

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

CREDO PETROLEUM CORP  
Form 10QSB  
June 16, 2003

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 April 30, 2003

Commission File Number 0-8877

CREDO PETROLEUM CORPORATION

Colorado  
(State of Incorporation)

84-0772991  
(IRS Employer Identification)

1801 Broadway, Suite 900  
Denver, Colorado  
(Address of principal executive office)

80202  
(Zip Code)

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 X No  
-----

Indicate the number of shares outstanding of each of the issuer's classes of common stock, net of treasury stock, as of May 31, 2003: Common stock, \$.10 par value - 3,945,000  
Preferred stock, no par value - None issued

CREDO PETROLEUM CORPORATION

# Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

Index to Form 10-QSB

For Quarter Ended April 30, 2003

---

## PART I - FINANCIAL INFORMATION

### Consolidated Balance Sheets

As of April 30, 2003 (Unaudited) and October 31, 2002

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

For the Six and Three Month Periods Ended April 30, 2003 and 2002

### Consolidated Statements of Cash Flows (Unaudited)

For the Six Month Periods Ended April 30, 2003 and 2002

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

### Certifications

## PART II - OTHER INFORMATION

### Item 4. Submission of Matters to a Vote of Security Holders

The Company's annual meeting of shareholders was held on March 13, 2003. The following matters, as described more fully in the company's Proxy Statement, were approved by the shareholders:

- (1) The following Class II nominees for director were elected:

	For ---	Withhold -----
Clarence H. Brown	2,789,063	6,519
James T. Huffman	2,717,719	77,863

(2) Hein + Associates LLP was approved as the independent auditors of the Company for the fiscal year 2003. The shareholders voted 2,776,973 for and 2,560 against this appointment, with 16,049 abstentions.

There were 484,542 non-votes for each matter voted upon.

### 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

# Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

(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. Certain reclassifications have been made to prior period amounts with no effect on net income. These consolidated financial statements should be read in conjunction with the company's Form 10-KSB for the fiscal year ended October 31, 2002.

## CREDO PETROLEUM CORPORATION Consolidated Balance Sheets

### A S S E T S

	April 30, 2003	October 31, 2002
	-----	-----
	(Unaudited)	
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,662,000	\$ 1,324,000
Short term investments	5,258,000	5,586,000
Receivables:		
Trade	569,000	577,000
Accrued oil and gas sales	849,000	535,000
Other	202,000	390,000
	-----	-----
	8,540,000	8,412,000
	-----	-----
<b>OIL AND GAS PROPERTIES, net, using full cost method:</b>		
Unevaluated	2,495,000	1,690,000
Evaluated	9,500,000	7,987,000
	-----	-----
	11,995,000	9,677,000
	-----	-----
<b>EXCLUSIVE LICENSE AGREEMENT, net of accumulated amortization of \$187,000 in 2003 and \$152,000 in 2002</b>		
	513,000	548,000

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

OTHER, net	145,000	174,000
	-----	-----
	\$ 21,193,000	\$ 18,811,000
	=====	=====

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	\$ 2,239,000	\$ 1,733,000
Income taxes payable	43,000	49,000
	-----	-----
	2,282,000	1,782,000
	-----	-----

DEFERRED INCOME TAXES	2,848,000	2,314,000
-----------------------	-----------	-----------

EXCLUSIVE LICENSE OBLIGATION, less current portion of \$48,000	408,000	408,000
---	---------	---------

ASSET RETIREMENT OBLIGATION	199,000	-
-----------------------------	---------	---

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, 4,334,000 shares issued in 2003 and 3,678,000 issued in 2002	433,000	367,000
Capital in excess of par value including \$6,211,000 related to 20% stock dividend in 2003	12,664,000	6,453,000
Retained earnings, net of \$6,277,000 related to 20% stock dividend in 2003	3,119,000	8,209,000
Other comprehensive income	-	37,000
Treasury stock, at cost, 399,000 shares in 2003 and 398,000 shares in 2002	(760,000)	(759,000)
	-----	-----
	15,456,000	14,307,000
	-----	-----
	\$ 21,193,000	\$ 18,811,000
	=====	=====

See accompanying notes.

