ASPEN EXPLORATION CORP
Form 10QSB
November 12, 2002

FORM 10-Q-SB

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

MARK ONE

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

For the quarterly period ended September 30, 2002

OR

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

For the transition period from ________ to ________

Commission File Number 0-9494

ASPEN EXPLORATION CORPORATION
(Exact Name of Aspen as Specified in its Charter)

Delaware	84-0811316
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
Suite 208, 2050 S. Oneida St., Denver, Colorado	80224-2426
(Address of Principal Executive Offices)	(Zip Code)

Issuer's telephone number: (303) 639-9860

Indicate by check mark whether Aspen (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 Aspen was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate the number of shares outstanding of each of the Issuer's classes of common stock as of the latest practicable date.

Class	Outstanding at November 8, 2002
Common stock, $.005 par value	5,863,828

Part One. FINANCIAL INFORMATION

Item 1. Financial Statements

ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30, 2002 (Unaudited)	June 30, 2002 (Audited)
Current Assets:		
Cash and cash equivalents, including $1,450,853 and $822,060 of invested cash at September 30, 2002 and June 30, 2002 respectively	$ 1,525,183	$ 916,001
Precious metals	18,823	18,823
Accounts receivable, trade	148,490	365,705
Accounts receivable, related party	9,267	12,872
Prepaid expenses	16,394	19,820
Total current assets	1,718,157	1,333,221
Investment in oil and gas properties, at cost (full cost method of accounting)	5,498,684	5,427,741
Less accumulated depletion and valuation allowance	(2,343,649)	(2,262,649)
	3,155,035	3,165,092
Property and equipment, at cost:		
Furniture, fixtures and vehicles	112,562	112,562
Less accumulated depreciation	(50,230)	(45,810)
	62,332	66,752
Cash surrender value, life insurance	239,095	239,095
TOTAL ASSETS	$ 5,174,619	$ 4,804,160

(Statement Continues)
See notes to Consolidated Financial Statements

ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2002 (Unaudited)	June 30, 2002 (Audited)
Current liabilities:		
Accounts payable and accrued expenses	$ 517,721	$ 236,587
Accounts payable - related party	62,588	21,260
Advances from joint owners	323,010	230,775
Total current liabilities	903,319	488,622
Deferred income tax payable - long term	89,250	89,250
Total liabilities	992,569	577,872
Stockholders' equity:		
Common stock, $.005 par value: Authorized: 50,000,000 shares Issued: At September 30, 2002 5,863,828 and June 30, 2002: 5,863,828	29,320	29,320
Capital in excess of par value	6,025,797	6,025,797
Accumulated deficit	(1,858,915)	(1,814,677)
Deferred compensation	(14,152)	(14,152)
Total stockholders' equity	4,182,050	4,226,288
Total liabilities and stockholders' equity	$ 5,174,619	$ 4,804,160

See Notes to Consolidated Financial Statements

3

ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30, (unaudited)	
	2002	2001

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Revenues:		
Oil and gas	$ 198,431	$ 256,160
Management fees	62,729	42,688
Interest and other, net	3,736	21,312
Total Revenues	264,896	320,160
Costs and expenses:		
Oil and gas production	37,914	25,872
Depreciation, depletion and amortization	85,420	105,266
Aspen Power Systems expense	-0-	20,000
Selling, general and administrative	185,800	170,112
Total Costs and Expenses	309,134	321,250
Net loss before taxes	$ (44,238)	$ (1,090)
Provision for income taxes	-0-	-0-
Net loss	$ (44,238)	$ (1,090)
Basic loss per common share	$ (.01)	$ -0-
Diluted loss per common share	$ (.01)	$ -0-
Basic weighted average number of common shares outstanding	5,863,828	5,812,205
Diluted weighted average number of common shares outstanding	5,863,828	5,812,205

The accompanying notes are an integral
part of these statements.

ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three months ended September 30,	
	2002	2001

Cash flows from operating activities:		
Net loss	$ (44,238)	$ (1,090)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation, depletion & amortization	85,420	105,266
Amortization of deferred compensation	-0-	4,400
Changes in assets and liabilities:		
Decrease in accounts receivable	220,820	2,130
Decrease (increase) in prepaid expense	3,426	(36,226)
Increase (decrease) in accounts payable and accrued expense	414,697	(145,435)
Net cash provided (used) by operating activities ...	680,125	(70,955)
Cash flows from investing activities:		
Additions to oil & gas properties	(141,520)	(351,573)
Proceeds - sale of oil and gas properties	69,422	-0-
Proceeds - sale of idle equipment	1,155	-0-
Net cash (used) by investing activities	(70,943)	(351,573)
Net increase (decrease) in cash and cash equivalents	609,182	(422,528)
Cash and cash equivalents, beginning of year	916,001	2,695,583
Cash and cash equivalents, end of year	$ 1,525,183	$ 2,273,055

The accompanying notes are an integral part of these statements.

