

CHINA NORTH EAST PETROLEUM HOLDINGS LTD
Form 10QSB/A
November 23, 2005

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

FORM 10-QSB/A

- QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended September 30, 2004**
- TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____**

Commission file number 0-49846

CHINA NORTH EAST PETROLEUM HOLDINGS LIMITED

(Exact name of small business issuer as specified in its charter)

Nevada
(State or other Jurisdiction of incorporation or organization)

87-0638750
(IRS Employer identification No.)

20337 Rimview Place, Walnut California
(Address of principal executive offices)

91789
(Zip code)

909-468-2840

(Issuer's Telephone Number, Including Area Code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of common stock outstanding as of November 30, 2004: 19,989,080

INDEX TO FORM 10-OSB/A

Page No.

PART I

Item 1. Financial Statements - Unaudited

| | |
|--|------|
| Condensed Consolidated Balance Sheet □ September 30, 2004 (Unaudited and Restated) | 1 |
| Condensed Statements of Operations - Three Months and Nine Months Ended September 30, 2004 (Consolidated) and Period From April 1, 2003 (Inception) to September 30, 2003 (Unaudited and Restated) | 2 |
| Condensed Statements of Cash Flows - Nine Months Ended September 30, 2004 (Consolidated) and Period From April 1, 2003 (Inception) to September 30, 2003 (Unaudited and Restated) | 3 |
| Notes to Condensed Consolidated Financial Statements | 4-10 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition And Results of Operations</u> | 11 |
| Item 3. <u>Controls and Procedures</u> | 12 |
| <u>PART II</u> | |
| Item 1. <u>Legal Proceedings</u> | 13 |
| Item 2. <u>Changes in Securities</u> | 13 |
| Item 3. <u>Defaults Upon Senior Securities</u> | 13 |
| Item 4. <u>Submission of Matters to a Vote of Security Holders</u> | 13 |
| Item 5. <u>Other Information</u> | 13 |
| Item 6. <u>Exhibits and Reports on Form 8-K</u> | 13 |

PART I

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-QSB to our Quarterly Report on Form 10-QSB for the quarter ended September 30, 2004, originally filed with the United States Securities and Exchange Commission (SEC) on December 2, 2004, is being filed for the purpose of restating our consolidated balance sheet as of September 30, 2004 and our consolidated statements of operations and statements of cash flows and related disclosures for the nine months ended September 30, 2004. See Note 11 to the Consolidated Financial Statements for a discussion of the restatement.

This Amendment No. 1 on Form 10-QSB has not been updated for events occurring after the filing of the original Quarterly Report on Form 10-QSB on December 2, 2004, except to reflect the restatement as described above.

The information set forth in the Company's Annual Report on Form 10-KSB reflects the information included in this restatement. Therefore, we have not amended our Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

The following selected consolidated financial data have been derived from our consolidated financial statements. All financial information set forth below reflects the restatement of our financial statements as discussed in Note 11 of the Notes to Consolidated Financial Statements. This data should be read in conjunction with the Consolidated Financial Statements and Notes thereto, and "Item 2, Management's Discussion and Analysis of

Financial Condition and Results of Operations."

Item 1. Financial Statements **Unaudited**

CHINA NORTH EAST PETROLEUM HOLDINGS LIMITED AND SUBSIDIARIES
Condensed Consolidated Balance Sheet
At September 30, 2004 (Unaudited and Restated)

ASSETS

| CURRENT ASSETS | As Restated |
|--|------------------|
| Cash and cash equivalents | \$ 935 |
| Other receivables and prepaid expenses | 87,299 |
| Total Current Assets | 88,234 |
| OIL AND GAS PROPERTIES, NET | 4,840,933 |
| FIXED ASSETS, NET | 224,463 |
| TOTAL ASSETS | 5,153,630 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | |
|--|---------------------|
| CURRENT LIABILITIES | |
| Accounts payable | \$ 494,134 |
| Other payables and accrued liabilities | 1,355,850 |
| Due to directors and stockholders | 2,360,212 |
| Income tax payable | 337,006 |
| Total Current Liabilities | 4,547,202 |
| COMMITMENTS AND CONTINGENCIES | - |
| STOCKHOLDERS' EQUITY | |
| Common stock, \$0.001 par value, 50,000,000 shares authorized, 19,989,080 shares issued and outstanding | 19,989 |
| Additional paid-in capital | 239,121 |
| Retained earnings | |
| Unappropriated | 347,318 |
| Total Stockholders' Equity | 606,428 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 5,153,630 |

