our common stock per share of the Series H Preferred Stock per annum.

The following table sets forth the accumulated value of undeclared dividends of our preferred stock at March 31, 2005.

Series E Preferred Stock	\$ 23,671
Series G Preferred Stock	284,055
Series H Preferred Stock	25,784
	-----
	\$333,510
	=====

Subsequent to the end of the quarter holders of 1,250 shares of our Series H Preferred Stock converted to 1,785,714 shares of our common stock and 2,018,224 common stock warrants were exercised.

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

#### Overview.

We are primarily engaged in the acquisition, development, exploitation and production of crude oil and natural gas, primarily in the onshore producing regions of the United States. Our focus is on increasing production from our existing properties through further exploitation, development and exploration, and on acquiring additional interests in undeveloped crude oil and natural gas properties. Our gross revenues are derived from the following sources:

1. Oil and gas sales that are proceeds from the sale of crude oil and natural gas production to midstream purchasers. This represents over 98% of our gross revenues.

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2. Operating overhead and other income that consists of administrative fees received for operating crude oil and natural gas properties for other working interest owners, and for marketing and transporting natural gas for those owners. This also includes earnings from other miscellaneous activities.

The following is a discussion of our consolidated results of operations, financial condition and capital resources. You should read this discussion in conjunction with our Consolidated Financial Statements and the Notes thereto contained elsewhere herein.

### Results of Operations.

The factors which most significantly affect our results of operations are (1) the sales price of crude oil and natural gas, (2) the level of total sales volumes of crude oil and natural gas, (3) the cost and efficiency of operating our own properties, (4) depletion and depreciation of oil and gas property costs and related equipment (5) the level of and interest rates on borrowings, (6) the level and success of acquiring or finding new reserves, and the acquisition, finding and development costs incurred in adding these reserves, and (7) the adoption of changes in accounting rules.

We consider depletion and depreciation of oil and gas properties and related support equipment to be critical accounting estimates, based upon estimates of total recoverable oil and gas reserves.

The estimates of oil and gas reserves utilized in the calculation of depletion and depreciation are estimated in accordance with guidelines established by the Securities and Exchange Commission and the Financial Accounting Standards Board, which require that reserve estimates be prepared under existing economic and operating conditions with no provision for price and cost escalations over prices and costs existing at year end, except by contractual arrangements.

We emphasize that reserve estimates are inherently imprecise. Accordingly, the estimates are expected to change as more current information becomes available. Our policy is to amortize capitalized oil and gas costs on the unit of production method, based upon these reserve estimates. It is reasonably possible that the estimates of future cash inflows, future gross revenues, the amount of oil and gas reserves, the remaining estimated lives of the oil and gas properties, or any combination of the above may be increased or reduced in the near term. If reduced, the carrying amount of capitalized oil and gas properties may be reduced materially in the near term.

Comparative results of operations for the periods indicated are discussed below.

Three-Month Period Ended March 31, 2005 compared to Three Month Period Ended March 31, 2004.

### Revenues

Oil and Gas Sales. During the first quarter of 2005, our sales volumes

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were 44,708 barrels of crude oil and 344,015 Mcf of natural gas, or 102,044 barrels of oil equivalent compared to 45,184 barrels of crude oil and 253,756 Mcf of natural gas, or 87,477 barrels of oil equivalent in the first quarter of 2004. On a daily basis we produced an average of 1,134 barrels of oil equivalent in the first quarter of 2005 compared to a daily average of 972 barrels of oil equivalent in the 2004 quarter.

Oil and gas prices are reported net of the realized effect of our hedging agreements. Prices realized were \$35.84 per Bbl and \$5.91 per Mcf in the first quarter of 2005 compared to \$27.97 per Bbl and \$4.87 per Mcf in the first quarter of 2004. Prices before the effects of the hedging agreements were \$47.82 per Bbl and \$6.26 per Mcf in the first quarter of 2005 compared to \$32.60 per Bbl and \$5.53 per Mcf in the first quarter of 2004.

Revenues from the sale of crude oil and natural gas for the first quarter, and net of realized losses from our hedging instruments, increased 45% from \$2,500,600 in 2004 to \$3,634,200 in 2005. Losses realized on our hedges during the 2005 quarter were \$535,300 for oil and \$121,200 for gas, compared to \$209,100 for oil and 167,100 for gas in the 2004 quarter. This was due to an increase in natural gas sales volumes and an increase in both crude oil and natural gas sales prices. Higher natural gas sales volumes were a result of the completion of two new wells in our Iola Field in east Texas and increased production from our Grand Lake Field in southwest Louisiana following workovers completed in the fourth quarter of 2004. The Grand Lake Field also had an increase in oil production, which offset the loss of production from the sale of properties in 2004.