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

Six Months    Six Months    Quarter    Quarter

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

	Ended April 30 2003 -----	Ended April 30 2002 -----	Ended April 30 2003 -----	Ended April 30 2002 -----
REVENUES:				
Oil and gas sales	\$3,034,000	\$2,177,000	\$1,445,000	\$1,131,000
Operating	251,000	242,000	125,000	116,000
Investment income and other	190,000	74,000	114,000	65,000
	----- 3,475,000	----- 2,493,000	----- 1,684,000	----- 1,312,000
COSTS AND EXPENSES:				
Oil and gas production	692,000	658,000	365,000	298,000
Depreciation, depletion and amortization	605,000	558,000	282,000	292,000
General and administrative	606,000	485,000	328,000	242,000
Interest	23,000	25,000	12,000	13,000
	----- 1,926,000	----- 1,726,000	----- 987,000	----- 845,000
INCOME BEFORE INCOME TAXES AND ACCOUNTING CHANGE				
	1,549,000	767,000	697,000	467,000
INCOME TAXES				
	(434,000)	(230,000)	(195,000)	(140,000)
INCOME BEFORE ACCOUNTING CHANGE				
	1,115,000	537,000	502,000	327,000
CUMULATIVE EFFECT ON PRIOR YEARS OF SFAS 143-ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS (NET OF TAXES OF \$28,000)				
	72,000	-	-	-
NET INCOME				
	1,187,000	537,000	502,000	327,000
RETAINED EARNINGS, BEGINNING OF PERIOD				
	8,209,000	6,927,000	8,894,000	7,137,000
20% STOCK DIVIDEND				
	(6,277,000)	-	(6,277,000)	-
RETAINED EARNINGS, END OF PERIOD				
	===== \$3,119,000	===== \$7,464,000	===== \$3,119,000	===== \$7,464,000
BASIC INCOME PER SHARE BEFORE ACCOUNTING CHANGE				
	\$ .28	\$ .14	\$ .13	\$ .08
CUMULATIVE EFFECT OF				

## Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

A CHANGE IN ACCOUNTING PRINCIPLE	.02	-	-	-
	-----	-----	-----	-----
BASIC NET INCOME PER SHARE	\$ .30	\$ .14	\$ .13	\$ .08
	=====	=====	=====	=====
DILUTED INCOME PER SHARE BEFORE ACCOUNTING CHANGE	\$ .28	\$ .14	\$ .13	\$ .08
CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	.02	-	-	-
	-----	-----	-----	-----
DILUTED NET INCOME PER SHARE	\$ .30	\$ .14	\$ .13	\$ .08
	=====	=====	=====	=====

See accompanying notes.

### CREDO PETROLEUM CORPORATION Consolidated Statements of Cash Flows - Unaudited

	Six Months Ended April 30,	
	2003	2002
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 1,187,000	\$ 537,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	605,000	558,000
Deferred income taxes	506,000	95,000
Cumulative effect on change in accounting principle	(72,000)	-
Changes in operating assets and liabilities:		
Proceeds from short term investments	1,046,000	3,276,000
Purchase of short term investments	(718,000)	(3,710,000)
Trade receivables	8,000	54,000
Accrued oil and gas sales	(314,000)	(107,000)
Other	151,000	45,000
Accounts payable	506,000	92,000
Income tax payable	(6,000)	(84,000)
	-----	-----
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>2,899,000</b>	<b>756,000</b>
	-----	-----
<b>INVESTING ACTIVITIES:</b>		
Additions to oil and gas properties, net	(2,569,000)	(709,000)
Changes in other long-term assets	9,000	(48,000)
	-----	-----

## Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

NET CASH USED IN INVESTING ACTIVITIES	(2,560,000)	(757,000)
	-----	-----
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options (75,000 options in 2002)	-	145,000
Purchase of treasury stock (100 shares in 2003 and 4,400 in 2002)	(1,000)	(25,000)
	-----	-----
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(1,000)	120,000
	-----	-----
INCREASE IN CASH AND CASH EQUIVALENTS	338,000	119,000
CASH AND CASH EQUIVALENTS:		
Beginning of Period	1,324,000	819,000
	-----	-----
End of Period	\$ 1,662,000	\$ 938,000
	=====	=====
Supplemental Cash Flow Information:		
Cash paid for income taxes	\$ -	\$ 50,000
	=====	=====

See accompanying notes.

CREDO PETROLEUM CORPORATION  
 Management's Discussion and Analysis of Financial  
 Condition and Results of Operations  
 April 30, 2003

### LIQUIDITY AND CAPITAL RESOURCES

The company's working capital and cash flow represent a significant capital resource and source of liquidity. At April 30, 2003, working capital was \$6,258,000, compared to \$6,630,000 at October 31, 2002. Cash flow from operating activities before working capital changes totaled \$2,226,000 for the six months, compared to \$1,190,000 from the same period last year.