The accompanying notes are an integral part of these condensed consolidated financial statements

-1-

CHINA NORTH EAST PETROLEUM HOLDINGS LIMITED AND SUBSIDIARIES
Condensed Statements of Operations

For the three months and nine months ended September 30, 2004 (Consolidated)
and period from
April 1, 2003 (Inception) to September 30, 2003 (Unaudited and Restated)

Period from
 Nine months

| | Three months ended September 30, | | ended | April 1, |
|---|----------------------------------|---------------|---------------|---|
| | 2004 | 2003 | September 30, | 2003 |
| | (As Restated) | (As Restated) | (As Restated) | (Inception) to September 30, 2003 (As Restated) |
| REVENUE | \$ 337,752 | \$ 179,754 | \$ 1,137,737 | \$ 253,404 |
| COST OF SALES | | | | |
| Production cost | 98,186 | 119,605 | 357,208 | 131,411 |
| Management fees paid | 6,755 | 3,595 | 22,755 | 5,068 |
| Resource tax | 2,194 | 2,227 | 8,375 | 2,227 |
| Depreciation and amortization | 8,600 | 85 | 32,749 | 105 |
| Total cost of sales | 115,735 | 125,512 | 421,087 | 138,811 |
| GROSS PROFIT | 222,017 | 54,242 | 716,650 | 114,593 |
| OPERATING EXPENSES | | | | |
| General and administrative expenses | 13,827 | 45,392 | 122,407 | 80,195 |
| Consulting fee | 99,900 | - | 280,262 | - |
| Depreciation and amortization | 7,670 | 2,397 | 18,875 | 2,541 |
| Total Operating Expenses | 121,397 | 47,789 | 421,544 | 82,736 |
| INCOME FROM OPERATIONS | 100,620 | 6,453 | 295,106 | 31,857 |
| OTHER INCOME (EXPENSE) | | | | |
| Other expenses | (1) | - | (1,450) | (4) |
| Interest expense | (35,085) | - | (59,210) | - |
| Interest income | 78 | 234 | 85 | 234 |
| Other income | - | 26 | - | 49 |
| Total Other (Expenses) income | (35,008) | 260 | (60,575) | 279 |
| INCOME FROM OPERATIONS BEFORE TAXES | 65,612 | 6,713 | 234,531 | 32,136 |
| INCOME TAX EXPENSE | 59,460 | 2,208 | 188,753 | 10,590 |
| NET INCOME | \$ 6,152 | \$ 4,505 | \$ 45,778 | \$ 21,546 |
| Net income per share-basic and diluted | \$ 0.0003 | \$ 0.0002 | \$ 0.002 | \$ 0.001 |
| Weighted average number of shares outstanding during the period | | | | |
| basic and diluted | 19,922,080 | 18,700,000 | 19,373,822 | 18,700,000 |

The accompanying notes are an integral part of these condensed consolidated financial statements

-2-

CHINA NORTH EAST PETROLEUM HOLDINGS LIMITED AND SUBSIDIARIES
Condensed Statements of Cash Flows

