

GULFPORT ENERGY CORP  
Form 10QSB  
November 12, 2004

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

**FORM 10-QSB**

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

OR

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004  
Commission File Number 000-19514

**Gulfport Energy Corporation**

-----  
(Name of small business issuer in its charter)

Delaware  
(State or other jurisdiction of  
Incorporation or organization)

73-1521290  
(IRS Employer  
Identification Number)

14313 North May Avenue, Suite 100  
Oklahoma City, Oklahoma 73134  
(405) 848-8807

-----  
(Address, including zip code, and telephone number, including  
area code, of registrant's principal executive office)

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

Not Applicable

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

TITLE OF EACH CLASS REGISTERED  
Common Stock, \$0.01 par value

NAME OF EACH EXCHANGE ON WHICH  
REGISTERED  
None

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Indicate by a 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 .

As of November 9, 2004, 20,146,566 shares of common stock were outstanding.

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Transitional Small Business Disclosure Format (check one): Yes  No

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GULFPORT ENERGY CORPORATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements  
September 30, 2004 and 2003

Forming a part of Form 10-QSB Quarterly Report to the  
Securities and Exchange Commission

This quarterly report on Form 10-QSB should be read in conjunction with Gulfport Energy Corporation's Annual Report on Form 10-KSB for the year ended December 31, 2003.

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**GULFPORT ENERGY CORPORATION**
**BALANCE SHEET**


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		September 30, 2004 (Unaudited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$	8,985,000
Accounts receivable		2,251,000
Accounts receivable - related party		745,000
Prepaid expenses and other current assets		154,000
Total current assets		12,135,000
Property and equipment:		
Oil and natural gas properties		136,006,000
Other property and equipment		5,656,000
Accumulated depletion, depreciation, amortization		(80,917,000)
Property and equipment, net		60,745,000
Other assets		3,125,000
Total assets	\$	76,005,000
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$	4,443,000
Accrued payable - royalty audit		53,000
Asset retirement obligation - current		480,000
Current maturities of long-term debt		323,000
Total current liabilities		5,299,000
Asset retirement obligation - long-term		7,638,000
Long-term debt		3,252,000
Redeemable 12% cumulative preferred stock, Series A, \$.01 par value, with a redemption and liquidation value of \$1,000 per share; 30,000 authorized, 13,502 issued and outstanding at September 30, 2004		13,502,000

Total liabilities		29,691,000
Commitments and contingencies		
Preferred stock, \$.01 par value; 5,000,000 authorized at September 30, 2004, 30,000 issued as redeemable 12% cumulative preferred stock, Series A		-
Common stockholders' equity:		
Common stock - \$.01 par value, 35,000,000 authorized, 20,146,566 issued and outstanding at September 30, 2004		201,000
Paid-in capital		95,737,000
Accumulated deficit		(49,624,000)
Total stockholders' equity		46,314,000
Total liabilities and stockholders' equity	\$	76,005,000

See accompanying notes to financial statements.

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**GULFPORT ENERGY CORPORATION**  
**STATEMENTS OF INCOME**  
**(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
<b>Revenues:</b>				
Gas sales	\$ 139,000	\$ 99,000	\$ 266,000	\$ 351,000
Oil and condensate sales	5,241,000	3,856,000	14,061,000	12,112,000
Other income	50,000	45,000	75,000	156,000
	5,430,000	4,000,000	14,402,000	12,619,000
<b>Costs and expenses:</b>				
Operating expenses	1,478,000	1,581,000	4,400,000	4,395,000
Production taxes	629,000	560,000	1,667,000	1,515,000
Depreciation, depletion, and amortization	1,207,000	1,057,000	3,494,000	3,184,000
General and administrative	261,000	385,000	1,526,000	1,346,000
	3,575,000	3,583,000	11,087,000	10,440,000
<b>INCOME FROM</b>	1,855,000	417,000	3,315,000	2,179,000

**OPERATIONS:****OTHER (INCOME)****EXPENSE:**

Accretion expense	75,000	75,000	223,000	223,000
Interest expense	98,000	20,000	171,000	29,000
Interest expense - preferred stock	499,000	429,000	1,431,000	429,000
Interest income	(23,000)	(9,000)	(31,000)	(26,000)
	649,000	515,000	1,794,000	655,000

**INCOME BEFORE**

<b>INCOME TAXES</b>	1,206,000	(98,000)	1,521,000	1,524,000
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**INCOME TAX EXPENSE****(BENEFIT):**

Current	682,000	-	1,181,000	610,000
Deferred	(682,000)	-	(1,181,000)	(610,000)
	-	-	-	-

**NET INCOME BEFORE****EFFECT OF****CHANGE IN****ACCOUNTING****PRINCIPLE**

	\$ 1,206,000	\$ (98,000)	\$ 1,521,000	\$ 1,524,000
--	--------------	-------------	--------------	--------------

Cumulative effect of change in

accounting principle	-	-	-	270,000
<b>NET INCOME</b>	1,206,000	(98,000)	1,521,000	1,794,000

Less: Preferred stock dividends

	-	-	-	(838,000)
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**NET INCOME****AVAILABLE TO****COMMON****STOCKHOLDERS**

	\$ 1,206,000	\$ (98,000)	\$ 1,521,000	\$ 956,000
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**NET INCOME PER****COMMON SHARE -****BASIC:**

Per common share before effect of change

in accounting principle	\$ 0.08	\$ (0.01)	\$ 0.13	\$ 0.07
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Effect per common share of change in

accounting principle	-	-	-	0.02
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	\$ 0.08	\$ (0.01)	\$ 0.13	\$ 0.09
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**NET INCOME PER****COMMON SHARE -**

**DILUTED:**Per common share before  
effect of change

in accounting principle      \$            0.08    \$            -    \$            0.13    \$            0.07

Effect per common share of  
change in

accounting principle                                    -                                    -                                    -                                    0.02

	\$	0.08	\$	-	\$	0.13	\$	0.09
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See accompanying notes to financial statements.

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**GULFPORT ENERGY CORPORATION**  
**Statements of Common Stockholders' Equity**  
**(Unaudited)**

**Additional****Common Stock****Paid-in****Accumulated****Shares****Amount****Capital****Deficit****Balance at December 31, 2002**

		10,146,566
\$		101,000
\$		84,192,000

\$	(50,926,000)
)	
Net income	
	-
	-
	-
	1,794,000
Preferred stock dividends	
	-
	-
	-
	(838,000)
)	
<b>Balance at September 30, 2003</b>	
	10,146,566
	101,000
	84,192,000
\$	(49,970,000)
)	
<b>Balance at December 31, 2003</b>	
	10,146,566
\$	101,000
\$	84,192,000
\$	(51,145,000)
)	
Net income	



	-
	-
	-
	1,521,000
Preferred stock dividends	
	-
	-
	-
	-
Stock Rights Offering	
	10,000,000
	100,000
	11,545,000
	-
<b>Balance at September 30, 2004</b>	
	20,146,566
\$	201,000
\$	95,737,000
\$	(49,624,000
)	

See accompanying notes to financial statements.