ASPEN EXPLORATION CORPORATION

Notes to Consolidated Financial Statements
(Unaudited)

September 30, 2002

Note 1 BASIS OF PRESENTATION

The accompanying financial statements are unaudited. However, in our opinion, the accompanying financial statements reflect all adjustments, consisting of only normal recurring adjustments, necessary for fair presentation. Interim results of operations are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with our Annual Report on Form 10-KSB for the year ended June 30, 2002.

Except for the historical information contained in this Form 10-QSB, this Form contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in this Report. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Report and any documents incorporated herein by reference, as well as the Annual Report on Form 10-KSB for the year ended June 30, 2002.

Note 2 EARNINGS PER SHARE

We have adopted Statement of Financial Accounting Standards No. 128 ("SFAS No. 128"), addressing earnings per share. SFAS No. 128 established the methodology of calculating basic earnings per share and diluted earnings per share. The calculations differ by adding any instruments convertible to common stock (such as stock options, warrants, and convertible preferred stock) to weighted average shares outstanding when computing diluted earnings per share. We had a net loss of $44,238 and $1,090 for the quarters ending September 30, 2002 and 2001. Because of the net loss, the basis and diluted average outstanding shares are considered the same, since including the shares would have an antidilutive effect on the loss per share calculation.

Note 3 SEGMENT INFORMATION

We operate in three industry segments within the United States, oil and gas exploration and development.

Identified assets by industry are those assets that are used in our operations in that industry. Corporate assets are principally cash, cash surrender value of life insurance, furniture, fixtures and vehicles.

We have adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 requires the presentation of descriptive information about reportable segments which is consistent with that made available to the management of the Company to assess performance.

Note 3 SEGMENT INFORMATION (CONTINUED)

Our oil and gas segment derives its revenues from the sale of oil and gas and prospect generation and administrative overhead fees charged to participants in our oil and gas ventures. Corporate income is primarily derived from interest income on funds held in money market accounts.

The mining segment receives its revenues primarily from the sale of minerals and precious metals and from time to time from the sale of a mineral venture that it has originated. Currently, this segment is inactive.

The electrical generation construction segment will receive its revenues from the sale, design, construction and/or operation of gas turbine or other electrical generation projects. As of September 30, 2002, we were in the planning stage of this segment and no revenues have been received.

During the three months ended September 30, 2002 and 2001 there were no intersegment revenues. The accounting policies applied by each segment are the same as those used by us in general.

There have been no differences from the last annual report in the basis of measuring segment profit or loss. There have been no material changes in the amount of assets for any operating segment since the last annual report except for the oil and gas segment which capitalized approximately $141,520 for the development and acquisition of oil and gas properties, and sold $70,577 in producing properties for a net increase of $70,943.

Note 3 SEGMENT INFORMATION (CONTINUED)

Segment information consists of the following for the three months ended September 30:

	Oil and Gas	Power Plant	Mining	Corporate
Revenues:				
2002	$ 261,160	$ -0-	$ -0-	$ 3,7
2001	298,848	-0-	-0-	21,3
Income (loss) from operations:				
2002	$ 142,216	$ -0-	$ -0-	$ (186,4
2001	170,676	(20,000)	-0-	(151,7
Identifiable assets:				
2002	$ 3,312,792	$ -0-	$18,823	$ 1,843,0
2001	3,197,196	-0-	18,823	2,636,5
Depreciation, depletion and valuation charged to identifiable assets:				
2002	$(2,343,649)	$ -0-	$ -0-	$ (50,2
2001	(2,023,713)	-0-	-0-	(31,1
Capital expenditures:				
2002	$ 141,520	$ -0-	$ -0-	$ -

2001	351,573	-0-	-0-	-

Note 4 MAJOR CUSTOMERS

We derived in excess of 10% of our revenue from various sources (oil and gas sales) as follows:

	The Company		
	A	B	C
Year ended:			
September 30, 2002	30%	50%	13%
September 30, 2001	52%	26%	-0-