For the nine months ended September 30, 2004 (Consolidated) and period from April 1, 2003 (Inception) to September 30, 2003 (Unaudited and Restated)

| | 2004 (Consolidated) (As restated) | 2003 (As restated) |
|--|---|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 45,778 | \$ 21,546 |
| Adjusted to reconcile net income to cash (used in) provided by operating activities: | | |
| Amortization of oil and gas properties | 32,749 | 105 |
| Depreciation of fixed assets | 18,875 | 2,536 |
| Imputed interest expense | 59,210 | - |
| Changes in operating assets and liabilities | | |
| (Increase) decrease in: | | |
| Other receivables and prepaid expenses | 52,657 | (605,333) |
| Increase (decrease) in: | | |
| Accounts payable | (67,505) | 76,843 |
| Other payables and accrued liabilities | (892,313) | 3,803 |
| Deferred taxation | (131,493) | - |
| Income tax payable | 320,004 | 10,588 |
| Net cash used in operating activities | (562,038) | (489,912) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of oil and gas properties | (28,744) | (46,194) |
| Purchase of fixed assets | (107,432) | (130,974) |
| Net cash used in investing activities | (136,176) | (177,168) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Issuance of common stock | - | 18,700 |
| Additional paid-in capital | (404,900) | 586,100 |
| Due to a director and stockholder | 1,096,350 | 81,776 |
| Net cash provided by financing activities | 691,450 | 686,576 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (6,764) | 19,496 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 7,699 | - |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 935 | \$ 19,496 |
| Supplemental disclosures of non cash financing activities: | | |
| Imputed interest on advances from directors and stockholders | \$ 59,210 | \$ - |

The accompanying notes are an integral part of these condensed consolidated financial statements

-3-

**CHINA NORTH EAST PETROLEUM HOLDINGS LIMITED
AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2004 (UNAUDITED AND RESTATED)**

Note 1 - Basis Of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and

Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments consisting only of normal recurring accruals considered necessary to present fairly the Company's financial position at September 30, 2004, the results of operations for the three months and nine months ended September 30, 2004 and for the period from April 1, 2003 (Inception) to September 30, 2003, and cash flows for the nine months ended September 30, 2004 and for the period from April 1, 2003 (Inception) to September 30, 2003. The results for the nine months ended September 30, 2004 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2004.

For further information, refer to the consolidated financial statements and footnotes included in the Company's Form 8-K/A.

Note 2 - Reverse Merger

China North East Petroleum Holdings Limited ("North East Petroleum") is a U.S. company which was incorporated in Nevada on August 20, 1999 under the name of Draco Holding Corporation ("Draco"). Draco was authorized to issue 20,000,000 shares of common stock of \$0.001 par value. On June 28, 2004, the Company's Articles of Incorporation were amended to change the name of the Company to China North East Petroleum Holdings Limited and to increase its authorized shares of common stock from 20,000,000 to 50,000,000.

Hong Xiang Petroleum Group Limited ("Hong Xiang Petroleum Group") was incorporated in the British Virgin Islands ("BVI") on August 28, 2003.

On December 5, 2003, Song Yuan City Hong Xiang Petroleum Technical Services Co., Ltd. ("Hong Xiang Technical") was incorporated in the People's Republic of China ("PRC") as a limited liability company with a registered capital of \$484,000. Hong Xiang Technical provides technical advisory services to oil and gas exploration companies in the PRC.

During 2004, Hong Xiang Petroleum Group acquired a 100% ownership of Hong Xiang Technical.

During 2004, Hong Xiang Technical acquired a 100% interest in Song Yuan City Yu Qiao Qianan Hong Xiang Oil and Gas Development Co., Ltd. ("Hong Xiang Oil Development"), a limited liability company incorporated on April 1, 2003 in the PRC with a registered capital of \$604,800.

Hong Xiang Oil Development is engaged in the exploration and production of crude oil in Jilin Oil Region, the PRC. Subsequent to the Cooperative Exploration Contract entered into by the non-operating interest owner and Jilin Office, PetroChina Group ("Sub-Owner") in December 2002, Hong Xiang Oil Development entered into another Cooperative Exploration Contract (the "Contract") with the non-operating interest owner in respect of the development rights to the proven reserves in the Qian'an Oil Field Zone 112 ("Qian'an 112") in Jilin Oil Region for 20 years (the "Contract Period").