Operating Overhead and Other Income. Revenues from these activities decreased from \$38,100 in 2004 to 30,200 in 2005, due primarily to lower overhead recoveries on company-operated properties.

### Costs and Expenses

Lease Operating Expenses. Lease operating expenses increased 7% from \$1,314,300 in 2004 to \$1,400,900 in 2005 due to higher vendor prices. On a per unit basis, expenses decreased from \$15.02 per barrel of oil equivalent in 2004 to \$13.73 per barrel of oil equivalent in 2005 due to increased production on existing properties.

Depreciation, Depletion and Amortization (DD&A). DD&A increased 49% from \$439,200 in 2004 to \$655,800 in 2005 due to higher production volumes, and from an increase in the DD&A rate per unit from \$5.02 per barrel of oil equivalent in 2004 to \$6.43 per barrel of oil equivalent in 2005.

General and Administrative (G&A) Expenses. Our G&A expenses increased 54% from \$401,200 in 2004 to \$618,200 in 2005 due to the recent additions to our management team and to the accrual of \$70,200 in non-cash stock option expense. On a per unit basis, expenses increased from \$4.59 per barrel of oil equivalent in 2004 to \$6.06 per barrel of oil equivalent in 2005.

Interest Expense. Interest expense increased 30% from \$920,200 in 2004 to \$1,198,500 in 2005, primarily due to the amortization of the remaining note discount associated with debt retired.



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### Financial Condition and Capital Resources

At March 31, 2005, our current assets exceeded our current liabilities by \$1,867,656, while at December 31, 2004 our current liabilities exceeded our current assets by \$33,353,875. The improvement was attributable to repayment of debt with proceeds from the sale of the Series G Preferred Stock. For the first quarter of 2005 we had a loss of \$3,547,445 compared to a loss of \$303,003 for the same period in 2004. The loss for 2005 included, however, a non-cash loss of approximately \$2.1 million (1.3 million after tax) associated with the change in our estimate of the fair value of our hedges, compared to a gain of approximately \$.3 in the 2004 quarter, and approximately \$2.4 million (\$1.2 million after tax) in charges related to the non cash writeoff of unamortized issuance cost associated with the debt retired on February 28, 2005.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following market rate disclosures should be read in conjunction with the quantitative disclosures about market risk contained in our 2004 Annual Report on Form 10-K, as well as with the consolidated financial statements and notes thereto included in this quarterly report on Form 10-Q.

All of our financial instruments are for purposes other than trading. We only enter into derivative financial instruments in conjunction with our oil and gas hedging activities.

Hypothetical changes in interest rates and prices chosen for the following stimulated sensitivity effects are considered to be reasonably possible near-term changes generally based on consideration of past fluctuations for each risk category. It is not possible to accurately predict future changes in interest rates and product prices. Accordingly, these hypothetical changes may not be an indicator of probable future fluctuations.

#### Interest Rate Risk

At March 31, 2005, we had no variable rate debt.

#### Commodity Price Risk

We hedge a portion of price risk associated with our oil and natural gas sales through contractual arrangements which are classified as derivative instruments. As of March 31, 2005, these derivative instruments had an estimated fair value liability of \$3,519,009. A hypothetical change in oil and gas prices could have an effect on oil and gas futures prices, which are used to estimate the fair value of our derivative instruments. However, it is not practicable to estimate the resultant change, if any, in the fair value of our derivative instrument.

### ITEM 4. CONTROLS AND PROCEDURES

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As of March 31, 2005, our President, Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 (b) under the Securities Exchange Act of 1934, as amended ("the Exchange Act"). Based upon this evaluation, they concluded that, subject to the limitations described below, the Company's disclosure controls and procedures offer reasonable assurance that the information required to be disclosed by the Company in the reports it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms adopted by the Securities and Exchange Commission.

During the period covered by this report, there has been no change in the Company's internal controls over financial reporting that materially affected, or is reasonably likely to materially affect, these controls.

Limitations on the Effectiveness of Controls. Our management, including the President, Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and procedures will prevent all error and all fraud. A well conceived and operated control system is based in part upon certain assumptions about the likelihood of future events and can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to March 31, 2005.

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### PART II. OTHER INFORMATION

#### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On January 10, 2005, two individual business associates lent an aggregate of \$200,000 to the Company, which was repaid in full on February 28, 2005. The two lenders received warrants to purchase 50,000 shares of Common Stock at \$0.01 share in connection with this transaction. We believe, due to the nature of the relationship of these persons to us and the isolated nature of the transactions, that the issuance of the warrants was exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) of that Act.