Existing working capital and anticipated cash flow are expected to be sufficient to fund fiscal 2003 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 4% for the first half of fiscal 2003 compared to 1% in the same period last year. Relatively low investment returns in 2002 and 2003 compared to prior years are primarily due to market conditions that have limited investment opportunities for

## Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

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 11, 2001, to be the major significant risk to its investment strategies.

Commitments for future capital expenditures were not material at April 30, 2003. 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.

### 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 natural 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 had a futures market net loss of \$548,000 in the second quarter resulting primarily from the closing of the March 2003 natural gas hedge position of 110 MMcf at a loss of \$558,000, or \$5.07 per Mcf. The futures market net loss was substantially offset by the March 2003 Index cash price of approximately \$8.50 in the market areas to which the hedge related.



## Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

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 April 30, 2003, there were no open natural gas hedge positions.

Subsequent to April 30, 2003, the company hedged approximately 50% of its expected production, or 250 MMcf, for the months of July through November 2003 at an average NYMEX price of \$6.39 per Mcf. The company expects average gas prices in its market areas to be 15% to 17% below NYMEX prices due to basis differentials and transportation costs.

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

	Six Months Ended April 30,		Three Months Ended April 30,	
	2003	2002	2003	2002
Net Income	\$ 1,187,000	\$ 537,000	\$ 502,000	\$ 327,000
Other comprehensive income, net of tax:				
Change in fair value of futures contracts used for natural gas hedging	(37,000)	(119,000)	113,000	(306,000)
Comprehensive income	\$ 1,150,000	\$ 418,000	\$ 615,000	\$ 21,000

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

	Six Months Ended April 30, 2003		Six Months Ended April 30, 2002			
	Volume	Price	Volume	Price		
Gas (Mcf)	630,700	\$ 4.04(1)	620,200	\$ 2.96(3)	+ 2%	+36%
Oil (bbls)	17,300	\$28.27	17,900	\$19.06	- 4%	+48%

	Three Months Ended April 30, 2003		Three Months Ended April 30, 2002			
	Volume	Price	Volume	Price		
Product	Volume	Price	Volume	Price	Change	Change

## Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

Gas (Mcf)	317,700	\$ 3.77(2)	329,600	\$ 2.90(4)	- 4%	+30%
Oil (bbls)	8,100	\$30.55	8,300	\$21.06	- 2%	+45%

- 
- (1) Includes \$.69 Mcf hedging loss.  
(2) Includes \$1.72 Mcf hedging loss.  
(3) Includes \$.54 Mcf hedging gain.  
(4) Includes \$.45 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.

**Anadarko Shelf Drilling Program.** The company's drilling program centers on its 13,000 gross acre Sand Creek Prospect and its 3,000 gross acre Two Springs Prospect, both located in Harper and Ellis Counties, Oklahoma. Drilling targets Morrow and Chester zones from 7,400 to 7,900 feet. CREDO has recently expanded its acreage ownership in the area by participating in satellite projects operated by other companies.

In total, 19 wells have been drilled on the two prospects in the last few years, of which 15 were either completed as producers or are awaiting completion. Currently, one well is drilling and 10 wells are projected for drilling. Three of those wells will be drilled in June and July. Both prospects have ample room for additional exploration.

On the east side of the Sand Creek Prospect, the company participated for a 24% interest in the Easterwood #11-23. The 7,400-foot well encountered 12 feet of Morrow sand and five feet of Chester limestone, both of which produced gas during completion testing. The well is currently awaiting pipeline connection and fracture stimulation.

Approximately one mile south of the Easterwood #11-23, the company participated in the 7,450-foot Easterwood #6-26 which encountered nine feet of Morrow sand but tested water. The well has been plugged. One mile to the south, the company drilled its 7,550-foot Arley #1-35 which was also plugged.

Three miles south of the Arley, the company is participating for a 37.5% interest in the Deanna #1-15, which is currently drilling. This well targets Morrow sand at 7,700 feet. The Deanna is the first well on the southeast corner of the Sand Creek Prospect where the company also owns significant interests in several offsetting sections.

On the west side of the Sand Creek Prospect, the company has participated with a 12% interest in three recent wells. These wells are currently classified as "tight holes", meaning that for proprietary business reasons the company is not releasing drilling information.