-4-

**CHINA NORTH EAST PETROLEUM HOLDINGS LIMITED
AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2004 (UNAUDITED AND RESTATED)**

Note 2 - Reverse Merger □ **Contd.**

In accordance with the Contract, Hong Xiang Oil Development is responsible to provide working

capital to develop the oil reserves in Qian'an 112. Production from Qian'an 112 is shared in the following manner:-

| Contract period | For the Sub-Owner | For the Company |
|--------------------|-------------------|-----------------|
| First 10 years | 20% | 80% |
| Remaining 10 years | 40% | 60% |

The acquisition of Hong Xiang Oil Development by Hong Xiang Technical has been accounted for as a reorganization of entities under common control as the companies were beneficially owned by principally identical shareholders and share common management. The financial statements have been prepared as if the reorganization had occurred retroactively.

On March 29, 2004, Draco executed a Plan of Exchange (the Agreement) with all the shareholders of Hong Xiang Petroleum Group to exchange 18,700,000 shares of common stock of Draco for 100% of the outstanding shares of Hong Xiang Petroleum Group.

The Agreement was consummated on April 30, 2004. As a result of the Agreement, the exchange of shares with Hong Xiang Petroleum Group have been accounted for as a reverse acquisition under the purchase method of accounting since the shareholders of Hong Xiang Petroleum Group obtained control of the consolidated entity (North East Petroleum). Accordingly, the merger of North East Petroleum and Hong Xiang Petroleum Group has been recorded as a recapitalization by Hong Xiang Petroleum Group, with Hong Xiang Petroleum Group being treated as the continuing entity. The financial statements have been prepared as if the reorganization had occurred retroactively. North East Petroleum, Hong Xiang Petroleum Group, Hong Xiang Technical and Hong Xiang Oil Development are hereafter referred to as (the Company).

Accordingly, the financial statements include the following:

- a) The balance sheet consists of the net assets of the acquirer at historical cost and the net assets of the acquiree at historical cost; and
- b) The statements of operations include the operations of the acquirer for the years presented and the operations of the acquiree from the date of the merger.

The financial statements of the acquiree are not significant. Therefore, no pro forma financial statements are submitted.

In addition to the Exchange Agreement, on April 30, 2004, Draco executed a Distribution Agreement with its wholly-owned subsidiary, Jump'n Jax, Inc., a Utah corporation (Jump'n Jax) pursuant to which the Company agreed to distribute all of the outstanding shares of Jump'n Jax as a dividend to the shareholders of record of Draco as of March 8, 2004. Under the Distribution Agreement, the effective date of the dividend distribution was also April 30, 2004.

-5-

**CHINA NORTH EAST PETROLEUM HOLDINGS LIMITED
AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2004 (UNAUDITED AND RESTATED)**

Note 3 - Principles Of Consolidation

The accompanying unaudited condensed consolidated financial statements for 2004 include the financial statements of North East Petroleum and its wholly owned subsidiaries, Hong Xiang

Petroleum Group, Hong Xiang Technical and Hong Xiang Oil Development.

The accompanying unaudited condensed consolidated financial statements for 2003 include the financial statements of North East Petroleum and its wholly-owned subsidiary Hong Xiang Oil Development as Hong Xiang Petroleum Group and Hong Xiang Technical have not yet existed during the third quarter of 2003.

All significant inter-company accounts and transactions have been eliminated in consolidation.

Note 4 - Use Of Estimates

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

Note 5 - Oil And Gas Properties

The Company follows the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with the acquisition of development rights and the development of oil reserves including directly related overhead costs, are capitalized.

Depreciation, depletion and amortization of capitalized costs, excluding properties with unproven oil reserves, are based on the unit-of-production methods based on proven reserves. Investments in properties with unproven oil reserves and major development projects are not amortized until proven reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized.

In addition, the capitalized costs are subject to a [ceiling test], which basically limits such costs to the aggregate of the [estimated present value], discounted at a 10-percent interest rate of future net revenues from proven reserves, based on current economic and operating conditions, plus the lower of cost or fair market value of properties with unproven oil reserves.

Sales of a portion of the development rights and properties with proven and unproven oil reserves are accounted for as adjustments to capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proven reserves of oil and gas, in which case the gain or loss is recognized as income.