On January 7, 2005 we amended our April 2004 credit agreement to extend the target date for repayment to February 28, 2005. We exercised this option on January 26, 2005. We issued 29,100 shares of our Common Stock in connection with this amendment. We believe, due to the nature of the relationship of the lender to us and the isolated nature of the transaction, that the issuance of the Common Stock was exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) of that Act.

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### ITEM 6. EXHIBITS.

Number -----	Description -----
3.1	Articles of Incorporation of the Registrant and Amendments thereto. (Previously filed with our Registration Statement on Form S-1, Reg. No. 33-53526, filed with the Commission on October 21, 1992.)
3.2	Amendment to the Company's Articles of Incorporation to increase the number of shares of Class A Common Stock that the Company will have authority to issue from 20,000,000 to 40,000,000 shares, approved by the Shareholders on November 19, 1999 and filed with the Secretary of State of Texas on December 3, 1999. (Previously filed with our Definitive Proxy Statement, filed with the Commission on October 20, 1999.)
3.3	Amendment to the Articles of Incorporation of the Registrant changing the name of the Registrant to "GulfWest Energy Inc.", approved by the Shareholders on May 18, 2001 and filed with the Secretary of Texas on May 21, 2001. (Previously filed with our Definitive Proxy Statement, filed with the Commission on April 16, 2001.)
3.4	Bylaws of the Registrant. (Previously filed with our Registration Statement on Form S-1, Reg. No. 33-53526, filed with the Commission on October 21, 1992.)
3.5	Statement of Resolution Establishing Series H Convertible Preferred Stock, dated February 28, 2005. (Previously filed with our Form 8-K, Reg. No. 001-12108, filed with the Commission on March 4, 2005.)
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3.6	Statement of Resolution Establishing Series G Convertible Preferred Stock, dated February 28, 2005. (Previously filed with our Form 8-K, Reg. No. 001-12108, filed with the Commission on March 4, 2005.)
3.7	Certificate of Correction to the Statement of Resolution Establishing Series G Convertible Preferred Stock, dated March 16, 2005. (Previously filed with our Form 10-K, Reg. No. 001-12108, filed with the Commission on March 31, 2005.)
3.8	Articles of Amendment amending Statement of Resolution Establishing Series E Preferred Stock, dated February 28, 2005. (Previously filed with our Form 8-K, Reg. No. 001-12108, filed with the Commission on March 4, 2005.)
3.9	Articles of Amendment amending Statement of Resolution Establishing Series A Preferred Stock, dated February 28, 2005. (Previously filed with our Form 8-K, Reg. No. 001-12108, filed with the Commission on March 4, 2005.)
4.3	Shareholders Rights Agreement between GulfWest Energy Inc. and OCM GW Holdings, LLC dated February 28, 2005. (Previously filed with our Form 13D, Reg. No. 005-54301, filed with the Commission on March 10, 2005.)
4.4	Omnibus and Release Agreement among GulfWest Energy Inc., OCM GW Holdings, LLC and those signatories set forth on the signature page

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thereto, dated as of February 28, 2004. (Previously filed with our Form 13D, Reg. No. 005-54301, filed with the Commission on March 10, 2005.)

- 4.5 Share Transfer Restriction Agreement between J. Virgil Waggoner and OCM GW Holdings, LLC, dated February 28, 2005. (Previously filed with our Form 10-K, Reg. No. 001-12108, filed with the Commission on March 31, 2005.)
- 4.6 Irrevocable Proxy executed by J. Virgil Waggoner dated February 28, 2005. (Previously filed with our Form 10-K, Reg. No. 001-12108, filed with the Commission on March 31, 2005.)
- 4.7 Exchange Agreement between GulfWest Energy Inc. and GulfWest Oil & Gas Company, dated February 28, 2005. (Previously filed with our Form 10-K, Reg. No. 001-12108, filed with the Commission on March 31, 2005.)
- 4.8 Letter Agreement among OCM GW Holdings, LLC, OCM Principal Opportunities Fund III, L.P., OCM Principal Opportunities Fund III GP, LLC, Oaktree Capital Management, LLC, GulfWest Energy Inc., GulfWest Oil & Gas Company and J. Virgil Waggoner dated February 28, 2005. (Previously filed with our Form 10-K, Reg. No. 001-12108, filed with the Commission on March 31, 2005.)

