

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

CREDO PETROLEUM CORP
Form 10QSB
September 16, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934.

For Quarter Ended July 31, 2002

Commission File Number 0-8877

CREDO PETROLEUM CORPORATION

Colorado	84-0772991
(State of Incorporation)	(IRS Employer Identification)
1801 Broadway, Suite 900	80202
Denver, Colorado	(Zip Code)
(Address of principal executive office)	
303-297-2200	
(Telephone Number)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, net of treasury stock, as of August 31, 2002: Common stock, \$.10 par value - 3,285,000
Preferred stock, no par value - None issued

CREDO PETROLEUM CORPORATION

Index to Form 10-QSB

For Quarter Ended July 31, 2002

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

PART I - FINANCIAL INFORMATION

Consolidated Balance Sheets

As of July 31, 2002 (Unaudited) and October 31, 2001

Consolidated Statements of Operations and Changes in Retained Earnings (Unaudited)

For the Nine and Three Month Periods Ended July 31, 2002 and 2001

Consolidated Statements of Cash Flows (Unaudited)

For the Nine Month Periods Ended July 31, 2002 and 2001

Management's Discussion and Analysis of Financial Condition and Results of Operations

Certifications

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

99.1 Certification by Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act (18 U.S.C. Section 1350)

99.2 Certification by Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act (18 U.S.C. Section 1350)

(b) Reports on Form 8-K

No current reports on Form 8-K were filed during the reporting quarter.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U. S. generally accepted accounting principles for interim financial information and with the instructions for Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U. S. generally accepted accounting principles for complete financial statements. In the opinion of management, the consolidated financial statements contain all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the company's results for the periods presented. These consolidated financial statements should be read in conjunction with the company's Form 10-KSB for the fiscal year ended October 31, 2001.

CREDO PETROLEUM CORPORATION
Consolidated Balance Sheets

A S S E T S

July 31, October 31,

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

	2002	2001
	-----	-----
	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,479,000	\$ 819,000
Short term investments	5,604,000	5,283,000
Receivables:		
Trade	430,000	317,000
Accrued oil and gas sales	541,000	367,000
Other	384,000	241,000
	-----	-----
	8,438,000	7,027,000
	-----	-----
OIL AND GAS PROPERTIES, net, at cost, full cost method:		
Unevaluated	2,021,000	1,549,000
Evaluated	7,320,000	7,120,000
	-----	-----
	9,341,000	8,669,000
	-----	-----
EXCLUSIVE LICENSE AGREEMENT, net of amortization of \$134,000 in 2002 and \$82,000 in 2001		
	566,000	618,000
	-----	-----
OTHER, net		
	170,000	156,000
	-----	-----
	\$18,515,000	\$16,470,000
	=====	=====
 L I A B I L I T I E S A N D S T O C K H O L D E R S ' E Q U I T Y		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,610,000	\$ 1,126,000
Income taxes payable	74,000	110,000
	-----	-----
	1,684,000	1,236,000
	-----	-----
DEFERRED INCOME TAXES		
	2,157,000	1,935,000
	-----	-----
EXCLUSIVE LICENSE OBLIGATION, less current portion of \$44,000		
	456,000	456,000
	-----	-----
COMMITMENTS		
STOCKHOLDERS' EQUITY:		
Preferred stock, without par value, 5,000,000 shares authorized, none issued	-	-
Common stock, \$.10 par value, 20,000,000 shares authorized, 3,678,000 shares issued	367,000	367,000
Capital in excess of par value	6,453,000	6,453,000
Retained earnings	7,835,000	6,927,000

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

Other comprehensive income	281,000	14,000
Treasury stock, at cost, 393,000 shares in 2002 and 502,000 shares in 2001	(718,000)	(918,000)
	-----	-----
	14,218,000	12,843,000
	-----	-----
	\$18,515,000	\$16,470,000
	=====	=====

See accompanying notes.