**GULFPORT ENERGY CORPORATION**  
**Statements of Cash Flows**  
**(Unaudited)**

	<b>For the Nine Months Ended September 30,</b>		
	<b>2004</b>		<b>2003</b>
<b>Cash flows from operating activities:</b>			
Net income	\$	1,521,000	\$ 1,794,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of change in accounting principle		-	(270,000)
Accretion of discount		223,000	223,000
Interest expense - preferred stock		1,431,000	429,000
Depletion, depreciation and amortization		3,494,000	3,178,000
Amortization of debt issuance costs		-	6,000
<b>Changes in operating assets and liabilities:</b>			
Decrease in insurance settlement receivable		-	2,510,000
(Increase) Decrease in accounts receivable		(911,000)	188,000
(Increase) in accounts receivable - related party		(366,000)	(233,000)
Decrease in prepaid expenses		25,000	91,000
Increase in accounts payable and accrued liabilities		1,010,000	1,143,000
Net cash provided by operating activities		6,427,000	9,059,000
<b>Cash flows from investing activities:</b>			
(Additions) to cash held in escrow		(65,000)	(177,000)
(Additions) to other property, plant and equipment		(3,744,000)	(24,000)
(Additions) to oil and gas properties		(7,924,000)	(9,252,000)
Expenditures related to oil and gas properties due to hurricane		(32,000)	(702,000)
Net cash used in investing activities		(11,765,000)	(10,155,000)
<b>Cash flows from financing activities:</b>			
Principal payments on borrowings		(2,753,000)	(17,000)
Borrowings on note payable - related party		500,000	-
Borrowings on note payable		3,389,000	1,500,000
Proceeds from rights offering		11,645,000	-
Net cash provided by financing activities		12,781,000	1,483,000
Net increase in cash and cash equivalents		7,443,000	387,000
Cash and cash equivalents at beginning of period		1,542,000	1,109,000
Cash and cash equivalents at end of period	\$	8,985,000	\$ 1,496,000

Supplemental disclosure of cash flow information:

Interest payments	\$	171,000	\$	29,000
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Supplemental disclosure of non-cash transactions:

Payment of Series A Preferred Stock dividends through issuance of Series A Preferred Stock	\$	1,431,000	\$	838,000
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See accompanying notes to financial statements.

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GULFPORT ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Unaudited)

These condensed financial statements have been prepared by Gulfport Energy Corporation (the "Company" or "Gulfport") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments, which are in the opinion of management, necessary for a fair statement of the results for the interim periods, on a basis consistent with the annual audited financial statements. All such adjustments are of a normal recurring nature. Certain information, accounting policies, and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the financial statements and the summary of significant accounting policies and notes thereto included in the Company's most recent annual report on Form 10-KSB.

1. ACCOUNTS RECEIVABLE - RELATED PARTY

Included in the accompanying September 30, 2004 balance sheet are amounts receivable from entities that have similar controlling interests as those controlling the Company. These receivables represent amounts billed by the Company for general and administrative functions performed by Gulfport's personnel on behalf of the related party companies. As of September 30, 2004, this receivable amount totaled \$745,000.

2. PROPERTY AND EQUIPMENT

The major categories of property and equipment and related accumulated depreciation, depletion and amortization are as follows:

	September 30, 2004
Oil and gas properties	
\$	136,006,000

Office furniture and fixtures	1,470,000
Buildings	3,926,000
Land	260,000
Total property and equipment	141,662,000
Accumulated depreciation, depletion, amortization and impairment reserve	(80,917,000)
)	
Property and equipment, net	
\$	60,745,000

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GULFPORT ENERGY CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
 (Unaudited)

3. OTHER ASSETS

Other assets consist of the following:

	September 30, 2004
Plugging and abandonment escrow account on the WCBB properties (Note 7)	\$ 2,814,000

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CD's securing letter of credit	200,000
Deposits	111,000
	\$ 3,125,000

4. LONG-TERM DEBT

A break down of long-term debt is as follows:

	September 30, 2004
Building loans	\$ 3,454,000
Accrued payable - royalty audit	174,000
	3,628,000
Less - current maturities of long term debt	376,000
Debt reflected as long term	\$ 3,252,000

The building loans include \$105,000 related to a building in Lafayette, Louisiana, purchased in 1996 to be used as the Company's Louisiana headquarters. The building is 12,480 square feet with approximately 6,180 square feet of finished office area and 6,300 square feet of warehouse space. This building allows the Company to provide office space for Louisiana personnel, have access to meeting space close to the fields and to maintain a corporate presence in Louisiana. In addition, in June of 2004 the Company purchased the office building it occupies for \$3,700,000. The building contains approximately 24,823 total rentable square feet. Immediately upon the closing, the Company gained access to an additional 3,000 square feet with the remaining space to be leased for approximately 12 months by the existing tenant/owner. At the end of the twelve-month period, the Company will either occupy or sub-lease any unused space.

5. CASTEX BACK-IN

Gulfport sold its interest in the Bayou Penchant, Bayou Pigeon, Deer Island and Golden Meadow fields to Castex Energy 1996 Limited Partnership effective April 1, 1998 subject to a 25% reversionary interest in the partnership after Castex had received 100% of the initial investment. Castex informed Gulfport that the investment had paid out effective September 1, 2001. In lieu of a 25% interest in the partnership, Gulfport elected to take a proportionately reduced 25% working interest in the properties. During March 2002, the Company received approximately \$220,000 from Castex which the Company believes consists of sales income for the period after payout net of operating expenses, although the Company has not received confirmation of such. The Company received an additional \$66,000 from Castex in March of 2003, which is included in the accompanying statement of income for the nine months ended September 30, 2003 as "Other Income".

## 6. EARNINGS PER SHARE

A reconciliation of the components of basic and diluted net income per common share is presented in the table below:

	For the Three Months Ended September 30,					
	Income	2004 Per Shares	Share	Income	2003 Shares	Per Share
<b>Basic:</b>						
Income before effect of change in accounting principle	\$ 1,206,000			\$ (98,000)		
Less: preferred stock dividends	-			-		
	1,206,000	14,603,088	\$ 0.08	(98,000)	10,146,566	\$ (0.01)
Effect of change in accounting principle	-	14,603,088	-	-	10,146,566	-
	\$ 1,206,000		\$ 0.08	\$ (98,000)		\$ (0.01)
<b>Effect of dilutive securities:</b>						
Stock options		112,480			205,101	
<b>Diluted:</b>						
Income before effect of change in accounting principle	\$ 1,206,000			\$ (98,000)		
Less: preferred stock dividends	-			-		
	1,206,000	14,715,568	\$ 0.08	(98,000)	10,351,667	\$ (0.01)
Effect of change in accounting principle	-	14,715,568	-	-	10,351,667	-
	\$ 1,206,000		\$ 0.08	\$ (98,000)		\$ (0.01)

