

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-03-26** | Period of Report: **1997-11-30**  
SEC Accession No. **0000277952-99-000002**

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### FILER

#### **OIL CITY PETROLEUM INC**

CIK: **277952** | IRS No.: **751614001** | State of Incorpor.: **TX** | Fiscal Year End: **0831**  
Type: **10-Q** | Act: **34** | File No.: **000-09098** | Film No.: **99574351**  
SIC: **1311** Crude petroleum & natural gas

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

Quarter Ended November 30, 1997

Commission File Number 0-9098

OIL CITY PETROLEUM, INC.

(Exact name of Registrant as specified in its Charter)

Texas

75-1614001

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

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

3015 East Skelly Dr., Ste #450

74105

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

-----  
(Zip Code)

(918) 743-6555

-----  
(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 such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days.      Yes      No      X

-----  
The Registrant had 29,000,000 shares of common stock, no par value outstanding as of the close of the period covered by this report.

OIL CITY PETROLEUM, INC.

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PART I - FINANCIAL INFORMATION

OIL CITY PETROLEUM, INC.  
Notes to Consolidated Financial Statements  
Unaudited  
November 30, 1997

(1) General

The accompanying interim condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement of the results for the interim periods presented have been included. Operating results for the periods presented are not necessarily indicative of the results which may be expected for the year ending August 31, 1997. These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10K for the year ended August 31, 1997.

The Company

Oil City Petroleum Inc., a Texas corporation ("the Company"), is an oil and natural gas company headquartered in Tulsa, Oklahoma. The Company has historically been engaged in the production and exploration of crude oil and natural gas in Oklahoma and Texas and currently operates 142 wells and produces 191 BOPD and 512 MCFPD to the Company's interest.

Historical Background

Oil City Petroleum, Inc. was incorporated in the State of Texas on August 4, 1978. The Company has historically been an oil and natural gas producer in the Oklahoma and Texas. On September 2, 1997, the Company acquired all of the issued and outstanding capital stock of Double Eagle Petroleum, Inc., a privately held oil and natural gas producer located in Tulsa, Oklahoma. Under the terms of the Agreement, Double Eagle became a wholly-owned subsidiary of the Company in exchange for the issuance of 21,366,620 shares of the Company's common stock to the shareholders of Double Eagle. As a result of the acquisition of Double Eagle, two of the Directors of the Company resigned, Mr. Herman E. Nichols and Mr. Jay D. Kipfer. Messers R.A. Sellers Jr., James G. Borem, and R.A. Sellers III were elected to the Board and appointed Chairman President and Vice President, respectively. In addition the Company appointed Mr. Bill W. Carter as Vice President- Operations; Mr. L. C. Cobb as Vice President- Land and

(2) ACCOUNTING POLICIES

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management all adjustments (consisting of only normal recurring items) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the Report on Form 8-K disclosure statement for the acquisition of Double Eagle and included herein by this reference.

(3) NOTE PAYABLE

Subsequent to the acquisition of Double Eagle, the Company executed a promissory note and mortgage with a bank providing a Line of Credit facility of \$25,000,000 and bearing interest at the bank's prime lending rate plus 1%. Included in the Line of Credit facility is a Term Loan Line of Credit in the amount of \$700,000 and bearing interest at 17% per annum payable in quarterly installments of \$43,570, plus accrued interest and beginning February 28, 1998, with all principal and interest due November 30, 1999. As of November 30, 1997, \$3,568,514 has been advanced on the note. Accrued interest is due and payable monthly at the bank's prime rate which was 10.5 % on November 30, 1997. The note is secured by a mortgage on substantially all of the oil and gas properties owned by the Company.