Abandonment of oil and gas properties other than the development rights are accounted for as adjustments to capitalized costs with no loss recognized.

-6-

**CHINA NORTH EAST PETROLEUM HOLDINGS LIMITED
AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2004 (UNAUDITED AND RESTATED)**

Note 6 - Earnings Per Share

Basic earnings per share are computed by dividing income available to common stockholders by the weighted average number of common stocks outstanding during the period. Diluted income per share is computed similar to basic income per share except that the denominator is increased to include the number of additional common stocks that would have been outstanding if the potential common stocks had been issued and if the additional common stocks were diluted.

There are no potentially dilutive securities for the nine months ended September 30, 2004 and for the period from April 1, 2003 (Inception) to September 30, 2003.

Note 7 - Environmental Costs

The PRC has adopted extensive environmental laws and regulations that affect the operations of the oil and gas industry. The outcome of environmental liabilities under proposed or future environmental legislation cannot be reasonably estimated at present, and could be material. Under existing legislation, however, the management believes that there are no probable liabilities that will have a material adverse effect on the financial position of the Company.

Note 8 - Shareholders' Equity

(A) Stock issuances

On March 29, 2004, the Company executed a Plan of Exchange pursuant to which the Company agreed to issue 18,700,000 new shares of common stock to the shareholders of Hong Xiang Petroleum Group in exchange for 100% of registered capital of Hong Xiang Petroleum Group. The Plan of Exchange was consummated on April 30, 2004.

During 2004, North East Petroleum issued 1,199,080 shares of common stock for the recapitalization with Hong Xiang Petroleum Group (see Note 2).

On September 8, 2004, the Company issued 90,000 shares of common stock for consulting services. The stock was valued at the closing price on the issuance date, or at \$1.11 per share, yielding an aggregate value of \$99,900. The expense for the services was charged to operations in 2004.

(B) Appropriated retained earnings

The Company's PRC subsidiaries are required to make appropriations to reserve funds, comprising the statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve, based on after-tax net income determined in accordance with generally accepted accounting principles of the People's Republic of China (the "PRC GAAP"). Appropriations to the statutory surplus reserve should be at least 10% of the after tax net income determined in accordance with the PRC GAAP until the reserve is equal to 50% of the entities' registered capital. Appropriations to the statutory public welfare fund are at 5% to 10% of the after tax net income determined in accordance with the PRC GAAP. The statutory public welfare fund is established for the purpose of providing employee facilities and other collective benefits to the employees and is non-distributable other than in liquidation. Appropriations to the discretionary surplus reserve are made at the discretion of the Board of Directors.

During 2004 and 2003, the Company has not appropriated to the reserve funds based on its net income under PRC GAAP.

AS OF SEPTEMBER 30, 2004 (UNAUDITED AND RESTATED)**Note 9 - Related Party Transactions**

Two directors and stockholders made interest free advances totaling \$2,360,212 to the Company as of September 30, 2004 as unsecured loans. The advances are repayable upon demand. Total interest expense imputed at the rate of 6% per annum was included in additional paid in capital amounted to \$59,210 for the nine months ended September 30, 2004.

Note 10 - Concentrations And Risks

During 2004 and 2003, 100% of the Company's assets were located in China and 100% of the Company's revenues were derived from companies located in China.