Fifteen miles south of the Sand Creek Prospect, the company has drilled its third well on the Thurmond Prospect. The Thurmond-State #2-36 encountered 11 feet of Morrow sand, and is currently producing 175 Mcfg (thousand cubic feet of gas) per day. CREDO owns 37.5% and is the operator.

## Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

Three new wells will be drilled beginning in the last week of June. The Gillenwaters #1-34 will be drilled on the Two Springs Prospect as a north step-out to the previously reported Wills #1-3. The well will test Morrow and Chester zones at 7,200 feet. CREDO owns a 28% interest and is the operator.

On the Sand Creek Prospect, the Derby #1-22 will test Morrow sand at 7,600 feet. This step-out well will be located about one mile west of the recently completed Easterwood #11-23. CREDO is the operator and owns 36%. The Glendena #2-5 will be drilled about one-half mile south of the Glendena #1-5, which has been a prolific producer for the area. The Glendena #2-5 will test Morrow sand at 7,600 feet. The company owns 40% and is the operator.

In Woods County, Oklahoma, successful drilling is continuing in the South Fork Field. To date, the company has joined for 7% in drilling 13 development wells in the field. The most recent well, the Erickson #3-30, encountered 15 feet of Mississippi dolomite at 5,200 feet which electric logs indicate should be productive. The well is currently awaiting completion.

In Beaver County, Oklahoma, development drilling is continuing on the company's Traxler property. The previously reported Wilkerson #2-1 encountered 36 feet of Chester limestone at 8,100 feet. For April, daily production averaged 2.3 MMcfg, nine barrels of condensate and minimal water. CREDO owns 15%.

About three-quarters of a mile southeast of the Wilkerson well, the company is preparing to drill the Ronnie #1-6 to test the Chester formation at 8,100 feet. CREDO owns 45% and will be the operator.

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 recently installed Calliope on four of the nine candidate wells acquired late last year. Previous owners gave up on the wells and all but one had been completely dead for at least a year. Management believes that all of the installations were successful in adding significant, long-lived reserves and immediately restoring production rates to levels that will provide excellent rates of return on investment.

Calliope's operating depth range was substantially extended with a successful installation on the 18,400-foot Green Estate well located in Beckham County, Oklahoma. Calliope's previous record depth was 12,500 feet. The Green Estate well had produced 28.8 Bcfg and, at the time Calliope was installed, had been dead for three years. Testing and well data indicated that significant reservoir damage was caused by a workover performed by the previous owner. Although the company expected Calliope production to be compromised, it proceeded with the installation in anticipation of strong gas prices and the well's high reserve potential.

## Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

Calliope immediately restored daily production to over 300 Mcfg (thousand cubic feet of gas) and five to seven barrels of condensate and water. Installation cost was approximately \$400,000. Reservoir pressure indicates that up to 2.0 Bcfg (billion cubic feet of gas) of remaining gas reserves could be recovered by Calliope (8/8ths basis). CREDO owns a 65% working interest in the well and is the operator.

Calliope was also recently installed on the 12,300-foot Meacham well located in Custer County, Oklahoma. The well had produced 20.0 Bcfg and 322,000 barrels of oil and was flowing at marginal rates before the installation. During the installation a perforating gun was lost in the hole resulting in a compromised installation. Nevertheless, Calliope increased daily production to 150 Mcfg and two barrels of condensate and water. The cost to install Calliope was approximately \$350,000 and it is expected to add about 1.0 Bcfg to gross recoverable reserves. CREDO owns an approximate 80% working interest and is the operator.

In mid-February Calliope was installed on the 11,100-foot Fee well located in Hemphill County, Texas. The well had produced 8.0 Bcfg and had been dead for about a year. Calliope immediately restored daily production to 250 Mcfg and six barrels of condensate and it has since remained at that level. The installation cost about \$150,000 and the company estimates that Calliope added approximately 500 MMcfg (million cubic feet of gas) to gross recoverable reserves. CREDO owns an approximate 78% working interest and is the operator.

In early March Calliope was installed on the 12,400-foot Horn well located in Grady County, Oklahoma. The well had produced 12.9 Bcfg and had been dead for three years. Prior to being shut-in, the well apparently experienced a packer leak and soap was used to stimulate production, both of which compromised the permeability of the reservoir. Nevertheless, Calliope immediately restored daily production to approximately 180 Mcfg and it has since remained at that level. The installation cost about \$280,000. Reservoir pressure indicates that up to 1.0 Bcfg of remaining reserves could be recovered by Calliope (8/8ths basis). CREDO owns a 78% working interest in the well and is the operator.