<TABLE>

OIL CITY PETROLEUM. INC.  
BALANCE SHEET  
(UNAUDITED)

<CAPTION>

ASSETS

Nov. 30,

Aug. 31,

	1997	1997
<S>	<C>	<C>
Current Assets:		
Cash	\$ 149,469	\$
Short-term Investments		25,000
Accounts Receivable	764,290	27,961
Crude Oil Inventory	30,000	6,005
Shop and Yard Inventory	45,709	
Other Current Assets	98,152	3,275
	-----	-----
Total Current Assets	1,087,620	62,241
	-----	-----
Property and Equipment, at Cost:		
Oil and Gas Properties	5,758,047	218,885
Field Equipment	236,250	7,945
Building, Land and Office Equipment	422,894	261,101
	-----	-----
Total Property and Equipment, at Cost	6,417,191	487,931
Less Accumulated Depreciation, Depletion, and Amortization	(922,480)	(207,401)
	-----	-----
Net Property and Equipment	5,494,711	280,530
	-----	-----
Other Assets		
Investments - Double Eagle Management Services, Inc.	109,685	
Total Other Assets	6,692,016	342,771
	-----	-----

</TABLE>

SEE NOTES TO FINANCIAL STATEMENT

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<TABLE>

OIL CITY PETROLEUM, INC.  
BALANCE SHEET  
(UNAUDITED)

<CAPTION>

	Nov. 30, 1997	Aug. 31, 1997
LIABILITIES AND SHAREHOLDERS' EQUITY	<C>	<C>
-----	-----	-----
Current Liabilities:		
Accounts Payable	\$ 569,666	\$ 42,035
Accrued Liabilities	56,946	
Deferred Costs	263,990	
Current Portion of Long-Term Debt	803,149	13,512
Note and Accrued Interest Payable to Affiliate		

Total Current Liabilities	1,693,751	55,547
Long-Term Debt	2,765,365	133,878
Shareholders' Equity:		
Common Stock, .001 Value - Authorized 30,000,000 Shares, Issued and Outstanding		
29,000,000 Shares	29,000	5,692,571
Additional Paid-In Capital	10,913,352	3,265,614
Retained Earnings	(8,673,202)	(8,804,839)
Net Income (Loss)	(36,250)	
Total Shareholder's Equity	2,232,900	153,346
Total Liabilities and Shareholders' Equity	6,692,016	342,771

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SEE NOTES TO FINANCIAL STATEMENTS

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<TABLE>

OIL CITY PETROLEUM, INC.  
STATEMENT OF OPERATIONS  
(UNAUDITED)

<CAPTION>

	THREE MONTHS ENDED	
	November 30,	
	1997	1996
<S>	<C>	<C>
Revenues:		
Oil and Gas Sales	375,172	16,217
Costs and Expenses:		
Lease Operating Expenses	330,645	13,160
Depreciation, Depletion & Amortization	57,727	4,974
Administrative and General	168,669	32,125
Interest	38,005	26,503
Total Operating Expense	595,046	76,762
Net Operating Income or (Loss)	(219,874)	(60,545)
Other Income (Expenses)		
Interest Income	312	324
Other Income	185,187	
Gain/Loss on Write Down	(1,875)	
Gain (Loss) on Sale of Assets		
Rental Income	0	9,929
Rental Expense		4,237
Total Other Income & Expense	183,624	6,016
Net Income Before Taxes	(36,250)	(54,529)
Income Tax - Current		

Income Tax - Deferred	-----	-----
Net Income (Loss)	(36,250)	(54,529)
Net Income or (Loss) Per Share	(0.001)	(0.01)
Average Number of Shares Outstanding	29,000,000	14,912,492
	-----	-----

SEE NOTES TO FINANCIAL STATEMENTS

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<TABLE>

OIL CITY PETROLEUM, INC.  
STATEMENT OF CASH FLOWS  
(UNAUDITED)

<CAPTION>

	THREE MONTHS ENDED	
	November 30,	
	1997	1996
	-----	-----
<S>	<C>	<C>
Cash Flows from Operating Activities:		
Net Loss	(36,250)	(54,529)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		4,974
Depreciation, Depletion, and Amortization	42,692	22,340
Reduction in Deferred Oil/Gas Income	(684,440)	
Net (Gain) Loss on Sale of Assets		
Change in Assets and Liabilities:		
(Increase) Decrease in Receivables	(396,415)	454
(Increase) Decrease in Revenue Receivables	(137,205)	
(Increase) Decrease in Inventory	118,443	
Increase in Accounts Payable	248,171	
Increase in Accrued Liabilities	24,369	(1,377)
Increase in Deferred Cost	233,990	
Decrease in Deferred Income Tax	(108,040)	
Increase in Other Assets	(57,683)	6,125
Total Adjustments	(716,118)	32,516
Net Cash Used in Operating Activities	(752,368)	(22,013)
Cash Flows from Investing Activities:		
Investments - Double Eagle Management Services Inc.	(109,685)	
Expenditures for Property and Equipment	(2,025,683)	(6,770)
Net Cash used in Investing Activities	(2,135,368)	(6,770)
Cash Flows from Financing Activities:		
Increase in Borrowings from Affiliate		36,839
Principle Payments on Long-term Debt		(2,925)
Borrowing on Debt	2,372,462	
Increase in Restructuring Oil City Petroleum Equity	695,494	