CREDO PETROLEUM CORPORATION
Consolidated Statements of Operations And Changes in
Retained Earnings - Unaudited

	Nine Months Ended July 31 2002	Nine Months Ended July 31 2001	Quarter Ended July 31 2002	Quarter Ended July 31 2001
	-----	-----	-----	-----
REVENUES:				
Oil and gas sales	\$3,519,000	\$4,029,000	\$1,342,000	\$1,319,000
Operating	365,000	336,000	123,000	113,000
Investment income and other	91,000	118,000	17,000	9,000
	-----	-----	-----	-----
	3,975,000	4,483,000	1,482,000	1,441,000
	-----	-----	-----	-----
COSTS AND EXPENSES:				
Oil and gas production	987,000	879,000	329,000	280,000
Depreciation, depletion and amortization	911,000	590,000	353,000	226,000
General and administrative	742,000	641,000	257,000	205,000
Interest	38,000	40,000	13,000	14,000
	-----	-----	-----	-----
	2,678,000	2,150,000	952,000	725,000
	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES	1,297,000	2,333,000	530,000	716,000
INCOME TAXES	(389,000)	(700,000)	(159,000)	(215,000)
	-----	-----	-----	-----
NET INCOME	908,000	1,633,000	371,000	501,000
RETAINED EARNINGS, BEGINNING OF PERIOD	6,927,000	4,925,000	7,464,000	6,057,000
	-----	-----	-----	-----
RETAINED EARNINGS, END OF PERIOD	\$7,835,000	\$6,558,000	\$7,835,000	\$6,558,000
	=====	=====	=====	=====

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

BASIC NET INCOME				
PER SHARE	\$.28	\$.53	\$.11	\$.16
	=====	=====	=====	=====
DILUTED NET INCOME				
PER SHARE	\$.28	\$.50	\$.11	\$.15
	=====	=====	=====	=====

See accompanying notes.

CREDO PETROLEUM CORPORATION
Consolidated Statements of Cash Flows - Unaudited

	Nine Months Ended July 31,	
	2002	2001
	-----	-----
OPERATING ACTIVITIES:		
Net income	\$ 908,000	\$ 1,633,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	911,000	590,000
Deferred income taxes	222,000	394,000
Changes in operating assets and liabilities:		
Proceeds from short term investments	3,965,000	3,109,000
Purchase of short term investments	(4,286,000)	(3,548,000)
Trade receivables	(113,000)	(290,000)
Accrued oil and gas sales	(174,000)	(57,000)
Other	124,000	22,000
Accounts payable	484,000	269,000
Income tax payable	(36,000)	(58,000)
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,005,000	2,064,000
	-----	-----
INVESTING ACTIVITIES:		
Oil and gas properties, net	(1,490,000)	(2,087,000)
Changes in other long-term assets	(55,000)	(88,000)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(1,545,000)	(2,175,000)
	-----	-----
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options (114,000 options in 2002 and 137,000 in 2001)	230,000	271,000
Purchase of treasury stock (5,000 shares in 2002 and 6,000 in 2001)	(30,000)	(30,000)

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	200,000	241,000
	-----	-----
INCREASE IN CASH AND CASH EQUIVALENTS	660,000	130,000
CASH AND CASH EQUIVALENTS:		
Beginning of Period	819,000	484,000
	-----	-----
End of Period	\$ 1,479,000	\$ 614,000
	=====	=====

See accompanying notes.

CREDO PETROLEUM CORPORATION
Management's Discussion and Analysis of Financial
Condition and Results of Operations
July 31, 2002

LIQUIDITY AND CAPITAL RESOURCES

The company's working capital and cash flow represent a significant capital resource and source of liquidity. At July 31, 2002, working capital was \$6,754,000, compared to \$5,791,000 at October 31, 2001. Cash flow from operating activities before working capital changes totaled \$2,041,000 for the nine months, compared to \$2,617,000 from the same period last year.

Existing working capital and anticipated cash flow are expected to be sufficient to fund fiscal 2002 operations. However, if the company were to make one or more major acquisition during the coming year, bank borrowing, issuance of additional stock, or other forms of debt financing would be considered. Because earnings are anticipated to be reinvested in operations, cash dividends are not expected to be paid in the foreseeable future.

Pending deployment into oil and gas assets, cash is primarily invested with money managers who specialize in short-term timing of mutual funds. The average return on the company's portfolio was 2% for the nine months of fiscal 2002 compared to 3% in the same period last year. Relatively low investment returns in 2001 and 2002 compared to prior years are primarily due to market conditions that have limited investment opportunities for the market timers which manage the bulk of the company's investments. Management considers the potential for adverse impact from major unexpected events, such as September 11th, to be the major significant risk to most investment strategies.