Note 11 - Restatement Of Financial Statements

In May 2005, the Company's Board of Directors determined that the Company's financial statements for the quarters ended June 30, 2004 and September 30, 2004 filed with the Securities and Exchange Commission on August 19, 2004 and December 2, 2004, respectively, contained certain material inaccuracies and should be restated. The Company's Board of Directors determined that certain items on its balance sheet, including prepaid expenses, were materially overstated and that certain liabilities, including accounts payable were materially understated, and that other items on the balance sheets were incorrect. In addition, certain items on the Company's Statement of Operations and Statements of Cash Flows for these periods were also incorrect. As a result, the Company incorrectly reported a net loss of \$74,392 for the three months ended September 30, 2004 and net income of \$74,912 for the nine-months ended September 30, 2004. The Company's management undertook an investigation to determine the source of the inaccuracies. However, due to the fact that the Company's prior Chief Financial Officer responsible for these financial statements was no longer with the Company and the worksheets previously prepared by the former CFO were no longer available to the Company, the reason for these inaccuracies could not be determined. Management reconstructed the financial statements for the quarters ended June 30 and September 30, 2004 and the subsequent Quarterly Reports on Form 10-QSB for the periods ending June 30, 2005 and September 30, 2005, filed with the SEC on August 15, 2005 and November 23, 2005, respectively, reflected the corrected financial statements for these periods. In addition, the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004 was not affected by these prior inaccuracies.

As a result of the foregoing, the Company has restated its financial statements for the three- and six months ended June 30, 2004 and for the three- and nine-months ended September 30, 2004.

-8-

**CHINA NORTH EAST PETROLEUM HOLDINGS LIMITED
AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2004 (UNAUDITED AND RESTATED)**

Note 11 - Restatement Of Financial Statements □ Contd.

The changes to the financial statements as restated are as follows:

| | September 30, 2004 | | December 31, 2003 | |
|----------------|--------------------|---------------------|-------------------|---------------------|
| | Restated | Previously Reported | Restated | Previously Reported |
| Current assets | \$ 88,234 | \$ 1,476,008 | \$ 147,432 | \$ 147,432 |

Edgar Filing: CHINA NORTH EAST PETROLEUM HOLDINGS LTD - Form 10QSB/A

| | | | | |
|---|---------------------|---------------------|---------------------|---------------------|
| Oil and gas properties and fixed assets, net | 5,065,396 | 4,034,031 | 4,988,973 | 4,988,973 |
| Deferred expenditure | - | 482,713 | - | - |
| Total assets | 5,153,630 | 5,992,752 | 5,136,405 | 5,136,405 |
| Liabilities | 4,547,202 | 4,429,566 | 4,230,065 | 4,230,065 |
| Stockholders' equity | | | | |
| Common stock | 19,989 | 19,989 | 19,899 | - |
| Capital | - | - | - | 604,800 |
| Additional paid-in capital | 239,121 | 1,167,410 | 584,901 | - |
| Retained earnings | 347,318 | 376,452 | 301,540 | 301,540 |
| | 606,428 | 1,563,851 | 906,340 | 906,340 |
| Total liabilities and stockholders' equity | \$ 5,153,630 | \$ 5,993,417 | \$ 5,136,405 | \$ 5,136,405 |

-9-

**CHINA NORTH EAST PETROLEUM HOLDINGS LIMITED
AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2004 (UNAUDITED AND RESTATED)**

Note 11 - Restatement Of Financial Statements □ Contd.

| | Three months ended September 30, 2004 | | Nine months ended September 30, 2004 | |
|--|---|------------------------|---|------------------------|
| | Restated | Previously Reported | Restated | Previously Reported |
| Revenue | \$ 337,752 | \$ 337,858 | \$ 1,137,737 | \$ 1,138,095 |
| Cost of sales | 115,735 | 210,476 | 421,087 | 355,458 |
| Gross profit | 222,017 | 127,382 | 716,650 | 782,637 |
| Operating expenses | 121,397 | 199,579 | 421,544 | 699,347 |
| Income (loss) from operations | 100,620 | (72,197) | 295,106 | 83,290 |
| Other income (expenses) | (35,008) | - | (60,575) | - |
| Income before taxes | 65,612 | (72,197) | 234,531 | 83,290 |
| Income tax expenses | 59,460 | 2,195 | 188,753 | 8,378 |
| Net income (loss) | \$ 6,152 | \$ (74,392) | \$ 45,778 | \$ 74,912 |
| Net income (loss) per share-basic and diluted | \$ 0.00 | \$ (0.00) | \$ 0.00 | \$ 0.00 |
| Weighted average number of shares outstanding during the year-basic and diluted | 19,922,080 | 19,899,080 | 19,373,822 | 19,909,080 |

| | Three months ended September 30, 2003 | | Period from April 1, 2003 (Inception) to September 30, 2003 | |
|---------------|---|------------------------|---|------------------------|
| | Restated | Previously Reported | Restated | Previously Reported |
| Revenue | \$ 179,754 | \$ 179,484 | \$ 253,404 | \$ 253,023 |
| Cost of sales | 125,512 | 119,424 | 138,811 | 131,213 |