	For the Nine Months Ended September 30,					
	2004			2003		
	Per					Per
	Income	Shares	Share	Income	Shares	Share
<b>Basic:</b>						
Income before effect of change in accounting principle	\$ 1,521,000			\$ 1,524,000		
Less: preferred stock dividends	-			(838,000)		
	1,521,000	11,648,398	\$ 0.13	686,000	10,146,566	\$ 0.07
Effect of change in accounting principle	-	11,648,398	-	270,000	10,146,566	0.02
	\$ 1,521,000		\$ 0.13	\$ 956,000		\$ 0.09
<b>Effect of dilutive securities:</b>						
Stock options		173,181			174,431	
<b>Diluted:</b>						
Income before effect of change in accounting principle	\$ 1,521,000			\$ 1,524,000		
Less: preferred stock dividends	-			(838,000)		
	1,521,000	11,821,579	\$ 0.13	686,000	10,320,997	\$ 0.07
Effect of change in accounting principle	-	11,821,579	-	270,000	10,320,997	0.02
	\$ 1,521,000		\$ 0.13	\$ 956,000		\$ 0.09

Common stock equivalents not included in the calculation of 2004 and 2003 diluted earnings per share above consists of 2,322,893 warrants issued in connection with the Company's Private Placement Offering which took place during March 2002 as discussed in Note 8. Also not included in the calculation of 2004 and 2003 diluted earnings per share are 108,625 warrants issued in connection with the Company's revolving line of credit with Gulfport Funding, which was retired during March 2002. These potential common shares were not considered in the calculation due to their anti-dilutive effect during the periods presented.

## 7. COMMITMENTS

### Plugging and Abandonment Funds

In connection with the acquisition of the remaining 50% interest in the WCBB properties, the Company assumed the seller's obligation to contribute approximately \$18,000 per month through March 2004, to a plugging and abandonment trust and the obligation to plug a minimum of 20 wells per year for 20 years commencing March 11, 1997. ChevronTexaco retained a security interest in production from these properties until abandonment obligations to ChevronTexaco have been fulfilled. Beginning in 2007, the Company can access the trust for use in plugging and

abandonment charges associated with the property.

As of September 30, 2004, the plugging and abandonment trust totaled approximately \$2,814,000, including interest received during 2004 of approximately \$10,000. The Company has plugged 132 wells at WCBB since it began its plugging program in 1997 and is current in its funding and plugging obligations.

## 8. PRIVATE PLACEMENT OFFERING

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### GULFPORT ENERGY CORPORATION NOTES TO FINANCIAL STATEMENTS (Unaudited)

In March 2002, the Company commenced a private placement offering of 10,000 units. Each unit consisted of (i) one share of Cumulative Preferred Stock, Series A, of the Company (Preferred) and (ii) a warrant to purchase up to 250 shares of common stock, par value \$0.01 per share, of the Company. Holders of the Preferred are entitled to receive dividends at the rate of 12% of the liquidation preference per annum payable quarterly in cash or, at the option of the Company for all quarters ending on or prior to March 31, 2004, payable in whole or in part in additional shares of Preferred at the rate of 15% of the liquidation preference per annum. To the extent funds are legally available, the Company is obligated to declare and pay the dividends on the Preferred. The Preferred may be redeemed at any time for an amount per share equal to \$1,000 and all accrued and unpaid dividends thereon, whether or not declared or payable, and must be redeemed on March 29, 2007 for an amount per share equal to \$1,000 and all accrued and unpaid dividends thereon, whether or not declared or payable. Accordingly, the Preferred issued in connection with this Offering is treated as redeemable stock and a liability on the Company's balance sheet. The affirmative vote of at least two thirds of the votes entitled to be cast by holders of the Preferred is necessary for any amendment to the certificate of incorporation which (1) adversely affects the rights and privileges of the Preferred or (2) creates or authorizes an increase in any shares ranking senior to the Preferred or securities convertible into the foregoing. The Preferred cannot be sold or transferred by its holders, subject to certain exceptions.

The Warrants have a term of ten years and an exercise price of \$1.20 per share of common stock subject to adjustment. The Company granted to holders of the Warrants certain demand and piggyback registration rights with respect to shares of common stock issuable upon exercise of the warrants.

The Preferred offering was made available to stockholders (some of whom were affiliates) of the Company as of December 31, 2001 who were accredited investors. Purchasers were able to participate up to their pro rata share of ownership in the Company as of December 31, 2001. As of April 15, 2002, the Company had closed on subscriptions totaling \$9,292,000 for 9,291.85 units, which included the conversion by Gulfport Funding, LLC of its \$3,000,000 loan along with the accumulated interest due from the Company for 3,262.98 units. Additionally, multiple entities controlled by the Company's majority stockholder participated in the offering by subscribing for 2,738 units at a cost of \$2,738,000.

## 9. DIVIDENDS ON SERIES A PREFERRED STOCK

As discussed in Note 8, the Company may, at its option, accrue additional shares of Preferred Stock for the payment of dividends at a rate of 15% per annum rather than accrue cash dividends at a rate of 12% per annum during the initial two years following the closing date of its Offering which expired on March 31, 2004. Effective April 1, 2004,



as a result of the amendment discussed below, the Company will continue to accrue additional shares of Preferred Stock for payment of dividends. As a result, the Company has issued additional shares totaling \$1,431,000 for the nine-month period ended September 30, 2004, related to the Preferred Stock Series A shares issued and outstanding during that time period. These dividends were calculated based upon the Preferred's \$1,000 per share redemptive value and are reflected as "Series A preferred stock" in the accompanying balance sheet. As a result of the adoption of SFAS 150, the dividends issued as additional shares for the three and nine month periods ended September 30, 2004 are shown as "Interest expense - preferred stock" in the accompanying statement of income.

In April 2004, the Board of Directors of the Company approved and the Company received the consent of holders of the requisite number of shares of Preferred to amend the Company's Certificate of Designation with respect to the Series A preferred stock to give the Company the ability to pay dividends on the Series A preferred stock with additional shares of Series A preferred stock after March 31, 2004, for so long as such shares remain outstanding and prior to the mandatory redemption date.

#### 10. 2004 RIGHTS OFFERING

On July 22, 2004, the Company launched its rights offering of common stock subscription rights to purchase up to an aggregate of 10,000,000 shares of its Common Stock at a subscription price of \$1.20 per share. Rights to purchase all 10,000,000 shares of Common Stock were exercised in the rights offering, which expired on August 20, 2004. The offering was completed pursuant to a Registration Statement on Form SB-2, File No. 333-115396, which was declared effective by the SEC in July 2004. The Company received net cash proceeds of

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approximately \$11.1 million from the rights offering after deducting offering expenses of approximately \$.12 million. In addition, CD Holding, one of the Company's principal stockholders, elected to apply the outstanding principal balance amount and accrued but unpaid interest in the aggregate amount of \$510,547 under its revolving credit facility with the Company to the subscription price payable by CD Holding upon exercise of the rights issued to it in the rights offering. In addition, CD Holding had agreed, subject to certain conditions, to back-stop the rights offering for a commitment fee of 2% of the gross proceeds from the rights offering, which, at the option of CD Holding, was also applied to the subscription price payable upon exercise of the rights issued to it in the rights offering. The net cash proceeds from the rights offering were or will be used to fund the Company's seismic and drilling programs at WCBB and East Hackberry Field and to repay in full the outstanding principal balance of approximately \$2,200,000 on the Company's line of credit with the Bank of Oklahoma.