Commitments for future capital expenditures were not material at July 31, 2002. The timing of most capital expenditures for exploration and development is relatively discretionary. Therefore, the company can plan expenditures to coincide with available funds in order to minimize business risks.

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

PRODUCT PRICES, PRODUCTION AND OPERATIONS

Numerous uncertainties exist in the oil and gas exploration and production industry which are beyond the company's ability to predict with reasonable accuracy.

Gas price decontrol, the advent of an active spot market for natural gas, changes in supply and demand for natural gas, and weather patterns cause prices received by the company to be subject to significant fluctuations. Gas prices generally accelerate in peak demand periods such as the winter months and subside during lower demand periods.

Significant world events and OPEC's production and pricing policies influence OPEC and worldwide supply and demand and prices for crude oil and petroleum products.

Although product prices are key to the company's ability to operate profitably and to budget capital expenditures, they are beyond the company's control and are difficult to predict. The company periodically hedges the price of its oil and gas production when the potential for significant downward price movement is anticipated. Hedging transactions take the form of forward, or "short", selling in the NYMEX futures market, and are closed by purchasing offsetting "long" positions. Such hedges, which are accounted for as cash flow hedges, do not exceed anticipated production volumes, are expected to have reasonable correlation between price movements in the futures market and the cash markets where the company's production is located, and are authorized by the company's Board of Directors. Hedges are expected to be closed and gains or losses recognized for financial reporting purposes as related production occurs. However, hedges may be closed earlier if the anticipated downward price movement occurs or if the company believes that the potential for such movement has abated. Such hedges may also be reinstated if the potential for such movement re-occurs or if management concludes that it has misjudged information used to make its decisions. All other futures transactions are accounted for as speculative transactions and gains and losses are immediately recognized.

The company's most recent natural gas hedge data for months subsequent to third quarter-end shows 280 MMcfg hedged for the months of December 2002 through February 2003. This hedge is at an average NYMEX (Henry Hub, Louisiana delivery point) price of \$4.19 per Mcf, and represents approximately 83% of the company's total estimated gas production for those three months. Subsequent to third quarter-end, hedges covering the months of August through November 2002 were closed and a gain of \$204,000, or \$0.47 per Mcf, was realized. The company hedges only its Oklahoma production where the "basis" for its pipeline index prices is generally \$.15 to \$.30 below the Henry Hub.

The company recognizes all derivatives on the balance sheet at fair value at the end of each period. Changes in the fair value of a cash flow hedge are recorded in Other Comprehensive Income on the Consolidated Balance Sheets and then are reclassified into the Consolidated Statement of Earnings as the underlying hedged item affects earnings. Amounts reclassified into earnings related to natural gas hedges are included in oil and gas sales. At July 31, 2002, net deferred gains of

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

approximately \$401,000 (\$281,000 net of tax) related to natural gas hedging transactions were accumulated in Other Comprehensive Income of which \$94,000 were realized and \$307,000 were unrealized.

The following table sets forth the components of Comprehensive Income for each of the periods presented:

	Nine Months Ended July 31,		Three Months Ended July 31,	
	2002	2001	2002	2001
Net Income	\$ 908,000	\$1,633,000	\$ 371,000	\$ 501,000
Other comprehensive income, net of tax:				
Change in fair value of derivatives	267,000	19,000	386,000	(42,000)
Comprehensive income	<u>\$1,175,000</u>	<u>\$1,652,000</u>	<u>\$ 757,000</u>	<u>\$ 459,000</u>

Oil and gas sales volume and price comparisons for the indicated periods are set forth below.

Product	Nine Months Ended July 31, 2002		Nine Months Ended July 31, 2001		Percent Volume	Percent Price
	Volume	Price	Volume	Price	Change	Change
Gas (Mcf)	1,002,500	\$ 2.94 (1)	565,800	\$ 5.46 (3)	+77%	-46%
Oil (bbls)	27,700	\$20.54	34,500	\$27.25	-20%	-25%

Product	Three Months Ended July 31, 2002		Three Months Ended July 31, 2001		Percent Volume	Percent Price
	Volume	Price	Volume	Price	Change	Change
Gas (Mcf)	382,200	\$ 2.92 (2)	219,900	\$ 4.63 (4)	+74%	-37%
Oil (bbls)	9,800	\$23.27	11,700	\$25.75	-17%	-10%

- (1) Includes \$.35 Mcf hedging gain.
(2) Includes \$.05 Mcf hedging gain.
(3) Includes \$.52 Mcf hedging gain.
(4) Includes \$1.02 Mcf hedging gain.