Edgar Filing: CHINA NORTH EAST PETROLEUM HOLDINGS LTD - Form 10QSB/A

| | | | | |
|---|------------|------------|------------|------------|
| Gross profit | 54,242 | 60,060 | 114,593 | 121,810 |
| Operating expenses | 47,789 | 45,992 | 82,736 | 80,746 |
| Profit from operations | 6,453 | 14,068 | 31,857 | 41,064 |
| Other income (expenses) | 260 | - | 279 | - |
| Income before taxes | 6,713 | 14,068 | 32,136 | 41,064 |
| Income tax expenses | 2,208 | 2,224 | 10,590 | 2,224 |
| Net income (loss) | \$ 4,505 | \$ 11,844 | \$ 21,546 | \$ 38,840 |
| Net income per share-basic and diluted | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Weighted average number of shares outstanding during the year-basic and diluted | 18,700,000 | 19,899,080 | 18,700,000 | 19,899,080 |

-10-

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

The following discussion contains certain statements that may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements that refer to expectations, projections or other characterization of future events or circumstances, and especially those which include variations of the words "believes," "intends," "estimates," "anticipates," "expects," "plans," or similar words or variations thereof, are likely to be forward-looking statements, and as such, are likely to concern matters involving risk, uncertainty, unpredictability and other factors that could materially and adversely affect the outcome or results indicated by or inferred from the statements themselves. Therefore, the reader is advised that the following discussion should be considered in light of the discussion of risks and other factors contained in this Form 10QSB and in the Company's other filings with the Securities and Exchange Commission, and that no statements contained in the following discussion or in this Form 10QSB should be construed as a guarantee or assurance of future performance or future results.

RESULTS OF OPERATIONS

For the 3 months and 9 months ended September 30, 2004, we had gross revenues of \$337,752 and \$1,137,737, respectively. The Company had net income of \$6,152 for the 3 months ended September 30, 2004, and net income of \$45,778 for the 9 months ended September 30, 2004. For the 3 months ended September 30, 2003, we had gross revenues of \$179,754 and net income of \$4,505. However, no meaningful comparison can be made between the results of operations for the periods ended September 30, 2003 and September 30, 2004, because we did not commence oil and gas operations until April 1, 2003, and as of September 30, 2003, had only been operational for five months.

We expect gross revenue and net income to continue to increase on a quarter-by-quarter basis throughout the remainder of 2004 as a result of placing additional wells into production.

LIQUIDITY AND CAPITAL RESOURCES

During the 9 months ended September 30, 2004, we had net income from operations of \$45,778. However, during this period, cash used in operations was \$562,038 and we had capital expenditures of \$136,176 for purchases and development of properties and equipment and for construction in progress. As a result, as of September 30, 2004, we had cash on hand of \$935, as compared to cash on hand of \$19,496 as of September 30, 2003.

Management plans to rely on net cash from operations to maintain its current level of operations and to fund a gradual increase in the level of operations throughout the remainder of 2004. Although management currently anticipates that substantially all cash generated from operations will be used to fund current operations and for purposes of drilling new wells and seeking to place additional wells into service, management believes we have adequate cash resources on hand for those purposes. However, management also hopes raise additional capital which will enable us to expand operations more rapidly by drilling more new wells on its current property as well

as by seeking to acquire interests in additional properties and drill new wells on those properties.

Management is currently considering the options available to it for the purpose of raising additional working capital. These may include debt financing as well as the potential for either private or public offering and sale of our securities. However, there is no assurance that we will be able to raise additional working capital for such purposes.