Note 5 COMMITMENTS AND CONTINGENCIES

At September 30, 2002 we were committed to the following projects in California:

Project	Aspen Cost
Klingenberg 23-1 drilling costs	$ 50,000
Kuppenbender 20-2 completion costs	45,000
McCullough 36-1 completion costs	62,000
Quarre 30-2 drilling costs	50,000
Newhall Land & Farming 26-1 drilling costs	50,000
Total	$ 257,000

On August 29, 2002 the HSRCC #1 well was spudded. We have a small non-operating interest in this well and production casing was run based on encouraging mud and electric logs. The well was successfully completed in September 2002 at a flow rate in excess of 1,500 MCFPD.

We are committed to drilling three Tehama County, California wells. The average total drilling costs for each well is estimated at $240,000 with our share of the average net costs per well estimated at approximately $50,000, net of overhead fees.

We are committed to the completion of one Colusa County, California well that is estimated to cost $290,000, with our share of the completion costs estimated at approximately $50,000, net of overhead fees.

Note 6 INCOME TAXES

We have made no provision for income taxes for the three month period ended September 30, 2002 due to the loss for the first quarter. We had approximately $1,200,000 of net operating loss carryforwards at June 30, 2002.

Note 7 SUBSEQUENT EVENTS

The McCullough 36-1 well was completed in October 2002 at a flow rate of 780 MCFPD. The shut in pressure was 4,630 psig. Gas sales commenced on November 1, 2002.

The Kuppenbender 20-2 was cased for completion in October 2002 based on encouraging mud and electric logs. The well will be perforated in early November 2002.

Aspen drilled 5 successful gas wells (Leal 22-1, Porter 26-2, Kuppenbender 20-2 and 20-3, and McCullough 36-1) out of 5 attempts, a 100% success rate, during the Sacramento Valley drilling season between May and November 2002.

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

This should be read in conjunction with the management's discussion and analysis of financial condition and results of operations contained in our Annual Report on Form 10-KSB for the year ended June 30, 2002, which has been filed with the Securities and Exchange Commission. This management's discussion and analysis and other portions of this report contain forward-looking statements (as such term is defined in Section 21E of the Securities Exchange Act of 1934, as amended). These statements reflect our current expectations regarding our possible future results of operations, performance, and achievements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Wherever possible, we have tried to identify these forward-looking statements by using words such as "anticipate," "believe," "estimate," "expect," "plan," "intend," and similar expressions. These statements reflect our current beliefs and are based on information currently available to us. Accordingly, these statements are subject to certain risks, uncertainties, and contingencies, which could cause our actual results, performance, or achievements to differ materially from those expressed in, or implied by, such statements. These risks, uncertainties and contingencies include, without limitation, the factors set forth in our Form 10-KSB under "Item 6. Management's Discussion and Analysis of Financial Conditions or Plan of Operation - Factors that may affect future operating results." We have no obligation to update or revise any such forward-looking statements that may be made to reflect events or circumstances after the date of this Form 10-QSB.

Liquidity and Capital Resources

September 30, 2002 as compared to September 30, 2001

At September 30, 2002 current assets were $1,718,157 and current liabilities were $992,569 and we had positive working capital of $725,588 compared to current assets of $1,333,221 at June 30, 2002 and current liabilities of

$577,872 at June 30, 2002, resulting in working capital at June 30, 2002 of $755,349. Our working capital decreased $29,761 from June 30, 2002 to September 30, 2002 for several reasons.

Our current assets increased approximately $385,000 because cash and cash equivalents increased $609,182 from $916,001 to $1,525,183. Much of the increase was due to an increase in advances paid to us from working interest owners for their share of wells to be drilled. We also received approximately $482,000 from the sale of the Brandt Lease in Kern County, California. Approximately $375,000 of the proceeds was due to other working interest owners in this lease and they were paid their proportionate share in October 2002. Accounts receivable trade decreased by 59% because of the completion of various drilling projects which were in process at year end. Prepaid expenses decreased $3,426, or 17%, reflecting a reduction in prepaid taxes at the end of the quarter.

Our current liabilities increased to $992,569 at September 30, 2002 from approximately $577,872 at June 30, 2002. This increase was due to a number of factors including outstanding payables due working interest owners for the sale of the Brandt lease of approximately $375,000 and an increase in advances from joint owners for drilling wells in progress of $92,235.