Borrowings under the bridge loan from CD Holding were used to fund in part the Company's 2004 drilling program and were due on the earlier of the closing of the rights offering or August 1, 2005 and bore interest at the rate of 10.0% per annum. The credit facility provided that if the rights offering was not completed, CD Holding had the right to convert any borrowings plus any accrued but unpaid interest under the facility into shares of our common stock at a conversion price equal to \$1.20 per share. Under the credit facility, CD Holding had the option to apply the outstanding principal amount and any accrued but unpaid interest either (1) to the subscription price payable upon exercise of the rights issued to CD Holding in the rights offering, or (2) to the purchase price for the Common Stock.

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FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Disclosure Regarding Forward-Looking Statements

This Form 10-QSB includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts, included in this Form 10-QSB that address activities, events or developments that Gulfport Energy Corporation ("Gulfport" or the "Company"), a Delaware corporation, formerly known as WRT Energy Corporation ("WRT"), expects or anticipates will or may occur in the future, including such things as estimated future net revenues from oil and gas reserves and the present value thereof, future capital expenditures (including the amount and nature thereof), business strategy and measures to implement strategy, competitive strength, goals, expansion and growth of Gulfport's business and operations, plans, references to future success, reference to intentions as to future matters and other such matters are forward-looking statements. These statements are based on certain assumptions and analyses made by Gulfport in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with Gulfport's expectations and predictions is subject to a number of risks and uncertainties, general economic, market, or business conditions; the opportunities (or lack thereof) that may be presented to and pursued by Gulfport; competitive actions by other oil and gas companies; changes in laws or regulations; and other factors, many of which are beyond the control of Gulfport. Consequently, all of the forward-looking statements made in this Form 10-QSB are qualified by these cautionary statements and there can be no assurances that the actual results or developments anticipated by Gulfport will be realized, or even if realized, that they will have the expected consequences to or effects on Gulfport, its business or operations. We have no intention, and disclaim any obligation, to update or revise any forward looking statements, whether as a result of new information, future results or otherwise.

The following discussion is intended to assist in an understanding of the Company's financial position as of September 30, 2004 and its results of operations for the three and nine month periods ended September 30, 2004 and 2003. The Financial Statements and Notes included in this report contain additional information and should be referred to in conjunction with this discussion. It is presumed that the readers have read or have access to Gulfport Energy Corporation's 2003 annual report on Form 10-KSB.

### Overview

Gulfport is an independent oil and gas exploration and production company with properties located along the Louisiana Gulf Coast. As of January 1, 2004, the Company had 22 MMBOE of proved reserves with a present value of estimated future net reserves, discounted at 10%, of approximately \$210 million and associated standardized measure of discounted future net cash flows of approximately \$194 million.

The Company's operations are concentrated in two fields: West Cote Blanche Bay ("WCBB") and the Hackberry Fields.

### West Cote Blanche Bay

#### Background

The WCBB field lies approximately five miles off the coast of Louisiana primarily in St. Mary's Parish in a shallow bay, with water depths averaging eight to ten feet. Currently, Gulfport owns a 100% working interest (81.11% average NRI) and is the operator in the depths above the base of the 13,900 Sand which is located at 11,320 feet. In addition, Gulfport owns a 40.40% non-operated working interest (29.95% NRI) in depths below the base of the 13,900 Sand. ChevronTexaco is the operator below the base of the 13,900 Sand. Gulfport's leasehold at WCBB covers a

portion of Louisiana State Lease 340 and contains 5,668 gross acres. WCBB overlies one of the largest salt dome structures

in the Gulf Coast. The field is characterized by a piercement salt dome, which created traps from the Pleistocene through the Miocene. The relative movements affected deposition and created a complex system of fault traps. The compensating fault sets generally trend NW-SE and are intersected by sets having a major radial component. Later-stage movement caused extension over the dome and a large graben system (a downthrown area bounded by normal faults) was formed. There are over 100 distinct sandstone reservoirs recognized throughout most of the field and nearly 200 major and minor discrete intervals have been tested. Within almost 900 wellbores that have been drilled to date in the field, over 4,000 potential zones have been penetrated. The sands are highly porous and permeable reservoirs primarily with a strong water drive.

WCBB is a structurally and stratigraphically complex field. All of the Proved Undeveloped (PUD) locations at WCBB are adjacent to faults and abut at least one fault. Gulfport's PUD drilling program is designed to penetrate each PUD trap with a new wellbore in a structurally optimum position, usually very close to the fault seal. The majority of these wells are directionally drilled using steering tools and downhole motors. The tolerance for error in getting near the fault is low, so the complex faulting does introduce a risk factor of crossing the fault before encountering the zone of interest, which could result in part or all of the zone being absent in the borehole. This, in turn, can result in lower than expected or zero reserves for that zone. The new wellbores eliminate the mechanical risk associated with trying to produce the zone from an old existing wellbore, while the wellbore locations are situated so as to more efficiently drain each reservoir. The vast majority of the PUD targets are up-dip offsets to wells which produced from a sub-optimum position within a particular zone. Gulfport's inventory of prospects includes 137 PUD wells. The drilling schedule used in the reserve report anticipates that all of those wells will be drilled by 2011. Gulfport commenced drilling 8 wells during July 2004.

As of September 30, 2004, there have been 885 wells drilled at WCBB, and of these 41 are currently producing, 285 are shut-in and 5 are utilized as salt water disposal wells. The balance of the wells (or 554) have been plugged and abandoned.

For the three months ended September 30, 2004, Gulfport's net daily production in this field averaged 1,268 barrels of oil.

#### Recent Activity

In July 2004 Gulfport commenced an eight well drilling program at WCBB with a 100% success rate. The logs of the eight wells indicate a total of 38 productive horizons with 678 feet of net pay. The total gross initial production rates for the eight wells was 784 barrels of oil per day and 2,418 mcf of gas per day.

In addition, the Company also recompleted four existing wells at WCBB which had total initial gross production rates of 480 barrels of oil per day and 742 mcf of gas per day.

#### Future Activity

Gulfport is in the process of permitting six additional wells to be drilled at West Cote Blanche Bay, including one sidetrack, with a planned initial spud date of March 2005.

The Company also plans on converting a well that is currently inactive to a salt water disposal well for the field during 2005.

Gulfport began a five well workover and eight well recompletion program in the November of 2004. The Company also plans to workover and recomplete six to ten wells during the first quarter of 2005.

## Hackberry Fields

### Background

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The Hackberry fields are located along the shore of Lake Calcasieu in Cameron Parish, Louisiana. The Hackberry Field is a major salt intrusive feature, elliptical in shape as opposed to a classic "dome," divided into East and West field entities by a saddle. Structurally, Gulfport's East Hackberry acreage is located on the eastern end of the Hackberry salt ridge. There are over 30 pay zones at this field. The salt intrusion formed a series of structurally complex and steeply dipping fault blocks in the Lower Miocene and Oligocene age rocks. These fault blocks serve as traps for hydrocarbon accumulation. Gulfport's wells currently produce from perforations found between 5,100 feet and 12,200 feet.