Net Cash Provided by Financing Activities:	3,067,956	33,914
	-----	-----
Net Increase (Decrease) in Cash	180,220	5,131
Cash at Beginning of Year	(30,751)	311
	-----	-----
Cash at End of Period	149,469	5,442

SEE NOTES TO FINANCIAL STATEMENTS  
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<TABLE>

OIL CITY PETROLEUM, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY  
THREE MONTHS ENDED NOVEMBER 30, 1997 - YEAR ENDED AUGUST 31, 1997

<CAPTION>

	Common Shares	Stock Par Value	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total Stockholders' Equity
	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, August 31, 1994	14,912,492	\$5,692,571	\$1,567,243	(7,732,215)		(472,401)
Net loss				(252,945)		(252,945)
Balance, August 31, 1995	14,912,492	5,692,571	1,567,243	(7,985,160)		(725,346)
Net loss						(222,095)
Balance, August 31, 1996	14,912,492	5,692,571	1,567,243	(8,207,255)		(947,441)
Issuance of common stock	1,605,806		1,698,371			1,698,371
Surrender of common stock					8,285,998	
Net loss				(597,584)		(597,584)
Balance, August 31, 1997	16,518,298	\$5,692,571	\$3,265,614	(8,804,838)	8,285,998	153,346
Treasury Stock 8/31/97	(8,285,998)					
Issuance of Common Stock	20,767,700	(5,663,571)	7,647,738	131,637		2,115,804
Net Loss for 3 months ended				(36,250)		(36,250)
Balance, November 30, 1997	29,000,000	29,000	10,913,352	(8,709,452)		2,232,900

SEE NOTES TO FINANCIAL STATEMENTS

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</TABLE>

Item 2. Management's Discussion and Analysis of Financial  
Condition and Results of Operations



## GENERAL

### RESULT OF OPERATIONS

The following is a discussion of the results of operations of the Company for the three months ended November 30, 1997. This discussion should be read in conjunction with the Company's unaudited Consolidated Financial Statements and the notes thereto included in Part I of this Quarterly Report.

The factors which most significantly affect the Company's results of operations are (i) the sale prices of crude oil and natural gas, (ii) the level of total sales volumes, (iii) the level of lease operating expenses, and (iv) the level of and interest rates on borrowings. Total sales volumes for oil and natural gas are significantly impacted by the degree of success the Company experiences in its efforts to maintain or increase production from its existing oil and gas properties through its development activities.

Average sales prices received by the Company for oil and gas have historically fluctuated significantly from period to period. Fluctuations in oil prices during these periods reflect market uncertainty as well as concerns related to the global supply and demand for crude oil. Average gas prices received by the Company fluctuate generally with changes in the spot market price for gas. Spot market gas prices have generally declined in recent years because of lower worldwide energy prices as well as excess deliverability of natural gas in the United States. Relatively modest changes in either oil or gas prices significantly impact the Company's results of operations and cash flow and could significantly impact the Company's borrowing capacity. Management presently believes that the level of crude prices worldwide are too low to be sustained for any extended period and that prices will rebound to previous levels.

Quarter ended November 30, 1997 compared to Quarter ended November 30, 1996. Revenues for the three months ending November 30, 1997 were \$ 375,172 compared to \$ 16,217 for the comparable quarter ended November 30, 1996 and reflects an increase in the operating revenue from the Company's oil and gas operations as a result of the acquisitions of (1) Double Eagle and the oil and gas properties acquired from (2) Enserch Exploration, Inc. Production operating expenses were \$ 330,172 for the quarter ended November 30, 1997 compared to \$ 13,160 for the quarter ended November 30, 1996 and reflects an increase due to the acquisition of Double Eagle Petroleum Corporation and the oil and gas properties acquired from Enserch Exploration, Inc.