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- 4.9 Subscription Agreement among OCM GW Holdings, LLC, Allan D. Keel and those individuals listed on the signature page thereto, dated February 28, 2005. (Previously filed with our Form 13D, Reg. No. 005-54301, filed with the Commission on March 10, 2005.)
- 4.10 First Amendment to Warrant Agreement among GulfWest Energy Inc., D.B. Zwirn Special Opportunities Fund, L.P. and Drawbridge Special Opportunities Fund, dated February 28, 2005. (Previously filed with our Form 10-K, Reg. No. 001-12108, filed with the Commission on March 31, 2005.)
- 10.1 Employment Agreement between Allan D. Keel and GulfWest Energy, Inc., dated February 28, 2005. (Previously filed with our Form 10-K, Reg. No. 001-12108, filed with the Commission on March 31, 2005.)
- 10.2 Employment Agreement between E. Joseph Grady and GulfWest Energy, Inc., dated February 28, 2005. (Previously filed with our Form 10-K, Reg. No. 001-12108, filed with the Commission on March 31, 2005.)
- 10.4 GulfWest Energy Inc. 2004 Stock Option Incentive Plan. (Previously filed with our Form 10-K, Reg. No. 001-12108, filed with the Commission on March 31, 2005.)
- 10.5 GulfWest Energy Inc. 2005 Stock Option Incentive Plan. (Previously filed with our Form 10-K, Reg. No. 001-12108, filed with the Commission on March 31, 2005.)
- 10.6 Form of GulfWest Energy Inc. 2005 Stock Incentive Plan Stock Option Agreement. (Previously filed with our Form 10-K, Reg. No. 001-12108, filed with the Commission on March 31, 2005.)
- 10.7 Form of Warrant Agreement. (Previously filed with our Form 10-K, Reg. No. 001-12108, filed with the Commission on March 31, 2005.)
- 10.8 Indemnification Agreement between GulfWest Energy Inc. and J. Virgil

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- Waggoner, dated February 28, 2005. (Previously filed with our Form 10-K, Reg. No. 001-12108, filed with the Commission on March 31, 2005.)
- 10.9 Indemnification Agreement between GulfWest Energy Inc. and B. James Ford, dated February 28, 2005. (Previously filed with our Form 10-K, Reg. No. 001-12108, filed with the Commission on March 31, 2005.)
- 10.10 Indemnification Agreement between GulfWest Energy Inc. and Skardon F. Baker, dated February 28, 2005. (Previously filed with our Form 10-K, Reg. No. 001-12108, filed with the Commission on March 31, 2005.)
- 10.11 Indemnification Agreement between GulfWest Energy Inc. and John Loehr, dated February 28, 2005. (Previously filed with our Form 10-K, Reg. No. 001-12108, filed with the Commission on March 31, 2005.)
- 10.12 Indemnification Agreement between GulfWest Energy Inc. and Allan Keel, dated February 28, 2005. (Previously filed with our Form 10-K, Reg. No. 001-12108, filed with the Commission on March 31, 2005.)
- 10.13 Letter Agreement among D.B. Zwirn Special Opportunities Fund, LP, GulfWest Oil & Gas, and Drawbridge Special Opportunities Fund, LP, dated January 7, 2005. (Previously filed with our Form 10-K, Reg. No. 001-12108, filed with the Commission on March 31, 2005.)
- 10.14 Series G Subscription Agreement between GulfWest Energy Inc. and OCM GW Holdings, LLC dated February 28, 2005. (Previously filed with our Form 13D, Reg. No. 005-54301, filed with the Commission on March 10, 2005.)
- 10.15 Series A Subscription Agreement between GulfWest Oil & Gas Company and OCW GW Holdings, LLC dated February 28, 2005. (Previously filed with our Form 13D, Reg. No. 005-54301, filed with the Commission on March 10, 2005.)
- 10.16 Letter Agreement between W.L. Addison Investment, L.L.C., GulfWest Energy Inc., and Setex Oil and Gas Company dated February 24, 2005 extending Option Agreement for the Purchase of Oil and Gas Leases dated March 5, 2004.
- \*22.1 Subsidiaries of the Registrant (included on page 7 of this Quarterly Report).
- \*31.1 Certification of Chief Executive Officer pursuant to Exchange Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- \*31.2 Certification of Chief Financial Officer pursuant to Exchange Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- \*32 Certification pursuant to 18.U.S.C Section 1350 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Press Release dated April 1, 2005. (Previously filed with our Form 8-K, Reg. No. 001-12108, filed with the Commission on April 7, 2005.) \*Filed herewith.

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SIGNATURES

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

GULFWEST ENERGY INC.  
(Registrant)

Date: May 16, 2005

By: /s/ Allan D. Keel  
Allan D. Keel

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President and Chief  
Executive Officer

Date: May 16, 2005

By: /s/ E. Joseph Grady

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E. Joseph Grady  
Senior Vice President and  
Chief Financial Officer