10

We anticipate that our current assets will be sufficient to pay our current liabilities as long as our gas production continues to provide us with sufficient cash flow. As discussed below, this is dependent, in part, on maintaining or increasing our level of production and the national and world market maintaining its current prices for our gas production.

Recent drilling success has added to our cash flow from operations. These successes have been offset by the decline in production rates from older wells and a decline in the price received from the sale of gas our products. The average price received for oil and gas for the quarter ended September 30, 2002 was $25.44 per barrel and $2.78 per MMBTU of gas compared to $22.35 per barrel and $3.28 per MMBTU of gas at September 30, 2001, an increase of 14% and decline of 15% respectively.

Our capital requirements can fluctuate over a twelve month period because our drilling program is usually carried out in California's dry season, from late April until November, after which wet weather either precludes further activity or makes it cost prohibitive.

We believe that internally generated funds will be sufficient to finance our drilling and operating expenses for the next twelve months.

11

Results of Operations

September 30, 2002 Compared to September 30, 2001

For the three months ended September 30, 2002 our operations continued to be focused on the production of oil and gas, and the investigation for possible acquisition of producing oil and gas properties in California.

Oil and gas revenues, which include income from management fees, for the three months ended September 30, 2002 decreased approximately $37,688 from $298,848 to $261,160, a 13% decrease. This decrease reflects a decrease in the prices received for the sale of gas and a decrease in production in the Denverton Creek and Malton Black Butte fields as well as the Kern County oil properties. Our share of sales of oil and gas for the three month period ended September 30, 2002 were 520 barrels of oil and approximately 66,000 MMBTU of gas. The average price received for the quarter ended September 30, 2002 was $25.44 per barrel for oil and $2.78 per MMBTU for gas. This is a decrease in total oil production compared to the 1,300 barrels of oil produced in the first quarter of fiscal 2001, and a decrease in natural gas production when compared to the approximately 105,000 MMBTU of gas when compared to the production achieved during the first quarter of the 2001 fiscal year. Another factor resulting in decreased revenues during the first quarter of fiscal 2002 was a decrease in the prices received for our gas production when compared to prices of $22.35 and $3.28 received for oil and gas respectively during the first quarter of fiscal 2001.

Oil and gas production costs increased $12,042 from $25,872 to $37,914. Approximately $6,000 of this increase was due to non-recurring workover costs to prepare the Brandt wells for sale.

Depletion, depreciation and amortization decreased approximately $20,000 or 19% from the previous quarter, which is our best estimate of what the full year cost will be.

Selling, general and administrative expense increased approximately 9% from $170,112 to $185,800 for the quarter ended September 30, 2002. This increase is primarily due to salary, consulting and office rental increases.

As a result of our operations for the three months ended September 30, 2002, we ended the quarter with net loss of $44,238 compared to net loss of $1,090 for the corresponding quarter a year earlier. This increase of approximately $43,000 is due to a decrease in production volumes and the price received for our gas as discussed earlier. Effective September 1, 2002 we sold the remaining interest in producing oil wells located in Kern County, California for approximately $70,000 net to our interest. As of September 1, 2002 we are producing and selling only natural gas.

Interest and other income decreased approximately $17,500 to $3,736 and were primarily due to a decline in interest rates.

Item 3. CONTROLS AND PROCEDURES

(a) Pursuant to Item 307(a) of Regulation S-B, the Company's chief executive officer (who is the same person as its chief financial officer) has evaluated the effectiveness of the company's disclosure controls and procedures

12

(as those terms are defined in Exchange Act Rule 13a-14(c)) within the past 90 days. The Company's chief executive officer has concluded that the disclosure controls and procedures are effective for the Company.

(b) There have been no significant changes in the Company's internal controls and, therefore, there is no disclosure required pursuant to Item 307(b) of Regulation S-B.

In accordance with the requirements of the Securities Exchange Act of 1934, we have duly caused this report to be signed on our behalf by the undersigned, thereunto duly authorized.

ASPEN EXPLORATION CORPORATION

/s/ R. V. Bailey

By: R. V. Bailey,
Chief Executive Officer,
Principal Financial Officer

November 8, 2002

13

CERTIFICATIONS - principal executive and financial officers

I, R.V. Bailey, Chief Executive Officer and Chief Financial Officer of Aspen Exploration Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Aspen Exploration Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 8, 2002

/s/ R. V. Bailey

R. V. Bailey, Chief Executive Officer and Chief Financial Officer
(principal executive and financial officer)