The East Hackberry field was discovered in 1926 by Gulf Oil Company (now ChevronTexaco Corporation) by a gravitational anomaly survey. The massive shallow salt stock presented an easily recognizable gravity anomaly indicating a productive field. Initial production began in 1927 and has continued to the present. The estimated cumulative oil and condensate production through 2003 was 111 million barrels of oil with casinghead gas production being 60 billion cubic feet of gas. There have been a total of 170 wells drilled on Gulfport's portion of the field with 13 having current daily production; five produce intermittently; 72 wells are shut-in and four wells have been converted to salt water disposal wells. The remaining 76 wells have been plugged and abandoned.

At West Hackberry, the first discovery well was drilled in 1938 and was developed by Superior Oil Company (now ExxonMobil Corporation) between 1938 and 1988. The estimated cumulative oil and condensate production through 2003 was 170 million barrels of oil with casinghead gas production of 120 billion cubic feet of gas. There have been 36 wells drilled to date on Gulfport's portion of West Hackberry and currently one is producing, 26 are shut-in and one well has been converted to a saltwater disposal well. The remaining eight wells have been plugged and abandoned.

Total net production per day for both Hackberry fields was 229 barrels of oil for the three-month period ended September 30, 2004.

### Future Activity

The Gulfport technical staff continues its effort to identify additional drilling, workover and recompletion candidates at East Hackberry. During late 2004, Gulfport intends to begin shooting a 43 square mile 3-D seismic survey in the East Hackberry Field at an approximate cost of \$4.5 million to allow us to undertake drilling in that field. The seismic will be paid for with proceeds raised in the rights offering. Gulfport intends to image shallow horizons at depths of approximately 5,000 feet to 7,000 feet, and image steeply dipping targets as deep as 15,000 feet.

### Castex Back-In

Gulfport sold its interest in the Bayou Penchant, Bayou Pigeon, Deer Island and Golden Meadow fields to Castex Energy 1996 Limited Partnership (Castex) effective April 1, 1998 subject to a 25% reversionary interest in the partnership after Castex had received 100% of the initial investment. Castex informed Gulfport that the investment had paid out effective September 1, 2001. In lieu of a 25% interest in the partnership, Gulfport elected to take a

proportionately reduced 25% working interest in the properties. During March 2002, the Company received approximately \$220,000 from Castex which the Company believes consists of sales income for the period after payout net of operating expenses, although the Company has not received confirmation of such. The Company received an additional \$66,000 from Castex in March of 2003, which is included in the accompanying statement of income for the nine months ended September 30, 2003 as "Other Income".

### Third Quarter Highlights

- Proposed Sale of Assets - Late in 2003, the Company hired Petrie Parkman & Co. to assist in a possible sale of WCBB. As of the date of this filing, no sale is pending.
- Rights Offering - On July 22, 2004, the Company launched its rights offering of common stock subscription rights to purchase up to an aggregate of 10,000,000 shares of its Common Stock at a subscription price of \$1.20 per share. Rights to purchase all 10,000,000 shares of Common Stock were exercised in the rights offering, which expired on August 20, 2004. The Company received net cash proceeds of approximately \$11.1 million, after deducting offering expenses of approximately \$.12 million from the rights offering. In addition, \$510,547 of the amount owed to CD Holding was applied to the subscription price payable upon exercise of the rights issued to CD Holding in the rights offering.

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· 2004 Drilling Program and Recompletions - In July 2004 Gulfport initiated an eight well drilling program at West Cote Blanche Bay. The wells ranged in depth from approximately 2,500 feet to 9,900 feet; all with multiple production horizon targets. The drilling program had a 100% success rate. The logs of the eight wells indicate a total of 38 productive horizons with 678 feet of net pay. The total gross initial production rates for the eight wells was 784 barrels of oil per day and 2,418 mcf of gas per day.

In addition, the Company also recompleted four existing wells at WCBB which had total initial gross production rates of 480 barrels of oil per day and 742 mcf of gas per day.

## RESULTS OF OPERATIONS

### Comparison of the Three Months Ended September 30, 2004 and 2003

Gulfport reported net income attributable to common stock of \$1,206,000 for the three months ended September 30, 2004, as compared with a net loss attributable to common stock of \$98,000 for the three months ended September 30, 2003. The increase in income attributable to common stock was primarily due to an increase in oil and gas prices.

Oil and Gas Revenues. For the three months ended September 30, 2004, Gulfport reported oil and gas revenues of \$5,380,000, a 36% increase from revenues of \$3,955,000 during the same period in 2003. This increase in revenues is attributable to a 48% increase in the average oil price received for the three months ended September 30, 2004 of \$38.26 as compared to \$25.79 for the same period in 2003. This was slightly offset by a 8% decrease in barrels of oil equivalents ("BOE s") produced to 143 BOE for the three months ended September 30, 2004 as compared to 155 BOE for the same period in 2003. This decrease in production was due mainly to natural production declines. Most of the production from the Company s drilling program initiated in July 2004, was not realized until the beginning of the fourth quarter.

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The following table summarizes the Company's oil and gas production and related pricing for the three months ended September 30, 2004 and 2003:

	Three Months Ended	
	September 30,	
	2004	2003
Oil production volumes (MBbls)	137	150
Gas production volumes (Mmcf)	36	31
Average oil price (per Bbl)	\$ 38.26	\$ 25.79
Average gas price (per Mcf)	\$ 3.81	\$ 3.18

Operating Expenses. Lease operating expenses not including production taxes decreased to \$1,478,000 for the three months ended September 30, 2004 as compared to \$1,581,000 for the same period in 2003. This 7% decrease was due primarily to a reduction in non-capitalized LOE workovers performed during the period.

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Production Taxes. Production taxes increased to \$629,000 for the three months ended September 30, 2004 as compared to \$560,000 for the same period in 2003. This increase was directly related to the increases in oil and gas sale proceeds for the three months ended September 30, 2004 as compared to the same period in 2003.

General and Administrative Expenses. Net general and administrative expenses decreased to \$261,000 for the three months ended September 30, 2004 from \$385,000 for the same period in 2003. This decrease was due primarily to increased general administrative reimbursements from entities that have similar controlling interests as those controlling the Company.

Interest Expense. Ordinary interest expense increased to \$23,000 for the three months ended September 30, 2004 from \$9,000 for the same period in 2003. This increase was due to an increase in the average debt outstanding for the three months ended September 30, 2004 as compared to the same period in 2003.

Interest Expense - Preferred Offering. In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or as an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 is generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Previously, the Series A Preferred Stock had been classified on the balance sheet between total liabilities and equity. As of September 30, 2004, the amount of the Company's liability related to the Series A Preferred Stock was \$13,502,000. As a result of the adoption of SFAS No. 150 in May 2003, the balance of the liability related to the Series A Preferred Stock includes \$499,000 of interest expense for the three months ended September 30, 2004, which the Company paid by issuing additional shares of Series A preferred stock in lieu of cash.