The company's growth strategy focuses on two core projects--drilling along the Anadarko Shelf of Oklahoma and application of its patented Calliope gas recovery technology.

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

Anadarko Shelf Drilling Program. The 74% increase in third quarter natural gas production resulted from new wells drilled late in fiscal 2001 and during fiscal 2002. The primary contributors were the previously reported Glendena #1-5 and Redfearn #1-33 wells which contributed approximately 36% of nine-month production and accounted for 82% of the nine-month production increase. The wells contributed approximately 39% of third quarter production and accounted for 91% of the third quarter production increase. CREDO is operator of the wells and owns a 40% working interest.

The company's drilling program in 2002 centers on its 2,900-acre Sand Creek Prospect and its 2,300-acre Two Springs Prospect, both located in Harper and Ellis Counties, Oklahoma. Drilling targets the Morrow and Chester sands from 7,400 to 7,600 feet.

To date, five wells have been drilled and completed on the prospects. A sixth well was a dry hole. Two new wells are scheduled to commence in September and additional wells are anticipated on both prospects. The company owns interests ranging from 29% to 40% in the seven wells.

Of the five completed wells, three are producing and two are awaiting pipeline connection. The previously announced Glendena #1-5, Redfearn #1-33 and Wills #1-3 wells are currently producing at a combined daily rate of 5.25 MMcfg (million cubic feet of gas) with minimal water and condensate. The Glendena and Redfearn wells contain exceptional reservoir quality for the area and are delivering gas at higher than normal rates.

Production from the previously reported Easterwood #1-28 and Weiszbrod #1-34 wells was delayed approximately three months during broad-scale negotiations with pipeline companies to move additional gas out of the area. The company's drilling in the area created pipeline capacity problems which required expansion considerations and protracted negotiations. The negotiations were finalized in early September and pipelines to the wells are expected to be completed by September 30th.

The Easterwood #1-28 well has not been perforated or tested pending pipeline connection. The company owns a 40% interest in the well and is the operator. The well is expected to be connected to the pipeline in late September and will be immediately completed for production.

The Weiszbrod #1-34 well, previous reported as a "tight hole", encountered two Morrow sands totaling 17 feet. After fracture stimulation, the well was tested flowing 1.3 MMcfg per day. The company owns 33% of the well which is the fourth consecutive successful well on the Sand Creek Prospect. It is also expected to be connected to the pipeline in late September.

During September, the Hudson #1 well will be drilled on the Sand Creek Prospect approximately one mile north of the Weiszbrod well and the Emet #1 well will be drilled on the Two Springs Prospect approximately one mile east of the Wills well. Both wells will test the Morrow and Chester sands from 7,400 to 7,600 feet. The company owns 35% of the Emet well and 40% of the Hudson well and will be the operator of both wells.

In another area of Ellis County located about 13 miles

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

southeast of the Easterwood well, the company has completed the second producing well on its 640-acre Thurmond Prospect. This 8,800-foot well unexpectedly cut a fault in the Morrow formation that eliminated several of the objective sands. It was completed from 10 feet of remaining productive Morrow sands. After fracture stimulation, the well was placed on production flowing at a daily rate of 300 Mcf. As expected, the initial production rate was modest, however, the well has been producing with no production decline indicating that it may be connected by the fault to a larger reservoir. The company owns 37% of the well and is the operator.

A number of additional wells are likely to be drilled as the company delineates its Sand Creek and Two Springs Prospects. In addition, the company has a number of other properties and drilling prospects in northwest Oklahoma and it is constantly generating new drilling prospects in the area.

Calliope Gas Recovery Technology. The company owns the exclusive right to a patented technology known as the Calliope Gas Recovery System. Calliope can achieve substantially lower flowing bottom hole pressure than conventional production methods because it does not rely on reservoir pressure to lift liquids. In many gas wells, lower bottom hole pressure translates into recovery of substantial additional gas reserves.