Calliope has been more flexible than Management originally expected and it has proven it will work successfully over a broad range of wellbore conditions, including wells with packers and tubing diameters of less than 2.0-inches. The Green Estate application extended Calliope's operating depth range by almost 50% and established its viability in a rigorous deep well application. This is a very important accomplishment because installation and operating complexity increases exponentially as we move into significantly deeper reservoirs.

The animation portion of the Calliope multimedia project is complete, and the project is currently in the final production stage.

### STOCK DIVIDEND

On March 19, 2003, the company declared a 20% stock dividend to shareholders of record on April 2, 2003. On April 23, 2003, the company issued 656,000 shares of common stock in conjunction

## Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

with this dividend. Accordingly, the fair value (based on the quoted market price as adjusted) of the additional shares issued of \$6,277,000 was charged to retained earnings and credited to common stock and capital in excess of par value. Cash payments were made to shareholders in lieu of fractional shares. The basic and diluted weighted average number of shares outstanding and net income per share information for all prior reporting periods have been restated to reflect the effects of the stock dividend.

### CHANGE IN ACCOUNTING PRINCIPLE

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations" that requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. This statement is effective for fiscal years beginning after June 15, 2002. The company adopted SFAS No. 143 on November 1, 2002 and recorded an asset and related liability of \$179,000 (using a 5% discount rate) and a cumulative effect on change in accounting principle on prior years of \$72,000 (net of taxes of \$28,000). For the three and six month periods ended April 30, 2003, the company recognized \$2,000 and \$4,000, respectively, of accretion expense on the liability and a decrease of \$12,000 and \$17,000, respectively, in depletion expense as a result of adopting SFAS No. 143.

### STOCK-BASED COMPENSATION

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of SFAS No. 123." This statement provides alternative methods of transition for a voluntary change in the method of accounting for stock-based employee compensation to the fair value method. The statement also amends the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation." Under SFAS No. 148, annual and interim financial statements are required to have prominent disclosures about the method of accounting for stock-based compensation and the effect of the method used on reported results. This statement is effective for fiscal years ending after December 15, 2002. This statement did not have any impact on the consolidated financial statements as the company adopted the disclosure only provisions of SFAS No. 123. Under current accounting rules the company elected to account for its stock-based employee compensation under the intrinsic value method established by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

If compensation expense had been determined in accordance with the provisions of FASB No. 123, the company's net income and per share amounts would have been reported as follows:

Six Months Ended		Three Months Ended	
April 30,		April 30,	
2003	2002	2003	2002
-----	-----	-----	-----

## Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

Net Income as reported	\$1,187,000	\$ 537,000	\$ 502,000	\$ 327,000
Pro forma stock compensation expense, net of tax	(24,000)	(36,000)	(12,000)	(18,000)
Pro forma net income	\$1,163,000	\$ 501,000	\$ 490,000	\$ 309,000
	=====	=====	=====	=====

### Basic net income

per share:

As reported	\$ 0.30	\$ 0.14	\$ 0.13	\$ 0.08
	=====	=====	=====	=====
Pro forma	\$ 0.29	\$ 0.13	\$ 0.13	\$ 0.08
	=====	=====	=====	=====

### Diluted net income

per share:

As reported	\$ 0.30	\$ 0.14	\$ 0.13	\$ 0.08
	=====	=====	=====	=====
Pro forma	\$ 0.29	\$ 0.13	\$ 0.13	\$ 0.08
	=====	=====	=====	=====

### 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

Six Months Ended April 30, 2003 Compared to Six Months Ended April 30, 2002

For the six months ended April 30, 2003, net income rose 121% to a record \$1,187,000 compared to \$537,000 last year. Higher net income resulted primarily from an increase in product prices.

Total revenues rose 39% to \$3,475,000 compared to \$2,493,000 last year. Oil and gas sales rose 39% to \$3,034,000 compared to \$2,177,000 last year. Refer to the table on page 10 for details of oil and gas prices and volumes for the applicable periods. Net wellhead natural gas prices rose 95% to \$4.73 per Mcf compared to \$2.42 last year. Hedging transactions reduced first half 2003 price realizations by \$.69 per Mcf, or 15%, compared to

## Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

an increase of \$.54 per Mcf, or 22%, last year. As a result, total natural gas price realizations were \$4.04 per Mcf compared to \$2.96 last year. Net wellhead prices for oil rose 48% to \$28.27 per barrel compared to \$19.06 last year. The net effect of these price changes and hedging transactions was to increase oil and gas sales \$833,000. The net effect of volume changes was minimal. Operating income increased 4% due to drilling overhead income that was partially offset by the sale of several marginal operated properties. Investment income and other rose 157% to \$190,000 compared to \$74,000 last year due to improved performance from market timers who manage the bulk of the company's investments.