Other changes in income for the three months ended September 30, 2004 as compared to the three months ended September 30, 2003 were attributable to the following factors:

Depreciation, Depletion and Amortization. Depreciation, depletion and amortization expense increased to \$1,207,000 for the three months ended September 30, 2004. This consists of \$1,137,000 in depletion on oil and gas properties and \$70,000 in depreciation of other property and equipment. This compares to total depreciation, depletion and amortization expense of \$1,057,000 for the three months ended September 30, 2003. This increase is due primarily to an increase in the Company's oil and gas assets and a reduction of barrels due to engineering revisions in the reserve report dated January 1, 2004.

Income Taxes. As of September 30, 2004, the Company had a net operating loss carryforward of approximately \$98,000,000, in addition to numerous timing differences which gave rise to a deferred tax asset of approximately \$45,000,000, which was fully reserved by a valuation allowance at that date. Utilization of net operating loss carryforwards and other timing differences will be recognized as a reduction in income tax expense in the year utilized. A current tax provision of \$682,000 was provided for the three-month period ended September 30, 2004.

Cumulative Effect of Accounting Change. On January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"), which requires the Company to record a liability equal to the fair value of the estimated cost to retire an asset. The asset retirement liability is recorded in the period in which the obligation meets the definition of a liability, which is generally when the asset is placed into service. When the liability is initially recorded, the Company will increase the carrying amount of the related long-lived asset by an amount equal to the original liability. The liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related long-lived asset. Any difference between costs incurred upon settlement of an asset retirement obligation and the recorded liability will be recognized as a gain or loss in the Company's earnings. The asset retirement obligation is based on a number of assumptions requiring professional judgment. The Company cannot predict the type of revisions to these assumptions that will be required in future periods due to the availability of additional information, including prices for oil field services, technological changes, governmental requirements and other factors. For the three months ended March 31, 2003 and upon adoption of SFAS No. 143, the Company recorded a net benefit of \$.27 million as the cumulative effect of a change in accounting principle. The non-cash transition adjustment increased oil and natural gas properties and asset retirement obligations by \$7.59 million and \$7.37 million, respectively, and decreased accumulated depreciation by \$.05 million.

#### Comparison of the Nine Months Ended September 30, 2004 and 2003

Gulfport reported net income attributable to common stock of \$1,521,000 for the nine months ended September 30, 2004, as compared with net income attributable to common stock of \$956,000 for the nine months ended September 30, 2003. The increase in income attributable to common stock was primarily due to increases in oil and gas prices.

Oil and Gas Revenues. For the nine months ended September 30, 2004, Gulfport reported oil and gas revenues of \$14,327,000, a 15% increase from revenues of \$12,463,000 during the same period in 2003. This increase in revenues is attributable to a 28% increase in the average oil price received for the nine months ended September 30, 2004 of \$34.87 as compared to \$27.13 for the same period in 2003. This was slightly offset by a 10% decrease in barrels of oil equivalents ("BOEs") produced to 416 BOE for the nine months ended September 30, 2004 as compared to 463 BOE for the same period in 2003. This decrease in production was due mainly to natural production declines as well slight additional declines from the high initial production rates during the nine months ended September 30, 2003 attributable to the higher initial production rates from the Company's drilling program which began in December 2002.

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The following table summarizes the Company's oil and gas production and related pricing for the nine months ended September 30, 2004 and 2003:

	Nine Months Ended September 30,	
	2004	2003
Oil production volumes (MBbls)	403	446
Gas production volumes (Mmcf)	73	97
Average oil price (per Bbl)	\$ 34.87	\$ 27.13
Average gas price (per Mcf)	\$ 3.63	\$ 3.58

Operating Expenses. Lease operating expenses not including production taxes remained constant at \$4,400,000 for the nine months ended September 30, 2004 as compared to \$4,395,000 for the same period in 2003.

Production Taxes. Production taxes increased to \$1,667,000 for the nine months ended September 30, 2004 as compared to \$1,515,000 for the same period in 2003. This increase was directly related to the increases in oil and gas sale proceeds for the nine months ended September 30, 2004 as compared to the same period in 2003.

General and Administrative Expenses. Net general and administrative expenses increased to \$1,526,000 for the nine months ended September 30, 2004 from \$1,346,000 for the same period in 2003. This increase was due primarily to a \$84,000 increase in the Company's reserve engineering costs related to evaluations done in conjunction with the potential WCBB sale and an increase of \$95,000 in legal expenses.

Interest Expense. Ordinary interest expense increased to \$171,000 for the nine months ended September 30, 2004 from \$29,000 for the same period in 2003. This increase was due to an increase in the average debt outstanding for the nine months ended September 30, 2004 as compared to the same period in 2003.

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Interest Expense - Preferred Offering. In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or as an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 is generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Previously, the Series A Preferred Stock had been classified on the balance sheet between total liabilities and equity. As of September 30, 2004, the amount of the Company's liability related to the Series A Preferred Stock was \$13,502,000. As a result of the adoption of SFAS No. 150 in May 2003, the balance of the liability related to the Series A preferred stock includes \$1,431,000 of interest expense for the nine months ended September 30, 2004, which the Company paid by issuing additional shares of Series A preferred stock in lieu of cash.

Other changes in income for the nine months ended September 30, 2004 as compared to the nine months ended September 30, 2003 were attributable to the following factors:

Depreciation, Depletion and Amortization. Depreciation, depletion and amortization expense increased to \$3,494,000 for the nine months ended September 30, 2004, consisting of \$3,306,000 in depletion on oil and gas properties and \$188,000 in depreciation of other property and equipment. This compares to total depreciation, depletion and



amortization expense of \$3,184,000 for the nine months ended September 30, 2003. This increase is due primarily to an increase in the Company's oil and gas assets and a reduction of barrels due to engineering revisions in the reserve report dated January 1, 2004.

**Income Taxes.** As of September 30, 2004 the Company had a net operating loss carryforward of approximately \$98,000,000, in addition to numerous timing differences which gave rise to a deferred tax asset of approximately \$45,000,000, which was fully reserved by a valuation allowance at that date. Utilization of net operating loss carryforwards and other timing differences will be recognized as a reduction in income tax expense in the year utilized. A current tax provision of \$1,181,000 was provided for the nine-month period ended September 30, 2004.

**Cumulative Effect of Accounting Change.** For the three months ended March 31, 2003 and upon adoption of SFAS No. 143, the Company recorded a net benefit of \$.27 million as the cumulative effect of a change in accounting principle. The non-cash transition adjustment increased oil and natural gas properties and asset retirement obligations by \$7.59 million and \$7.37 million, respectively, and decreased accumulated depreciation by \$.05 million.

#### Capital Expenditures, Capital Resources and Liquidity

Net cash flow provided by operating activities for the nine months ended September 30, 2004 was \$6,427,000, as compared to net cash flow provided by operating activities of \$9,059,000 for the same period in 2003. This decrease was mainly due to the collection during 2003 of an insurance settlement in the amount of \$2,510,000 related to damage to the WCBB facility caused by Hurricane Lili (an additional \$1,000,000 advance had been paid to the Company during 2002) and an increase of account receivables at September 30, 2004.