The company's field applications have proven Calliope to be low risk, cost effective and repeatable over a wide range of depths (down to 18,600 feet) and applications, including the most rigorous scenario of completely dead wells. Excluding prototype applications, Calliope is currently installed on five company-owned wells, four of which were dead and scheduled to be plugged and abandoned. Combined daily production for those wells has ranged between 1.1 and 1.3 MMcfg and their remaining economic lives are estimated to range from seven to 20 years. Calliope wells have had a major positive impact on the company's production and reserves.

The company expects to install two new Calliope systems in the next few months. The 18,400-foot Green Estate #1 well located in Beckham County, Oklahoma produced 28.8 Bcfg and has been dead for over a year. This well will provide a rigorous test for Calliope in terms of both extreme depth and the challenge of reviving a dead well. A second well, the Horn #1, produced 12.9 Bcfg and has also been dead for over a year. This 12,400-foot well is located in Grady County, Oklahoma. The company will own approximately 70% of both wells and will be the operator. A third Calliope well has recently been purchased and negotiations are in progress on several additional wells.

Stronger natural gas prices have made it more difficult for the company to purchase viable wells for application of our Calliope system. That has made it necessary for the company to consider other strategies to install Calliope systems on more wells. These strategies include joint venturing with larger companies that own wells considered to be Calliope candidates, licensing, or providing Calliope for a fee. To implement these strategies, the company is preparing a highly sophisticated multimedia presentation about Calliope.

Production of the multimedia project was significantly

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

delayed because, after starting the project, the company decided to change production companies. Despite the false start, the company is very pleased with the project. Sophisticated animation of Calliope's underground operations is the most complex part of the project, and that work is nearing completion. The company expects the entire presentation to be completed in four to eight weeks.

The company has proven that Calliope will add .5 billion to 2.0 billion cubic feet of gas reserves to many dead and uneconomic wells. Its goal is to install Calliope on more wells, and a first class marketing presentation is expected to provide significant support to marketing the technology to outside partners.

INCOME TAXES

The company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109), which requires the asset and liability method of accounting for deferred income taxes. Deferred tax assets and liabilities are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the tax rate in effect at that time.

The total future deferred income tax liability under SFAS 109 is extremely complicated for any oil company to estimate due in part to the long-lived nature of depleting oil and gas reserves and variables such as product prices. Accordingly, the liability is subject to continual recalculation, revision of the numerous estimates required, and may change significantly in the event of such things as major acquisitions, divestitures, product price changes, changes in reserve estimates, changes in reserve lives, and changes in tax rates or tax laws.

RESULTS OF OPERATIONS

Nine Months Ended July 31, 2002 Compared to Nine Months Ended July 1, 2001

For the nine months ended July 31, 2002, net income fell 44% to \$908,000 compared to \$1,633,000 last year. Although successful drilling boosted natural gas production by 77%, lower net income resulted primarily from sharply lower net wellhead prices (natural gas down by 48% and oil down by 25%).

Total revenues fell 11% to \$3,975,000 for the nine months ended July 31, 2002 compared to \$4,483,000 last year. Oil and gas sales decreased \$510,000, or 13%, to \$3,519,000. Refer to the table and discussion on page 7 for details of oil and gas prices and volumes for the applicable periods. Total gas price realizations fell 46% to \$2.94 per Mcf compared to \$5.46 last year. Hedging transactions increased 2002 price realizations by \$.35 per Mcf, or 14%, compared to \$.52 per Mcf, or 11%, last year. Net wellhead prices for gas decreased 48% to \$2.59 per Mcf compared to \$4.94 last year. Net wellhead prices for oil decreased 25% to \$20.54 per barrel compared to \$27.25 last year. The net effect of these price changes, including hedging transactions, was to decrease oil and gas sales \$1,502,000. Gas

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

volumes increased 77% and oil volumes decreased 20%. The net effect of volume changes was to increase oil and gas sales by \$992,000. Operating income increased \$29,000, or 9%, due to drilling overhead income. As discussed on page 6, investment income fell 23% to \$91,000 compared to \$118,000 last year due primarily to market conditions during the nine months of fiscal 2002 that limited investment opportunities for the market timers which manage the bulk of the company's investments.