OUTLOOK

During the remainder of 2004, we plan to focus our efforts on the drilling and completion of additional wells on the property in the Qian 112 zone in the Jinlin Oil region, as well as on raising the capital necessary to acquire interests in additional properties. Management believes that our gross revenues will continue to increase on a quarter-by-quarter basis throughout the remainder of 2004 as the number of producing wells increases. However, Management also expects our expenses to increase as a result of using substantially all of the cash flow generated from operations to drill additional wells.

-11-

ITEM 3. CONTROLS AND PROCEDURES

Quarterly Evaluation of Controls

As of the end of the period covered by this quarterly report on Form 10-QSB, we evaluated the effectiveness of the design and operation of (i) our disclosure controls and procedures ("Disclosure Controls"), and (ii) our internal control over financial reporting ("Internal Controls"). This evaluation ("Evaluation") was performed by our Chief Executive Officer ("CEO") and Chief Financial Officer Wang Hong Jun. In this section, we present the conclusions of our CEO and CFO based on and as of the date of the Evaluation, (i) with respect to the effectiveness of our Disclosure Controls, and (ii) with respect to any change in our Internal Controls that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect our Internal Controls.

CEO and CFO Certifications

Attached to this annual report, as Exhibits 31.1 and 31.2, are certain certifications of the CEO and CFO, which are required in accordance with the Exchange Act and the Commission's rules implementing such section (the "Rule 13a-14(a)/15d-14(a) Certifications"). This section of the annual report contains the information concerning the Evaluation referred to in the Rule 13a-14(a)/15d-14(a) Certifications. This information should be read in conjunction with the Rule 13a-14(a)/15d-14(a) Certifications for a more complete understanding of the topic presented.

Disclosure Controls and Internal Controls

Disclosure Controls are procedures designed with the objective of ensuring that information required to be disclosed in our reports filed with the Commission under the Exchange Act, such as this annual report, is recorded, processed, summarized and reported within the time period specified in the Commission's rules and forms. Disclosure Controls are also designed with the objective of ensuring that material information relating to the Company is made known to the CEO and the CFO by others, particularly during the period in which the applicable report is being prepared. Internal Controls, on the other hand, are procedures which are designed with the objective of providing reasonable assurance that (i) our transactions are properly authorized, (ii) the Company's assets are safeguarded against unauthorized or improper use, and (iii) our transactions are properly recorded and reported, all to permit the preparation of complete and accurate financial statements in conformity with accounting principals generally accepted in the United States.

Limitations on the Effectiveness of Controls

Our management does not expect that our Disclosure Controls or our Internal Controls will prevent all error and all fraud. A control system, no matter how well developed and operated, can provide only reasonable, but not absolute assurance that the objectives of the control system are met. Further, the design of the control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances so of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision -making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of a system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated objectives under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Scope of the Evaluation

The CEO and CFO's evaluation of our Disclosure Controls and Internal Controls included a review of the controls' (i) objectives, (ii) design, (iii) implementation, and (iv) the effect of the controls on the information generated for use in this annual report. In the course of the Evaluation, the CEO and CFO sought to identify data errors, control problems, acts of fraud, and they sought to confirm that appropriate corrective action, including process improvements, was being undertaken. This type of evaluation is done on a quarterly basis so that the conclusions concerning the effectiveness of our controls can be reported in our quarterly reports on Form 10-QSB and annual reports on Form 10-KSB. The overall goals of these various evaluation activities are

-12-

to monitor our Disclosure Controls and our Internal Controls, and to make modifications if and as necessary. Our external auditors also review Internal Controls in connection with their audit and review activities. Our intent in this regard is that the Disclosure Controls and the Internal Controls will be maintained as dynamic systems that change (including improvements and corrections).

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

The following exhibits are filed herewith:

31.1. Certifications pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2. Certifications pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1. Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2. Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on 8-K

None

-13-

SIGNATURES

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

CHINA NORTH EAST PETROLEUM HOLDINGS LTD.
(Registrant)

Date: November 22, 2005

By:

/s/ Wang, Hong Jun
President and Acting Principal Accounting
Officer

-14-