Total costs and expenses increased 12% to \$1,926,000 in the first half of fiscal 2003 compared to \$1,726,000 last year. Oil and gas production expenses rose 5%, or \$34,000, due primarily to the additional operating costs associated with production from new wells and Calliope. Depreciation, depletion and amortization increased 8% primarily due to an increase in the amortizable full cost pool base. General and administrative expenses increased 25% due to increases in salaries and wages for accrued bonuses and consulting fees related to the accounting software conversion as well as inflationary pressures. Interest expense primarily relates to the accrual of interest on the exclusive license agreement obligation. Income taxes were provided at 28% in the current period and 30% last year.

Quarter Ended April 30, 2003 Compared to Quarter Ended April 30, 2002

For the quarter ended April 30, 2003, net income rose 53% to \$502,000 compared to \$327,000 for the same quarter last year. Higher net income resulted primarily from an increase in product prices.

Total revenues rose 28% to \$1,684,000 compared to \$1,312,000 for the same quarter last year. Refer to the table on page 10 for details of oil and gas prices and volumes for the applicable periods. Net wellhead natural gas prices rose 124% to \$5.49 per Mcf compared to \$2.45 last year. Hedging transactions reduced second quarter price realizations \$1.72 per Mcf, or 31%, compared to an increase of \$.45, or 18%, last year. As a result, total natural gas price realizations were \$3.77 per Mcf compared to \$2.90 last year. Net wellhead prices for oil rose 45% to \$30.55 per barrel compared to \$21.06 last year. The net effect of these price changes and hedging transactions was to increase oil and gas sales \$364,000. The effect of volume changes was minimal. Operating income increased 8% due to drilling overhead income that was partially offset by the sale of several marginally operated properties. Investment income and other rose 75% to \$114,000 compared to \$65,000 last year due to improved performance from market timers who manage the bulk of the company's investments.

Total costs and expenses increased 17% to \$987,000 in the second quarter of 2003 compared to \$845,000 last year. Oil and gas production expenses rose 22%, or \$67,000, due primarily to the additional operating costs associated with production from new wells and Calliope installations. Depreciation, depletion and amortization fell 3% due primarily due to a decrease in production volumes between the periods. General and

## Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

administrative expenses increased \$86,000, or 36%, primarily due to increases in salaries and wages for accrued bonuses and consulting fees related to the conversion of accounting software as well as inflationary pressures. Interest expense relates to the accrual of interest on the exclusive license agreement obligation. Income taxes were provided at 28% in the current quarter and 30% last year.

### CONTROLS AND PROCEDURES

Within 90 days prior to the filing date of this report, the company carried out an evaluation, under the supervision and with the participation of the company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-14(c). "Disclosure controls and procedures" are controls and procedures that are designed to ensure that information required to be disclosed by the company in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Based upon that evaluation, the company's Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures are effective for these purposes as of the date of the evaluation.

There have been no significant changes in the company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

### 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.



Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

Date: June 13, 2003

By: /s/ James T. Huffman

-----  
James T. Huffman  
President and  
Chief Executive Officer  
(Principal Executive Officer)

By: /s/ John A. Alsko

-----  
John A. Alsko  
Vice President and  
Chief Financial Officer  
(Principal Financial and  
Accounting Officer)

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

CERTIFICATIONS

I, James T. Huffman, Chief Executive Officer of CREDO Petroleum Corporation, 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;
4. The registrant's other certifying officer 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 quarterly 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 quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer 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 officer 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: June 13, 2003

/s/ James T. Huffman

-----  
James T. Huffman  
Chief Executive Officer

I, John A. Alsko, Vice President and Chief Financial Officer of CREDO Petroleum Corporation, 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;

4. The registrant's other certifying officer 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

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

this quarterly 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 quarterly report (the "Evaluation Date"); and

c) presented in this quarterly 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 officer 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 officer 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: June 13, 2003

/s/ John A. Alsko

-----  
John A. Alsko  
Vice President and  
Chief Financial Officer