Net cash used in investing activities for the nine months ended September 30, 2004 was \$11,765,000 as compared to \$10,155,000 used during the same period in 2003. Mainly as a result of the Company's drilling programs initiated in December 2002, the Company spent \$9,252,000 in additions to oil and gas properties in the first nine months of 2003. For the same period in 2004, Gulfport spent \$7,924,000 in additions to oil and gas properties of which \$4,819,000 was spent on the Company's 2004 drilling program initiated in July 2004 with the remainder spent on workover and recompletion activities on existing wells. Of the remaining \$3,841,000 net cash used in investing activities, \$3,700,000 was used to purchase the building the Company currently occupies. Gulfport financed its capital expenditures with cash flow provided by operations, borrowings on its credit facilities and proceeds from the rights offering.

Net cash provided by financing activities for the nine months ended September 30, 2004 was \$12,781,000 as compared to \$1,483,000 provided by financing activities for the same period in 2003. The \$12,781,000 provided by financing activities includes (1) net cash proceeds of approximately \$11.1 million from the rights offering after deducting offering expenses of approximately \$.12 million; (2) the issuance of notes with a combined original principal amount of \$3,389,000 to finance the purchase the office building the Company occupies and (3) borrowings of \$500,000 under our credit facility with CD Holding which was used to purchase a portion of the pipe needed for the wells to be drilled in the Company's 2004 drilling program. Approximately \$2,200,000 was used to pay off the outstanding balance of the Company's line of credit with Bank of Oklahoma and CD Holding elected to apply the outstanding principal balance amount and accrued but unpaid interest in the amount of \$510,547 under its bridge loan to the Company to the subscription price payable by CD Holding upon exercise of the rights issued to it in the rights offering.

Capital Resources. In addition to cash generated by operating activities primarily related to funds from our producing oil and gas properties, our main capital resources are derived from the issuance of equity securities and borrowings under our bank and other credit facilities.

Credit Facilities. On June 20, 2002, the Company entered into a line of credit with the Bank of Oklahoma. Under the terms of the agreement, the Company was extended a commitment to borrow up to \$2,300,000. Amounts borrowed under the line bear interest at the prime rate charged from time to time by JPMorgan Chase plus 1%, with payments of interest on outstanding balances due monthly. On July 1, 2003, the Company renewed this line of credit and extended the maturity date to July 1, 2004. The Company subsequently extended the maturity date of this credit facility to July 1, 2005. There was no outstanding balance under this credit facility at September 30, 2004.

In connection with the rights offering, on April 30, 2004, the Company entered into a \$3.0 million revolving credit facility with CD Holding, L.L.C., a principal stockholder of the Company. Borrowings under the credit facility were due on the earlier of the closing of the rights offering or August 1, 2005 and bear interest at the rate of 10.0% per annum. The credit facility provided that if the rights offering was not completed, CD Holding had the right to convert any borrowings plus any accrued but unpaid interest under the facility into shares of our common stock at a conversion price equal to \$1.20 per share. Under the credit facility, CD Holding had the option to apply the outstanding principal amount and any accrued but unpaid interest either (1) to the subscription price payable upon exercise of the rights issued to CD Holding in the rights offering, or (2) to the purchase price for the Common Stock. Upon closing of the rights offering, \$500,000 had been borrowed on the facility to fund a part of the Company's 2004 drilling program. CD Holding applied all amounts due it under this credit facility to the exercise price payable upon exercise of rights it received in the rights offering.

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Issuance of Equity. On July 22, 2004, the Company launched its rights offering of common stock subscription rights to purchase up to an aggregate of 10,000,000 shares of its Common Stock at a subscription price of \$1.20 per share. Rights to purchase all 10,000,000 shares of Common Stock were exercised in the rights offering, which expired on August 20, 2004. The Company received net cash proceeds of approximately \$11.1 million from the rights offering after deducting offering expenses of approximately \$.12 million. In addition, CD Holding, one of the Company's principal stockholders, elected to apply the outstanding principal balance amount and accrued but unpaid interest in the aggregate amount of \$510,547 under its revolving credit facility to the Company to the subscription price payable by CD Holding upon exercise of the rights issued to it in the rights offering. CD Holding had agreed subject to certain conditions, to back-stop the rights offering for a commitment fee of 2% of the gross proceeds from the rights offering, which, at the option of CD Holding, was also applied to the subscription price payable upon exercise of the rights issued to it in the rights offering. The net cash proceeds from the rights offering were and will be used to fund the Company's seismic and drilling programs at WCBB and East Hackberry Field and to repay in full the outstanding principal balance of approximately \$2,200,000 on the Company's line of credit with the Bank of Oklahoma.

Late in 2003, the Company hired Petrie Parkman & Co. to assist in a possible sale of its WCBB field. As of the date of this filing, no sale is pending.

Liquidity and Capital Expenditures. Historically, our primary sources of funds have been cash flow from our producing oil and gas properties, the issuance of equity securities, borrowings under our bank and other credit facilities and, from time to time, the sale of oil and gas properties. Our ability to access any of these sources of funds can be significantly impacted by unexpected decreases in oil and natural gas prices. To mitigate the effects of dramatic commodity price fluctuations, we have entered into fixed price contracts for the WCBB production as follows:

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October-December 2004	1,000 bbls @ day \$33.60
January - June 2005	1,000 bbls @ day \$33.10
July - December 2005	1,000 bbls @day \$39.70

The primary capital commitments faced by the Company are the capital requirements needed to continue developing the Company's proved reserves and obligations under Gulfport's credit facilities and its outstanding Series A preferred stock.

Gulfport's strategy is to continue to increase cash flows generated by its properties by undertaking new drilling, workover, sidetrack and recompletion projects in the fields to exploit its reserves. The Company has upgraded its infrastructure by enhancing its existing facilities to increase operating efficiencies, increase volume capacities and lower lease operating expenses. Additionally, Gulfport completed the reprocessing of its 3-D seismic data in its principal property, WCBB. The reprocessed data will continue to enable the Company's geophysicists to generate new prospects and enhance existing prospects in the intermediate zones in the field, thus creating a portfolio of new drilling opportunities.

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In Gulfport's January 1, 2004 reserve report, 91% of Gulfport's net reserves were categorized as proved undeveloped. The proved reserves of Gulfport will generally decline as reserves are depleted, except to the extent that Gulfport conducts successful exploration or development activities or acquires properties containing proved developed reserves, or both. To realize reserves and increase production, the Company must continue its exploratory drilling, undertake other replacement activities or utilize third parties to accomplish those activities.

Gulfport's inventory of prospects includes 137 proved undeveloped (PUD) wells at WCBB. The drilling schedule used in the reserve report anticipates that all of those wells will be drilled by 2011. In July 2004, Gulfport commenced an eight well drilling program at WCBB at an estimated cost of \$7.7 million. In addition, the Company recently recompleted four existing wells at WCBB.

Late in 2004, Gulfport began the process of shooting 3-D seismic at East Hackberry Field at an estimated total cost of approximately \$4.5 million, most of which will be expended in 2005.

On June 28, 2004, the Company purchased the office building it occupies in Oklahoma City, Oklahoma for \$3,700,000. The building contains approximately 24,823 total rentable square feet. Immediately upon the closing, the Company gained access to an additional 3,000 square feet with the remaining space to be leased for approximately 12 months by the existing tenant/owner. At the end of the twelve-month period, the Company will either occupy or sub-lease any unused space.