Total costs and expenses rose 25% to \$2,678,000 for the nine months of fiscal 2002 compared to \$2,150,000 last year. Oil and gas production expenses rose 12%, or \$108,000, due to two major well workovers that cost approximately \$84,000. Depreciation, depletion and amortization increased 54% primarily due to a net increase in production volume between the periods. General and administrative expenses increased \$101,000, or 16%, due to inflationary pressures and additional staffing. Interest expense relates to the accrual of interest on the exclusive license agreement obligation. Income taxes were provided at 30% in both periods.

Quarter Ended July 31, 2002 Compared to Quarter Ended July 31, 2001

Net income for the quarter ended July 31, 2002 fell 26% to \$371,000 compared to \$501,000 for the same quarter last year. Although the 74% increase in natural gas production more than offset lower price realizations, lower net income resulted primarily from the increased production being encumbered by depletion and lease operating expenses.

Total revenues rose 3% to \$1,482,000 in the third quarter of 2002 compared to \$1,441,000 for the same quarter last year. Oil and gas sales increased 2% to \$1,342,000 compared to \$1,319,000 last year. Refer to the table and discussion on page 7 for details of oil and gas prices and volumes for the applicable periods. Total gas price realizations fell 37% to \$2.92 per Mcf compared to \$4.63 last year. Hedging transactions increased third quarter price realizations \$.05 per Mcf, or 2%, compared to \$1.02 per Mcf, or 28%, last year. Net wellhead prices for gas fell 20% to \$2.87 per Mcf compared to \$3.61 last year. Net wellhead prices for oil fell 10% to \$23.27 per barrel compared to \$25.75 last year. The net effect of these price changes and hedging transactions was to decrease oil and gas sales \$398,000. Gas volumes increased 74% and oil volumes decreased 17%. The net effect of volume changes was to increase oil and gas sales \$421,000. Operating income increased \$10,000, or 9%, due to drilling overhead income. Investment income increased to \$17,000 in the third quarter of 2002 compared to \$9,000 last year.

Total costs and expenses increased 31% to \$952,000 in the third quarter of 2002 compared to \$725,000 last year. Oil and gas production expenses rose 17%, or \$49,000 due to costs associated with timing of repairs. Depreciation, depletion and amortization increased 56% primarily due to a net increase in production volumes between the periods. General and administrative expenses increased \$52,000, or 25%, due to inflationary pressures and additional staffing. Interest expense relates to the accrual of interest on the exclusive license agreement obligation, due annually. Income taxes were provided at 30% in both periods.

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

FORWARD-LOOKING STATEMENTS

Certain information included in this quarterly report and other materials filed by the company with the Commission contain forward-looking statements relating to the company's operations and the oil and gas industry. Such forward-looking statements are based on management's current projections and estimates and are identified by words such as "expects," "intends," "plans," "projects," "anticipates," "believes," "estimates" and similar words. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially from what is expressed or forecasted in such forward-looking statements. Among many factors that could cause actual results to differ materially are: (i) natural gas and crude oil price fluctuations, (ii) the company's ability to acquire oil and gas properties that meet its objectives and to identify prospects for drilling, and (iii) potential delays or failure to achieve expected production from existing and future exploration and development projects. In addition, such forward-looking statements may be affected by general domestic and international economic and political conditions.

SIGNATURES

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

Date: September 11, 2002 By: /s/ James T. Huffman

James T. Huffman
President and
Chief Executive Officer

By: /s/ John A. Alsko

John A. Alsko
Vice President and
Chief Financial Officer

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATIONS

I, James T. Huffman, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of CREDO Petroleum Corporation;
2. Based on my knowledge, this quarterly report does not contain

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

[Items 4, 5 and 6 omitted pursuant to the transition provisions of Release No. 34-46427.]

Date: September 11, 2002 By: /s/ James T. Huffman

James T. Huffman
President and
Chief Executive Officer

I, John A. Alsko, certify that:

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

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

[Items 4, 5 and 6 omitted pursuant to the transition provisions of Release No. 34-46427.]

Date: September 11, 2002 By: /s/ John A. Alsko

John A. Alsko
Vice President and
Chief Financial Officer