General and administrative costs increased to \$ 168,669 for the three months ending November 30, 1997 from \$ 32,125 for the same period a year earlier and primarily reflects the increased level of the Company's activity in its oil and gas production as a result of the Double Eagle acquisition. G & A should increase significantly as the

Company begins continues to acquire additional properties and initiates a corporate public relations campaign.

The Company had an after-tax net loss of \$ 36,250 ( \$0.001 per share) for the quarter ended November 30, 1997 compared to a net. loss of \$ 54,529 ( \$0.01 per share) for the comparable quarter a year earlier. The decrease in the net loss in income is attributable primarily to an increase in the revenues as a result of the Double Eagle acquisition and is offset by an attendant increase in G & A. The Company expects to continue to experience losses during the periods of significant growth of the Company.

### CAPITAL RESOURCES AND LIQUIDITY

The Company's capital requirements relate primarily to the development of its oil and gas properties. Prior to the change in control, the Company funded its very limited activities from cash flow. The Company, through its subsidiaries, has established credit facilities with a bank to facilitate the funding of its operations, has sold oil and gas properties to provide working capital and has from time to time received unsecured loan from its principal shareholder.

The level of the Company's capital expenditures will vary in the future depending on energy market conditions and upon the level of acquisition activity achieved by the Company. The Company anticipates that its cash flow will not be

sufficient to fund its operations and debt service at their current levels for the next year and that additional capital will be required. There is no assurance that the Company will have sufficient funds to meet its obligations.

The Company's bank credit facility consists of a revolving credit facility under which the Company has available to it a revolving line of credit in the principal amount of \$3,400,000 including the term loan discussed under Notes Payable above. The Company is required to make interest payments monthly with interest accruing at a varying rate based on the sum of the bank's prime lending rate ( 10.5 % at November 30, 1997 ). The revolving line of credit is secured by substantially all of the Company's oil and gas properties. At November 30, 1997 the outstanding balance under the Company's credit facilities with its Bank totaled \$ 3,313,657.

At November 30, 1997 the Company had current assets of \$ 1,087,620 and current liabilities of \$ 1,693,751 which resulted in negative working capital of \$ 606,131

which is primarily comprised of senior bank debt and notes payable to shareholders and accounts payable. The Company believes that its cash flow from operations will not be sufficient to meet its anticipated capital requirements. As a result the Company believes it will require additional financing in order to carry on its operations. Because future cash flows and the availability of financing are subject to a number of variables, such as the level of production, the prices of oil and gas, and the Company's ability to successfully acquire additional oil and natural gas properties at reasonable prices, there can be no assurance that the Company's capital resources or ability to attract financing will be sufficient to maintain currently planned levels of capital expenditures. If the Company is unable to maintain its current level of operations, management believes the Company may be compelled to sell certain assets to meet its obligations or to otherwise curtail its activities.

#### SEASONALITY

The results of operations of the Company are somewhat seasonal due to seasonal fluctuations in the price for crude oil and natural gas. Due to these seasonal fluctuations, results of operations for individual quarterly periods may not be indicative of results which may be realized on an annual basis.

#### INFLATION AND PRICES

The Company's revenues and the value of its oil and gas properties have been and will be affected by changes in oil and gas prices. The Company's ability to maintain current borrowing capacity and to obtain additional capital on attractive terms is also substantially dependent on oil and gas prices. Oil and gas prices are subject to significant fluctuations that are beyond the Company's ability to control or predict.

#### PART I[

#### OTHER INFORMATION

- Item 1. Legal Proceedings. Not applicable.
- Item 2. Changes in Securities. Not applicable.
- Item 3. Defaults Upon Senior Securities. Not applicable.
- Item 4. Submission to Matters to a Vote of Security Holders. Not applicable.
- Item 5. Other Information. Not applicable.

Item 6, Exhibits and Reports on Form 8-K

(a) Exhibits

Not applicable.

(b) Current Report on Form 8-K

Acquisition of Double Eagle Petroleum, Inc.

Dated September 1, 1997

SIGNATURES

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

Oil City Petroleum, Inc.

By: /s/ James G. Borem

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James G. Borem  
President and Chief  
Executive Officer

Dated: March 25, 1999