The Company intends to use cash flows from operations and the net proceeds from the rights offering to meet its capital expenditure, debt repayment and other financial obligations during 2004 and 2005.

### COMMITMENTS

#### Plugging and Abandonment Funds

In connection with the acquisition of the remaining 50% interest in the WCBB properties, the Company assumed the seller's obligation to contribute approximately \$18,000 per month through March 2004, to a plugging and abandonment trust and the obligation to plug a minimum of 20 wells per year for 20 years commencing March 11,

1997. ChevronTexaco retained a security interest in production from these properties until these abandonment obligations have been fulfilled. Beginning in 2007, the Company can access the trust for use in plugging and abandonment charges associated with the property. As of September 30, 2004, the plugging and abandonment trust totaled approximately \$2,814,000, including interest received during the nine months ended September 30, 2004 of approximately \$10,000. The Company has plugged 132 wells at WCBB since it began its plugging program in 1997 and is current in its funding and plugging obligations.

In addition, the Company has letters of credit totaling \$200,000 secured by certificates of deposit being held for plugging costs in the East Hackberry field. Once specific wells are plugged and abandoned, the \$200,000 will be returned to the Company.

### ITEM 3. CONTROLS AND PROCEDURES

Gulfport Energy Corporation, under the direction of the Chief Executive Officer and the Vice President and Chief Financial Officer, has established disclosure controls and procedures that are designed to ensure that information required to be disclosed by Gulfport in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The disclosure controls and procedures are also intended to ensure that such information is accumulated and communicated to Gulfport's management, including the Chief Executive Officer and the Vice President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

As of September 30, 2004, an evaluation was performed under the supervision and with the participation of Gulfport management, including the Chief Executive Officer and the Vice President and Chief Financial Officer, of the effectiveness of the design and operation of Gulfport's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934. Based upon their evaluation, the Chairman and Chief Executive Officer and the Vice President and Chief Financial Officer have concluded that as of September 30, 2004, Gulfport's disclosure controls and procedures are effective. In compliance with Rule 13a-14 promulgated under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, each of these officers executed a Certification attached as an exhibit to this Form 10-QSB.

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There have not been any significant changes in Gulfport's internal controls over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Gulfport has been named as a defendant in various lawsuits. The ultimate resolution of these matters is not expected to have a material adverse effect on the Company's financial condition or results of operations for the periods presented in the financial statements.

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

(a) None

(b) On July 22, 2004, the Company launched its rights offering of common stock subscription rights to purchase up to an aggregate of 10,000,000 shares of its Common Stock at a subscription price of \$1.20 per share. Rights to purchase all 10,000,000 shares of Common Stock were exercised in the rights offering, which expired on August 20, 2004. The offering was completed pursuant to a Registration Statement on Form SB-2, File No. 333-115396, which was declared effective by the SEC in July 2004. The Company received net cash proceeds of approximately \$11.1 million from the rights offering after deducting offering expenses of approximately \$.12 million. In addition, CD Holding, one of the Company's principal stockholders, elected to apply the outstanding principal balance amount and accrued but unpaid interest in the aggregate amount of \$510,547 under its revolving credit facility to the subscription price payable by CD Holding upon exercise of the rights issued to it in the rights offering. In addition, CD Holding had agreed subject to certain conditions, to back-stop the rights offering for a commitment fee of 2% of the gross proceeds from the rights offering, which, at the option of CD Holding, was also applied to the subscription price payable upon exercise of the rights issued to it in the rights offering. The net cash proceeds from the rights offering were or will be used to fund the Company's seismic and drilling programs at WCBB and East Hackberry Field and to repay in full the outstanding principal balance of approximately \$2,200,000 on the Company's line of credit with the Bank of Oklahoma.

Borrowings under the bridge loan from CD Holding were used to fund in part the Company's 2004 drilling program and were due on the earlier of the closing of the rights offering or August 1, 2005 and bore interest at the rate of 10.0% per annum. The credit facility provided that if the rights offering was not completed, CD Holding had the right to convert any borrowings plus any accrued but unpaid interest under the facility into shares of our common stock at a conversion price equal to \$1.20 per share. Under the credit facility, CD Holding had the option to apply the outstanding principal amount and any accrued but unpaid interest either (1) to the subscription price payable upon exercise of the rights issued to CD Holding in the rights offering, or (2) to the purchase price for the Common Stock.

(c) Gulfport does not have a share repurchase program, and during the nine months ended September 30, 2004, Gulfport had not purchased any shares of its common stock.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

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None

### ITEM 5. OTHER INFORMATION

(a) None

(b) None

### ITEM 6. EXHIBITS

<u>Exhibit</u> <u>Number</u>	<u>Description</u>
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- 3.1 Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Form 10-Q filed December 1, 1997).
- 3.2 Amendment to Certificate of Incorporation changing name of corporation to Gulfport Energy Corporation (incorporated by reference to Exhibit 3.2 to Amendment No. 1 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on June 21, 2004)
- 3.3 Amendment to Certificate of Incorporation to increase the number of authorized shares of Common Stock from 50,000,000 to 250,000,000 (incorporated by reference to Exhibit 3.4 to Amendment No. 1 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on June 21, 2004).
- 3.4 Amendment to Certificate of Incorporation to effect a 50 to 1 reverse stock split of the issued and outstanding Common Stock (incorporated by reference to Exhibit 3.5 to Amendment No. 1 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on June 21, 2004).
- 3.5 Amendment to Certificate of Incorporation to reduce the number of authorized shares of Common Stock from 250,000,000 to 15,000,000 (incorporated by reference to Exhibit 3.6 to Amendment No. 1 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on June 21, 2004).
- 3.6 Amendment to Certificate of Incorporation to increase the number of shares of capital stock from 15,000,000 to 25,000,000 (incorporated by reference to Exhibit A to Information Statement filed on February 20, 2004).
- 3.7\* Certificate of Amendment, dated July 20, 2004, of the Restated Certificate of Incorporation to increase the number of shares of capital stock from 25,000,000 to 40,000,000.
- 3.8\* Certificate of Designations, Preferences and relative Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof of Cumulative Preferred Stock Series A, dated March 28, 2002.
- 3.9\* Certificate of Amendment, dated July 20, 2004, of the Certificate of Designations, Preferences and Relative Participating, Optional and Other special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof of cumulative Preferred Stock Series A.
- 4.1 Bylaws (incorporated by reference to Exhibit 3.2 to the Form 10-Q filed December 1, 1997).  
Form of Common Stock certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 2 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on July 22, 2004).

- 31.1\* Certification of Chief Executive Officer of the Registrant pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
- 31.2\*

Certification of Chief Financial Officer of the Registrant pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.

32.1\*

Certification of Chief Executive Officer of the Registrant pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.

32.2\*

Certification of Chief Financial Officer of the Registrant pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.

\* Filed herewith

#### SIGNATURES

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

GULFPORT ENERGY CORPORATION

Date: November 12, 2004

By: /s/ Mike Liddell

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Mike Liddell  
Chief Executive Officer

Date: November 12, 2004

By: /s/ Mike Moore

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Mike Moore  
Chief Financial Officer

